# 2011 Half Year Report

**Six months to 30 June 2011**

**Irish Life & Permanent plc**

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# Presentation of Information

## EU IFRS Basis

EU law requires that the consolidated financial statements of the group be prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. This basis applies IFRS to all operations including the application of IFRS 4 'Insurance Contracts' to the group's life assurance operations. IFRS 4 allows insurance contracts to continue to be accounted for under previous GAAP as adjusted for any changes which result in more relevant and reliable information. As a consequence of this the results for the group's insurance contracts continue to be prepared under the embedded value methodology.

## Forward Looking Statements

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

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

# Group Performance Highlights

| | **30 June 2011** | 30 June 2010 |
|---|---|---|
| **Financial Performance** | | |
| Operating profit/(loss) on continuing operations before impairment provisions and gains from the liability management exercise | **(€60m)** | €17m |
| Profit / (loss) after tax (attributable to equity holders) | **€455m** | (€37m) |

| | **30 June 2011** | 30 June 2010 | 31 December 2010 |
|---|---|---|---|
| **Banking Business** | | | |
| New loans issued | **€0.2bln** | €0.3bln | €0.6bln |
| Lending book | **€35.0bln** | €38.3bln | €36.6bln |
| Residential mortgage loan book (Ireland) | **€25.8bln** | €26.8bln | €26.3bln |
| Customer accounts | **€15.0bln** | €14.9bln | €13.4bln |
| Stable funding mix[1] | **51%** | 56% | 52% |
| **Life Assurance and Fund Management new business** | | | |
| Life Assurance new business | | | |
| - APE ("Annual premium equivalent") | **€149m** | €156m | €320m |
| - PVNBP ("Present value of new business premiums") | **€1,088m** | €1,095m | €2,288m |
| Life Assurance and Fund Management new business | | | |
| - APE | **€286m** | €276m | €572m |
| - PVNBP | **€2,460m** | €2,294m | €4,808m |
| **Capital Ratios** | | | |
| Total tier 1 capital ratio | **8.4%** | 10.7% | 10.6% |
| Life solvency cover (times)[2] | **1.8** | 1.7 | 1.8 |

[1] Stable funding ratio is the end of period retail deposits and long-term funding as a percentage of total funding.
[2] The 31 December 2010 ratio is net of amounts available for dividend

# Group Chief Executive's Review

## Background

On 31 March 2011, the Central Bank published the results of the Prudential Capital Assessment Review (PCAR 2011) and the Prudential Liquidity Assessment Review (PLAR 2011) as part of the Financial Measures Programme Report ("FMPR"). The FMPR was one of the conditions of the EU/IMF/ECB Programme of Support for Ireland. The aim of the FMPR was to place the Irish banking system in a position where it could fund itself and generate capital without undue further reliance on Irish or European public sources.

The PCAR / PLAR exercise identified a total gross capital requirement of €4.0bln for the group's banking business. This outcome included the capital requirement of €243m being the incremental capital required from the November 2010 PCAR exercise. The very significant capital increase of €4.0bln reflected the requirement of the Central Bank to (i) achieve a core tier 1 capital ratio of 6 per cent (plus an additional buffer) in a stressed scenario over the period to 31 December 2013 and to (ii) cover losses associated with the requirement to de-leverage the bank's balance sheet in order to achieve a loan to deposit ratio of circa 122.5% by 31 December 2013.

The outcome of the PCAR / PLAR exercise has had fundamental implications for the group. Some €2.3bln of the total equity capital requirement of €3.6bln has been provided by the State through the parent company, Irish Life and Permanent Group Holdings plc, and the injection of this capital on July 27 resulted in the State acquiring a 99.2% stake in the overall group. On the same day, the State also subscribed €0.4bln by way of contingent debt capital. The balance of equity capital is being raised from a combination of internal sources, a liability management exercise in relation to Tier 2 debt and from the sale of the group's life assurance and fund management business. By the end of July the group had generated €0.2bln in capital internally. The liability management exercise ("LME") is now substantially completed and the sale process for the life and fund management business is currently in progress.

These developments are significant and will transform the group as the life and banking businesses are separated. The very significant recapitalisation of the bank will however be hugely positive for the banking business enabling it to absorb the full impact of the impairment cycle and to de-leverage its balance sheet to achieve a sustainable funding base.

## Group performance

The group recorded a total profit for the first half of the year of €455m (H1 2010: €37m loss). This outcome included an exceptional gain of €763m generated from the Tier 2 LME exercise up to 30 June 2011. Excluding this gain, the total loss before tax for the group for the first half of the year was €354m (H1 2010: €44m loss) the principal components of which were a loss of €9m (H1 2010: €81m profit) from life and fund management operations, impairment losses of €333m (H1 2010: €150m) and losses, pre impairments, of €54m (H1 2010: €19m profit) from the banking business.

The life assurance and fund management businesses recorded growth in sales in the first half of the year against a background of weak economic conditions and low consumer confidence. The reduction in earnings in the first half of 2011 over the first half of 2010 reflected, on the one hand, the impact of the pension levy and adverse investment market and economic conditions in 2011 and, on the other, the exceptionally positive risk experience recorded in the H1 2010 result.

Pre-provision earnings from the banking business fell from €19m in the first six months of 2010 to a loss of €54m in the first half of 2011 primarily as a consequence of the increased costs arising from the Government Guarantee Schemes[3] for bank funding.

Impairment provisions for the six months were €333m (H1 2010: €150m), principally comprising increases in provisions in the Irish residential and commercial mortgage loan books, reflecting the continued rise in cases in arrears and the change to the assumption used for the peak-to-trough house price decline. The half year provision corresponds to just over 50% of the PCAR base case impairments of circa €620m for 2011.

## 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.

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

# Group Chief Executive's Review

In common with other Irish banks, and as a consequence of the Irish banks' and the Irish State's credit ratings downgrades, debt markets are largely closed to the bank. The bank participates in the Eligible Liabilities Guarantee ("ELG") Scheme without which it would have been unable to raise debt required to fund its operations. The bank's participation in the ELG Scheme is necessary to maintain its retail and corporate deposits with balances above those guaranteed under the Deposit Guarantee Scheme, albeit at significantly higher costs than historically. The cost of the government guarantee schemes for the first six months of 2011 was €94m compared to €45m for the corresponding period in the prior year. The addition of Irish Nationwide Building Society ("INBS") balances acquired in February and the refinancing of older term debt, along with the higher costs charged following the ELG scheme extension, contributed to this period on period growth.

In February, in line with its strategy of growing its deposit funding, the bank successfully acquired INBS's €3.6bln deposit portfolio. This acquisition supported the increase in the group's Republic of Ireland ("RoI") retail deposit book in 2011 by €1.6bln to €12.7bln with the corporate book falling by 32% to €2.5bln reflecting the impact of the uncertainty created by the sovereign debt crisis.

The bank remains reliant on funding from the ECB and the Irish Central Bank. At 30 June 2011 total funding from the ECB and the Central Bank of Ireland was €14.7bln, representing 35 per cent of the bank's total funding at that date. The proceeds of the bank's de-leveraging plans, required under PLAR, will when realised be applied to reduce funding from the monetary authorities.

As at the end of June, 51% of the bank's funding came from stable sources (2010: 52%). The loan-to-deposit ratio fell to 227% (2010: 249%) as the additional retail deposits outweighed the corporate deposit outflows and exceptionally low levels of new lending resulted in a fall in outstanding loan balances.

Net interest income for the period in the bank, before the cost of the ELG scheme, was €212m (H1 2010: €192m). The reported net interest margin ("NIM")[4] in the bank increased in 2011 to 0.97% (2010: 0.86%). The margin benefited from the increases in standard variable mortgage rates implemented in February 2011 to offset the rising cost of both deposit and term funding. The 2011 NIM also benefited from the increase in the ECB drawings through 2011 which averaged €13.1bln.

## Bank lending and credit quality

New lending activity in the bank continued to be very subdued with just over €200m of new credit facilities drawn down in the first six months of 2011, over half of which was consumer finance. This low level of new lending resulted in outstanding loan balances falling by over 4% during the period to €35.0bln. Consumers remain very cautious and households are seeking to reduce their level of debt. The housing market remains extremely weak with house prices continuing to decline and transaction levels at historically low levels.

The Irish residential mortgage book saw arrears cases over 90 days rise steadily through the first half of the year reflecting the continuing high levels of unemployment and the squeeze in household incomes as a result of austerity measures. These 90 day-plus arrears cases increased to 8.8% of the portfolio (2010: 6.8%). Arrears under 90 days rose by 16% over the period.

In the UK the favourable trend in the mortgage arrears numbers in Capital Homes Loans, the group's UK subsidiary, continued into 2011. This loan portfolio is to be disposed of under the PLAR de-leveraging plans and the performance of the book should assist that process.

The charge for impairment provisions for the first six months of 2011 increased to €333m (H1 2010: €150m) in line with the PCAR results. The main reason for the increase against the prior year was the impact of a change in the assumption for the peak-to-trough fall in house prices from 40% at June 2010 to 47% at June 2011 and the growth in accounts in arrears.

The group's overall provision coverage at the end of June 2011 increased to 3.4% from 2.4% at the end of 2010.

## Life assurance and fund management

As a consequence of the group actively progressing the disposal of the life assurance and fund management businesses, the life assurance and fund management businesses have been classified as 'discontinued operations' as required under accounting standards.

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

Sales for the life assurance and fund management business in the six months, on an annual premium equivalent basis, of €286m were up nearly 4% when compared to the same period in 2010. Retail Life sales of €68m were 5% ahead of the same period in 2010 and were particularly impacted by the strong performance of the bancassurance channel. The decline in Corporate Life sales to €66m (H1 2010: €70m) reflects falling employment levels and static-to-falling salaries.

Our fund management business, Irish Life Investment Managers Limited (“ILIM”), had very strong inflows in the first half of 2011 of €1.4bln (H1 2010: €1.2bln). ILIM continues to be the dominant fund manager in Ireland on the back of its product suite and fund performance.

The life assurance and fund management business recorded an operating loss in the first six months of 2011 of €9m (H1 2010: €81m profit). Declines in investment markets, continuing property price falls and the spread of the sovereign debt crisis in Europe have all contributed to the depressed first half result. At an operating level the underlying trends in the business year to date are broadly similar to those in 2010. While sales for the first half of 2011 were broadly in line with the prior period, new business margins were lower principally reflecting the effect of changes in persistency assumptions made at the end of 2010. In the in-force book risk experience continues to outperform long term assumptions but while persistency experience in Corporate Life is back in line with assumptions the experience in Retail Life in the first half continues to be adverse.

Earlier in the year the Finance Act introduced an annual pension levy of 0.6% on the market value of assets under management in Irish pension funds for the years 2011 to 2014 (inclusive). This levy resulted in over €100m being paid to the Revenue Commissioners in July. It is expected that the cost to the life assurance business in lost management fee income over future periods will total €13m.

## Costs

Cost control programmes are in place across all business divisions in the group. In the group’s banking business, a programme which will see over 500 staff leaving the business is currently being completed. This includes the INBS staff, who transferred to the bank with the acquisition of the INBS deposits, that left under a voluntary severance programme during the period.

## Capital

The bank’s Tier 1 capital ratio was 8.4% at 30 June 2011 (31 December 2010: 10.6%). On 27 July, the bank received, through its parent company, Irish Life and Permanent Group Holdings plc, €2.7bln in State capital which was made up of €2.3bln in equity and €0.4bln in contingent capital notes. This capital injection, which was received in compliance with a High Court order, resulted from the PCAR / PLAR review completed in March 2011. This review directed that the bank has a capital requirement of €4.0bln. Along with the €2.7bln the bank generated €0.2bln internally during the seven months ending 31 July 2011. The remaining capital requirement is being funded through the disposal of the Life Group and a liability management exercise. Should these initiatives not generate sufficient funds to meet the additional requirement, the State has indicated that they will provide the necessary support.

The life assurance business continues to generate excess capital. In May it paid a dividend of €143m to the bank and repaid a €100m loan secured on the in-force book. The minimum statutory solvency capital requirement of Irish Life Assurance plc was covered 1.8 times at the end of June 2011 (2010: 1.8 times), after allowing for distribution of the available dividend to the bank.

## Corporate strategy and outlook

The coming months will bring critical decisions on the future of the Irish financial institutions including Irish Life and Permanent plc. As the largest domestic life assurance company and investment manager and one of Ireland’s largest residential mortgage lenders, the group has a key role to play in the future of financial services in Ireland.

The process for the separation of the group’s life and banking businesses is well underway both operationally and in terms of the disposal of the life and fund management business by way of a trade sale or public floatation. The group is fully engaging with all affected staff and their representatives to manage any issues arising from the transition. On completion the proceeds of the disposal, along with the balance of the gains arising from the completed LME, will go to meeting the remaining €1.1bln of capital required by the bank under PCAR / PLAR.

The Board would like to re-assure all our customers that separation will not affect customer accounts or policies and that during this transition period the Board and the group's management team continue to ensure our commitment and obligations to our customers are met with the rigor and attention our customers have come to expect.

**Kevin Murphy**

*Group Chief Executive*

30 August 2011

## Summarised group income statement and key performance indicators

A summary of the group's income statement on an IFRS basis for the 6 months ended 30 June 2011 and 30 June 2010 is outlined below at a segmental level:

| **Summary group income statement** | **Six months to 30 June 2011 €m** | Six months to 30 June 2010 €m |
|---|---|---|
| **Operating profit / (loss) from continuing operations** | | |
| Operating profit / (loss) before impairment provisions | | |
| Banking | | |
| - Banking Ireland | **725** | 25 |
| - Banking UK | **(16)** | (6) |
| Total banking | **709** | 19 |
| Other[5] | **(6)** | (2) |
| Impairment provisions | | |
| - Banking Ireland | **(321)** | (137) |
| - Banking UK | **(12)** | (13) |
| Total impairment provisions | **(333)** | (150) |
| **Operating profit / (loss) on continuing operations** | **370** | (133) |
| Taxation | **43** | 19 |
| Profit / (loss) after tax on continuing operations | **413** | (114) |
| **Operating profit / (loss) on discontinued operations** | | |
| Life assurance and fund management | | |
| - Life assurance | **(17)** | 72 |
| - Fund management | **8** | 9 |
| Total life assurance and fund management | **(9)** | 81 |
| Brokerage and third party administration | **8** | 7 |
| Other[5] | **40** | (1) |
| **Operating profit on discontinued operations** | **39** | 87 |
| Associated undertakings – general insurance | **-** | 2 |
| **Profit before taxation on discontinued operations** | **39** | 89 |
| Taxation | **3** | (12) |
| **Profit / (loss) after tax on discontinued operations** | **42** | 77 |
| **Profit (loss) after tax attributable to owners of the parent** | **455** | (37) |

| **Key performance indicators** | **30 June 2011** | 30 June 2010 |
|---|---|---|
| Total Tier 1 capital ratio (%) | **8.4** | 10.7 |
| Life solvency cover (times) | **1.8** | 1.7 |
| Stable funding ratio (%) | **51** | 56 |

The profit after tax of €455m for the six months (H1 2010: €37m loss) is driven by the €763m gain from the liability management exercise ("LME") and the €333m in impairment provisions.

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

# Group Performance Review

As part of the recapitalisation of the bank, the group has appointed advisors to facilitate the disposal of the life assurance, fund management, brokerage and third party administration and general insurance businesses (the "Life Group") and the group believes that this sale can be completed within twelve months. In accordance with accounting principles, the Life Group has been classified as discontinued operations and its assets and liabilities have been classified as Held for Sale and both the Irish and UK banking businesses are classified as continuing operations.

## Results on continuing operations

### Banking businesses' operating results

| **Operating performance** | | **Six months to 30 June 2011** | | | Six months to 30 June 2010 | |
|---|---|---|---|---|---|---|
| **€m** | **RoI** | **UK** | **Total** | RoI | UK | Total |
| Operating profit/(loss) before impairments and LME | **(38)** | **(16)** | **(54)** | 25 | (6) | 19 |
| Liability management exercise | **763** | **-** | **763** | - | - | - |
| Impairment provisions | **(321)** | **(12)** | **(333)** | (137) | (13) | (150) |
| Operating profit / (loss) | **404** | **(28)** | **376** | (112) | (19) | (131) |

The banking businesses' operating profit of €376m was significantly influenced by the profit generated by the liability management exercise of €763m. Excluding this gain, the operating loss for the first six months of 2011 was €387m (H1 2010: €131m loss). This increase in the loss was primarily due to a €183m increase in the charge for impairments and a €49m increase in Government Guarantee Scheme costs.

## Results on discontinued operations

### Life assurance and fund management operating results

| **Operating performance** | **Six months to 30 June 2011** | Six months to 30 June 2010 |
|---|---|---|
| **€m** | **Total** | Total |
| Life assurance | **(17)** | 72 |
| Fund management | **8** | 9 |
| Operating profit / (loss) | **(9)** | 81 |

The operating loss of €9m for the first six months of 2011 was significantly below the performance in the same period in 2010 of €81m. The performance in 2011 was influenced by adverse market returns and interest rate changes. The performance in 2010 had positive experience variances.

### Brokerage and third party administration

The group's brokerage business, Cornmarket, generated a profit before tax of €8m during the period.

### Other

The Other category in the above summarised income statement includes the effect of higher period on period corporate costs 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

Due to lower investment returns in the Allianz business (a general insurance business in which the group has a 30% interest) no profit was earned by the group in the period. During the seven months to the end of July the group had received dividends from Allianz of €9m.

## Summarised group statement of financial position

The group's consolidated statement of financial position for the periods ended 30 June 2011 and 31 December 2010 are summarised below:

| **Summarised group statement of financial position** | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| **Assets** | | |
| Loans and receivables to customers | **34,982** | 36,581 |
| Other financial assets and investment properties | **6,518** | 28,961 |
| Loans and receivables to banks | **675** | 3,565 |
| Assets classified as held for sale | **31,725** | 2,089 |
| Reinsurance assets | **-** | 2,011 |
| Shareholder value of in-force business | **-** | 699 |
| Other assets | **1,351** | 1,799 |
| **Total assets** | **75,251** | 75,705 |
| | | |
| **Liabilities and equity** | | |
| Deposits by banks (including central banks) | **18,417** | 17,146 |
| Liabilities classified as held for sale | **30,622** | 2,041 |
| Customer accounts | **14,968** | 13,382 |
| Debt securities in issue | **8,245** | 10,034 |
| Investment contract liabilities | **-** | 24,067 |
| Insurance contract liabilities | **-** | 4,238 |
| Subordinated liabilities | **304** | 1,686 |
| Other liabilities | **741** | 1,489 |
| Equity | **1,954** | 1,622 |
| **Total liabilities and equity** | **75,251** | 75,705 |

## Loans and receivables to customers

The group's banking operation is focused predominantly on retail lending with 99% of its loan portfolio secured on assets, 91% of which consists of residential mortgages. 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 €36.6bln at the end of 2010 fell by 4% to €35.0bln at the end June 2011 reflecting lower new business volumes being more than offset by capital repayments.

The unemployment levels being experienced in the Irish economy have resulted in non-performing loans[6] ("NPLs") increasing by 20% since the end of 2010. As a result of this increase and a falling residential mortgage portfolio, NPLs accounted for 11% of the total portfolio at the end of June 2011. Further details are available in Note 25, Financial risk management.

Impairment provision balances increased by €321m during the six months of 2011 to €1,204m (2010: €883m), with specific provision increases accounting for €292m of this increase. This has been driven by an increase in RoI mortgage arrears numbers and falling property values. Specific provisions represent 40% of the impaired loan balances at the end of June 2011 (2010: 36%).

The collective provision has increased by €29m to €366m 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.

[6] 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 periods ended 30 June 2011 and 31 December 2010:

| **Other financial assets and investment properties** | | **30 June 2011** | | 31 December 2010 |
|---|---|---|---|---|
| **€m** | **Continuing** | **Discontinued*** | **Total** | Total |
| Debt securities | **6,254** | **7,329** | **13,583** | 12,098 |
| Equity shares and units in unit trusts | **-** | **12,934** | **12,934** | 13,783 |
| Derivative assets | **264** | **831** | **1,095** | 1,255 |
| Investment properties | **-** | **1,674** | **1,674** | 1,825 |
| **Total** | **6,518** | **22,768** | **29,286** | 28,961 |

*Discontinued items are reported in the Statement of Financial Position under 'Assets classified as held for sale'. Both periods exclude Irish Life International balances.

*(A) Debt securities*

Debt securities, including amounts held in assets held for sale, increased by €1.5bln to €13.6bln at the end of June 2011 from €12.1bln at the end of 2010.

As the Life Group has been classified as held for sale, €7.3bln of the debt securities at the end of June have been transferred to Assets Classified as Held for Sale as disclosed in Note 4, Assets and liabilities classified as held for sale. These securities are classified as fair value through the profit and loss account in the life assurance and fund management businesses. Unit-linked funds account for €5.5bln of this balance and €1.8bln is held in non-linked funds at the end of June 2011.

Included in debt securities is the bank's asset portfolio of €6.3bln. This is principally held in sovereign bonds (74%), corporate fixed and floating rate notes (19%) and prime (non-US) euro denominated Residential Mortgage Backed Securities ("RMBS") (7%). There are no sub-prime assets held within the portfolio. The portfolio is rated 3.3% AAA, 0.7% AA, 11.6% A and 84.4% in lower tiers reflecting the downgrading of sovereign debt including Irish sovereign debt.

The group has completed an impairment assessment on its debt securities held at the end of June 2011. A transfer of €5m 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.

*(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

| | | **30 June 2011** | | 31 December 2010 |
|---|---|---|---|---|
| **€m** | **Continuing** | **Discontinued*** | **Total** | Total |
| **Loans and receivables to banks** | **675** | **3,326** | **4,001** | 3,565 |
| **Total** | **675** | **3,326** | **4,001** | 3,565 |

*discontinued items are reported in the Statement of Financial Position under 'Assets classified as held for sale'. Both periods exclude Irish Life International balances.

The increase of €436m in the loans and receivables to banks balance during 2011 brought the balance to €4.0bln on 30 June 2011 (2010: €3.6bln). This increase is primarily accounted for by the increase in cash deposits that the Life Group held with banks at the end of June 2011.

## Assets classified as held for sale

The group is actively progressing the disposal of the Life Group. The proceeds from this disposal will contribute to the bank's additional capital requirement as highlighted in the Prudential Capital Assessment Review ("PCAR") review completed on 31 March 2011. As a consequence of this, the Life Group has been classified as a discontinued operation in the income statement and the assets and liabilities of the Life Group have been reported as held for sale in the statement of financial position. Note 4, Assets and liabilities classified as held for sale, discloses additional details.

In February 2011, in a move consistent with the 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, at 31 December 2010 Irish Life International Limited's assets and liabilities were classified as assets held for sale and continued to be classified as such on 30 June 2011.

## Funding profile

The funding challenges experienced by Irish banks continued during the first six months of 2011. Downgrade actions by each of the main ratings agencies exacerbated these issues. During the period the credit crisis outside of Ireland deepened with Spanish and Italian government bond yields rising significantly. Against this background, it is expected that the senior funding markets will remain largely 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 its position weekly to the Central Bank. As a consequence of the industry-wide wholesale funding difficulties experienced from the last quarter of 2010, during the six months to the end of June 2011 the group has not met these liquidity limits.

The bank's total funding at the end of June 2011 of €42.6bln (Dec 2010: €42.9bln) was well diversified across segments as shown below:

| **Funding profile*** | **30 June 2011** | | 31 December 2010 | |
|---|---|---|---|---|
| | **€m** | **%** | €m | % |
| - Retail current accounts | **2,100** | **5%** | 2,248 | 5% |
| - Other retail accounts | **10,602** | **25%** | 8,853 | 21% |
| - Corporate accounts | **2,502** | **6%** | 3,685 | 9% |
| Customer accounts and deposits (RoI) | **15,204** | **36%** | 14,786 | 35% |
| Customer accounts and deposits (UK) | **318** | **1%** | - | - |
| Total customer accounts & deposits | **15,522** | **37%** | 14,786 | 35% |
| Short term[7] | **18,386** | **43%** | 16,811 | 39% |
| Long term[8] | **8,663** | **20%** | 11,335 | 26% |
| **Total** | **42,571** | **100%** | 42,932 | 100% |

* For 2011 this includes €0.6bln (2010: €1.5bln) of customer accounts from the group's non-banking operations

Included in the above table is €2.6bln of Irish Nationwide Building Society ("INBS") deposits which the group acquired in February 2011. The €18.4bln in short term funds includes €3bln in deposits from the National Treasury Management Agency ("NTMA") which matured in July 2011. The total funding of €42.6bln fell 1% in the six months due principally to the decrease in loans and receivables balances.

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. The UK deposit balances of €318m are the INBS Isle of Man deposit portfolio which was acquired during the year.

At 30 June 2011, stable sources of funding accounted for 51% of total funding, down from 52% at the end of 2010.

[7] Short-term funding includes ECB funding and market repos.
[8] Long-term funding includes term debt and mortgage backed securitisations.

The loan-to-deposit ratio[9] at the end of June was 227% (2010: 249%) as the additional retail deposits outweighed the corporate deposit outflows and exceptionally low levels of new lending resulted in a fall in outstanding loan balances. The group continues to work to reduce this ratio through a combination of increasing retail deposit balances and deleveraging the loan book.

### Customer accounts and deposits

The ROI retail deposit balances at the end of June 2011 increased by 14% to €12.7bln driven by the group's successful acquisition of the INBS deposit portfolio. 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 June were down 32% on year end 2010 to €2.5bln, 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") and the Irish Central Bank. During 2011, a portion of these assets were used as security for ECB drawings with an average level of drawings for the six months to 30 June 2011 of €13.1bln (2010: €9.4bln). The maximum level of drawings during 2011 was €15.1bln (2010: €13.8bln) while drawings at the end of June were €14.7bln (2010: €13.8bln). The increased reliance on Eurosystem and Irish Central Bank funding 2010 was driven by refinancing requirements in relation to maturing debt obligations at a time when the traditional funding markets were closed.

ECB and Irish Central Bank drawings, reported in the statement of financial position as 'Deposits by banks (including central banks)', are included in the short-term debt portfolio and at the end of June were €12.6bln (2010: €13.8bln) and €2.1bln (2010: nil) respectively. At the end of June the group also held €3bln in a short-term deposit from the National Treasury Management Agency.

### Long-term debt

With funding markets closed, there was no external issuance of term debt during the period resulting in the value of the group's long-term debt falling by 24% to €8.7bln at the end of June.

## Investment and insurance contract liabilities

The increase in investment contract liabilities during the six months ended 30 June 2011 includes premium receipts of €1.6bln (H1 2010: €1.9bln) and market movements of €0.3bln negative (H1 2010: €0.4bln positive) being offset by €2.3bln (H1 2010: €1.6bln) in claims.

Insurance contract liabilities (net of reinsurance), which are 77% non-linked, increased by 1% in the six months to 30 June 2011 due to premium receipts being partly offset by claims, fees and market movements.

Investment and insurance contract liabilities have been transferred to liabilities classified as Held for Sale.

## Credit ratings

At 30 June 2011 the group was rated 'BB+' by Standard & Poors and 'Ba2' by Moody's Investor Service. Further rating action was taken in July 2011 when Standard & Poors downgraded the group to 'BB'. For more details please refer to the group's website www.irishlifepermanent.ie.

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

## 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 as at 30 June 2011 and 31 December 2010 are as follows:

| Capital resources | 30 June 2011 €m | 31 December 2010 €m |
|---|---|---|
| Shareholders' equity | **1,954** | 1,622 |
| Loan capital* | **517** | 1,686 |
| **Total capital resources** | **2,471** | 3,308 |

*Loan capital includes €213m of subordinated liabilities classified as Held for Sale.

The increase in shareholders' equity of €332m includes the gain after tax of €455m for the first six months of 2011 and a €163m negative change in the fair value of AFS financial assets included in the Statement of Other Comprehensive Income. The €1,169m decrease in loan capital is largely accounted for by the impact of the group's liability management programmes launched in May and June. The May programme saw JPY37bln of undated debt issued by Irish Life and Permanent plc being prepaid which resulted in a €318m gain before transaction costs. The June programme resulted in €555m in dated debt being bought back generating a gain of €450m (before transaction costs) being credited to the income statement. Please refer to Note 21, Subordinated liabilities, for further information.

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 30 June 2011 with a tier 1 and capital ratio of 8.4% (2010: 10.6%) compared to a regulatory minimum of 8%. The capital base has no tier 1 hybrid capital in the structure.

The following table sets out the regulatory capital position of Irish Life & Permanent plc on a Basel II basis at 30 June 2011 and December 2010:

| Bank regulatory capital | 30 June 2011 €m | 31 December 2010 €m |
|---|---|---|
| Total available capital (tier 1) | **1,137** | 1,681 |
| Total required capital | **1,090** | 1,265 |
| **Excess own funds** | **47** | 416 |
| Risk-weighted assets | **13,623** | 15,809 |
| **Risk asset ratio (all core tier 1)** | **8.4%** | 10.6% |

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

Risk-weighted assets fell by 13.8% from €15.8bln at the end of 2010 to €13.6bln at 30 June 2011. The bank's available capital reduced to €1.1bln giving a capital ratio of 8.4% at the end of June (2010: 10.6%).

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

On 31 March 2011, the Central Bank published the results of the Prudential Capital Assessment Review (PCAR 2011) and the Prudential Liquidity Assessment Review (PLAR 2011) as part of the Financial Measures Programme (FMP). The FMP was one of the conditions of the EU/IMF/EC Programme of Support. The aim of the FMP was to place the Irish banking system in a position where it could fund itself and generate capital without undue further reliance on Irish or European public sources.

The FMP identified a total gross capital requirement of €4.0bln for the group's banking business in order to: (i) achieve a core tier 1 capital ratio of 6% (plus an additional buffer) in a stressed scenario by 31 December 2013; and (ii) cover losses associated with the requirement to deleverage the bank's balance sheet to achieve a loan to deposit ratio of circa 122.5% by 31 December 2013.

On 27 July 2011, the group through its parent company, received €2.3bln in share capital and €0.4bln in contingent capital from the Irish Government. In May 2011, the bank received a dividend from Irish Life Assurance plc of €143m. By the end of July a total of €22m in dividends was also received by the bank from other divisions of the Life Group, €3m of which was received pre 30 June 2011.

## Life capital

The solvency cover for Irish Life Assurance plc ("ILA"), the group's main life assurance operation, at 30 June 2011 is 1.8 times (2010: 1.8 times) the minimum requirement of €395m (2010: €401m). 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. This solvency cover is summarised below:

| **Solvency cover** | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| Minimum capital requirement | **395** | 401 |
| Regulatory capital | | |
| Net worth | **604** | 501 |
| Subordinated debt | **198** | 201 |
| VIF loan | **-** | 100 |
| Other assets available | **12** | 16 |
| | **814** | 818 |
| Inadmissible assets | **(106)** | (114) |
| | **708** | 704 |
| Solvency cover* | **1.8** | 1.8 |

*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 six months to the end of 30 June 2011 and the twelve months to the end of 31 December 2010:

| **Life assurance and fund management regulatory capital** | **30 June 2011** | 31 December 2010 |
|---|---|---|
| | **€m** | €m |
| At 1 January | **978** | 685 |
| Capital generated from existing business | **97** | 327 |
| New business strain | **(29)** | (75) |
| STIFs and economic variances | **(43)** | (27) |
| Dividend paid | **(143)** | (13) |
| VIF loan | **(116)** | 100 |
| Other | **3** | (19) |
| Regulatory capital at end of period before available dividend | **747** | 978 |
| Available dividend | **-** | (243) |
| Regulatory capital at end of period after available dividend | **747** | 735 |

For the six months ending 30 June 2011, the life regulatory capital decreased by €231m to €747m mainly resulting from the surplus (capital) generated from existing business (€97m) being offset by the €143m dividend to the parent and the €116m for the repayment of the VIF loan and related costs in May 2011.

The short-term investment fluctuations ("STIFs") and economic variances of €43m negative (2010: €27m negative) include losses on fixed interest assets and shareholder properties.

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 May 2011, this loan was repaid and a €143m dividend was paid to the parent.

### 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 by the start of 2014. 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.

## 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 first six months of 2011 (2010: 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 accounts as well as consumer finance. Strategically, the focus of its banking business is to service the residential owner occupier mortgage 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, resulting from the acquisition of the INBS deposit portfolio, the group operates a banking business in the Isle of Man which had a €318m deposit portfolio at the end of June.

The pre-tax operating performance for the six months ended 30 June 2011 and 30 June 2010 and key performance indicators of the group's banking businesses are set out below:

| **Summary income statement** | **Six months to 30 June 2011** | | | Six months to 30 June 2010 | | |
|---|---|---|---|---|---|---|
| **€m** | **RoI** | **UK** | **Total** | RoI | UK | Total |
| Net interest income – before ELG scheme costs | **223** | **(11)** | **212** | 193 | (1) | 192 |
| Gain on liability management | **763** | **-** | **763** | - | - | - |
| Other income | **(2)** | **-** | **(2)** | 22 | - | 22 |
| Government guarantee charges | **(94)** | **-** | **(94)** | (45) | - | (45) |
| Total operating income / (expense) | **890** | **(11)** | **879** | 170 | (1) | 169 |
| Administrative expenses / depreciation / amortisation – recurring | **(122)** | **(5)** | **(127)** | (127) | (5) | (132) |
| Administrative expenses / depreciation / amortisation – restructuring & non-operational | **(43)** | **-** | **(43)** | (18) | - | (18) |
| Total administrative expenses / depreciation / amortisation | **(165)** | **(5)** | **(170)** | (145) | (5) | (150) |
| **Operating profit / (loss) before impairment provisions** | **725** | **(16)** | **709** | 25 | (6) | 19 |
| Impairment provisions | | | | | | |
| Residential lending | **(250)** | **(12)** | **(262)** | (86) | (13) | (99) |
| Consumer finance | **(25)** | **-** | **(25)** | (19) | - | (19) |
| Commercial lending | **(46)** | **-** | **(46)** | (32) | - | (32) |
| | **(321)** | **(12)** | **(333)** | (137) | (13) | (150) |
| **Operating profit / (loss) before tax** | **404** | **(28)** | **376** | (112) | (19) | (131) |

| **Other key performance indicators** | **30 June 2011** | | | 30 June 2010 | | |
|---|---|---|---|---|---|---|
| | **RoI** | **UK** | **Total** | RoI | UK | Total |
| Retail deposits balance (€m) | **12,702** | **318** | **13,020** | 10,644 | 414 | 11,058 |
| Average indexed LTV – residential lending | **74%** | **87%** | **-** | 66% | 83% | - |
| New RoI residential lending YTD (€m) | **86** | **-** | **86** | 134 | - | 134 |

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 €709m (H1 2010: €19m). The operating profit before tax for the six months was €376m (H1 2010: €131m loss). The performance for the first six months of 2011 was influenced by the €763m pre-tax gain arising from the liability management exercise being offset in part by the €333m impairment charge and the €94m in government guarantee charges.

### Net interest income

Net interest income ("NII") for the first six months of 2011 for the banking business was €118m (H1 2010: €159m). NII excluding €94m of charges associated with the ELG guarantee scheme was €212m, 10% ahead of the €192m recognised in the same period in 2010. 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 August 2010 and February 2011 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 June 2010, excluding the ELG guarantee scheme charges, increasing to 97bps (H1 2010: 81bps).

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 the period.

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 movement in the net interest margin for the six months to the end of June 2011 is detailed in the following table:

| **Net interest margin** | **bps** |
|---|---|
| **31 December 2010** | **86** |
| ROI residential | 17 |
| Deposit margin | 3 |
| Treasury assets | 10 |
| Funding mix / wholesale pricing | (16) |
| Other | (3) |
| **30 June 2011** | **97** |

### Other income

Other income of negative €2m for H1 2011 (H1 2010: €22m positive) includes a loss of €42m resulting from the buy-back of subordinated debt by Irish credit institutions and a gain of €19m from buying back own debt securities. Other income also includes current account fee income, general insurance commission and bureau de change commission.

In 2011 the bank's bancassurance remuneration structure changed whereby it now earns income from the sale of Irish Life's life and pension products through its branch network. In the first six months of 2011, fee income of €1.4m was earned by the bank on APE sales of €14m.

### Government guarantee charges

The ELG Government Guarantee Scheme which the group participated in from January 2010 resulted in a charge of €94m in the first six months of 2011 and was included as a charge against NII. The period on period increase in the guarantee charges reflects the higher rates associated with the ELG guarantee when compared to the CIFS which was in operation for part of H1 2010. The ELG charges increased further when the scheme was extended beyond December 2010.

### Costs

Recurring administrative expenses including depreciation and amortisation for the group's banking businesses for 2011 were €127m, a 4% fall on the same period in 2010.

In the bank, a transformation programme was launched in February 2011 which will deliver a reduction in staff numbers 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. The restructuring cost associated with this scheme together with the restructuring cost associated with the staff who transferred to the bank from the INBS deposit book acquisition was €43m in H1 2011. These programmes will see over 500 staff leave the organisation over the next twelve months.

A €7m amortisation charge on the core deposit intangible (the difference in the fair value of the assets and liabilities acquired and the consideration paid for the INBS deposits acquired in February) is included in the income statement for the first six months of 2011. This intangible value at the end of June was €101m.

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** | **30 June 2011** | 31 December 2010 |
|---|---|---|
| | **€m** | €m |
| **Lending by class** | | |
| RoI residential lending | **25,835** | 26,340 |
| UK residential lending | **7,061** | 7,527 |
| Consumer finance | **1,148** | 1,375 |
| Commercial lending[10] | **2,301** | 2,348 |
| Intra-group commercial loans | **(431)** | (444) |
| | **35,914** | 37,146 |
| Provision for loan impairment | **(1,204)** | (883) |
| Deferred fees, discounts and fair value adjustments | **272** | 318 |
| **Total** | **34,982** | 36,581 |
| | | |
| **Lending by credit quality** | | |
| Neither past due nor impaired | **29,573** | 31,909 |
| Past due but not impaired | **4,242** | 3,699 |
| Impaired | **2,099** | 1,538 |
| **Total** | **35,914** | 37,146 |

Activity in the Irish housing market was significantly below that experienced in the recent past with the bank issuing €86m in new residential mortgages in the first six months of 2011 (H1 2010: €134m). Irish residential mortgage balances outstanding fell by 2% to €25.8bln compared to €26.3bln at year end 2010. 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. According to the Central Statistics Office house price index, national residential property prices fell by 12.9% in the year to June 2011 with residential prices falling by 2.1% in June alone. This reduction in house prices depressed activity in the residential switcher market.

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 74% (December 2010: 69%).

With CHL and the Isle of Man businesses closed to new business, the UK lending portfolio after provisions fell by 2% to STG£6.4bln at the end of June 2011 from STG£6.5bln at the end of 2010.

As recorded in the Halifax House Price Index, the average UK property prices on an annual basis were 3.5% lower as measured by the average prices for the three months to June against the same period in 2010. The average UK house price in June was broadly unchanged from that in December 2010 on a seasonally adjusted basis. The average index-linked LTV of the group's UK mortgage portfolio is 87% (2010: 83%).

[10] Commercial lending includes loans of €431m (2010: €444m) to the group's life assurance operations including loans held for the benefit of unit-linked policyholders.

New consumer finance loans of €130m (H1 2010: €206m) 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 16% in the six months of 2011 to €1.15bln (2010: €1.37bln) 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 June 2011.

| **Portfolio quality** | **30 June 2011** | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | **RoI** | **UK** | **Total** | RoI | UK | Total |
| | **€m** | **€m** | **€m** | €m | €m | €m |
| Lending book (before provisions) | **29,125** | **7,061** | **36,186** | 29,937 | 7,527 | 37,464 |
| Impairment provision balance (€m) | | | | | | |
| Residential lending | **(702)** | **(70)** | **(772)** | (446) | (63) | (509) |
| Consumer finance | **(163)** | **-** | **(163)** | (151) | - | (151) |
| Commercial lending | **(269)** | **-** | **(269)** | (223) | - | (223) |
| Total impairment provision balance | **(1,134)** | **(70)** | **(1,204)** | (820) | (63) | (883) |
| Lending book (after provisions) | **27,991** | **6,991** | **34,982** | 29,117 | 7,464 | 36,581 |

| **Portfolio quality information*** | **30 June 2011** | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | **>90 days in arrears** | **IL** | **NPL** | >90 days in arrears | IL | NPL |
| Residential lending | **11.8%** | **5.8%** | **11.7%** | 9.1% | 3.8% | 9.2% |
| Consumer finance | **14.1%** | **14.7%** | **17.0%** | 10.9% | 11.3% | 13.4% |
| Commercial lending[11] | **23.5%** | **14.1%** | **23.5%** | 18.9% | 11.9% | 20.1% |
| RoI portfolio | **-** | **6.8%** | **12.8%** | - | 4.7% | 10.2% |
| UK portfolio (residential lending) | **1.8%** | **1.6%** | **3.6%** | 2.0% | 1.5% | 3.4% |
| Total portfolio | **-** | **5.8%** | **11.0%** | - | 4.1% | 8.9% |

*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 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 2011. Case numbers, over 90 days in arrears, increased to 8.8% at the end of June 2011 from 6.8% at the end of 2010. This is reflected in the increase in non-performing loans ("NPL") balances from €2,417m at the end of 2010 to €3,021m at the end of June 2011.

Notwithstanding the level of arrears, 88% of all home loan accounts are up to date at the end of June 2011 (91% at the end of 2010). Arrears management and customer affordability continue to benefit from the low interest rate environment.

[11] Calculation includes intra-group loans of €431m (2010: €444m).

An impairment charge of €250m (H1 2010: €86m) was made on this portfolio in the first six months of 2011 reflecting both the increase in arrears numbers and the continuing fall in house prices. This brings the provision balance to €702m at the end of June (2010: €446m) and provides 17% 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 light of current experience, during the first six months of 2011, the group changed the forecast peak-to-trough house price assumption from 43% at 31 December 2010 to 47% at 30 June 2011. This assumption change had a direct impact on the level of provisions required.

*(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 829 cases at the end of June 2011. 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 June 2011 was 2.3% compared to CHL's ratio of 1.8%. This performance has resulted in the impairment provision charge for the UK portfolio of €12m remaining relatively static for the first six months of 2011 when compared to the same period in 2010.

*(C) Consumer finance*

In the consumer finance portfolio, the level of impaired loans at the end of June 2011 increased to 14.7% of the portfolio (2010: 11.3%). This performance reflects the 16% fall in the consumer finance portfolio balances to €1.15bln at the end of June 2011 (2010: €1.37bln).

Car finance represents the majority of the consumer finance portfolio. While the percentage of cases in arrears in this portfolio did increase during the period, the number of accounts in arrears were 3% lower at the end of June 2011 when compared to December 2010. Early arrears cases (less than 90 days) fell by 13% in the period.

The provision balance of €163m provides coverage of 14% on the portfolio at the end of June (2010: 11%). The provision increased by €12m during the period and this includes both a charge of €25m and a write-off of €13m.

*(D) Commercial lending*

Commercial mortgage case numbers, over 90 days in arrears, increased by 24% to 816 cases at end June 2011 (2010: 656 cases). Impaired loans increased from 11.9% in 2010 to 14.1% at the end June and NPLs increased to 23.5% in June from 20.1% in 2010. In general, prime commercial exposures have continued to perform notwithstanding yields 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 €46m in 2011 (H1 2010: €32m) 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/EC Programme, even where such properties were fully let and rent producing. This brings the impairment provision balance for the commercial portfolio to €269m.

The group's total impairment charge on loans and receivables of €333m for 2011 brings the group's provision coverage[12] net of write-offs to 3.4% at the end of June 2011 (2010: 2.4%). Further details of the group's impairment charge can be found in Note 9, Provision for impairment.

## Retail customer account balances

In February the bank successfully completed the acquisition of the Irish Nationwide Building Society's €3.6bln deposit portfolio. This portfolio purchase influenced the growth in the customer account balances for the Irish banking business at the end of June to €12.7bln, up 14% from €11.1bln at the end of 2010. Excluding current accounts, Irish retail deposit balances, principally demand and term deposits, increased by 20% to €10.6bln at the end of June compared to the end 2010 balance of €8.9bln.

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

The growth in these retail balances is offset by the €1.2bln fall in corporate deposit balances as at the end of June. The group's loan-to-deposit ratio decreased to 227% as at the end of June 2011(2010: 249%) as the additional retail deposits outweighed the corporate deposit outflows and exceptionally low levels of new lending resulted in a fall in outstanding loan balances.

# 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.

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

The group is progressing the sale of the life assurance and fund management businesses, along with the third party administration and brokerage businesses. As a consequence the life assurance and fund management operating segments have been classified as discontinued operations. This sale is part of the group's strategic plans to generate capital in order to meet the additional capital requirements highlighted in the PCAR / PLAR review on 31 March 2011.

Total sales for the life assurance and fund management businesses for the first six months of 2011 increased by 4% on the same period in 2010 to €286m (on an APE basis) including Irish Life International sales of €15m. This reflects the increase in the fund management business's sales performance. Life sales (on an APE basis) excluding Irish Life International, stayed relatively flat period on period at €134m compared to an estimated 3% increase in the overall life market. The Life Assurance business's share of the overall life market is estimated to be 27% for the first six months of 2011 compared to 28% for the same period in 2010.

The pensions market remains a strategic priority for the Life Group and pension sales account for 71% of total group life sales. The pensions business in both Retail and Corporate Life enabled the group to maintain its dominant market position in the pensions market with an estimated market share of 28%, 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 2011 of 7.9% decreased by 5.1% relative to the same period in 2010 (H1 2010: 13.0%). This decrease is mainly due to lower product margins in both Retail and Corporate Business along with a higher proportion of costs to sales.

The Irish Finance (No.2) Act 2011 introduced an annual pension levy of 0.6% on the market value of assets under management in Irish pension funds for the years 2011 to 2014 (inclusive). This has resulted in a neutral effect on the life assurance's income statement for the half year 2011 as the increase in claims in respect of the levy for 2011 was directly offset by a fall in insurance and investment contract liabilities. It is expected that the cost to the life assurance business in lost management fee income over future periods will total €13m.

## 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 have reflected this market fall. However, total APE sales for first six months of 2011 of €68m were up 5% when compared to the same period in 2010. Savings are down 20% for the first half of 2011 although investment sales have continued in their recovery and increased by 39% to €18m on the same period in 2010 and pension sales of €29m are showing an increase of 5% on 2010 reflecting a stronger performance in single premiums.

On a PVNBP basis total retail sales increased 16% to €502m reflecting a stronger performance from the brokerage and bancassurance channels.

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.

# Divisional Performance Review

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. Despite the continuing retention initiatives, the persistency experience in the first half of 2011 has been worse than the same period in 2010 reflecting affordability pressures exacerbated by the impact of the last austerity budget.

## 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 first six months of 2011 when compared to the same period in 2010 resulted principally from increasing unemployment and salary freezes. APE sales fell 6% to €66m for the first six months of 2011 when compared to the same period in 2010. On a PVNBP basis sales fell 3% to €439m from €455m in the first half of 2010. Corporate Life has a leading position in the 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 2011. An investment solution – Personal Lifestyle Strategy – was introduced in 2010 and has met with significant approval from Corporate Life's defined contribution scheme clients. The number of signed up schemes was 300 at the end of 2010. It is intended to continue to roll this out to a total of 900 schemes by the end of 2011. As at the end June 2011 there were 500 schemes in total signed up.

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 to achieve significant improvement in service levels and customer satisfaction. In 2011, Corporate Life achieved a customer service index score of 93.2%. This focus on service level improvements and customer satisfaction will continue to be a feature of the division's agenda into the future.

Persistency experience has recovered somewhat since 2010. Experience in the first half of 2011 has been in line with the assumptions set at the end of 2010.

## 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.

Gross new fund inflows were €1.4bln (H1 2010: €1.2bln). This included new sales of €0.6bln (H1 2010: €0.7bln) and contributions from existing clients of €0.8bln (H1 2010: €0.5bln). The market value of funds under management increased by 2% since the end of 2010. The Irish, UK and US equity market values increased by 2%, 3% and 5% respectively for 2011 (local currency).

Outflows for the first six months of 2011 of €1.0bln (H1 2010: €1.5bln) were 33% lower than the same period in 2010. However 2010 includes the loss of €0.8bln from various state institutions as part of a wider Irish Government strategic initiative to consolidate various state pension schemes. Total funds under management for ILIM were €32.3bln (H1 2010: €29.8bln).

# Divisional Performance Review

The operating results and key performance indicators of the group's life assurance and fund management businesses, for the six months ended 30 June 2011 and 30 June 2010 are set out below:

| Summary income statement | Six months to 30 June 2011 | | | Six months to 30 June 2010 | | |
|---|---|---|---|---|---|---|
| **€m** | **Life** | **Fund Mgt** | **Total** | Life | Fund Mgt | Total |
| Net interest payable | **(30)** | **-** | **(30)** | (16) | - | (16) |
| Net fees and commissions | **(60)** | **-** | **(60)** | (60) | - | (60) |
| Premiums on insurance contracts net of reinsurance | **317** | **-** | **317** | 340 | - | 340 |
| Investment return | **(249)** | **-** | **(249)** | 735 | - | 735 |
| Fees from investment contracts and fund management | **103** | **22** | **125** | 96 | 21 | 117 |
| Change in shareholder value of in-force business | **(34)** | **-** | **(34)** | (26) | - | (26) |
| **Operating income** | **47** | **22** | **69** | 1,069 | 21 | 1,090 |
| Claims on insurance contracts net of reinsurance | **(153)** | **-** | **(153)** | (155) | - | (155) |
| Change in insurance / investment contract liabilities | **207** | **-** | **207** | (736) | - | (736) |
| Administrative expenses / depreciation / amortisation – recurring | **(71)** | **(14)** | **(85)** | (72) | (12) | (84) |
| Administrative expenses / depreciation / amortisation – restructuring and non-operational | **(10)** | **-** | **(10)** | - | - | - |
| Investment expenses | **(37)** | **-** | **(37)** | (34) | - | (34) |
| **Operating expenses** | **(64)** | **(14)** | **(78)** | (997) | (12) | (1,009) |
| **Operating profit / (loss) before tax** | **(17)** | **8** | **(9)** | 72 | 9 | 81 |

| Key performance indicators | 30 June 2011 | | | 30 June 2010 | | |
|---|---|---|---|---|---|---|
| | **Life** | **Fund Mgt** | **Total** | Life | Fund Mgt | Total |
| New business APE (€m) | | | | | | |
| Retail Life | **68** | **-** | **68** | 65 | - | 65 |
| Corporate Life | **66** | **-** | **66** | 70 | - | 70 |
| Irish Life International | **15** | **-** | **15** | 21 | - | 21 |
| Irish Life Investment Managers | | **137** | **137** | | 120 | 120 |
| Total new business APE | **149** | **137** | **286** | 156 | 120 | 276 |
| New business PVNBP (€m) | | | | | | |
| Retail Life | **502** | **-** | **502** | 432 | - | 432 |
| Corporate Life | **439** | **-** | **439** | 455 | - | 455 |
| Irish Life International | **147** | **-** | **147** | 208 | - | 208 |
| Irish Life Investment Managers | **-** | **1,372** | **1,372** | | 1,199 | 1,199 |
| Total new business PVNBP (€m) | **1,088** | **1,372** | **2,460** | 1,095 | 1,199 | 2,294 |
| Margin (%) – APE basis | **7.9%** | **5.3%** | **6.7%** | 13.0% | 6.3% | 10.1% |
| Margin (%) – PVNBP basis | **1.1%** | **0.5%** | **0.8%** | 1.8% | 0.6% | 1.2% |

The operating loss before tax for the first six months of 2011 of €9m compared to the €81m profit in the same period in 2010 reflects the negative investment fluctuations and interest rate movements in 2011.

## Investment return

The negative investment return performance, which principally reflects the return on assets held in unit-linked funds, of €249m negative for the first six months of 2011 (H1 2010: €735m positive) was down period on period due to higher returns experienced in 2010.

This performance directly influences and is offset by the €207m credit for the net change in investment and insurance contract liabilities (H1 2010: €736m charge).

## 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 six months ended 30 June 2011 and 30 June 2010:

| **Change in shareholders value of in-force business** | **30 June 2011** | 30 June 2010 |
|---|---|---|
| | **€m** | €m |
| New business | **38** | 55 |
| Expected return on existing business | **(42)** | (39) |
| Experience variances | **1** | (3) |
| Operating assumption changes | **(11)** | (3) |
| Short-term investment fluctuations | **(5)** | (3) |
| Economic assumption changes | **(15)** | (33) |
| Total | **(34)** | (26) |

Note 12, Shareholder value of in-force business, details various assumptions used for both 2011 and 2010 in the calculation of the shareholder value of in-force business.

## Net change in investment and insurance contract liabilities

During 2011 the net change in investment and insurance contract liabilities of €207m credit (H1 2010: €736m debit) was influenced by assumption changes made in the first six months of 2011 including interest rate (€45m decrease), inflation rate (€9m increase), and expense (€13m decrease) assumption changes along with the negative 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).

## Administration expenses, depreciation, amortisation and impairment

Excluding the €10m in restructuring programme costs in the life assurance business incurred in the first six months of 2011, the recurring life assurance and fund management costs remained stable period on period at €85m. The €10m restructuring cost was the cost associated with a restructuring programme in the retail life business which is expected to result in a reduction in headcount of over 60 people by the end of the year.

## 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 96% (net of reinsurance) of the life assurance business’s 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 9.6 years while the average duration of the assets matching these liabilities is 9.3 years.

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

| **Credit profile of the fixed-rate securities held in the non-linked portfolio** | **30 June 2011 %** | 31 December 2010 % |
|---|---|---|
| Aaa | **80** | 77 |
| Aa | **9** | 10 |
| Other | **11** | 13 |
| | **100** | 100 |

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

The life assurance and fund management businesses’ shareholder funds are principally held in cash invested in highly rated international banks.

## Divisional Performance Review

### Embedded value business review

The Life 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 Life 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.

The EV numbers disclosed here are presented on a consistent basis with those adopted by the group in prior periods and have been prepared in accordance with the European Embedded Value Principles issued in May 2004 by the European Chief Financial Officers' Forum. It has also been prepared on the basis that the Life Group continues as part of the existing group for the foreseeable future. The Life Group EV information set out below is a non GAAP measure and the basis of preparation of the EV financial information differs in many respects from an IFRS basis of preparation. In addition, the group's Life Group is classified as Held for Sale in the group financial statements as disclosed in the consolidated group interim accounts. The net assets of the Life Group at the end of June 2011, before the elimination of inter-group balances, in the group IFRS accounts were €1.3bln and this compares to the net assets on an EV basis of €1.8bln.

A summary of the Life Group's income statement on an EV basis for the six months ended 30 June 2011 and 30 June 2010 is summarised below:

| **Summary income statement** | **Six months to 30 June 2011 €m** | Six months to 30 June 2010 €m |
|---|---|---|
| Life assurance and fund management business | | |
| New business contribution | **19** | 28 |
| Contribution from in-force business | | |
| Expected return | | |
| In-force | **60** | 61 |
| Net worth | **8** | 7 |
| Experience variances | **(14)** | 13 |
| Assumption changes | **(9)** | 9 |
| | **45** | 90 |
| Life assurance and fund management business | **64** | 118 |
| Other | **5** | 5 |
| | **69** | 123 |
| Share of associate | **-** | 2 |
| **EV operating profit before tax** | **69** | 125 |
| Short-term investment fluctuations | **(46)** | (11) |
| VIF loan (financing costs) | **3** | - |
| Effect of economic assumption changes | **(31)** | (7) |
| **Operating (loss) / profit before tax** | **(5)** | 107 |
| Taxation | **-** | (8) |
| **(Loss) / profit after tax attributable to owners of the parent** | **(5)** | 99 |

The Life Group made an EV operating profit of €69m for the first six months of 2011 down from €125m in the same period in 2010. The fall in earnings was due principally to the persistency experience in the Retail Life business, the impact of the pension levy and restructuring provisions.

The operating loss before tax of €5m resulted from the fall in projected future unit linked management charges due to the drop in investment market values, the negative shareholder property returns and the increase in the risk discount rate.

### New business contribution and margins

The contribution from new business for the fist six months of 2011 of €19m was down €9m on the same period in 2010. The impact of higher sales was offset by lower new business margins. The Life Assurance's new business margin of 7.9% (H1 2010: 13.0%) was impacted by the change in persistency assumptions in 2010 and the new remuneration agreement whereby the Retail Life business now directly remunerates permanent tsb for the sales of its bancassurance products.

The internal rate of return, excluding ILIM, for the first half of 2011 was 9.8% (2010: 10.5%). The average undiscounted payback period[13] for H1 2011 across the group's life product portfolio, excluding ILIM, was 7.8 years (2010: 7.5 years).

### Contribution from in-force business

Total in-force earnings for the first six months of 2011 were €45m (H1 2010: €90m).

The expected in-force return remained static period on period at €68m. The expected return on net worth relates to earnings on shareholder assets.

Experience variances and operating assumption changes in the first six months of 2011 resulted in a €23m charge (H1 2010: €22m credit) and are detailed in the following table.

Experience variances and assumption changes are analysed as follows:

| | **Six months to 30 June 2011** | | | Six months to 30 June 2010 | | |
|---|---|---|---|---|---|---|
| | **Experience** | **Assumption changes** | **Total** | Experience | Assumption changes | Total |
| | **€m** | **€m** | **€m** | €m | €m | €m |
| Persistency | **(8)** | **(5)** | **(13)** | (7) | - | (7) |
| Risk | **9** | **-** | **9** | 19 | - | 19 |
| Expenses/Other | **(15)** | **(4)** | **(19)** | 1 | 9 | 10 |
| **Total** | **(14)** | **(9)** | **(23)** | 13 | 9 | 22 |

The persistency experience in Retail Life business in 2011 deteriorated predominantly due to the poor persistency experience on pensions AP and non-linked protection business. Following the poor persistency experience in the first six months of 2011, the Retail Life allowance for temporary adverse experience was increased back to its end 2010 level. This charge of €5m is recorded as an assumption change. As standard, both the temporary allowance and the long-term persistency assumptions will be reviewed at year-end.

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

The expenses / other charge of €19m includes the €13m impact of the pension levy and the net impact of recent one-off restructuring costs of €4m. Expense assumptions were reduced reflecting a reduction in future servicing costs as a result of the voluntary severance scheme in Retail Life and efficiency gains in ILIM. Only a third of the total savings from the voluntary severance scheme relate to servicing costs with the balance relating to acquisition costs. These savings are not reflected in the closing Embedded Value but will increase the future value of new business.

### Short-term investment fluctuations

Short-term investment fluctuations of €46m negative in the first six months of 2011 compare to €11m negative in the corresponding period in 2010. The 2011 performance principally relates to negative unit linked management charges (€30m) and losses on shareholder properties (€11m). The returns in 2010 principally related to the reserving costs of financial options and guarantees.

### Economic assumptions

The effect of revised economic assumptions was a negative €31m in the first six months of 2011 (H1 2010: €7m negative). The risk discount rate was also increased to 7.6% at end June 2011 from 7.5% at end December 2010, reflecting an increase in medium term swap rates during the period.

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

## Risk Management

The group risk management framework and the principal risk factors that may affect the group are set out on pages 33 to 41 of the 2010 Annual Report and Financial Statements.

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# EU IFRS Condensed Financial Statements (Unaudited)

## Condensed Consolidated Statement of Financial Position (Unaudited)

As at 30 June 2011

| | Notes | **Unaudited 30 June 2011 €m** | Audited 31 December 2010 €m |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central banks | 5 | **631** | 312 |
| Items in course of collection | 5 | **102** | 124 |
| Assets classified as held for sale | 4 | **31,725** | 2,089 |
| Debt securities | 6 | **6,254** | 12,098 |
| Equity shares and units in unit trusts | 7 | **-** | 13,783 |
| Derivative assets | | **264** | 1,255 |
| Loans and receivables to customers | 8 | **34,982** | 36,581 |
| Loans and receivables to banks | 10 | **675** | 3,565 |
| Investment properties | 11 | **-** | 1,825 |
| Reinsurance assets | | **-** | 2,011 |
| Prepayments and accrued income | | **124** | 385 |
| Interest in associated undertaking | | **-** | 124 |
| Property and equipment | | **105** | 200 |
| Shareholder value of in-force business | 12 | **-** | 699 |
| Intangible assets | 13 | **108** | 30 |
| Goodwill | | **-** | 70 |
| Deferred tax assets | | **169** | 112 |
| Other assets | | **102** | 150 |
| Deferred acquisition costs | | **-** | 188 |
| Retirement benefit assets | 14 | **10** | 104 |
| **Total assets** | | **75,251** | 75,705 |
| | | | |
| **Liabilities** | | | |
| Deposits by banks (including central banks)* | 15 | **18,417** | 17,146 |
| Liabilities classified as held for sale | 4 | **30,622** | 2,041 |
| Customer accounts | 16 | **14,968** | 13,382 |
| Debt securities in issue | 17 | **8,245** | 10,034 |
| Derivative liabilities | | **242** | 503 |
| Investment contract liabilities | 18 | **-** | 24,067 |
| Insurance contract liabilities | 19 | **-** | 4,238 |
| Outstanding insurance and investment claims | | **-** | 108 |
| Accruals | | **119** | 158 |
| Other liabilities | | **212** | 321 |
| Provisions | 20 | **39** | 17 |
| Current tax liabilities | | **-** | 9 |
| Deferred front end fees | | **-** | 48 |
| Deferred tax liabilities | | - | 172 |
| Retirement benefit liabilities | 14 | **129** | 153 |
| Subordinated liabilities | 21 | **304** | 1,686 |
| **Total liabilities** | | **73,297** | 74,083 |
| | | | |
| **Equity** | | | |
| Share capital | 23, 22 | **89** | 89 |
| Share premium | 22 | **135** | 135 |
| Other reserves | 22 | **(309)** | (185) |
| Retained earnings | 22 | **2,039** | 1,583 |
| **Total equity** | | **1,954** | 1,622 |
| | | | |
| **Total liabilities and equity** | | **75,251** | 75,705 |

*Deposits by banks (including central banks) includes both €12.6bln (31 December 2010: €13.8bln) and €2.1bln (31 December 2010: nil) of ECB and Irish Central Bank funding respectively. Also includes a deposit of €3bln (31 December 2010: €nil) made by the NTMA.

## Condensed Consolidated Income Statement (Unaudited)

For the six months ended 30 June 2011

| | Notes | **Unaudited 6 months to 30 June 2011 €m** | Unaudited 6 months to 30 June 2010 €m |
|---|---|---|---|
| **Continuing operations** | | | |
| Interest receivable | 28 | **688** | 571 |
| Interest payable | 28 | **(570)** | (412) |
| | | **118** | 159 |
| Fees and commission income | 29 | **29** | 27 |
| Fees and commission expenses | 29 | **(7)** | (17) |
| Trading income | | **(1)** | (4) |
| Other operating income | 6,31 | **(23)** | 4 |
| Gain on subordinated liability management exercise | 21 | **763** | - |
| **Total operating income** | | **879** | 169 |
| Administrative expenses | | **(160)** | (141) |
| Depreciation and amortisation | | | |
| Property and equipment | | **(7)** | (7) |
| Intangible assets | | **(9)** | (3) |
| Impairment | | | |
| Loss on the disposal of property and equipment | | **-** | (1) |
| **Total operating expenses** | | **(176)** | (152) |
| **Operating profit before provisions** | | **703** | 17 |
| **Provisions for impairment** | | | |
| Loans and receivables | 9 | **(333)** | (150) |
| | | **(333)** | (150) |
| **Operating profit / (loss)** | | **370** | (133) |
| **Profit / (loss) before taxation** | | **370** | (133) |
| Taxation | 30 | **43** | 19 |
| **Profit / (loss) for the period from continuing operations** | | **413** | (114) |
| **Discontinued operations** | | | |
| Profit / (loss) for the period from discontinued operations | 3 | **42** | 77 |
| **Profit / (loss) for the period** | | **455** | (37) |
| **Attributable to:** | | | |
| Owners of the parent | | | |
| Continuing operations | | **413** | (114) |
| Discontinued operations | | **42** | 77 |
| | | **455** | (37) |

## Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2011

| | Notes | **Unaudited 6 months to 30 June 2011 €m** | Unaudited 6 months to 30 June 2010 €m |
|---|---|---|---|
| Profit / (Loss) for the period | | **455** | (37) |
| **Other comprehensive income** | | | |
| **Continuing operations** | | | |
| Revaluation of owner occupied property | 30 | **(7)** | (2) |
| Currency translation adjustment reserve | | | |
| Gains on hedged investment in foreign operations | | **(6)** | 3 |
| Losses on hedging of investment in foreign operations | | **6** | (3) |
| | | **-** | - |
| Change in value of available-for-sale financial assets | | | |
| Change in fair value of AFS financial assets | 30 | **(163)** | (41) |
| Impairment of AFS securities recycled to income statement | 30 | **-** | 5 |
| Transfer to income statement on asset disposal | 30 | **29** | - |
| | | **(134)** | (36) |
| Amortisation of AFS securities reclassified to loans and receivables | 6, 30 | **4** | 7 |
| **Other comprehensive income from continuing operations** | | **(137)** | (31) |
| Deferred tax on other comprehensive income | 30 | **17** | 4 |
| **Other comprehensive income, net of tax from continuing operations** | | **(120)** | (27) |
| **Discontinued operations** | | | |
| Revaluation of owner occupied property | 30 | **(3)** | (4) |
| **Other comprehensive income from discontinued operations** | | **(3)** | (4) |
| Deferred tax on other comprehensive income | 30 | **-** | 1 |
| **Other comprehensive income, net of tax, from discontinued operations** | | **(3)** | (3) |
| **Total comprehensive income for the period** | | **332** | (67) |
| **Attributable to:** | | | |
| Owners of the parent | | | |
| Continuing operations | | **293** | (141) |
| Discontinued operations | | **39** | 74 |
| **Total comprehensive income for the period** | | **332** | (67) |

## Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2011

| | 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 | Capital contribution reserve €m | Other capital reserves €m | Retained Earning €m | Total €m |
| **As at 1 January 2011** | 89 | 135 | 56 | (253) | (2) | 7 | 7 | 1,583 | 1,622 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | - | 455 | 455 |
| **Other comprehensive income (net of tax)** | | | | | | | | | |
| Revaluation losses (net of tax) | - | - | (9) | - | - | - | - | - | (9) |
| Change in value of available for sale financial assets (net of tax) | - | - | - | (143) | - | - | - | - | (143) |
| Impairment of AFS securities recycled to income statement (net of tax) | - | - | - | 25 | - | - | - | - | 25 |
| Amortisation of AFS securities reclassified to loans and receivables (net of tax) | - | - | - | 4 | - | - | - | - | 4 |
| **Total other comprehensive income** | - | - | (9) | (114) | - | - | - | - | (123) |
| **Total comprehensive income for the period ended 30 June 2011** | - | - | (9) | (114) | - | - | - | 455 | 332 |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | |
| ***Contributions by and distributions to owners*** | | | | | | | | | |
| Release of capital contribution reserve | - | - | - | - | - | (1) | - | 1 | - |
| **Balance at 30 June 2011** | 89 | 135 | 47 | (367) | (2) | 6 | 7 | 2,039 | 1,954 |
| **Of which discontinued operations** | | | | | | | | | 1,288 |

## Condensed Consolidated Statement of Changes in Equity (Unaudited)
For the six months ended 30 June 2011

Six months ended 30 June 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 | Capital contribution reserve €m | Other capital reserves €m | Own share reserve €m | Retained Earning €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 | (89) | - | - | - | - | - | - | - | - | - | (89) |
| Issue of share capital to IL&PGH | 89 | - | - | - | - | - | - | - | - | - | 89 |
| Transfer of share based payment reserve to IL&PGH | - | - | - | - | - | (9) | 9 | - | 66 | (43) | 23 |
| As at 15 January 2010 | 89 | 135 | 68 | 5 | (2) | - | 9 | 7 | - | 1,718 | 2,029 |
| Loss for the year | - | - | - | - | - | - | - | - | - | (37) | (37) |
| Other comprehensive income | | | | | | | | | | - | |
| Revaluation losses (net of tax) | - | - | (6) | - | - | - | - | - | - | 1 | (5) |
| Change in value of available for sale financial assets (net of tax) | - | - | - | (36) | - | - | - | - | - | - | (36) |
| Impairment of AFS securities recycled to income statement (net of tax) | - | - | - | 5 | - | - | - | - | - | - | 5 |
| | | | | | | | | | | - | - |
| Amortisation of AFS securities reclassified to loans and receivables (net of tax) | - | - | - | 6 | - | - | - | - | - | - | 6 |
| Total other comprehensive income | - | - | (6) | (25) | - | - | - | - | - | 1 | (30) |
| Total comprehensive income for the period ended 30 June 2010 | - | - | (6) | (25) | - | - | - | - | - | (36) | (67) |
| Transactions with owners, recorded directly in equity | | | | | | | | | | | |
| *Contributions by and distributions to owners* | | | | | | | | | | | |
| Reversal of share-based payment expense on forfeitures / lapses | - | - | - | - | - | - | (1) | - | - | 1 | - |
| Balance at 30 June 2010 | 89 | 135 | 62 | (20) | (2) | - | 8 | 7 | - | 1,683 | 1,962 |

## Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 30 June 2011

| | Notes | **Unaudited 6 months to 30 June 2011 €m** | Unaudited 6 months to 30 June 2010 €m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit/ (loss) before taxation for the period** | | **409** | (45) |
| Adjusted for: | | | |
| Adjustments for non-cash movements in net profit for the period | | **421** | (334) |
| Net change in operating assets and liabilities | | **(3,493)** | (1,144) |
| **Net cash flows from operating activities before tax** | | **(2,663)** | (1,523) |
| Tax (paid) / refunded | | **(4)** | (1) |
| **Net cash flows from operating activities** | | **(2,667)** | (1,524) |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | | **(9)** | (7) |
| Sale of property and equipment | | **1** | 2 |
| Purchase of intangible assets | | **(3)** | (6) |
| Investment in restricted cash | | **(322)** | - |
| Consideration paid on acquisition of subsidiary | | **(29)** | - |
| Loans and receivables to banks acquired as part of acquisition of subsidiary | | **135** | - |
| Dividends received from associated undertaking | | **2** | 5 |
| **Net cash flows from investing activities** | | **(225)** | (6) |
| **Cash flows from financing activities** | | | |
| Deposit by state institution | | **3,035** | - |
| Interest paid on deposit by state institution | | **(9)** | - |
| Redemption of subordinated liabilities | | **(274)** | - |
| Interest paid on subordinated liabilities | | **(37)** | (34) |
| Repayment of VIF loan | | **(100)** | - |
| Payment of interest and penalties on VIF loan | | **(9)** | - |
| **Net cash flows from financing activities** | | **2,606** | (34) |
| **(Decrease) / increase in cash and cash equivalents** | | **(286)** | (1,564) |
| **Analysis of changes in cash and cash equivalents** | | | |
| Cash and cash equivalents as at 1 January | | **1,384** | 2,836 |
| Net cash flow | | **(286)** | (1,564) |
| Effect of exchange translation adjustments | | **(2)** | - |
| **Cash and cash equivalents as at period end *^** | 5 | **1,096** | 1,272 |

* The net cash flows excludes restricted cash as per Note 5, Cash and cash equivalents.

^ Cash and cash equivalents as at 30 June 2011 includes bank overdraft of €11m, as classified within Other liabilities as per Note 4(a), Assets and liabilities classified as held for sale.

## Notes to the Condensed Consolidated Financial Statements

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## 1. Basis of preparation, significant accounting policies and estimates and judgements

### Introduction

Irish Life & Permanent plc is a parent company domiciled in Ireland. The condensed consolidated financial statements consolidate the individual financial statements of the company and its subsidiaries (together referred to as the "group") and show the group's interest in associates using the equity method of accounting. The condensed consolidated financial statements for the six months ended 30 June 2011 are unaudited but have been reviewed by the auditor whose report is set out on page 117.

The financial information presented herein does not amount to statutory financial statements that are required by Regulation 7(3) of the European Communities (Credit Institutions Accounts) Regulations 1992 to be annexed to the annual return of the company. The IFRS financial statements for the financial year ended 31 December 2010 were annexed to the annual return and filed with the Registrar of Companies. The audit report on those IFRS financial statements was not qualified. However the audit report did contain an emphasis of matter regarding going concern.

### Basis of preparation

The condensed financial statements for the half year ended 30 June 2011 have been prepared in accordance with IAS 34, 'Interim Financial Reporting' as published by the International Accounting Standards Board and adopted by the EU.

On 15 January 2010, Irish Life & Permanent plc ("IL&P") was acquired by Irish Life & Permanent Group Holdings plc ("IL&PGH"). On this date under a scheme of arrangement sanctioned by the High Court, 276,782,344 Irish Life & Permanent plc ordinary shares were cancelled and Irish Life & Permanent Group Holdings plc subsequently issued the 276,782,344 ordinary shares to the shareholders of Irish Life & Permanent plc on a one-for-one basis. On the same day, Irish Life & Permanent plc issued 276,782,344 ordinary shares to Irish Life & Permanent Group Holdings plc. Consequently, Irish Life & Permanent plc is a 100% subsidiary of Irish Life & Permanent Group Holdings plc. The condensed financial statements should be read in conjunction with the Annual Report and Financial Statements of Irish Life & Permanent plc ("Annual Report and Financial Statements 2010") for the year ended 31 December 2010, which have been prepared in accordance with IFRSs as adopted by the EU.

### Accounting policies, estimates and judgements

The approach to accounting policies and the accounting estimates and judgements applied in the condensed consolidated half year financial statements is consistent with the approach disclosed in the Annual Report and Financial Statements for the year ended 31 December 2010.

Estimates and assumptions in respect of insurance contract liabilities (Note 19, Life assurance contracts), retirement obligations (Note 14, Retirement benefit obligations) and loan impairments (Note 9, Provision for impairment) have been updated to reflect current economic circumstances. The estimates that may have a significant effect on the financial statements relate to the recoverable value of assets and liabilities classified as held for sale. Judgements in respect of deferred tax asset has been recognised on the basis that management expects to be able to utilise the asset from future own taxable profits and available group relief.

Since 31 December 2010, the following additional accounting policies have been adopted:

#### Core deposit intangible assets

Intangible assets include core deposit intangible acquired through the acquisition of a deposit book during the period. Further details are disclosed in Note 31, Business combinations.

Core deposit intangible is stated at cost less amortisation and provision for impairment, if any, and are amortised over five years. They are subject to impairment review at least annually and if events or changes in circumstances indicate that the carrying amount may not be recoverable it is written down through the income statement by the amount of any impairment loss identified in the year.

#### Discontinued operations

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

## 1. Basis of preparation, significant accounting policies and estimates and judgements (continued)

**Assets and liabilities classified as held for sale**

Non current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than continuing use, it is available for immediate sale and a sale is highly probable within twelve months.

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

Financial assets and financial liabilities within the scope of IAS 39, Financial Instruments: Recognition and measurement, continue to be measured in accordance with that standard. Retirement benefit assets and liabilities and investment properties continue to be measured in accordance with IAS 19, Employee Benefits and IAS 40 Investment Properties respectively.

### 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 requirements under the PCAR and PLAR reviews completed in March 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, in addition to its €2.7bln capitalisation of the IL&PGH group in July 2011 (€2.3bln in share capital of IL&PGH and €0.4bln in contingent capital notes issued by the company), it will support the bank in achieving its additional capital requirement as directed by the Prudential Capital Assessment Review ("PCAR") in the event that the group's asset disposal programme does not generate sufficient capital;
- it is expected that the group will continue to meet its current regulatory capital requirements over the relevant period.

The continued deterioration of the Irish economy throughout 2011 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 continue to fall 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/EC Programme of Support for Ireland and the consequent withdrawal of funds from Irish banks continue to affect the group's funding objectives. There is a significant ongoing liquidity challenge for the group and for the Irish banking system generally. These challenges have given rise to continued breaches of regulatory liquidity requirements 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 ECB and the Central Bank of Ireland financing facilities. At 30 June 2011, the group had €12.6bn of collateralised funding from the European Central Bank and €2bln from the special liquidity facilities of 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 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/EC programme of support for Ireland. The Act applies to banks who have received financial support from the State, Building Societies and Credit Unions. The group by way of the Government Guarantee has received such support. 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.

## 1. Basis of preparation, significant accounting policies and estimates and judgements (continued)

### 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 2011 PCAR review highlighted a €4bn additional capital requirement for the group. In July 2011, following a High Court order made under the Credit Institutions (Stabilisation) Act 2010, the Irish Government invested €2.7bln of capital into the IL&PGH group (€2.3bln in share capital of IL&PGH and €0.4bln in contingent capital notes issued by the company). Separately the group has internally generated €0.2bln of capital. This additional capital has resulted in the bank's capital ratio at the end of July 2011 being significantly in excess of the regulatory minimum. The remaining capital requirement of €1.1bln is expected to be funded through the disposal of the Life Group, a liability management exercise and a deleveraging programme. Should these initiatives not generate sufficient funds to meet the additional capital requirement, the State has indicated that they will provide the necessary support.

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 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/EC programme of support 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 risks and uncertainties set out above and the options available to the group have been considered by the Board in concluding that it is appropriate to prepare the financial statements on a going concern basis.

### Income taxes

Taxes on income for the half-year reporting period are accrued using the tax rate that is expected to be applicable to total annual income for 2011.

The following new standards and amendments to standards are applicable from 1 July 2010 and have been adopted in the condensed financial statements:

| Title | Impact on condensed consolidated financial statements |
|---|---|
| IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments | IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with IAS 39. This amendment did not have a material impact on the condensed consolidated financial statements of the group. |
| IFRS 3: Business Combinations (Amendment) | This amendment clarifies the amendment to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentations and IAS 39 Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition date precede the application of IFRS 3 (revised 2008). This amendment did not have a material impact on the condensed consolidated financial statements of the group. |
| IFRS 3: Business Combinations (Amendment) | The application guidance in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards. This amendment did not have a material impact on the condensed consolidated financial statements of the group. |
| IFRS 3: Business Combinations (Amendment) | The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle the holder to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS. This amendment did not have a material impact on the condensed consolidated financial statements of the group. |
| IAS 27: Consolidated and Separate Financial Statements (Amendment) | This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. This amendment did not have a material impact on the condensed consolidated financial statements of the group. |

## 1. Basis of preparation, significant accounting policies and estimates and judgements (continued)

The following new standards and amendments to standards are applicable from 1 January 2011 and have been adopted in the condensed financial statements:

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

## 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 commerical terms and conditions. Internal charges and transfer pricing adjustments have been reflected in the performance of each reportable segment. Revenue from external parties is measured in a manner consistent with that in the income statement. The primary performance measure utilised by the Strategy Group for the Banking-Ireland and UK reportable segments is net interest receivable.

The group is not reliant on revenue from transactions with a single external customer in the current or comparative reporting years.
The group is organised into six reportable segments. Management identifies its reportable operating segments by service line consistent with the reports used by the Strategy Group. The reporting segments represent the revenues generated from the group’s products and services. The group’s products and services have been aligned with the relevant reporting segments. The CODM of the group continues to review segmental information on the same basis heretofore, even though certain businesses are held for sale as outlined in Note 4, Assets and liabilities classified as held for sale.

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. |

**Discontinued operations**
The central bank of Ireland completed Prudential Capital Assessment Review ("PCAR") and Prudential Liquidity Assessment Review ("PLAR") of the group in March 2011. This review determined a gross additional capital requirement of €4bln for the group. To meet this additional capital requirement the group is progressing several initiatives including the sale of Irish Life Limited and its subsidiaries (together the 'Life Group'). The Life Group conducts its operations through following reportable segments:

| | |
|---|---|
| Life assurance | Includes individual and group life assurance and investment contracts, pensions and annuity business written in Irish Life Assurance plc and Irish Life International Limited. |
| 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 the group activities are as follows:

**30 June 2011**

| | Banking Ireland €m | Banking UK €m | Life assurance €m | Fund management €m | General insurance €m | Brokerage / third party administration and other [1] €m | Reconciliations / eliminations / consolidation adjustments [2] €m | Total €m | Analysed as to: Continuing Operations €m | Analysed as to: Discontinued Operations €m |
|---|---|---|---|---|---|---|---|---|---|---|
| Net interest receivable | | | | | | | | | | |
| - external | 60 | 69 | (22) | - | - | - | - | 107 | 118 | (30) |
| - inter-segment | 69 | (80) | (8) | - | - | - | 19 | - | | |
| Other non-interest income / (expenses) | | | | | | | | | | |
| - external | 20 | - | (51) | - | - | 13 | - | (18) | 21 | (39) |
| - inter-segment | 1 | - | (9) | - | - | 8 | - | - | | |
| Premiums on insurance contracts, net of reinsurance | - | - | 317 | - | - | - | - | 317 | - | 317 |
| Investment return | | | | | | | | | | |
| - external | (23) | - | (218) | - | - | - | - | (241) | (23) | (206) |
| - inter-segment | - | - | (31) | - | - | - | 24 | (7) | | |
| Fees from investment contracts and fund management | | | | | | | | | | |
| - external | - | - | 103 | 4 | - | 10 | - | 117 | - | 117 |
| - inter-segment | - | - | - | 18 | - | - | (18) | - | | |
| Change in shareholder value of in-force business | - | - | (34) | - | - | - | - | (34) | - | (34) |
| Gain on subordinated liability management | 763 | - | - | - | - | - | - | 763 | 763 | |
| **Total operating income / (expenses)** | 890 | (11) | 47 | 22 | - | 31 | 25 | 1,004 | 879 | 125 |
| Claims on insurance contracts, net of reinsurance | - | - | (153) | - | - | - | - | (153) | - | (153) |
| Change in insurance / investment contract liabilities | - | - | 207 | - | - | - | - | 207 | - | 207 |
| Investment expenses | - | - | (37) | - | - | - | 18 | (19) | - | (19) |
| Administrative expenses | (149) | (5) | (73) | (13) | - | (21) | (9) | (270) | (160) | (110) |
| Depreciation and amortisation | (16) | - | (7) | (1) | - | (2) | - | (26) | (16) | (10) |
| Impairment | - | - | (1) | - | - | - | - | (1) | - | (1) |
| **Total operating (expenses) / income** | (165) | (5) | (64) | (14) | - | (23) | 9 | (262) | (176) | (86) |
| **Operating profit / (loss) before provisions** | 725 | (16) | (17) | 8 | - | 8 | 34 | 742 | 703 | 39 |
| Loans and receivables | (321) | (12) | - | - | - | - | - | (333) | (333) | - |
| **Operating (loss) / profit** | 404 | (28) | (17) | 8 | - | 8 | 34 | 409 | 370 | 39 |
| Share of profits of associated undertaking | - | - | - | - | - | - | - | - | | |
| Taxation | 43 | (1) | 4 | (1) | - | - | 1 | 46 | 43 | 3 |
| **Profit / (loss) for the period** | 447 | (29) | (13) | 7 | - | 8 | 35 | 455 | 413 | 42 |

## 2. Segmental information (continued)

30 June 2010

| | Banking Ireland €m | Banking UK €m | Life assurance €m | Fund management €m | General insurance €m | Brokerage / third party administration and other [1] €m | Reconciliations/ eliminations / consolidation adjustments [2] €m | Total €m | Analysed as to: Continuing Operations €m | Discontinued Operations €m |
|---|---|---|---|---|---|---|---|---|---|---|
| Net interest receivable | | | | | | | | | | |
| - external | 78 | 91 | (8) | - | - | - | - | 161 | 159 | (16) |
| - inter-segment | 82 | (92) | (8) | - | - | - | 18 | - | - | - |
| Other non-interest income / (expenses) | | | | | | | | | | |
| - external | 6 | - | (52) | - | - | 13 | - | (33) | 6 | (39) |
| - inter-segment | - | - | (8) | - | - | 8 | - | - | - | - |
| Premiums on insurance contracts, net of reinsurance | - | - | 340 | - | - | - | - | 340 | - | 340 |
| Investment return | | | | | | | | | | |
| - external | 4 | - | 721 | - | - | - | - | 725 | 4 | 735 |
| - inter-segment | - | - | 14 | - | - | - | (18) | (4) | - | - |
| Fees from investment contracts and fund management | | | | | | | | | | |
| - external | - | - | 96 | 4 | - | 8 | - | 108 | - | 108 |
| - inter-segment | - | - | - | 17 | - | - | (17) | - | - | - |
| Change in shareholder value of in-force business | - | - | (26) | - | - | - | - | (26) | - | (26) |
| Total operating income / (expenses) | 170 | (1) | 1,069 | 21 | - | 29 | (17) | 1,271 | 169 | 1,102 |
| Claims on insurance contracts, net of reinsurance | - | - | (155) | - | - | - | - | (155) | - | (155) |
| Change in insurance / investment contract liabilities | - | - | (736) | - | - | - | - | (736) | - | (736) |
| Investment expenses | - | - | (34) | - | - | - | 17 | (17) | - | (17) |
| Administrative expenses | (134) | (5) | (59) | (11) | - | (21) | (4) | (234) | (141) | (93) |
| Depreciation and amortisation | (10) | - | (11) | (1) | - | (1) | - | (23) | (10) | (13) |
| Impairment | - | - | (2) | - | - | - | - | (2) | - | (2) |
| Loss on the sale of property and equipment | (1) | - | - | - | - | - | - | (1) | (1) | - |
| Total operating (expenses) / income | (145) | (5) | (997) | (12) | - | (22) | 13 | (1,168) | (152) | (1,016) |
| Operating profit / (loss) before provisions | 25 | (6) | 72 | 9 | - | 7 | (4) | 103 | 17 | 86 |
| Loans and receivables | (137) | (13) | - | - | - | - | - | (150) | (150) | - |
| Total provisions for impairment | (137) | (13) | - | - | - | - | - | (150) | (150) | - |
| Operating (loss) / profit | (112) | (19) | 72 | 9 | - | 7 | (4) | (47) | (133) | 86 |
| Share of losses of associated undertaking | - | - | - | - | 2 | - | - | 2 | - | 2 |
| Taxation | 14 | 5 | (10) | (1) | - | (1) | 1 | 8 | 19 | (11) |
| (Loss) / profit for the period | (98) | (14) | 62 | 8 | 2 | 6 | (3) | (37) | (114) | 77 |

## 2. Segmental information (continued)

**30 June 2011**

| | Banking Ireland €m | Banking UK €m | Life assurance €m | Fund management €m | General insurance €m | Brokerage / third party administration and other €m | Reconciliations / eliminations / consolidation adjustments [2] €m | Total €m |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Interest in associate | - | - | - | - | 122 | - | (122) | - |
| Held for sale | 4 | - | 2,082 | - | - | - | 29,639 | 31,725 |
| Other assets | 42,734 | 12,409 | 29,970 | 26 | - | 163 | (41,776) | 43,526 |
| **Total assets** | **42,738** | **12,409** | **32,052** | **26** | **122** | **163** | **(12,259)** | **75,251** |
| **Liabilities** | | | | | | | | |
| Held for sale | - | - | 2,041 | - | - | - | 28,581 | 30,622 |
| Other liabilities | 42,240 | 12,326 | 28,889 | 9 | - | 96 | (40,885) | 42,675 |
| **Total liabilities** | **42,240** | **12,326** | **30,930** | **9** | **-** | **96** | **(12,304)** | **73,297** |
| **Equity attributable to owners** | **498** | **83** | **1,122** | **17** | **122** | **67** | **45** | **1,954** |
| **Capital expenditure** | **5** | **-** | **6** | **-** | **-** | **1** | **-** | **12** |

31 December 2010

| | Banking Ireland* €m | Banking UK €m | Life assurance €m | Fund management €m | General insurance €m | Brokerage and third party administration and other €m | Reconciliations / eliminations / consolidation adjustments[2] €m | Total €m |
|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | |
| Interest in associate | - | - | - | - | 124 | - | - | 124 |
| Held for sale | 4 | - | 2,087 | - | - | - | (2) | 2,089 |
| Other assets | 43,092 | 12,782 | 31,276 | 21 | - | 178 | (13,857) | 73,492 |
| Total assets | 43,096 | 12,782 | 33,363 | 21 | 124 | 178 | (13,859) | 75,705 |
| Liabilities | | | | | | | | |
| Held for sale | - | - | 2,069 | - | - | - | (28) | 2,041 |
| Other liabilities | 42,969 | 12,771 | 30,010 | 10 | - | 113 | (13,831) | 72,042 |
| Liabilities | 42,969 | 12,771 | 32,079 | 10 | - | 113 | (13,859) | 74,083 |
| Equity attributable to owners | 127 | 11 | 1,284 | 11 | 124 | 65 | - | 1,622 |
| Capital expenditure | 12 | - | 7 | 1 | - | 1 | - | 21 |

## 2. Segmental information (continued)

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

Brokerage and third party administration services include:

| | 30 June 2011 €m | Analysed as to: Continuing Operations €m | Discontinued Operations €m |
|---|---|---|---|
| Profit in respect of insurance brokerage company | **7** | - | 7 |
| Profit in respect of third party administration company | **-** | - | - |

| | 30 June 2010 €m | Analysed as to: Continuing Operations €m | Discontinued Operations €m |
|---|---|---|---|
| Profit in respect of insurance brokerage company | 6 | - | 6 |
| Loss in respect of third party administration company | - | - | - |

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

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

| | 30 June 2011 €m | Analysed as to: Continuing Operations €m | Discontinued Operations €m |
|---|---|---|---|
| Consolidation of the movement in the value of properties financed by non-recourse inter-group loans | **(7)** | **-** | **(7)** |
| Differing accounting treatment for assets and liabilities by the bank and life company* | **52** | **-** | **52** |
| The allocation of corporate costs, net of tax** | **(10)** | **(7)** | **(3)** |
| | **35** | **(7)** | **42** |

| | 30 June 2010 €m | Analysed as to: Continuing Operations €m | Discontinued Operations €m |
|---|---|---|---|
| Consolidation of the movement in the value of properties financed by non-recourse inter-group loans | (4) | - | (4) |
| Differing accounting treatment for assets and liabilities by the bank and life company* | 6 | - | 6 |
| The allocation of corporate costs, net of tax** | (5) | (3) | (2) |
| | (3) | (3) | - |

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

** These costs relate to group functions and are included here as they are not allocated for the purpose of segmental reporting by the CODM.

Elimination of inter-group rental expenses is also included as these expenses are not expected to be incurred by continuing operations following the disposal of discontinued operations.

## Notes to the Condensed Consolidated Financial Statements

### 2. Segmental information (continued)

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

| | **30 June 2011** | 31 December 2010 |
|---|---|---|
| | **€m** | €m |
| Consolidation of the movement in the value of properties financed by non-recourse inter-group loans | **(29)** | (22) |
| Differing accounting treatment for assets and liabilities by the bank and life company | **74** | 22 |
| | **45** | - |

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

| | **30 June 2011** | 31 December 2010 |
|---|---|---|
| | **€bn** | €bn |
| The elimination of floating-rate notes issued by special purpose vehicles between Banking Ireland and Banking UK reporting segments but held within the group | **(11)** | (12) |
| The elimination of inter-group balances between the bank and other group entities | **(1)** | (2) |
| | **(12)** | (14) |

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

## 3. Discontinued operations

The Central Bank of Ireland completed its Prudential Capital Assessment Review ("PCAR") and Prudential Liquidity Assessment Review ("PLAR") of the group in March 2011. This review determined a gross additional capital requirement of €4bln for the group. To assist in meeting this additional capital requirement the group is progressing several initiatives including the sale of Irish Life Limited and its subsidiaries (together the 'Life Group'). The Life Group conducts its operations through the group's life assurance, fund management, general insurance and brokerage, third party administration and other reporting segments. As disclosed in Note 2, Segmental information, these reporting segments of the Life Group have been classified as discontinued operations.

The Life Group's assets and liabilities have been classified and accounted for as a disposal group held for sale (Note 4, Assets and liabilities classified as held for sale). Irish Life International ("ILI") a wholly owned subsidiary of Irish Life Limited is included below as part of the discontinued operations of the Life Group.

The results of the discontinued operations included in the consolidated income statement and consolidated statement of comprehensive income are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period.

### (a) Profit from discontinued operations

| | **30 June 2011 €m** | 30 June 2010 €m |
|---|---|---|
| Net interest income | **(30)** | (16) |
| Net fee and commission income | **(39)** | (39) |
| Premiums on insurance contracts | **386** | 397 |
| Reinsurers' share of premium on insurance contracts | **(69)** | (57) |
| Investment return | **(206)** | 735 |
| Fees from investment contracts and fund management | **117** | 108 |
| Change in shareholder value of in-force business | **(34)** | (26) |
| **Total income** | **125** | 1,102 |
| | | |
| Claims on insurance contracts | **(247)** | (241) |
| Reinsurers' share of claims on insurance contracts | **94** | 86 |
| Change in insurance contract liabilities | **45** | (369) |
| Change in reinsurers' share of insurance contract liabilities | **(57)** | 176 |
| Change in investment contract liabilities | **219** | (543) |
| Administrative expenses | **(110)** | (93) |
| Depreciation and amortisation | **(10)** | (13) |
| Investment expenses | **(19)** | (17) |
| Impairment | **(1)** | (2) |
| **Total expenses** | **(86)** | (1,016) |
| | | |
| Share of profits of associated undertaking | **-** | 2 |
| **Profit before tax** | **39** | 88 |
| | | |
| Attributable income tax expense | **3** | (11) |
| **Profit from discontinued operations (net of tax)** | **42** | 77 |

### (b) Cash flows from discontinued operations

| | **30 June 2011 €m** | 30 June 2010 €m |
|---|---|---|
| Net cash inflows / (out flows) from operating activities | **230** | 14 |
| Net cash inflows / (out flows) from investing activities | **(4)** | 1 |
| Net cash inflows / (out flows) from financing activities | **(256)** | (12) |
| Net cash inflows / (out flows) | **(30)** | 3 |

## 4. Assets and liabilities classified as held for sale

Assets and liabilities classified as held for sale comprises of discontinued operations, non - current assets and non-current liabilities held for sale. As at 31 December 2010, some bank branches where classified as held for sale. In addition to this, the assets and liabilities of Irish Life International Limited ("ILI") were classified as held for sale as at 31 December 2010 and remain unsold at 30 June 2011. As at 30 June 2011, the assets and liabilities of Irish Life Limited and its subsidiaries (the "Life Group") were classified as a disposal group held for sale.

The assets and liabilities in respect of the above continue to be held for sale at 30 June 2011, as follows:

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| **Assets classified as held for sale** | | |
| (a) Assets of Irish Life Limited (excluding ILI) | **29,665** | - |
| (b) Assets of Irish Life International Limited | **2,056** | 2,085 |
| (c) Bank branches | **4** | 4 |
| | **31,725** | 2,089 |
| **Liabilities classified as held for sale** | | |
| (a) Liabilities of Irish Life Limited | **28,613** | - |
| (b) Liabilities of Irish Life International Limited | **2,009** | 2,041 |
| | **30,622** | 2,041 |

## 4. Assets and liabilities classified as held for sale (continued)

### (a) Assets and liabilities of Irish Life Limited

The assets and liabilities relating to Irish Life Limited and its subsidiaries (the "Life Group") which consist of the group's life assurance, fund management, general insurance and brokerage, third party administration and other reporting segments, have been classified as a disposal group held for sale. This follows the group's intention to dispose of the Life Group to meet the group's additional capital requirements as outlined in Note 3, Discontinued operations.

The value of the Life Group's assets and liabilities disclosed in the below table is their carrying value as this is deemed lower than their fair value less costs to sell. IFRS 5, Non-current assets held for sale and discontinued operations, requires that the Life Group's assets and liabilities be measured at the lower of their carrying amount or their fair value less costs to sell.

The assets and liabilities of Irish Life Limited and its subsidiaries are set out below:

| | 30 June 2011 €m |
|---|---|
| **Assets** | |
| Cash and balances with central banks | **39** |
| Assets classified as held for sale (see 4(b)) | **2,056** |
| Debt securities | **7,329** |
| Equity shares and units in unit trusts* | **12,934** |
| Derivative assets | **831** |
| Loans and receivables to banks | **3,326** |
| Investment properties | **1,674** |
| Reinsurance assets | **1,951** |
| Prepayments and accrued income | **189** |
| Interest in associated undertakings | **122** |
| Property and equipment | **79** |
| Shareholder value of in-force business | **665** |
| Intangible assets | **20** |
| Goodwill | **70** |
| Other assets | **152** |
| Deferred acquisition costs | **183** |
| Retirement benefit assets | **101** |
| **Assets classified as held for sale**** | **31,721** |
| **Liabilities** | |
| Deposits by banks^ | **209** |
| Liabilities classified as held for sale (see 4(b)) | **2,009** |
| Derivative liabilities | **171** |
| Investment contract liabilities | **23,057** |
| Insurance contract liabilities | **4,193** |
| Outstanding insurance and investment claims | **125** |
| Accruals | **39** |
| Other liabilities*** | **348** |
| Provisions | **11** |
| Current tax liabilities | **14** |
| Deferred front end fees | **49** |
| Deferred tax liabilities | **167** |
| Retirement benefit liabilities | **17** |
| Subordinated liabilities | **213** |
| **Liabilities classified as held for sale**** | **30,622** |

* Equity shares and units in unit trusts include €12,840m listed and €94m unlisted.

** The assets and liabilities shown above exclude net €171m inter-company assets, which are eliminated in the consolidated financial statements. These balances will be recovered after the sale is completed.

***Included in other liabilities at 30 June 2011 are bank overdrafts of €11m.

^These represent loans and borrowings of the Life Group.

## 4. Assets and liabilities classified as held for sale (continued)

### (b) Assets and liabilities of Irish Life International Limited

Irish Life International Limited ("ILI") is a wholly owned subsidiary of Irish Life Limited. The assets and liabilities related to ILI have been presented as held for sale as described in Note 20 of the Annual Report and Financial Statements 2010, Assets and liabilities classified as held for sale.

The completion of the agreed sale for €26m of ILI is expected before the end of 2011.

The assets and liabilities of ILI are set out below:

| | **30 June 2011** | 31 December 2010 |
|---|---|---|
| **Assets** | **€m** | €m |
| Cash and balances with central banks | **18** | 14 |
| Debt securities | **390** | 397 |
| Equity shares and units in unit trusts* | **1,444** | 1,470 |
| Derivative assets | **1** | - |
| Loans and receivables to banks | **144** | 146 |
| Property and equipment | **1** | 1 |
| Intangible assets | **1** | 1 |
| Goodwill | **5** | 5 |
| Other assets | **1** | - |
| Deferred acquisition costs | **51** | 51 |
| **Assets classified as held for sale**** | **2,056** | 2,085 |
| **Liabilities** | | |
| Derivative liabilities | **-** | 2 |
| Investment contract liabilities | **1,950** | 1,978 |
| Outstanding investment claims | **2** | 2 |
| Accruals | **1** | 2 |
| Other liabilities | **9** | 11 |
| Deferred front end fees | **47** | 46 |
| **Liabilities classified as held for sale**** | **2,009** | 2,041 |

* Equity shares and units in unit trusts include €1,383m (31 December 2010: €1,406m) listed and €61m (31 December 2010: €64m) unlisted.
** The ILI assets and liabilities shown above exclude net €27m (31 December 2010: €26m) inter-company liabilities which are eliminated in the consolidated financial statements. These balances will be recovered after the sale is completed.

### (c) Bank branches held for sale

Assets classified as held for sale include bank branches with a fair value of €3.6m (31December 2010: €4.4m) 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 31 December 2010, an additional branch was remeasured with a fair value of €1m and reclassified 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.

During the period ended 30 June 2011, two of the eight branches were sold with a fair value of €0.8m resulting in a gain of €0.45m being recognised in the income statement.

## 5. Cash and cash equivalents

| | 30 June 2011 €m | 31 December 2010 €m |
|---|---|---|
| Cash and balances with central banks* | **631** | 312 |
| Items in the course of collection | **102** | 124 |
| Loans and receivables to banks (note 10) | **640** | 935 |
| | **1,373** | 1,371 |
| Cash and bank balances included in assets classified as held for sale (note 4(a)) | **39** | - |
| Cash and bank balances included in assets classified as held for sale (note 4(b)) | **18** | 14 |
| | **1,430** | 1,385 |

*Cash and balances with central banks includes restricted cash of €323m (31 December 2010:€1.3m) which relates to cash held by the group's securitisation entities and client monies held by a brokerage subsidiary.
At 30 June 2011, bank overdrafts of €11m which have been reclassified to liabilities (other liabilities) classified as held for sale as presented in Note 4(a), Assets and liabilities classified as held for sale.

## 6. Debt securities

| | 30 June 2011 €m | 31 December 2010 €m |
|---|---|---|
| Held to maturity | **411** | - |
| Available for sale | **2,144** | 3,400 |
| Loans and receivables | **3,700** | 1,279 |
| Designated at FVTPL | **7,719** | 7,822 |
| Reclassification to assets classified as held for sale (note 4(a)) | **(7,329)** | - |
| Reclassification to assets classified as held for sale (note 4(b)) | **(390)** | (397) |
| **Gross debt securities** | **6,255** | 12,104 |
| Less provision (note 9) | **(1)** | (6) |
| **Net debt securities** | **6,254** | 12,098 |

Debt securities amounting to €7,719m (31 December 2010: €397m) have been reclassified from the Designated at FVTPL' category to assets held for sale as disclosed in Note 4(a) and 4(b), Assets and liabilities classified as held for sale

Debt securities exclude €258m (31 December 2010: €176m) issued by Irish Life & Permanent plc and held by Irish Life Assurance plc which have been eliminated on consolidation.

**Continuing operations**
The banking operations constitute the continuing operations of the group as disclosed in Note 2, Segmental information.

Debt securities, representing a mix of government gilts and corporate bonds, with a carrying value of €0.5bln (31 December 2010: €1.6bln) have been pledged to third parties in sale and repurchase agreements. Debt securities of €5.5bln (31 December 2010: €2.2bln) have been pledged against deposits made by the ECB (Note 15, Deposits by banks (including central banks)).

As at 30 June 2011, the amount of debt securities eligible for and remaining available to be used, in sale and repurchase agreements as collateral had a carrying value of €72m (31 December 2010: €760m).

Held to maturity ("HTM") debt securities of €411m represents a mix of gilts and corporate bonds acquired from Irish Nationwide Building Society ("INBS") as disclosed in Note 31, Business combinations. They represent securities with fixed maturities, fixed and determinable cashflows, which Irish Life & Permanent plc ("IL&P") has the ability and intention to hold until maturity.
Loans and receivables debt securities acquired from INBS includes €2.8bln of bonds issued by NAMA. Unlike the other securities classified as HTM debt securities, market prices are not readily available for these securities so accordingly it has been classified within the loans and receivables debt securities.

During the current reporting period, IL&P incurred a loss of c. €42m as a result of participation in the buy back programme of debt securities issued by other credit institutions as included in other operating income in the income statement.

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

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

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | **30 June 2011 €m** | 31 December 2010 €m | **30 June 2011 €m** | 31 December 2010 €m |
| AFS debt securities reclassified to loans and receivables | **989** | 1,279 | **867** | 1,123 |

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

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

| | Income statement | | Other comprehensive income | |
|---|---|---|---|---|
| | **30 June 2011 €m** | 30 June 2010 €m | **30 June 2011 €m** | 30 June 2010 €m |
| **Period before reclassification** | | | | |
| Interest income | **-** | - | **-** | - |
| Net change in fair value | **-** | - | **-** | - |
| **Period after reclassification** | | | | |
| Interest income | **14** | 10 | **-** | - |
| Amortisation | **(4)** | (7) | **4** | 7 |
| **Total for period after reclassification** | **10** | 3 | **4** | 7 |

## 6. Debt securities (continued)

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

| | Income statement | | Other comprehensive income | |
|---|---|---|---|---|
| | **30 June 2011 €m** | 30 June 2010 €m | **30 June 2011 €m** | 30 June 2010 €m |
| Interest income | **14** | 10 | **-** | - |
| Fair value movement | **-** | - | **34** | (95) |
| | **-** | - | **-** | - |
| Cumulative impact | **137** | 101 | **(122)** | (123) |

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 periods.

The carrying value of debt securities for continuing operations is analysed as follows:

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| Government bonds | **4,619** | 9,616 |
| Bonds issued by public boards | **-** | 78 |
| Bonds issued by credit institutions | **1,098** | 1,818 |
| Other bonds | **537** | 586 |
| | **6,254** | 12,098 |
| Listed | **6,230** | 11,858 |
| Unlisted | **24** | 240 |
| | **6,254** | 12,098 |

**Discontinued operations**

Under a stock lending agreement, Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations as disclosed in Note 4 Assets and liabilities classified as held for sale, has transferred debt securities to third parties of €610m (31 December 2010: €1,225m), but has retained substantially all the risks and rewards associated with the transferred assets. Due to retention of substantially all the risks and rewards on these assets, the Life Group continues to recognise these assets within debt securities.

In return the Life Group has accepted financial assets as collateral. The fair value of such collateral that the group holds externally with an agent amounted to €635m (31 December 2010: €1,342m). Collateral consists of AAA-rated OECD sovereign debt securities. In addition the external agent has provided an indemnity (at a charge) to make good any losses in excess of the collateral should a counterparty default.

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

The carrying value of debt securities for discontinued operations is analysed as follows:

| | **30 June 2011 €m** |
|---|---|
| Government bonds | **6,813** |
| Bonds issued by public boards | **72** |
| Bonds issued by credit institutions | **441** |
| Other bonds | **393** |
| | **7,719** |
| Listed | **7,607** |
| Unlisted | **112** |
| | **7,719** |

## 7. Equity shares and units in unit trusts

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| **Designated as FVTPL** | | |
| Listed | **14,222** | 15,091 |
| Unlisted | **156** | 162 |
| Reclassification to assets classified as held for sale (note 4(a)) | **(12,934)** | - |
| Reclassification to assets classified as held for sale (note 4 (b)) | **(1,444)** | (1,470) |
| | **-** | 13,783 |

Under a stock lending agreement, Irish Life Limited and its subsidiaries ("the Life Group") which are the discontinued operations as disclosed in Note 4, Assets and liabilities classified as held for sale, has transferred equity shares to third parties of €598m (31 December 2010: €641m), but has retained substantially all the risks and rewards associated with the transferred assets. Due to retention of substantially all the risks and rewards on these assets, the Life Group continues to recognise these assets within equity shares.

In return the Life Group has accepted financial assets as collateral. The fair value of the segregated collateral that the Life Group holds externally with an agent amounted to €676m (31 December 2010: €691m). Segregated collateral consists of AAA-rated OECD sovereign debt securities. In addition the external agent has provided an indemnity (at a charge) to make good any losses in excess of the segregated collateral should a counterparty default.

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

## 8. Loans and receivables to customers

Loans and receivables by category are set out below:

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| Residential mortgage loans | | |
| Held through special purpose vehicles | **25,866** | 26,932 |
| Held directly | **7,300** | 7,255 |
| | **33,166** | 34,187 |
| Commercial mortgage loans* | **1,870** | 1,904 |
| Consumer finance | | |
| Finance leases | **716** | 906 |
| Term loans / other | **434** | 467 |
| Money market funds | **-** | - |
| **Gross loans and receivables to customers** | **36,186** | 37,464 |
| | | |
| Less allowance for impairment (note 9) | **(1,204)** | (883) |
| **Net loans and receivables to customers** | **34,982** | 36,581 |

*Commercial mortgage loans exclude loans of €431m (31 December 2010: €444m) to the group's life assurance operations including loans held for the benefit of unit-linked policyholders.

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

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| Tracker | **23,210** | 24,187 |
| Variable rate | **9,257** | 9,679 |
| Fixed rate | **2,515** | 2,715 |
| | **34,982** | 36,581 |

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:

| | | **30 June 2011 €bln** | 31 December 2010 €bln |
|---|---|---|---|
| Residential mortgages held through special purpose vehicles | | **25.9** | 26.9 |
| Notes issued by special purpose vehicles | - rated | **21.3** | 23.4 |
| | - unrated | **4.1** | 2.9 |

Included in residential mortgages loans held directly are €5.3bln (31 December 2010: €nil) of retail mortgages used as collateral against €2bln worth of exceptional liquidity facility (31 December 2010: €nil).

## 8. Loans and receivables to customers (continued)

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

| | **30 June 2011 €bln** | 31 December 2010 €bln |
|---|---|---|
| - Sold to third parties and included within debt securities in issue (non-recourse) on the statement of financial position | **2.8** | 3.0 |
| - Held by the European Central Bank ("ECB") as collateral in respect of funds raised under the Eurosystem funding programme (note 15)[1] | **9.9** | 17.7 |
| - Held by other banks and institutions as part of collateralised lending or sale and repurchase agreements | **0.3** | 2.3 |
| - Other | | |
| Available collateral | **8.3** | 0.4 |
| Unrated notes | **4.1** | 2.9 |
| | **25.4** | 26.3 |

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

Details of provisions for loan impairments are set out in Note 9, Provision for impairment.

At 30 June 2011 and 31 December 2010, the group had no facility and consequently no amounts drawn down under the mortgage-backed promissory note programme with the Central Bank and Financial Services Authority of Ireland ("CBFSAI"). Instead the group were participants in the Central Bank of Ireland's emergency liquidity funding facility.

## 9. Provision for impairment

### (A) Loans and receivables

| | 6 months to 30 June 2011 | | |
|---|---|---|---|
| | **Specific** | **Collective** | **Total** |
| | **€m** | **€m** | **€m** |
| **As at 1 January** | **546** | **337** | **883** |
| Charge to income statement | | | |
| Impairment losses | **299** | **43** | **342** |
| Amounts recovered during the period | **-** | **-** | **-** |
| Amounts written off during the period | **(4)** | **(13)** | **(17)** |
| Exchange movements | **(3)** | **(1)** | **(4)** |
| **As at 30 June** | **838** | **366** | **1,204** |

| | 6 months to 30 June 2010 | | |
|---|---|---|---|
| | Specific | Collective | Total |
| | €m | €m | €m |
| As at 1 January | | | |
| Charge to income statement | 241 | 236 | 477 |
| Impairment losses | 126 | 29 | 155 |
| Amounts recovered during the period | - | (5) | (5) |
| Amounts written off during the period | (3) | (10) | (13) |
| Exchange movements | 3 | 1 | 4 |
| As at 30 June | 367 | 251 | 618 |

| | 12 months to 31 December 2010 | | |
|---|---|---|---|
| | Specific | Collective | Total |
| | €m | €m | €m |
| As at 1 January | 241 | 236 | 477 |
| Charge to income statement | | | |
| Impairment losses | 312 | 131 | 443 |
| Amounts recovered during the year | - | (8) | (8) |
| Amounts written off during the year | (7) | (22) | (29) |
| Exchange movements | - | - | - |
| As at 31 December | 546 | 337 | 883 |

### Analysis of charge to income statement

| | 6 months to 30 June 2011 | | |
|---|---|---|---|
| | **Specific** | **Collective** | **Total** |
| | **€m** | **€m** | **€m** |
| Impairment losses | **299** | **43** | **342** |
| Provision for interest on impaired loans / unwind of discount | **(9)** | **-** | **(9)** |
| **As at 30 June** | **290** | **43** | **333** |

| | 6 months to 30 June 2010 | | |
|---|---|---|---|
| | Specific | Collective | Total |
| | €m | €m | €m |
| Impairment losses | 126 | 29 | 155 |
| Amounts recovered during the period | - | (5) | (5) |
| Provision for interest on impaired loans / unwind of discount | - | - | - |
| As at 30 June | 126 | 24 | 150 |

| | 12 months to 31 December 2010 | | |
|---|---|---|---|
| | Specific | Collective | Total |
| | €m | €m | €m |
| Impairment losses | 312 | 131 | 443 |
| Amounts recovered during the year | - | (8) | (8) |
| Provision for interest on impaired loans / unwind of discount | (15) | - | (15) |
| As at 31 December | 297 | 123 | 420 |

## 9. Provision for impairment (continued)

### Analysis of impairment losses

| | **6 months to 30 June 2011** | | |
|---|---|---|---|
| | **Specific** | **Collective** | **Total** |
| | **€m** | **€m** | **€m** |
| ROI residential lending | **231** | **19** | **250** |
| ROI commercial lending | **46** | **-** | **46** |
| UK lending | **13** | **(1)** | **12** |
| Consumer finance | **-** | **25** | **25** |
| **As at 30 June** | **290** | **43** | **333** |

| | 6 months to 30 June 2010 | | |
|---|---|---|---|
| | Specific | Collective | Total |
| | €m | €m | €m |
| ROI residential lending | 82 | 4 | 86 |
| ROI commercial lending | 32 | - | 32 |
| UK lending | 12 | 1 | 13 |
| Consumer finance | - | 19 | 19 |
| As at 30 June | 126 | 24 | 150 |

| | 12 months to 31 December 2010 | | |
|---|---|---|---|
| | Specific | Collective | Total |
| | €m | €m | €m |
| ROI residential lending | 187 | 56 | 243 |
| ROI commercial lending | 80 | 25 | 105 |
| UK lending | 25 | 2 | 27 |
| Consumer finance | 5 | 40 | 45 |
| As at 31 December | 297 | 123 | 420 |

### Analysis of amounts written off during the period

| | **6 months to 30 June 2011** | | |
|---|---|---|---|
| | **Specific** | **Collective** | **Total** |
| | **€m** | **€m** | **€m** |
| UK lending | **(4)** | **-** | **(4)** |
| Consumer finance | **-** | **(13)** | **(13)** |
| **As at 30 June** | **(4)** | **(13)** | **(17)** |

| | 6 months to 30 June 2010 | | |
|---|---|---|---|
| | Specific | Collective | Total |
| | €m | €m | €m |
| UK lending | (3) | - | (3) |
| Consumer finance | - | (10) | (10) |
| As at 30 June | (3) | (10) | (13) |

| | 12 months to 31 December 2010 | | |
|---|---|---|---|
| | Specific | Collective | Total |
| | €m | €m | €m |
| ROI residential lending | (1) | - | (1) |
| UK lending | (6) | - | (6) |
| Consumer finance | - | (22) | (22) |
| As at 31 December | (7) | (22) | (29) |

## 9. Provision for impairment (continued)

### Analysis of provisions

| | **6 months to 30 June 2011** | | |
|---|---|---|---|
| | **Specific** | **Collective** | **Total** |
| | **€m** | **€m** | **€m** |
| ROI residential lending | **560** | **142** | **702** |
| ROI commercial lending | **209** | **60** | **269** |
| UK lending | **55** | **15** | **70** |
| Consumer finance | **14** | **149** | **163** |
| **As at 30 June** | **838** | **366** | **1,204** |

| | 6 months to 30 June 2010 | | |
|---|---|---|---|
| | Specific | Collective | Total |
| | €m | €m | €m |
| ROI residential lending | 207 | 72 | 279 |
| ROI commercial lending | 110 | 35 | 145 |
| UK lending | 40 | 17 | 57 |
| Consumer finance | 10 | 127 | 137 |
| As at 30 June | 367 | 251 | 618 |

| | 12 months to 31 December 2010 | | |
|---|---|---|---|
| | Specific | Collective | Total |
| | €m | €m | €m |
| ROI residential lending | 322 | 124 | 446 |
| ROI commercial lending | 163 | 60 | 223 |
| UK lending | 47 | 16 | 63 |
| Consumer finance | 14 | 137 | 151 |
| As at 31 December | 546 | 337 | 883 |

### (B) Debt securities

| | **6 months to 30 June 2011** | | |
|---|---|---|---|
| | **Specific** | **Collective** | **Total** |
| | **€m** | **€m** | **€m** |
| **As at 1 January** | **-** | **6** | **6** |
| Transfer from collective to specific provision | **5** | **(5)** | **-** |
| Amounts written off during the year - Loans and receivables | **(5)** | **-** | **(5)** |
| **As at 30 June** | **-** | **1** | **1** |

| | 6 months to 30 June 2010 | | |
|---|---|---|---|
| | Specific | Collective | Total |
| | €m | €m | €m |
| **As at 1 January** | - | 19 | 19 |
| Transfer from collective to specific provision | 7 | (7) | - |
| Charge to income statement | | | |
| Provision utilised - AFS securities* | (5) | - | (5) |
| Amounts written off during the year - Loans and receivables | (2) | - | (2) |
| As at 30 June | - | 12 | 12 |

| | 12 months to 31 December 2010 | | |
|---|---|---|---|
| | Specific | Collective | Total |
| | €m | €m | €m |
| **As at 1 January** | - | 19 | 19 |
| 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) |
| As at 31 December | - | 6 | 6 |

* Offset against impairment recycled from other comprehensive income.

## 10. Loans and receivables to banks

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| **Held at amortised cost** | | |
| Repayable on demand (note 5) | **640** | 935 |
| Other loans and receivables to banks | **35** | 36 |
| | **675** | 971 |
| **Designated as FVTPL** | | |
| Life operations deposits with banks | **3,470** | 2,740 |
| Reclassification to assets classified as held for sale (note 4(a)) | **(3,326)** | - |
| Reclassification to assets classified as held for sale (note 4(b)) | **(144)** | (146) |
| | **675** | 3,565 |

Loans and receivables to banks amounting to €3,470m (31 December 2010: €146m) have been reclassified from the 'Designated as FVTPL' category to assets classified as held for sale as disclosed in Note 4, Assets and liabilities classified as held for sale.

During the current reporting period, the group acquired €135m of loans and receivables to banks from Irish Nationwide Building Society ("INBS"). Further details are outlined in Note 31, Business combinations.

## 11. Investment properties

| | 30 June 2011 €m | 31 December 2010 €m |
|---|---|---|
| **As at 1 January** | **1,825** | 1,769 |
| Additions | **5** | 241 |
| Additions from subsequent expenditure | **1** | 2 |
| Disposals | **(54)** | (97) |
| Fair value adjustments | **(103)** | (90) |
| Reclassification to assets classified as held for sale (note 4(a)) | **(1,674)** | - |
| **As at period end** | **-** | 1,825 |

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

The Irish property investment market continues to suffer from illiquidity and uncertainty around the Irish economy following the EU/IMF Programme of Financial Support for Ireland. The Government's proposal to legislate to end upward only rent reviews for existing leases has generated increased uncertainty and deterred overseas investor interest. These factors add additional risk to current valuations. Valuers are typically highlighting the increased level of uncertainty in valuation reports but pointing to the previous Attorney General's advice that the proposed measure was likely to be unconstitutional.

The Investment Property Databank ("IPD") provides a benchmark for the institutional commercial property investment market. The total IPD return for the Irish market for the first six months of 2011 was negative 3% (12 months ended 31 December 2010: negative 2.4%). The UK market has continued to see a good level of investment transactional activity albeit the weight of investor demand has reduced. This has led to a stabilisation in yield over recent months following a period of yield compression. The UK IPD total return for the first six months of 2011 was positive 4.4% (12 months ended 31 December 2010: positive 14.5%).

At 30 June 2011, €1,531m (31 December 2010: €1,679m) of investment properties were held by unit-linked funds.

Residential properties are valued on a capital value per square foot rather than on basis of investment yield. Residential properties represent 1.2% (31 December 2010: 1.3%) of total investment property.

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 €563m at 30 June 2011 (31 December 2010: €607m). At 30 June 2011 loans (including accrued interest) of €353m (31 December 2010: €368m) were issued by Irish Life & Permanent plc and were eliminated on consolidation. The remaining balance of borrowings is contained within Note 4, Assets and liabilities classified as held for sale, under the caption 'deposits by banks'.

At 30 June 2011 there were some breaches of loan-to-value terms and payment defaults relating to non-recourse loans from third party banks secured on residential property included in unit trusts held by unit-linked funds for the benefit of policyholders. There were payment arrears of €0.8m (31 December 2010: €0.35m) on loan balances of €8.1m (31 December 2010: €5m) at 30 June 2011.

Property held under long leasehold interest at 30 June 2011 was €47m (31 December 2010: €49m). There are no contingent rents on these properties.

## 12. Shareholder value of in-force business

Irish Life Limited and its subsidiaries ("the Life Group") are the discontinued operations of the group as disclosed in Note 4, Assets and liabilities classified as held for sale. The Life Group reflects the value of shareholder in-force business generated from their underlying business operations.

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

### (A) Assumptions

The principal assumptions are set out below:

### Principal economic assumptions

The assumed future pre-tax returns on fixed interest securities are set by reference to gross redemption yields available in the market at the end of the reporting period. The base interest rate used for the risk discount rate is based on European swap rates for the effective duration of the future cash flows underlying the present value of in-force ("PVIF"), plus a margin of 1.3%. The corresponding return on equities and property is equal to the base interest rate assumption plus the appropriate risk premium. An asset mix based on the assets held at the valuation date within policyholder funds has been assumed within the projections. The projected shareholder cash flows make no explicit allowance for any potential losses from a future default of EU government guaranteed bonds and EU sovereign debt held.

| | **30 June 2011** | 31 December 2010 |
|---|---|---|
| Equity risk premium | **3.0%** | 3.0% |
| Property risk premium | **2.0%** | 2.0% |
| Irish government bond yield | **n/a*** | n/a* |
| European swap rate | **3.2%** | 3.1% |
| Margin | **1.3%** | 1.3% |
| Base interest rate | **4.5%** | 4.4% |
| Non-market risk margin | **2.1%** | 2.1% |
| Market risk margin | **1.0%** | 1.0% |
| Risk discount rate | **7.6%** | 7.5% |
| Investment return | | |
| - Fixed interest | **1.2% - 5.4%** | 0.8% - 5.2% |
| - Equities | **7.5%** | 7.4% |
| - Property | **6.5%** | 6.4% |
| Expense inflation | **3.0%** | 3.0% |

*The Irish Government bond yield at 30 June 2011 and 31 December 2010 is higher than the base interest rates but is not believed to be suitable representative base rates due to the dislocation of the market in these bonds at those dates.

The Deloitte's TSM Streamline model is used to derive the cost of FOGs. The model is calibrated to the European swap curve plus a fixed margin of 1.3%, which is consistent with the calibration at 31 December 2010. The use of these yield curves to discount the negative cash flows in the FOG models is consistent with the yield curve used to discount the positive cash flows in the PVIF, as outlined above. The equity volatility rate used in the model is calibrated to the market implied equity volatility rate at 30 June 2011. Ten years of historical weekly data are used to derive the correlation between the returns on different asset classes. Further details on the FOGs is contained in Note 12 to the supplementary information to the Annual Report and Financial Statements 2010.

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.

## 12. Shareholder value of in-force business (continued)

### (A) Assumptions (continued)

The statistics relating to the model used are set out in the following table:

| **As at 30 June 2011** | **10-Year return** | | **20-Year return** | |
|---|---|---|---|---|
| | **Mean[1]** | **StDev[2]** | **Mean[1]** | **StDev[2]** |
| **European assets (Euro)** | | | | |
| Bonds | **4.8%** | **3.5%** | **5.3%** | **7.7%** |
| Equities, Property | **4.8%** | **23.7%** | **5.3%** | **26.8%** |
| **UK assets (Sterling)** | | | | |
| Bonds | **3.7%** | **2.7%** | **4.6%** | **5.9%** |
| Equities | **3.7%** | **22.6%** | **4.6%** | **24.8%** |

| As at 31 December 2010 | 10-Year Return | | 20-Year Return | |
|---|---|---|---|---|
| | Mean[1] | StDev[2] | Mean[1] | StDev[2] |
| European assets (Euro) | | | | |
| Bonds | 4.7% | 3.5% | 5.1% | 7.7% |
| Equities, Property | 4.7% | 24.0% | 5.1% | 27.1% |
| UK assets (Sterling) | | | | |
| Bonds | 3.8% | 2.7% | 4.4% | 6.1% |
| Equities | 3.8% | 23.3% | 4.4% | 25.4% |

[1] The risk-neutral nature of the model means that all asset classes have the same expected return. No value is added by investing in riskier assets with a higher expected rate of return. The means quoted above reflect this.

[2] Standard deviations are calculated by accumulating a unit investment for n years in each simulation, taking the natural logarithm of the result, calculating the variance of this statistic, dividing by n and taking the square root. The results are comparable to implied volatilities quoted in investment markets.

### Other assumptions

The assumed future mortality and morbidity assumptions are based on published tables of rates, adjusted by analyses of recent operating experience. Persistency assumptions are set by reference to recent operating experience excluding the 2009 persistency experience which is regarded as an extreme event. The adverse persistency experience 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 more adverse persistency experience to the middle of 2014, reducing to the long-term assumptions thereafter. Actual future persistency experience will continue to be monitored closely against these assumptions .

Further details of assumptions are included in Note 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.

## 12. 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:

| | **30 June 2011 €m** | 30 June 2010 €m | 31 December 2010 €m |
|---|---|---|---|
| **As at 1 January** | **699** | 730 | 730 |
| Charge to income statement in the year | **(34)** | (26) | (31) |
| Reclassification to assets classified as held for sale (note 4(a)) | **(665)** | - | - |
| **As at period end** | **-** | 704 | 699 |
| | | | |
| **Analysis of charge to income statement** | | | |
| New business | **38** | 55 | 100 |
| Expected return on existing business | **(42)** | (39) | (83) |
| Experience variances | **1** | (3) | (9) |
| Operating assumption changes | **(11)** | (3) | (41) |
| Short-term investment fluctuations | **(5)** | (3) | 2 |
| Economic assumption changes | **(15)** | (33) | - |
| **Total (as per note 3(a), Discontinued operations)** | **(34)** | (26) | (31) |

### (C) Sensitivity calculations

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

- 1% decrease in risk discount rate would increase the insurance VIF by €62m;
- 1% increase in risk discount rate would reduce the insurance VIF by €56m;
- 10% decrease in maintenance expenses would increase the insurance VIF by €13m;
- 10% improvement in assumed persistency rates would increase the insurance VIF by €11m; and
- 5% decrease in both mortality and morbidity rates would increase the insurance VIF by €15m.

## 13. Intangible assets

| | 30 June 2011 | | | |
|---|---|---|---|---|
| | **Software** | **Core deposits** | **Other** | **Total** |
| | **€m** | **€m** | **€m** | **€m** |
| **Cost** | | | | |
| As at 1 January | **163** | **-** | **10** | **173** |
| Additions* | **3** | **108** | **-** | **111** |
| Reclassification to property and equipment | **(1)** | **-** | **-** | **(1)** |
| Reclassification to assets classified as held for sale (note 4(a)) | **(97)** | **-** | **(10)** | **(107)** |
| **As at 30 June** | **68** | **108** | **-** | **176** |
| | | | | |
| **Amortisation** | | | | |
| As at 1 January | **141** | **-** | **2** | **143** |
| Amortisation for the period - continuing operations | **2** | **7** | **-** | **9** |
| Amortisation for the period - discontinued operations | **3** | **-** | **-** | **3** |
| Reclassification to assets classified as held for sale (note 4(a)) | **(85)** | **-** | **(2)** | **(87)** |
| **As at 30 June** | **61** | **7** | **-** | **68** |
| | | | | |
| **Net book value as at period end** | **7** | **101** | **-** | **108** |

* During the current reporting period, the group acquired an intangible asset as part of the Irish Nationwide Building Society ("INBS") acquisition.

Further details are disclosed in Note 31, Business combinations.

| | 31 December 2010 | | |
|---|---|---|---|
| | Software | Other | Total |
| | €m | €m | €m |
| Cost | | | |
| As at 1 January | 166 | 10 | 176 |
| Additions | 7 | - | 7 |
| Disposals | (1) | - | (1) |
| Elimination of assets with nil carrying value | (2) | - | (2) |
| Reclassification to assets classified as held for sale (note 4(b)) | (4) | - | (4) |
| Reclassification to property and equipment | (3) | - | (3) |
| As at 31 December | 163 | 10 | 173 |
| | | | |
| Amortisation | | | |
| As at 1 January | 132 | 2 | 134 |
| Amortisation for the period - continuing operations | 6 | - | 6 |
| Amortisation for the period - discontinued operations | 10 | - | 10 |
| Disposals | (1) | - | (1) |
| Elimination of assets with nil carrying value | (2) | - | (2) |
| Reclassification to assets classified as held for sale (note 4(b)) | (3) | - | (3) |
| Reclassification to property and equipment | (1) | - | (1) |
| As at 31 December | 141 | 2 | 143 |
| | | | |
| Net book value as at 31 December | 22 | 8 | 30 |

## 14. 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 as set out in Note 1 of the Annual Report and Financial Statements 2010, Basis of preparation and significant accounting policies. Critical accounting judgements and estimates relating to retirement benefit obligations are as set out in Note 2 of the Annual Report and Financial Statements 2010.

Each of the group's defined benefit pension schemes are administered and accounted for separately. Assets and liabilities held for sale (below) refers to the three schemes for which the Life Group is the principal employer.

A stamp duty levy of 0.6% of the market value of assets under management in Irish pension funds was put in place by the Irish Finance (No. 2) Act 2011.This levy will apply for the next three years and will be based on scheme assets as at 30 June in each year or as at the end of the preceding scheme financial year. A decision has been taken that the company will not be covering the levy. The levy has resulted in a reduction in scheme assets of €7.1m at 30 June 2011 and has been accounted for as part of unrecognised actuarial (gains) / losses.

The key financial assumptions used are:

| | **30 June 2011** | 31 December 2010 |
|---|---|---|
| | % | % |
| **Actuarial assumptions at the statement of financial position date** | | |
| Discount rate | **5.25** | 5.00 |
| Expected rate of return on plan assets | **5.60** | 5.80 |
| Salary increases [1] | **3.25** | 3.25 |
| Pension increases | **2.00** | 2.00 |
| Rate of price inflation | **2.00** | 2.00 |

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

The basis by which actuarial assumptions have been determined is unchanged from the basis disclosed in the Annual Report and Financial Statements 2010.

## 14. Retirement benefit obligations (continued)

The post retirement mortality assumptions used at 31 December 2010 are still applicable as at 30 June 2011. Details of mortality assumptions are set out on page 128 of the Annual Report and Financial Statements 2010.

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

| | **6 months to 30 June 2011 €m** | 6 months to 30 June 2010 €m |
|---|---|---|
| Current service cost | **17** | 18 |
| Past service cost | **-** | 1 |
| Interest cost | **34** | 34 |
| Expected return on scheme assets | **(35)** | (37) |
| Amortisation of corridor excess | **1** | 1 |
| Changes due to curtailments / settlements | **(12)** | - |
| Recognised actuarial gains & losses | **-** | - |
| | **5** | 17 |

This charge has been included in administrative expenses split between discontinued operations:€1m (30 June 2010: €4m, (Note 3, Discontinued operations) and continuing operations:€4m (30 June 2010: €13m).

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

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| Benefit obligation as at period end | **(1,290)** | (1,340) |
| Fair value of plan assets as at period end | **1,183** | 1,191 |
| **Net obligation** | **(107)** | (149) |
| Unrecognised actuarial losses | **72** | 100 |
| **Net recognised retirement benefit obligation** | **(35)** | (49) |

Unrecognised actuarial losses above can be split between discontinued operations:€17m (31 December 2010: €27m) and continuing operations: €55m (31 December 2010: €73m).

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| **Continuing operations** | | |
| Net post retirement benefit assets | **10** | 104 |
| Net post retirement benefit liabilities | **(129)** | (153) |
| | **(119)** | (49) |
| **Discontinued operations** | | |
| Transfer to assets held for sale (note 4(a)) | **101** | - |
| Reclassification to liabilities held for sale (note 4(a)) | **(17)** | - |
| | **84** | - |
| **Net post retirement benefit obligations** | **(35)** | (49) |

## 15. Deposits by banks (including central banks)

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| Deposits by banks (including central banks) | **18,626** | 17,146 |
| Reclassification to assets classified as held for sale (note 4(a)) | **(209)** | - |
| | **18,417** | 17,146 |

Deposits by banks include the following:

| | **30 June 2011 €bln** | 31 December 2010 €bln |
|---|---|---|
| Placed by the European Central Bank ("ECB")[1] | **12.6** | 13.8 |
| Placed by the Irish Central Bank[2] | **2.1** | - |
| Placed by other banks and institutions[3] | **0.2** | 1.4 |
| Held as a result of repurchase agreements | **0.4** | 1.6 |
| Other[4] | **3.1** | 0.3 |
| | **18.4** | 17.1 |

**Balances placed by the European Central Bank ("ECB")**

| | | |
|---|---|---|
| Maximum | **15.1** | 13.8 |
| Average | **13.1** | 9.4 |

1 The deposits made by the ECB are secured on €9.9bln (31 December 2010: €17.7bln) notes issued by special purpose vehicles controlled by the group and €8.7bln (31 December 2010: €2.2bln) of debt security assets, of which €3.2bln are bonds issued and bought by the group itself (31 December 2010: €nil). The notes are secured by a first fixed charge over residential mortgages held by the special purpose vehicles which are included in Note 8, Loans and receivables to customers.

2 Included in the deposits made by the Irish Central Bank is €2bln worth of exceptional liquidity facility (31 December 2010: €nil). These deposits are secured on €5.3bln (31 December 2010: €nil) of retail mortgages.

3 These deposits are collateralised on €0.3bln (31 December 2010: €2.3bln) of notes issued by special purpose vehicles controlled by the group. The notes are secured by a first fixed charge over residential mortgages held by the special purpose vehicles, which form part of the group's consolidated financial statements which are included in Note 8, Loans and receivables to customers. Included in these deposits is €0.2bln placed by the National Treasury Management Agency ("NTMA") (31 December 2010: €0.2bln).

4 At 30 June 2011, other includes a deposit of €3bln (31 December 2010: €nil) made by the National Treasury Management Agency ("NTMA"). At 31 December 2010, other deposits include loan capital raised of €100m by Irish Life Assurance plc (Note 24, Analysis of equity and capital) secured on the in-force book of business. The directors made the strategic decision to repay this loan in full on 13 May 2011 and subsequently incurred a penalty fee of €3.6m due to the early repayment.

## 16. Customer accounts

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| Repayable on demand | **3,763** | 3,510 |
| Other | **11,205** | 9,872 |
| | **14,968** | 13,382 |

At 30 June 2011, customer accounts exclude deposits of €633m (31 December 2010: €1,463m) from the group's non-banking operations including deposits held for the benefit of unit-linked policyholders.

During the current reporting period, the group acquired €3.6bln of customer accounts from Irish Nationwide Building Society("INBS"). Further details are outlined in Note 31, Business combinations.

## 17. Debt securities in issue

| | 30 June 2011 €m | 31 December 2010 €m |
|---|---|---|
| **At amortised cost:** | | |
| Bonds and medium-term notes | **5,486** | 6,928 |
| Other debt securities in issue | **702** | 947 |
| Non-recourse funding | **2,057** | 2,159 |
| | **8,245** | 10,034 |

Bonds and medium-term notes exclude €36m (31 December 2010: €35m) of debt securities issued by the group held in the group's life assurance operations which have been eliminated on consolidation.

During the current reporting period, the group acquired €74m of Irish Life & Permanent plc bonds from Irish Nationwide Building Society ("INBS"), which the group subsequently redeemed. Further details are outlined in Note 31, Business combinations.

### Other debt securities in issue

Other debt securities in issue at 30 June 2011 included €702m (31 December 2010: €805m) advances secured on notes issued by special purpose vehicles which are secured on residential property loans. These loans which have not been derecognised are shown within loans and receivables to customers. The funding is shown as a separate liability.

## 18. Investment contract liabilities

Irish Life Limited and its subsidiaries ("the Life Group") are the discontinued operations of the group as disclosed in Note 4, Assets and liabilities classified as held for sale. The Life Group reflects investment contract liabilities incurred as a result of its business operations.

The value of the Investment financial options and guarantees shown in the tables below are calculated using a stochastic model. This is discussed in more detail in note 12, Shareholder value of in-force business.

| | | **30 June 2011** | |
|---|---|---|---|
| | **Gross** | **Reinsurance** | **Net** |
| | **€m** | **€m** | **€m** |
| Unit-linked liabilities | **22,764** | **(49)** | **22,715** |
| Non-linked and guaranteed tracker liabilities | **264** | **-** | **264** |
| Investment financial options and guarantees | **29** | **-** | **29** |
| Reclassification to liabilities classified as held for sale (note 4(a)) | **(23,057)** | **49** | **(23,008)** |
| **As at 30 June** | **-** | **-** | **-** |

| | | 31 December 2010 | |
|---|---|---|---|
| | Gross | Reinsurance | Net |
| | €m | €m | €m |
| Unit-linked liabilities | 25,724 | (57) | 25,667 |
| Non-linked and guaranteed tracker liabilities | 290 | - | 290 |
| Investment financial options and guarantees | 31 | - | 31 |
| Reclassification to liabilities classified as held for sale (note 4(b)) | (1,978) | - | (1,978) |
| As at 31 December | 24,067 | (57) | 24,010 |

The non-controlling share of unit trust refers to the portion of unit trusts consolidated in the financial statements which are 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 30 June 2011, the unit trusts consolidated are all owned 100% by Irish Life Assurance plc, therefore the non-controlling interest is zero.

The change in liabilities during the period ended 30 June 2011 is analysed as follows:

| | | **30 June 2011** | |
|---|---|---|---|
| | **Gross** | **Reinsurance** | **Net** |
| | **€m** | **€m** | **€m** |
| **As at 1 January** | **24,067** | **(57)** | **24,010** |
| Premiums | **1,579** | **-** | **1,579** |
| Claims | **(2,273)** | **7** | **(2,266)** |
| Fees deducted | **(98)** | **-** | **(98)** |
| Exchange movements | **(26)** | **-** | **(26)** |
| Change in investment contract liabilities | **(220)** | **1** | **(219)** |
| Change in the value of liabilities classified as held for sale as at 31 December 2010 (note 4(b)) | **28** | **-** | **28** |
| Reclassification to liabilities classified as held for sale (note 4(a)) | **(23,057)** | **49** | **(23,008)** |
| **As at 30 June** | **-** | **-** | **-** |

## 18. Investment contract liabilities (continued)

The change in liabilities during the period ended 30 June 2010 is analysed as follows:

| | 30 June 2010 | | |
|---|---|---|---|
| | Gross | Reinsurance | Net |
| | €m | €m | €m |
| As at 1 January | 24,032 | (91) | 23,941 |
| Premiums | 1,851 | - | 1,851 |
| Claims | (1,617) | 26 | (1,591) |
| Fees deducted | (84) | - | (84) |
| Exchange movements | 50 | - | 50 |
| Change in investment contract liabilities | 634 | 2 | 636 |
| Non-controlling interest: | | | |
| - Change in investment contract liabilities | (93) | - | (93) |
| - Investment in non-controlling interest in unit trust | (81) | - | (81) |
| As at 30 June | 24,692 | (63) | 24,629 |

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

### (A) Analysis of insurance contract liabilities

Irish Life Limited and its subsidiaries ("the Life Group") are the discontinued operations of the group as disclosed in Note 4, Assets and liabilities classified as held for sale. The Life Group reflects insurance contract liabilities incurred as a result of its business operations.

| | | **30 June 2011** | |
|---|---|---|---|
| | **Gross** | **Reinsurance** | **Net** |
| | **€m** | **€m** | **€m** |
| Unit-linked liabilities | **539** | **-** | **539** |
| Non-linked liabilities | | | |
| - without discretionary participation features | **3,625** | **(1,844)** | **1,781** |
| - with discretionary participation features | **29** | **-** | **29** |
| Reclassification to liabilities classified as held for sale (note 4(a)) | **(4,193)** | **1,844** | **(2,349)** |
| **As at 30 June** | **-** | **-** | **-** |

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

The change in liabilities during the period ended 30 June 2011 is analysed as follows:

| | **Gross** | **Reinsurance** | **Net** |
|---|---|---|---|
| | **€m** | **€m** | **€m** |
| **As at 1 January** | **4,238** | **(1,901)** | **2,337** |
| Premiums | **386** | **(69)** | **317** |
| Claims | **(247)** | **94** | **(153)** |
| Expected return on insurance contract liabilities | **35** | **(21)** | **14** |
| Return credited to policyholders | **(2)** | **-** | **(2)** |
| Fees deducted | **(116)** | **-** | **(116)** |
| Change in economic assumptions | **(88)** | **52** | **(36)** |
| Change in operating assumptions | **(14)** | **1** | **(13)** |
| Exchange differences | **(2)** | **-** | **(2)** |
| Other | **3** | **-** | **3** |
| Reclassification to liabilities classified as held for sale (note 4(a)) | **(4,193)** | **1,844** | **(2,349)** |
| **As at 30 June** | **-** | **-** | **-** |

The change in liabilities during the period ended 30 June 2010 is analysed as follows:

| | Gross | Reinsurance | Net |
|---|---|---|---|
| | €m | €m | €m |
| As at 1 January | 4,034 | (1,829) | 2,205 |
| Premiums | 397 | (57) | 340 |
| Claims | (241) | 86 | (155) |
| Expected return on insurance contract liabilities | 35 | (21) | 14 |
| Return credited to policyholders | 12 | - | 12 |
| Fees deducted | (149) | 17 | (132) |
| Change in economic assumptions | 297 | (201) | 96 |
| Change in operating assumptions | 8 | - | 8 |
| Exchange differences | 4 | - | 4 |
| Other | 6 | - | 6 |
| As at 30 June | 4,403 | (2,005) | 2,398 |

## 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
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:

| | **30 June 2011** | 31 December 2010 |
|---|---|---|
| Regular premium business | | |
| - No DPF | **1.19% to 3.01%** | 2.50% to 3.94% |
| - With DPF | **1.10% to 3.22%** | 1.76% to 3.06% |
| Single premium business | **1.23% to 4.78%** | 0.15% to 4.58% |

Mortality and morbidity assumptions are based on the standard industry published tables amended where appropriate to reflect the group’s current experience and to allow for expected improvements or disimprovements in mortality. The tables used for 2011 and 2010 are as

| | **30 June 2011** | 31 December 2010 |
|---|---|---|
| Lives assured | | |
| - Non-linked | **55%-90% AM / AF00 select** | 55%-90% AM / AF00 select |
| - Linked | **100% AM / AF00 ultimate** | 100% AM / AF00 ultimate |
| Annuities | | |
| - Males | **104% PNMA00** | 104% PNMA00 |
| - Females | **104% PNFA00** | 104% PNFA00 |
| - Future mortality rates to improve on medium cohorts basis with minimum improvement of | **1.50% p.a.** | 1.50% p.a. |
| Disability rates | | |
| - Inception: Males | **80%-320% CMIR (12)** | 80%-320% CMIR (12) |
| - Inception: Females | **160%-640% CMIR (12)** | 160%-640% CMIR (12) |
| - Termination | **45%-230% CIDA rates** | 45%-230% CIDA rates |
| Serious illness rates | | |
| - Smokers | **163% of IC94 with 3% p.a. future deterioration** | 163% of IC94 with 3% p.a. future deterioration |
| - Non-smokers | **100% of IC94 with 3% p.a. future deterioration** | 100% of IC94 with 3% p.a. future deterioration |

Expense assumptions are based on the current year expenses and size of book. Expense inflation assumption is 3.0% (31 December 2010: 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 2010 were:

- Interest rates used were changed to reflect the actual market interest rates at 30 June 2011. This reduced liabilities by €45m 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 increased to reflect an increase in inflation which increased liabilities by €9m after allowing for reinsurance. This is offset by returns on matching assets, reflecting the group's policy of matching assets and liabilities where possible.

- Expense assumptions were changed to reflect current unit costs. This reduced liabilities by €13m 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 €185m after allowing for reinsurance;

- 1% increase in interest rates would decrease liabilities by €155m after allowing for reinsurance;

- 10% decrease in maintenance expenses would decrease liabilities by €8m after allowing for reinsurance; and

- 5% decrease in both mortality and morbidity rates would decrease liabilities by €14m 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

| 30 June 2011 | Staff restructuring costs €m | Onerous contracts €m | Other €m | Total €m |
|---|---|---|---|---|
| **As at 1 January** | **2** | **-** | **15** | **17** |
| Provisions made during the period | | | | |
| Continuing operations | **43** | **-** | **-** | **43** |
| Discontinued operations | **10** | **-** | **-** | **10** |
| Provisions used during the period | | | | |
| Continuing operations | **(4)** | **-** | **(10)** | **(14)** |
| Discontinued operations | **(6)** | **-** | **-** | **(6)** |
| Reclassification to liabilities classified as held for sale (note 4(a)) | **(6)** | **-** | **(5)** | **(11)** |
| **As at 30 June** | **39** | **-** | **-** | **39** |

| 30 June 2010 | Staff restructuring costs €m | Onerous contracts €m | Other €m | Total €m |
|---|---|---|---|---|
| As at 1 January | 7 | 33 | 23 | 63 |
| Provisions made during the period | 18 | - | - | 18 |
| Provisions used during the period | (23) | - | (13) | (36) |
| As at 30 June | 2 | 33 | 10 - | 45 |

### 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 over the next twelve months. The provision of €53m made during the period (€43m continuing operations, €10m discontinued operations) was partially utilised and is recognised in administration expenses. The bank restructuring programme includes severance schemes for both the Irish Nationwide Building Society ("INBS") staff and permanent tsb staff which account for over 500 employees. The Life Group restructuring schemes include programmes in the Retail Life business which will see over 60 employees exit the business.

### Other
The other provision is in relation to outstanding settlements on certain closed derivative contracts and policyholder claims. The outstanding settlements on the closed derivative contracts were finalised during the current period. Policyholder claims are expected to be settled during 2011 and have been reclassified to liabilities classified as held for sale.

### Onerous contracts
Irish Life Assurance plc had an onerous contract in respect of an investment property where the market value reduced. During 2010 the onerous contract was subject to arbitration. A settlement was agreed resulting in a loss of €39m. The provision of €33m was fully utilised in 2010 with the additional loss of €6m recognised in investment return.

## 21. Subordinated liabilities

**Continuing operations**

The banking operations constitute the continuing operations of the group as disclosed in Note 2, Segmental information.

| | €m |
|---|---|
| **As at 1 January** | 1,470 |
| Buyback during the period | |
| Dated securities | (552) |
| Undated securities | (348) |
| Maturities | (261) |
| Amortisation | (5) |
| **As at 30 June** | 304 |

The group launched a liability management exercise ("LME") in respect of up to c. €840m of its subordinated liabilities in June 2011. This exercise was in the form of a cash tender offer. Cash prices under the exercise were 20 per cent of nominal for the relevant subordinated liabilities, with the expectation of one series of zero coupon subordinated liabilities where the cash price was 8.635 per cent of the nominal amount. The group intends to complete the LME by late August 2011.

On this Lower Tier 2 dated subordinated liabilities buyback process the income statement reflect net gains of €450m. To the extent that the tender process conditions on the various subordinated liabilities programs were such that the group was committed to the buybacks at 30 June, these gains have also been recognised. The cash proceeds of €105m reflect prices paid being 20 per cent of nominal for the relevant subordinated liabilities, save in the case of one series of zero coupon subordinated liabilities where the cash price was 8.6355 per cent of the nominal amount.

On 17 May 2011 Irish Life & Permanent plc ("IL&P") prepaid three upper tier 2 perpetual subordinated notes made to IL&P, representing original aggregate nominal amounts of €320m, which generated €290m of core equity Tier 1 capital. These buybacks have realised net gains of €318m against the carrying values of the notes based on a discounted price of 8.5% being paid on the JPY 37bln yen principal balances.

| | Percentage buyback | Carrying value at date of disposal €m | Cash proceeds €m | Gain €m |
|---|---|---|---|---|
| **Dated** | | | | |
| *Issued by Irish Life & Permanent plc* | | | | |
| €10m floating rate notes 2023 | **100%** | **10** | **(2)** | **8** |
| €10m floating rate step-up callable notes 2015 | **100%** | **10** | **(2)** | **8** |
| €50m floating rate step-up callable notes 2015 | **100%** | **50** | **(10)** | **40** |
| €50m floating rate step-up callable notes 2016 | **100%** | **50** | **(10)** | **40** |
| €75m floating rate step-up callable notes 2017 | **100%** | **75** | **(12)** | **63** |
| €300m 4.625% fixed step-up callable notes 2017 | **100%** | **309** | **(60)** | **249** |
| €5m constant maturity swap notes 2018 | **100%** | **6** | **(1)** | **5** |
| €25m step-up callable notes 2018 | **100%** | **26** | **(5)** | **21** |
| €55m 8.76% non-callable Lower Tier 2 capital notes due 2018 | **56%** | **19** | **(3)** | **16** |
| | | **555** | **(105)** | **450** |
| **Undated** | | | | |
| *Issued by Irish Life & Permanent plc* | | | | |
| JPY 20bln 4.655% undated step-up notes | **100%** | **192** | **(15)** | **177** |
| JPY 10bln 3.75% undated step-up notes | **100%** | **90** | **(7)** | **83** |
| JPY 7bln 3.98% undated step-up notes | **100%** | **63** | **(5)** | **58** |
| | | **345** | **(27)** | **318** |
| Realised losses on related derivatives | | | | **(2)** |
| Transaction costs | | | | **(3)** |
| **Total gain on liability management exercise** | | | | **763** |

There has been no changes to the terms and conditions of the remaining subordinated liabilities of €304m at 30 June 2011.

## 21. Subordinated liabilities (continued)

As at 31 December the carrying amount of the subordinated liabilities was increased by €42m for the effect of a coupon step up incurred as a result of certain subordinated liabilities not being called, as permitted by their terms and fair value movements. Similarly as at 30 June 2011 there was no increase in the carrying amount of subordinated liabilities.

**Discontinued operations**

Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations as disclosed in Note 4, Assets and liabilities classified as held for sale have reclassified its subordinated liabilities of €213m to liabilities held for sale as disclosed in Note 4(a), Assets and liabilities classified as held for sale.

## 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 company.

**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 €14m (31 December 2010: €17m) 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.

**Capital contribution reserve**
This reserve comprises of 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 of €89m was cancelled and share capital of €89m was issued in IL&PGH at par. 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. On 15 January 2010, Irish Life & Permanent plc was acquired by Irish Life & Permanent Group Holdings plc, therefore this reserve was transferred to Irish Life & Permanent Group Holdings plc.

**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 | 30 June 2011 Share capital €m | 31 December 2010 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** | **138** | 163 |
| Stg£ preference shares | **100,000,000** | **111** | 122 |

The company has only one class of issued shares and as at 30 June 2011, it had 276,782,351(31 December 2010: 276,782,351) 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:

| | 30 June 2011 | 31 December 2010 |
|---|---|---|
| **At beginning of the period** | **276,782,351** | 276,782,351 |
| Cancellation of shares during the period | **-** | (276,782,344) |
| Issued under Scheme of Arrangement | **-** | 276,782,344 |
| **As at period end** | **276,782,351** | 276,782,351 |

In connection with a group restructuring under which Irish Life & Permanent Group Holdings Plc ("IL&PGH") became the group holding company, the company entered a Scheme of Arrangement during 2010. Pursuant to the Scheme of Arrangement, on 15 January 2010, 276,782,344 shares were cancelled in IL&P ("the company") and on the same date the company issued 276,782,344 shares at par value in favour of IL&PGH for a non cash consideration.

Shares in the group holding company held for the benefit of life assurance policyholders are held by Irish Life Assurance plc ("ILA"). Under the Scheme of Arrangement on the 15 January 2010 the shares held by ILA in the company were replaced by equivalent shares in IL&PGH. Accordingly at 30 June 2011 there are no shares in the company held for the benefit of life assurance policyholders.

Similarly, on 15 January 2010 the existing shares in the company held in anticipation of share awards under the long term incentive plan for senior management were replaced by equivalent shares in IL&PGH. Accordingly at 30 June 2011 there are no treasury shares in the company held under the employee benefit trust.

## 24. Analysis of equity and capital

The Prudential Capital Assessment Review ("PCAR") and Prudential Liquidity Assessment Review ("PLAR") of the group reported an additional capital requirement of the group of €4bln. To meet this additional capital requirement the group is progressing several initiatives including the sale of Irish Life Limited and its subsidiaries (together the 'Life Group'). As a consequence the group has disclosed the Life Group as discontinued operations (Note 3, Discontinued operations).

### (A) Shareholders' equity

The group's equity is analysed as follows:

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| **Banking - Ireland** | | |
| Net assets | **498** | 127 |
| | **498** | 127 |
| **Banking - UK** | | |
| Net assets | **83** | 11 |
| | **83** | 11 |
| **Life assurance** | | |
| Net assets | **1,122** | 1,284 |
| Goodwill | **-** | - |
| | **1,122** | 1,284 |
| **Fund management** | | |
| Net assets | **17** | 11 |
| | **17** | 11 |
| **Brokerage and third party administration and other** | | |
| Net assets | **(3)** | (5) |
| Goodwill | **70** | 70 |
| | **67** | 65 |
| Associated undertaking | **122** | 124 |
| Consolidation adjustments (note 2) | **45** | - |
| **Total equity** | **1,954** | 1,622 |

### (B) Capital management

Irish Life & Permanent plc ("IL&P"), carries out the banking business activities of the group. IL&P was regulated by the Financial Services Authority of Ireland ("Financial Regulator" or "FR") which set and monitored the regulatory capital requirements in respect of the group's 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.

On 31 March 2011, the Central Bank published the results of the Prudential Capital Assessment Review (PCAR 2011) and the Prudential Liquidity Assessment Review (PLAR 2011) as part of the Financial Measures Programme (FMP). The FMP was one of the conditions of the EU/IMF/EC Programme of Support. The aim of the FMP was to place the Irish banking system in a position where it could fund itself and generate capital without undue further reliance on Irish or European public sources.

The FMP identified a total gross capital requirement of €4.0bln for the group's banking business in order to: (i) achieve a core tier 1 capital ratio of 6 per cent. (plus an additional buffer) in a stressed scenario by 31 December 2013; and (ii) cover losses associated with the requirement to deleverage the bank's balance sheet in order to achieve a loan to deposit ratio of circa 122.5% by 31 December 2013.

On 27 July 2011, the Irish Government capitalised the IL&PGH group by €2.7bln (€2.3bln in share capital of IL&PGH and €0.4bln in contingent capital notes issued by the company). In May 2011, the bank received a dividend from Irish Life Assurance plc of €143m. By the end of June a total of €3m in dividends were also received by the bank from other divisions of the Life Group with a further €19m received in July. The remaining capital requirement is being funding through the disposal of the Life Group and a liability management exercise. Should these initiatives not generate sufficient funds to meet the additional requirement, the state has indicated that they will provide the necessary support.

The capital management policies and processes adopted by the group in respect of both life and banking operations are disclosed in the Annual Report and Financial Statements 2010, Note 34, Analysis of equity and capital and remain unchanged from 31 December 2010.

### Banking operations

As disclosed in Note 2, Segmental information, the banking operations constitute the continuing operations of the group. The banking segments' minimum capital requirement is managed by the group's banking operations, which is overseen by the bank Chief Executive and is calculated in accordance with the provisions of Basel II as implemented under the European Capital Adequacy Directive and monitored by the Central Bank.

The following table summarises the composition of regulatory capital and the ratios of the bank for the periods ended 30 June 2011 and 31 December 2010. They are calculated in accordance with Basel II regulatory capital requirements.

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| **Total own funds (Tier 1 capital)** | **1,137** | 1,681 |
| Required capital | **1,090** | 1,265 |
| **Excess of total own funds over total required capital** | **47** | 416 |

The following information has not been subject to review (for periods ended 30 June 2011) or audit (for year ended 31 December 2010) by the independent auditor:

**Risk weighted assets**

| | **30 June 2011** | 31 December 2010 |
|---|---|---|
| Total risk-weighted assets | **13,623** | 15,809 |
| **Risk asset ratio (all Core Tier 1)** | **8.4%** | 10.6% |

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

The percentage of capital is in excess of the regulatory minimum of 8% effective as at 30 June 2011.

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

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| **As at 1 January** | **1,681** | 1,858 |
| Bank operating losses after tax and corporate costs | **(352)** | (325) |
| Dividends received | **146** | 28 |
| Liability management programme | **(133)** | - |
| Core deposit intangible deduction | **(101)** | - |
| Other* | **(104)** | 120 |
| **As at period end** | **1,137** | 1,681 |

*Other movement of (€104m) in own funds in the six months to the end of June 2011 includes a deduction for securitisation exposures not included in risk-weighted assets (€73m), the movement in the IRB provision excess (€28m) and a €3m reduction in other additional own funds. Other movement of €120m for year ended 31 December 2010 includes the change year on year from an excess of expected loss (EL) over IRB provisions to an excess of IRB provisions over EL €146m and reductions in standardised provisions, revaluation reserves and prudential filters (€26m).

The liability management programme ("LME") generated an increase in Tier 1 reserves of €763m but this was offset by a reduction in Tier 2 capital of €896m during the period. Resulting from the INBS deposit acquisition a core deposit intangible of €101m was created which is disallowable when calculating regulatory capital.

## 24. Analysis of equity and capital (continued)

### Life assurance and fund management operations

As disclosed in Note 2, Segmental information, the life assurance and fund management operations constitute the discontinued operations of the group. The regulatory capital requirements of the life assurance business are determined according to the European Communities (Life Assurance) Framework Regulations 1994 modified by the EU directive 2002/83/EC. The regulations set down the approach to be used to value the assets and liabilities and the calculation of the required solvency margin.

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| Shareholders' funds attributable to life and fund management business | **1,139** | 1,295 |
| Less: Shareholder value of in-force ("VIF") business | | |
| Gross | **(665)** | (699) |
| Related deferred tax | **110** | 114 |
| **Shareholders' funds excluding VIF** | **584** | 710 |
| Adjustments to valuation of assets and liabilities to regulatory basis | **(47)** | (49) |
| Subordinated liabilities | **198** | 201 |
| VIF loan | **-** | 100 |
| Other assets available to cover solvency margin | **12** | 16 |
| **Regulatory capital before available dividend** | **747** | 978 |
| Available dividend | **-** | (243) |
| **Regulatory capital after available dividend** | **747** | 735 |
| Held within the long-term business fund | **397** | 491 |
| Held outside the long-term business fund | **350** | 487 |
| Available dividend | **-** | (243) |
| | **747** | 735 |

The solvency cover for Irish Life Assurance plc, the group's main life assurance operation, is 1.8 times (31 December 2010: 1.8 times) the minimum requirement of €395m ( 31 December 2010: €401m). The directors consider this to be a conservative level of capital to manage the business having regard for the basis of calculating liabilities and the insurance and operational risks inherent in the underlying products.

At 30 June 2011 each of the group's life assurance and fund management entities had sufficient capital on a stand-alone basis and therefore no capital injections were expected to be needed in the future. Transfers of capital out of the life companies are subject to the companies continuing to meet the regulatory capital requirements.

Shareholder capital is primarily invested in fixed interest, cash and property assets.

The group has provided for the cost of financial options and guarantees on a market-consistent basis, which is discussed further in note 12, Shareholder value of in-force business.

Capital is affected by a range of factors including interest rates, mortality and morbidity. The group's capital management and risk management policies are discussed in Note 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:

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| **Effect on regulatory assets** | **(9)** | 44 |
| **Analysis of effect on regulatory assets:** | | |
| New business strain | **18** | 39 |
| Expected return | **(31)** | (47) |
| Experience variance | **4** | 52 |
| | **(9)** | 44 |

## 24. Analysis of equity and capital (continued)

The accounting treatment in the 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 €1.8m (31 December 2010: €3.2m) for this treaty is accounted for in the consolidated income statement.

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

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| **Regulatory capital as at 1 January** | **978** | 685 |
| Capital generated from existing business | | |
| - Expected return | **77** | 155 |
| - Experience variances | **1** | 89 |
| - Operating assumption changes | **12** | 70 |
| New business strain | **(29)** | (75) |
| Expected investment return | **7** | 13 |
| Short-term investment fluctuations | | |
| - Direct shareholder property short-term investment fluctuations | **(10)** | 1 |
| - Property commitment cost | **-** | (13) |
| - Other short-term investment fluctuations | **(6)** | 33 |
| Effect of economic assumption changes | **(27)** | (48) |
| VIF loan capital movements and costs | **(116)** | 100 |
| Other | **(2)** | (4) |
| Change in inadmissible assets | **8** | (8) |
| Dividends paid | **(143)** | (13) |
| Change in subordinated liabilities | **(3)** | (7) |
| **Regulatory capital as at period end before available dividend** | **747** | 978 |
| Available dividend | **-** | (243) |
| **Regulatory capital as at period end after available dividend** | **747** | 735 |

The assumptions used to analyse the various components of the capital movement are unchanged from 31 December 2010 and are detailed in the Annual Report and Financial Statements 2010, Note 34, Analysis of equity and capital.

## 25. Financial risk management

The group risk identification and assessment process disclosed in the Annual Report and Financial Statements 2010 identified the risks to which the group is exposed and the risk management framework in place within the organisation to mitigate those risks.

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; and

- 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:

The following table outlines the maximum exposure to credit risk before collateral held or other credit enhancements in respect of the assets of the banking operations which are the continuing operations of the group as disclosed in Note 2, Segmental information.

| | 30 June 2011 | | |
|---|---|---|---|
| | Total €m | Unit-linked funds* €m | Group exposure €m |
| **Assets** | | | |
| Cash and balances with central banks (note 5) | **631** | **-** | **631** |
| Items in course of collection (note 5) | **102** | **-** | **102** |
| Debt securities (note 6) | **6,254** | **-** | **6,254** |
| Derivative assets | **264** | **-** | **264** |
| Loans and receivables to customers (note 8) | **34,982** | **-** | **34,982** |
| Loans and receivables to banks (note 10) | **675** | **-** | **675** |
| | **42,908** | **-** | **42,908** |
| Contingent liabilities and commitments | **483** | **-** | **483** |
| | **43,391** | **-** | **43,391** |

The following table outlines the maximum exposure to credit risk before collateral held or other credit enhancements in respect of the assets of Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations of the group as disclosed in Note 4, Assets and liabilities classified as held for sale.

| | 30 June 2011 | | |
|---|---|---|---|
| | Total €m | Unit-linked funds* €m | Group exposure €m |
| **Assets** | | | |
| Cash and balances with central banks (note 5) | **39** | **(13)** | **26** |
| Debt securities (note 6) | **7,329** | **(5,531)** | **1,798** |
| Derivative assets | **831** | **(791)** | **40** |
| Loans and receivables to banks (note 10) | **3,326** | **(2,764)** | **562** |
| Reinsurance assets | **1,951** | **(49)** | **1,902** |
| Assets held for sale (note 4(b))** | **553** | **(535)** | **18** |
| | **14,029** | **(9,683)** | **4,346** |

The following table outlines the maximum exposure to credit risk before collateral held or credit enhancements in respect of the assets of the group as a whole for 31 December 2010.

| | 31 December 2010 | | |
|---|---|---|---|
| | Total €m | Unit-linked funds* €m | Group exposure €m |
| **Assets** | | | |
| Cash and balances with central banks (note 5) | 312 | (31) | 281 |
| Items in course of collection (note 5) | 124 | - | 124 |
| Debt securities (note 6) | 12,098 | (5,587) | 6,511 |
| Derivative assets | 1,255 | (878) | 377 |
| Loans and receivables to customers (note 8) | 36,581 | - | 36,581 |
| Loans and receivables to banks (note 10) | 3,565 | (2,304) | 1,261 |
| Reinsurance assets | 2,011 | (57) | 1,954 |
| Assets held for sale (note 4(b))** | 557 | (543) | 14 |
| | 56,503 | (9,400) | 47,103 |
| Contingent liabilities and commitments | 506 | - | 506 |
| | 57,009 | (9,400) | 47,609 |

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

** Assets held for sale (note 4(b)) are all unit-linked funds except cash.

## 25. Financial risk management (continued)

### Debt securities

The group is exposed to credit risk on third parties where the group holds debt securities (including sovereign debt). 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.

| | **30 June 2011** | | |
|---|---|---|---|
| | **Continuing operations €m** | **Discontinued operations €m** | 31 December 2010 €m |
| Neither past due nor impaired | **6,248** | **1,798** | 6,494 |
| Impaired | **6** | **-** | 17 |
| **Total** | **6,254** | **1,798** | 6,511 |

### Debt securities neither past due nor impaired

| | **30 June 2011** | | |
|---|---|---|---|
| | **Continuing operations** | **Discontinued operations** | 31 December 2010 |
| **Rating** | **€m** | **€m** | €m |
| Aaa | **204** | **1,336** | 2,664 |
| Aa | **47** | **154** | 502 |
| A | **724** | **10** | 700 |
| Baa * | **5,229** | **282** | 2,605 |
| Below Ba | **44** | **16** | 23 |
| **Total** | **6,248** | **1,798** | 6,494 |

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

### Derivative assets

| | **30 June 2011** | | |
|---|---|---|---|
| | **Continuing operations** | **Discontinued operations** | 31 December 2010 |
| | **€m** | **€m** | €m |
| **Rating** | | | |
| Aaa | **-** | **-** | - |
| Aa | **24** | **39** | 93 |
| A | **91** | **1** | 123 |
| Baa | **25** | **-** | 43 |
| Covered by netting agreements | **124** | **-** | 118 |
| **Total** | **264** | **40** | 377 |

## 25. Financial risk management (continued)

**Loans and receivables to customers**

Loans and receivables are summarised as follows:

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| ROI residential mortgages | **25,835** | 26,340 |
| UK residential mortgages | **7,061** | 7,527 |
| Commercial | **1,870** | 1,904 |
| Consumer finance | **-** | |
| Finance leases | **715** | 907 |
| Term loans / other | **433** | 468 |
| Money market funds | **-** | - |
| | **35,914** | 37,146 |
| Provision for loan impairment (Note 9) | **(1,204)** | (883) |
| Deferred fees, discounts and fair value adjustments | **272** | 318 |
| | **34,982** | 36,581 |

| | **30 June 2011** | | | | | |
|---|---|---|---|---|---|---|
| | **ROI Residential mortgages €m** | **UK Residential mortgages €m** | **Commercial €m** | **Consumer finance €m** | **Money market funds €m** | **Total €m** |
| Neither past due nor impaired | **20,822** | **6,734** | **1,127** | **890** | **-** | **29,573** |
| Past due but not impaired | **3,517** | **217** | **419** | **89** | **-** | **4,242** |
| Impaired | **1,496** | **110** | **324** | **169** | **-** | **2,099** |
| **Total** | **25,835** | **7,061** | **1,870** | **1,148** | **-** | **35,914** |

| | 31 December 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 |

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.

The fair value of collateral held is estimated to be €1,458m (31 December 2010: €1,134m). This collateral is held against loans and receivables classified as impaired. At 30 June 2011, the group had repossessed collateral of €44m (31 December 2010: €38m) on balances of €83m (31 December 2010: €60m). 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 €2,042m (31 December 2010: €1,978m).

## 25. Financial risk management (continued)

### Loans and receivables to customers neither past due nor impaired balances

| | **30 June 2011** | | | | | |
|---|---|---|---|---|---|---|
| | **ROI Residential mortgages €m** | **UK Residential mortgages €m** | **Commercial €m** | **Consumer finance €m** | **Money market funds €m** | **Total €m** |
| Excellent risk profile | **16,049** | **4,076** | **228** | **355** | **-** | **20,708** |
| Satisfactory risk profile | **3,459** | **2,296** | **713** | **404** | **-** | **6,872** |
| Fair risk profile | **1,314** | **362** | **186** | **131** | **-** | **1,993** |
| **Total** | **20,822** | **6,734** | **1,127** | **890** | **-** | **29,573** |

| | 31 December 2010 | | | | | |
|---|---|---|---|---|---|---|
| | ROI Residential mortgages €m | UK Residential mortgages €m | Commercial €m | Consumer finance €m | Money market funds €m | Total €m |
| 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 |

### Loans and receivables to customers past due but not impaired balances

| | **30 June 2011** | | | | |
|---|---|---|---|---|---|
| | **ROI Residential mortgages €m** | **UK Residential mortgages €m** | **Commercial €m** | **Consumer finance €m** | **Total €m** |
| Past due up to 30 days | **937** | **44** | **109** | **34** | **1,124** |
| Past due 30 - 60 days | **613** | **1** | **33** | **17** | **664** |
| Past due 60 - 90 days | **442** | **29** | **61** | **12** | **544** |
| Past due more than 90 days | **1,525** | **143** | **216** | **26** | **1,910** |
| **Total** | **3,517** | **217** | **419** | **89** | **4,242** |

| | 31 December 2010 | | | | |
|---|---|---|---|---|---|
| | ROI Residential mortgages €m | UK Residential mortgages €m | Commercial €m | Consumer finance €m | Total €m |
| 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 |

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.

### 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.

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| **Rating** | | |
| Aaa | **407** | 787 |
| Aa | **706** | 351 |
| A | **6** | 34 |
| Baa and below | **118** | 89 |
| **Total** | **1,237** | 1,261 |

The increase in exposure to Baa is a result of the downgrade in the Irish bank's credit ratings during 2010. €114m of the Baa and below rating relates to a placement with the Irish Central Bank.

## 25. Financial risk management (continued)

### 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:

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| Assets held in a charged account | **1,344** | 1,372 |
| Assets where credit risk is borne by the policyholder | **49** | 57 |
| Other assets where credit risk is borne by the shareholder | **558** | 582 |
| **Total** | **1,951** | 2,011 |

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

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

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:

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| **Rating** | | |
| Aa | **229** | 223 |
| A | **329** | 359 |
| **Total** | **558** | 582 |

## 25. Financial risk management (continued)

### Liquidity risk

The group's liquidity risk framework is disclosed in the Annual Report and Financial Statements 2010. There have been no changes to the framework during the period ended 30 June 2011.

The following outlines the exposure to liquidity risk of the banking operations which are the continuing operations of the group as disclosed in Note 2, Segmental Information.

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 period end was:

| | **30 June 2011 %** | 31 December 2010 % |
|---|---|---|
| Customer accounts | **37** | 35 |
| Long-term debt | **20** | 26 |
| Short-term debt | **43** | 39 |
| | **100** | 100 |

In accordance with IFRS 7, Financial Instruments: Disclosures the following tables present the maturity analysis of financial liabilities on an undiscounted basis, by remaining contractual maturity at the statement of financial position date.

| | **30 June 2011 Group banking operations** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Up to 1 month €m** | **1-3 months €m** | **3-6 months €m** | **6-12 months €m** | **1-2 years €m** | **Over 2 years €m** | **Total €m** |
| **Liabilities** | | | | | | | |
| Deposits by banks (including central banks) | **11,012** | **7,599** | **-** | **1** | **2** | **23** | **18,637** |
| Customer accounts | **7,779** | **2,769** | **1,941** | **2,358** | **716** | **284** | **15,847** |
| Debt securities in issue | **111** | **129** | **132** | **234** | **2,822** | **5,788** | **9,216** |
| Subordinated liabilities | **-** | **18** | **-** | **-** | **-** | **291** | **309** |
| Derivatives liabilities | **21** | **42** | **43** | **(31)** | **40** | **176** | **291** |
| **Total liabilities** | **18,923** | **10,557** | **2,116** | **2,562** | **3,580** | **6,562** | **44,300** |

| | 31 December 2010 Group banking operations | | | | | | |
|---|---|---|---|---|---|---|---|
| | Up to 1 month €m | 1-3 months €m | 3-6 months €m | 6-12 months €m | 1-2 years €m | Over 2 years €m | Total €m |
| Liabilities | | | | | | | |
| Deposits by banks (including central banks) | 6,554 | 8,900 | 1,174 | 201 | - | - | 16,829 |
| Customer accounts | 7,313 | 3,974 | 1,296 | 1,762 | 243 | 408 | 14,996 |
| Debt securities in issue | 44 | 1,227 | 128 | 283 | 287 | 8,580 | 10,549 |
| Subordinated liabilities | - | 269 | 17 | 32 | 35 | 1,553 | 1,906 |
| Derivatives liabilities | (1) | (46) | 6 | 84 | 14 | 86 | 143 |
| Total liabilities | 13,910 | 14,324 | 2,621 | 2,362 | 579 | 10,627 | 44,423 |

## 25. Financial risk management (continued)

The table below presents the cash flows payable by the group by remaining contractual maturities at the statement of financial position date for assets and liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Debt securities and loans and receivables in the tables below are based on contractual maturity except where they are pledged as collateral for ECB and other repurchase funding agreements, in which case they are included based on the maturity of the agreement. Therefore the tables included a haircut on assets pledged as collateral, the return of which is not reflected in the table resulting in the disclosed gap.

The group manages the inherent liquidity risk based on expected cash inflows and cash outflows.
This maturity mismatch approach takes into account the inherent stability of particular funding sources. The focus on an ongoing basis is to ensure that the bank can meet all its obligations as they fall due while continuing to provide for all other funding requirements of the bank. Regulatory limits based on this approach are imposed.

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

| | | | | **30 June 2011 Group banking operations** | | | |
|---|---|---|---|---|---|---|---|
| | **Up to 1 month €m** | **1-3 months €m** | **3-6 months €m** | **6-12 months €m** | **1-2 years €m** | **Over 2 years €m** | **Total €m** |
| **Assets** | | | | | | | |
| Debt securities | **1,746** | **6,688** | **6** | **16** | **35** | **496** | **8,987** |
| Loans and receivables to banks | **592** | **-** | **-** | **-** | **-** | **-** | **592** |
| Loans and receivables to customers | **1,420** | **1,402** | **264** | **515** | **1,134** | **25,621** | **30,356** |
| Derivatives assets | **82** | **43** | **4** | **51** | **3** | **-** | **183** |
| **Total assets** | **3,840** | **8,133** | **274** | **582** | **1,172** | **26,117** | **40,118** |
| **Liabilities** | | | | | | | |
| Deposits by banks | **10,951** | **7,611** | **18** | **33** | **1** | **1** | **18,615** |
| Customer accounts | **5,675** | **3,819** | **2,317** | **2,054** | **719** | **713** | **15,297** |
| Debt securities in issue | **144** | **3,564** | **268** | **450** | **2,710** | **2,826** | **9,962** |
| Subordinated liabilities | **-** | **220** | **1** | **2** | **69** | **16** | **308** |
| Derivatives liabilities | **7** | **39** | **49** | **1** | **14** | **165** | **275** |
| **Total liabilities** | **16,777** | **15,253** | **2,653** | **2,540** | **3,513** | **3,721** | **44,457** |
| **Gap** | **(12,937)** | **(7,120)** | **(2,379)** | **(1,958)** | **(2,341)** | **22,396** | **(4,339)** |

| | | | | 31 December 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) |

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.

## 25. Financial risk management (continued)

| | **30 June 2011 Group banking operations** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Up to 1 month €m** | **1-3 months €m** | **3-6 months €m** | **6-12 months €m** | **1-2 years €m** | **Over 2 years €m** | **Total €m** |
| **Net settled:** | | | | | | | |
| Interest rate swaps | **-** | **(1)** | **(2)** | **11** | **(1)** | **19** | **26** |
| **Gross settled:** | | | | | | | |
| FX forwards | | | | | | | |
| - inflow | **3,177** | **2,274** | **12** | **8** | **-** | **-** | **5,471** |
| - outflow | **(3,098)** | **(2,231)** | **(12)** | **(8)** | **-** | **-** | **(5,349)** |
| | **79** | **42** | **(2)** | **11** | **(1)** | **19** | **148** |

| | 31 December 2010 Group banking operations | | | | | | |
|---|---|---|---|---|---|---|---|
| | Up to 1 month €m | 1-3 months €m | 3-6 months €m | 6-12 months €m | 1-2 years €m | Over 2 years €m | Total €m |
| Net settled: | | | | | | | |
| Interest rate swaps | - | (3) | 3 | - | - | - | - |
| Gross settled: | | | | | | | |
| FX forwards | | | | | | | |
| - inflow | 3,667 | 2,350 | 36 | 44 | 6 | - | 6,103 |
| - outflow | (3,641) | (2,310) | (36) | (44) | (6) | - | (6,037) |
| | 26 | 37 | 3 | - | - | - | 66 |

## 25. Financial risk management (continued)

### Liquidity risk - Life operations

The following outlines the exposure to liquidity risk of Irish Life Limited and its subsidiaries (the 'Life Group') which are the discontinued operation of the group as disclosed in Note 4, Assets and liabilities held for sale.

Liquidity risk for the Life Group's unit-linked funds is managed by Irish Life Investment Managers, by means of asset selection process. For certain property linked funds there is the ability to defer encashments for up to six months to allow time to sell properties. If properties cannot be sold within this period then the shareholder may have to provide liquidity for these funds. Currently a deferral period is applied to most property linked funds, but the shareholder is not providing liquidity to the funds. The liquidity position of the property linked funds is monitored on a regular basis by the Life Assurance 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.

| 30 June 2011 | Not more than 1 year €m | Over 1 year but less than 5 years €m | Over 5 years but less than 10 years €m | Over 10 years but less than 20 years €m | Over 20 years €m | No fixed term €m | Total €m |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Debt securities | **242** | **514** | **675** | **563** | **1,202** | **-** | **3,196** |
| Equities | **-** | **-** | **-** | **-** | **-** | **6** | **6** |
| Investment properties | **-** | **-** | **-** | **-** | **-** | **1** | **1** |
| Reinsurance assets | **91** | **347** | **440** | **852** | **1,197** | **-** | **2,927** |
| **Total assets** | **333** | **861** | **1,115** | **1,415** | **2,399** | **7** | **6,130** |
| **Liabilities** | | | | | | | |
| Insurance contracts | **303** | **769** | **960** | **1,842** | **2,039** | **-** | **5,913** |
| **Gap** | **30** | **92** | **155** | **(427)** | **360** | **7** | **217** |

| 31 December 2010 | Not more than 1 year €m | Over 1 year but less than 5 years €m | Over 5 years but less than 10 years €m | Over 10 years but less than 20 years €m | Over 20 years €m | No fixed term €m | Total €m |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Debt securities | 185 | 520 | 640 | 598 | 1,084 | - | 3,027 |
| Equities | - | - | - | - | - | 8 | 8 |
| Investment properties | - | - | - | - | - | 1 | 1 |
| Reinsurance assets | 86 | 343 | 440 | 863 | 1,235 | - | 2,967 |
| Total assets | 271 | 863 | 1,080 | 1,461 | 2,319 | 9 | 6,003 |
| Liabilities | | | | | | | |
| Insurance contracts | 272 | 734 | 913 | 1,792 | 2,079 | - | 5,790 |
| Gap | (1) | 129 | 167 | (331) | 240 | 9 | 213 |

The group is also exposed to financial risk on certain investment contracts, principally tracker products where the shareholder has given the guarantee and 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:

## 25. Financial risk management (continued)

### Liquidity risk - Life operations (continued)

**30 June 2011**

| | Not more than 1 year €m | Over 1 year but less than 5 years €m | No fixed term €m | Total €m |
|---|---|---|---|---|
| **Assets** | | | | |
| Debt securities | **46** | **240** | **-** | **286** |
| Derivative assets | **1** | **25** | **-** | **26** |
| **Total assets** | **47** | **265** | **-** | **312** |
| **Liabilities** | | | | |
| Investment contracts* | **30** | **266** | **29** | **325** |
| **Gap** | **17** | **(1)** | **(29)** | **(13)** |

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

31 December 2010

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

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

Shareholders’ assets in excess of those required to back the insurance and investment contract liabilities of the life operations are predominately invested in cash, fixed interest and property assets. An analysis of these shareholders’ free assets is set out below:

| | **30 June 2011 €m** | 31 December 2010 €m |
|---|---|---|
| Property | **219** | 234 |
| Equities | **25** | 30 |
| Debt securities | **30** | 27 |
| Deposits | **392** | 697 |
| Other assets and liabilities | **190** | 106 |
| Subordinated debt | **(213)** | (216) |
| | **643** | 878 |

**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

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.

This fair value hierarchy has been applied to all of the financial instruments that are measured at fair value in the statement of financial position. Categorisation of these financial instruments according to the fair value hierarchy in respect of continuing operations, as disclosed in Note 2, Segmental information, is included below as at period end:

### Continuing operations

| | 30 June 2011 | | | |
|---|---|---|---|---|
| | Quoted market prices Level 1 | Valuation techniques using observable market data Level 2 | Valuation techniques using unobservable market data Level 3 | Total |
| **Financial instruments measured at fair value** | €m | €m | €m | €m |
| **Financial assets** | | | | |
| Debt securities | | | | |
| Available for sale (note 6) | 1,947 | 173 | 24 | 2,144 |
| Derivative assets | - | 264 | - | 264 |
| **Financial liabilities** | | | | |
| Derivative liabilities | - | 242 | - | 242 |

This fair value hierarchy has been applied to all of the financial instruments that are measured at fair value in the statement of financial position. Categorisation of these financial instruments according to the fair value hierarchy in respect of Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations as disclosed in Note 4, Assets and liabilities classified as held for sale, is included below as at period end:

### Discontinued operations

#### (a) Irish Life Limited (excluding ILI)

| | 30 June 2011 | | | |
|---|---|---|---|---|
| | Quoted market prices Level 1 | Valuation techniques using observable market data Level 2 | Valuation techniques using unobservable market data Level 3 | Total |
| **Financial instruments measured at fair value** | €m | €m | €m | €m |
| **Financial assets** | | | | |
| Debt securities | | | | |
| At fair value through profit and loss (FVTPL) | 6,007 | 873 | 449 | 7,329 |
| Equity shares and units in unit trusts | 12,641 | 263 | 30 | 12,934 |
| Derivative assets | 29 | 742 | 60 | 831 |
| **Financial liabilities** | | | | |
| Derivative liabilities | 9 | 162 | - | 171 |
| Investment contract liabilities * | - | 23,057 | - | 23,057 |

* 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.

## 26. Fair value of financial instruments (continued)

### (b) Irish Life International Limited

| Financial instruments measured at fair value | 30 June 2011 Quoted market prices Level 1 €m | Valuation techniques using observable market data Level 2 €m | Valuation techniques using unobservable market data Level 3 €m | Total €m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Debt securities | | | | |
| At fair value through profit and loss (FVTPL) | **11** | **379** | **-** | **390** |
| Equity shares and units in unit trusts | **501** | **882** | **61** | **1,444** |
| Derivative assets | **-** | **1** | **-** | **1** |
| **Financial liabilities** | | | | |
| Investment contract liabilities * | **-** | **1,950** | **-** | **1,950** |

Categorisation of financial instruments according to the fair value hierarchy in respect of the group as a whole for 31 December 2010 are as follows:

| Financial instruments measured at fair value | 31 December 2010 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 6) | 2,555 | 823 | 22 | 3,400 |
| At fair value through profit and loss (FVTPL) (note 6) | 6,032 | 941 | 452 | 7,425 |
| Equity shares and units in unit trusts (note 7) | 13,525 | 222 | 36 | 13,783 |
| Derivative assets | 23 | 1,176 | 56 | 1,255 |
| Assets classified as held for sale (note 4) | | | | |
| 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 4) | | | | |
| Derivative liabilities | - | 2 | - | 2 |
| Investment contract liabilities* | - | 1,978 | - | 1,978 |

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

### Reconciliation of level 3 fair value measurements of financial assets in respect of continuing operations

| | 30 June 2011 Debt securities AFS | Debt securities at FVTPL | Equity shares and units in unit trusts €m | Derivative assets €m | Total €m |
|---|---|---|---|---|---|
| Opening balance | **22** | **-** | **-** | **-** | **22** |
| Total gains or losses | | | | | |
| - Net interest income | **1** | **-** | **-** | **-** | **1** |
| - Other comprehensive income | **1** | **-** | **-** | **-** | **1** |
| Transfers into / out of level 3 | **-** | **-** | **-** | **-** | **-** |
| Sales | **-** | **-** | **-** | **-** | **-** |
| Purchases | **-** | **-** | **-** | **-** | **-** |
| | **24** | **-** | **-** | **-** | **24** |
| Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period. | | | | | |
| - Investment return | **1** | **-** | **-** | **-** | **1** |

## 26. Fair value of financial instruments (continued)

### Reconciliation of level 3 fair value measurements of financial assets in respect of discontinued operations

### (a) Irish Life Limited (excluding ILI)

| | 30 June 2011 | | | | |
|---|---|---|---|---|---|
| | Debt securities AFS | Debt securities at FVTPL | Equity shares and units in unit trusts €m | Derivative assets €m | Total €m |
| Opening balance | - | 452 | 36 | 56 | 544 |
| Total gains or losses - in profit or loss | | | | | |
| - Investment return | - | (3) | (2) | (5) | (10) |
| Transfers into / out of level 3 | - | - | - | - | - |
| Sales | - | - | (5) | (1) | (6) |
| Purchases | - | - | 1 | 10 | 11 |
| | - | 449 | 30 | 60 | 539 |
| Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period. | | | | | |
| - Investment return | - | (3) | (2) | (5) | (10) |

### (b) Irish Life International Limited

| | 30 June 2011 | | | | |
|---|---|---|---|---|---|
| | Debt securities AFS | Debt securities at FVTPL | Equity shares and units in unit trusts €m | Derivative assets €m | Total €m |
| Opening balance | - | - | 64 | - | 64 |
| Total gains or losses - in profit or loss | | | | | - |
| - Investment return | - | - | (3) | - | (3) |
| Transfers into / out of level 3 | - | - | - | - | - |
| Sales | - | - | - | - | - |
| Purchases | - | - | - | - | - |
| | - | - | 61 | - | 61 |
| Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period. | | | | | |
| - Investment return | - | - | - | - | - |

Reconciliation of level 3 fair value measurements of financial assets in respect of the group as a whole for 31 December 2010 are as follows:

| | 31 December 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Debt securities AFS €m | Debt securities at FVTPL €m | Equity shares and units in unit trusts €m | Assets held for sale - Equity shares and units in unit trusts €m | Derivative assets €m | Total €m |
| Opening balance | - | 528 | 270 | - | 38 | 836 |
| Total gains or losses - in profit or loss | | | | | | |
| - Investment return | - | (9) | 69 | - | (9) | 51 |
| - in other comprehensive income | (1) | - | - | - | - | (1) |
| Transfers into level 3 | 23 | - | - | 64 | - | 87 |
| Transfers out of level 3 | - | - | (356) | - | - | (356) |
| Sales | - | (138) | (7) | - | (8) | (153) |
| Purchases | - | 71 | 60 | - | 35 | 166 |
| | 22 | 452 | 36 | 64 | 56 | 630 |
| Total gains or losses for the year included in profit or loss for assets held at the end of the reporting year. | | | | | | |
| - Net interest income | 1 | - | - | - | - | 1 |
| - Investment return | - | (14) | (3) | - | (12) | (29) |

## 27. Measurement basis of financial assets and liabilities

The table below analyses the carrying amounts of the financial assets and liabilities in respect of continuing operations, as disclosed in Note 2, Segmental information, by accounting treatment and by statement of financial position classification.

### Continuing operations

**30 June 2011**

| | At fair value through profit or loss | | At fair value through equity | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Derivatives designated as fair value hedges €m | Held for trading €m | Available for sale €m | Held to Maturity €m | Embedded derivatives €m | Loans and receivables / amortised cost €m | Fair value adjustment on hedged assets and liabilities** €m | Total €m |
| **Financial assets:** | | | | | | | | |
| Cash and balances with central banks (note 5) | - | - | - | - | - | 631 | - | 631 |
| Items in course of collection (note 5) | - | - | - | - | - | 102 | - | 102 |
| Debt securities (note 6) | - | - | 2,117 | 411 | - | 3,700 | 26 | 6,254 |
| Derivative assets* | 223 | 4 | - | - | 37 | - | - | 264 |
| Loans and receivables to customers (note 8) | - | - | - | - | - | 34,911 | 71 | 34,982 |
| Loans and receivables to banks (note 10) | - | - | - | - | - | 675 | - | 675 |
| **Total financial assets** | 223 | 4 | 2,117 | 411 | 37 | 40,019 | 97 | 42,908 |
| **Financial liabilities:** | | | | | | | | |
| Deposits by banks (including central banks) (note 15) | - | - | - | - | - | 18,417 | - | 18,417 |
| Customer accounts (note 16) | - | - | - | - | - | 14,970 | (2) | 14,968 |
| Debt securities in issue (note 17) | - | - | - | - | - | 8,214 | 31 | 8,245 |
| Derivative liabilities | 177 | 5 | - | - | 60 | - | - | 242 |
| Subordinated liabilities (note 21) | - | - | - | - | - | 302 | 2 | 304 |
| **Total financial liabilities** | 177 | 5 | - | - | 60 | 41,903 | 31 | 42,176 |

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

The table below analyses the carrying amounts of the financial assets and liabilities in respect of Irish Life Limited and its subsidiaries (the "Life Group") which are the discontinued operations as disclosed in Note 4, Assets and liabilities classified as held for sale, by accounting treatment and by statement of financial position classification.

### Discontinued operations

### (a) Assets and liabilities of Irish Life Limited (excluding ILI)

**30 June 2011**

| | At fair value through profit or loss | | | | | | |
|---|---|---|---|---|---|---|---|
| | Derivatives designated as fair value hedges €m | Held for trading €m | Designated upon initial recognition €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 | - | - | - | 39 | - | - | 39 |
| Debt securities | - | - | 7,329 | - | - | - | 7,329 |
| Equity shares and units in unit trusts | - | - | 12,934 | - | - | - | 12,934 |
| Derivative assets* | 13 | 818 | - | - | - | - | 831 |
| Loans and receivables to banks | - | - | 3,326 | - | - | - | 3,326 |
| **Total financial assets** | 13 | 818 | 23,589 | 39 | - | - | 24,459 |
| | | | | | | | |
| **Financial liabilities:** | | | | | | | |
| Deposits by banks (including central banks) | - | - | - | 209 | - | - | 209 |
| Derivative liabilities | - | 171 | - | - | - | - | 171 |
| Investment contract liabilities*** | - | - | - | - | - | 23,057 | 23,057 |
| Subordinated liabilities | - | - | - | 200 | 13 | - | 213 |
| **Total financial liabilities** | - | 171 | - | 409 | 13 | 23,057 | 23,650 |

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

### Discontinued operations

### (b) Assets and liabilities of Irish Life International Limited

**30 June 2011**

| | At fair value through profit or loss | | | | | | |
|---|---|---|---|---|---|---|---|
| | Derivatives designated as fair value hedges €m | Held for trading €m | Designated upon initial recognition €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 | - | - | - | 18 | - | - | 18 |
| Debt securities | - | - | 390 | - | - | - | 390 |
| Equity shares and units in unit trusts | - | - | 1,444 | - | - | - | 1,444 |
| Derivative assets* | - | - | 1 | - | - | - | 1 |
| Loans and receivables to banks | - | - | 144 | - | - | - | 144 |
| **Total financial assets** | - | - | 1,979 | 18 | - | - | 1,997 |
| **Financial liabilities:** | | | | | | | |
| Investment contract liabilities*** | - | - | - | - | | 1,950 | 1,950 |
| **Total financial liabilities** | - | - | - | - | - | 1,950 | 1,950 |

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

31 December 2010

| | At fair value through profit or loss | | | At fair value through equity | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Derivatives designated as fair value hedges €m | Held for trading €m | Designated upon initial recognition €m | Available for sale €m | Held to Maturity €m | Embedded derivatives €m | Loans and receivables / 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 5) | - | - | - | - | - | - | 312 | - | - | 312 |
| Items in course of collection (note 5) | - | - | - | - | - | - | 124 | - | - | 124 |
| Debt securities (note 6) | - | - | 7,425 | 3,346 | - | - | 1,279 | 48 | - | 12,098 |
| Equity shares and units in unit trusts (note 7) | - | - | 13,783 | - | - | - | - | - | - | 13,783 |
| Derivative assets* | 273 | 970 | - | - | - | 12 | - | - | - | 1,255 |
| Loans and receivables to customers (note 8) | - | - | - | - | - | - | 36,472 | 109 | - | 36,581 |
| Loans and receivables to banks (note 10) | - | - | 2,594 | - | - | - | 971 | - | - | 3,565 |
| Assets held for sale (note 4(b)) | - | - | 2,013 | - | - | - | 14 | - | - | 2,027 |
| Total financial assets | 273 | 970 | 25,815 | 3,346 | - | 12 | 39,172 | 157 | - | 69,745 |
| 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 4(b)) | - | 2 | - | - | - | - | - | - | 1,978 | 1,980 |
| Total financial liabilities | 196 | 258 | - | - | - | 51 | 42,120 | 128 | 26,045 | 68,798 |

*Included in held-for-trading assets category of€818m (31 December 2010: €970m) is €818m (31 December 2010: €878m) held for the benefit of policyholders and to match tracker bond liabilities.

**Financial assets and liabilities that are part of a hedging relationship are carried at amortised cost adjusted for changes in the fair value of the hedged risk.

***Investment contract liabilities are backed by assets attributable to the life operations including assets which are carried at FVTPL.

## 28. Net interest income

| | 6 months to 30 June 2011 €m | 6 months to 30 June 2010 €m |
|---|---|---|
| **Interest receivable** | | |
| Loans and receivables to customers | **556** | 460 |
| Loans and receivables to banks | **7** | 7 |
| Debt securities and other fixed-income securities | | |
| - Held to Maturity | **13** | - |
| - Available for sale ("AFS") | **47** | 68 |
| - Loans and receivables | **41** | 10 |
| - Amortisation of AFS securities reclassified to loans and receivables (note 6) | **(4)** | (7) |
| Lease and instalment finance | **29** | 37 |
| Losses on interest rate hedges on assets | **(1)** | (4) |
| | **688** | 571 |
| **Interest payable** | | |
| Deposits from banks (including central banks) | **(132)** | (64) |
| Due to customers | **(244)** | (182) |
| Interest on debt securities in issue | **(88)** | (113) |
| Interest on subordinated debt | **(15)** | (21) |
| Fees payable on ELG Scheme | **(94)** | (33) |
| Gains on interest rate hedges on liabilities | **3** | 1 |
| | **(570)** | (412) |
| **Net interest income** | **118** | 159 |

Interest income accrued on non performing loans was €67m (30 June 2010: €41m).

Net gains / (net losses) on interest rate hedges include (losses) / gains on hedging instruments of negative €382m (30 June 2010: positive €590m) and gains / (losses) on hedged items attributable to hedged risk of positive €384m (30 June 2010: negative €593m).

Net interest income includes the movement in deferred acquisition costs of €13m debit (30 June 2010: €9m credit)

Interest payable includes a charge of €2m (30 June 2010: €4m) in relation to the effect of an interest rate step up arising as a result of callable securitised bond notes and subordinated liabilities not being called.

## 29. Net fees and commission expenses

| | 6 months to 30 June 2011 €m | 6 months to 30 June 2010 €m |
|---|---|---|
| **Fees and commission income** | | |
| Fees and commission earned on banking services | **29** | 27 |
| | **29** | 27 |
| **Fees and commission expenses** | | |
| Fees and commission payable on banking services | **(7)** | (17) |
| | **(7)** | (17) |
| **Net fees and commission expenses** | **22** | 10 |

## 30. Taxation

### (A) Analysis of taxation (credit) / charge

**Taxation (credited) / charged to income statement**

| | **6 months to 30 June 2011 €m** | 6 months to 30 June 2010 €m |
|---|---|---|
| **Continuing Operations** | | |
| **Current taxation** | | |
| Charge for current period | **(2)** | - |
| Adjustments for prior periods | **-** | - |
| | **(2)** | - |
| **Deferred taxation** | | |
| Origination and reversal of differences | **(41)** | (19) |
| Adjustment for prior periods | **-** | - |
| **Taxation credited to income statement** | **(43)** | (19) |

| | **6 months to 30 June 2011 €m** | 6 months to 30 June 2010 €m |
|---|---|---|
| **Discontinued Operations** | | |
| **Current taxation** | | |
| Charge for current period | **4** | 6 |
| Adjustments for prior periods | **(3)** | (2) |
| | **1** | 4 |
| **Deferred taxation** | | |
| Origination and reversal of differences | **(3)** | 7 |
| Adjustment for prior periods | **(1)** | - |
| **Taxation (credited) / charged to income statement** | **(3)** | 11 |
| | | |
| **Net credit to income instatement** | **(46)** | (8) |

## Notes to the Condensed Consolidated Financial Statements

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

| **Continuing operations** | **30 June 2011** | | |
|---|---|---|---|
| | **Gross** | **Tax** | **Net** |
| | **€m** | **€m** | **€m** |
| Revaluation of property | **(7)** | **1** | **(6)** |
| Change in AFS securities | **(163)** | **20** | **(143)** |
| Transfer to income statement on asset disposal | **29** | **(4)** | **25** |
| Amortisation of AFS securities reclassified to loans and receivables | **4** | **-** | **4** |
| | **(137)** | **17** | **(120)** |

| **Discontinued operations** | **30 June 2011** | | |
|---|---|---|---|
| | **Gross** | **Tax** | **Net** |
| | **€m** | **€m** | **€m** |
| Revaluation of property | **(3)** | **-** | **(3)** |
| | **(3)** | **-** | **(3)** |

| Continuing operations | 30 June 2010 | | |
|---|---|---|---|
| | Gross | Tax | Net |
| | €m | €m | €m |
| Revaluation of property | (2) | - | (2) |
| Change in available-for-sale financial assets | (41) | 5 | (36) |
| Impairment of AFS securities recycled to income statement | 5 | - | 5 |
| Amortisation of AFS securities reclassified to loans and receivables | 7 | (1) | 6 |
| | (31) | 4 | (27) |

| Discontinued operations | 30 June 2010 | | |
|---|---|---|---|
| | Gross | Tax | Net |
| | €m | €m | €m |
| Revaluation of property | (4) | 1 | (3) |
| | (4) | 1 | (3) |

## 31. Business combinations

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 with immediate effect.
This transfer was made in the context of the EU / IMF programme of financial support for Ireland.
The management expects that this transfer will support Irish Life & Permanent plc to broaden its customer base and provide liquidity to the group.
As a result of this transfer the group's banking operation has acquired the following:
- €3.1bln of INBS deposits;
- €3.4bln of bonds;
- Irish Nationwide (IOM) Limited (100%);
- and certain other assets and liabilities.

The following summarises the major classes of consideration transferred and the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

**(a) Consideration transferred**

| | Notes | €m |
|---|---|---|
| Cash and bonds transferred | | 105 |
| Settlement of pre existing relationship | 17 | (74) |
| **Total consideration** | | **31** |

In consideration for the acquisition, the group transferred cash of €29m and an Irish Government Gilt at a fair value of €76m. The fair value of the gilt was based on the market value on the date of acquisition.

As disclosed in Note 17, Debt securities in issue, the group acquired and redeemed €74m of Irish Life & Permanent plc bonds as part of the INBS acquisition. Included in other operating income in the income statement is €19m gain resulting on the settlement of pre existing relationship i.e. buying back own debt securities.

Acquisition related costs amounting to €1.5m have been excluded from the consideration transferred and have been recognised as an expense in the current period, within administrative expenses in the income statement.

**(b) Identifiable assets acquired and liabilities assumed at the date of acquisition**

| | | Irish Nationwide (IOM) Limited €m | Other €m | Total €m |
|---|---|---|---|---|
| **Assets** | **Notes** | | | |
| Debt securities | 6 | - | 3,358 | 3,358 |
| Loans and receivables to banks | 10 | 135 | - | 135 |
| Other assets | | 2 | - | 2 |
| Intangible assets | 13 | - | 108 | 108 |
| **Liabilities** | | | | |
| Deposits (Customer accounts) | 16 | (434) | (3,137) | (3,571) |
| Other liabilities | | (1) | - | (1) |
| **Fair value of total identifiable net assets** | | (298) | 329 | 31 |
| **Consideration** | | | | (31) |

Debt securities includes €2.8bln of senior bonds issued by NAMA, €0.4bln in government gilts and €0.2bln in corporate bonds. Unlike the other securities classified in the HTM portfolio, market prices are not readily available for NAMA bonds so accordingly they have been classified within the loans and receivables portfolio. The gross contractual amounts receivable on these bonds amounted to €3.7bln.

The group acquired €3.6bln of deposits from INBS, €0.4bln in the IOM portfolio and €3.2bln in the ROI portfolio. These deposits comprise retail and corporate customers and the funds are held in term (78%), Demand (11%) and Notice (11%) deposit products.

**(c) Impact of acquisitions on the results of the group**

The assets and liabilities acquired during 2011 have been fully integrated into the funding model of the group business since February 2011 and it is therefore impractical to separately assess the impact of the acquisition on the results of the group, from the perspective of the results since the acquisition date and of the combined entity for the period as though the acquistion date was 01 January 2011.

## 32. Commitments and contingencies

### (A) Continuing operations

The banking operations constitute the continuing operations of the group as disclosed in Note 2, Segmental information.

**Contingencies**

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

Commitments to extend credit do not expose the banking operations to significant interest rate risk.

### (B) Discontinued operations

Irish Life Limited and its subsidiaries ("the Life Group") are the discontinued operations of the group as disclosed in Note 2, Segmental information.

**Contingencies**

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

Since 31 December 2008, the Life Group has been subject to investigations by a number of statutory bodies including the Financial Regulator (Insurance Section) into deposits placed by Irish Life Assurance plc with Anglo Irish Bank (on 31 March 2008, 26 September 2008, 29 September 2008 and 30 September 2008). As at 30 June 2011, these investigations are ongoing.

**Capital commitments**

The Life Group has entered into commitments to purchase investment properties totalling €0.4m (31 December 2010: €0.4m). The Life Group has also entered into commitments to purchase units in external property funds of €5m (31 December 2010: €11m) for the inclusion in unit-linked policy holder funds.

## 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) Transactions with key management personnel

Key management personnel are as listed in the Annual Report and Financial Statements 2010 on page 210 remain unchanged except for the appointment of Alan Cook in April 2011 as chairman, the retirement of Gillian Bowler in April 2011 as chairman and the retirement of Breffni Byrne and Danuta Gray as non - executive directors in May 2011. Key management personnel include non-executive directors, executive directors and group senior management.

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. No awards have been issued to such personnel under these schemes and plans since 2008.

Total compensation to key management personnel is as follows:

| | **30 June 2011 €'000** | 30 June 2010 €'000 | 31 December 2010 €'000 |
|---|---|---|---|
| Fees | **350** | 372 | 723 |
| Salary and other benefits | **2,111** | 1,784 | 3,586 |
| Pension benefits - defined benefit | **(100)** | 453 | 1,394 |
| - defined contribution | **14** | 15 | 30 |
| Equity-settled benefits | **26** | (67) | 291 |
| | **2,401** | 2,557 | 6,024 |

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

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

| | **30 June 2011** | 30 June 2010 | 31 December 2010 |
|---|---|---|---|
| Non-executive directors | **7** | 8 | 9 |
| Executive directors and senior management | **9** | 10 | 9 |
| | **16** | 18 | 18 |

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

| | **30 June 2011 €'000** | 30 June 2010 €'000 | 31 December 2010 €'000 |
|---|---|---|---|
| Loans | **231** | 375 | 430 |

| | **30 June 2011 €'000** | 30 June 2010 €'000 | 31 December 2010 €'000 |
|---|---|---|---|
| **Transactions during the period** | | | |
| Loan advances | **-** | - | 80 |
| Loan repayments | **198** | 213 | 241 |
| Interest on loans | **6** | 9 | 13 |

## 33. Related parties (continued)

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.

**Loans to directors**

Loans are analysed individually as follows:

| | 30 June 2011 | | | | |
|---|---|---|---|---|---|
| | **Balance 1 Jan** | **Principal repaid** | **Balance 30 Jun** | **Interest paid** | **Maximum balance** |
| | **€'000** | **€'000** | **€'000** | **€'000** | **€'000** |
| David McCarthy * | **136** | **(136)** | **-** | **(1)** | **136** |
| | **136** | **(136)** | **-** | **(1)** | **136** |

| | 30 June 2010 | | | | |
|---|---|---|---|---|---|
| | Balance 1 Jan | Principal repaid | Balance 30 Jun | Interest paid | Maximum balance |
| | €'000 | €'000 | €'000 | €'000 | €'000 |
| David McCarthy * | 146 | (5) | 141 | (1) | 146 |
| | 146 | (5) | 141 | (1) | 146 |

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

* The loan to David McCarthy is secured on a residential investment property.

As at 30 June 2011, the total interest outstanding and the total provisions on loans by the directors / former directors was €nil (30 June 2010: €nil, 31 December 2010: €nil).

### (B) Associate

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 €4m (30 June 2010: €3m, 31 December 2010: €7m). In addition, a subsidiary of the group, Irish Life Investment Managers Limited has an investment agreement with Allianz. Fees earned under this agreement were €0.2m (30 June 2010: €0.2m, 31 December 2010: €0.5m). Included within the group accounts is a net balance due to Allianz of €1.1m (30 June 2010: €1m, 31 December 2010: €1.2m). All transactions with Allianz are priced on an arms-length basis.

### (C) Other

In the normal course of business the group provides investment management to the group's pension schemes. Fees earned under these agreements were €1.7m (30 June 2010: €1.6m, 31 December 2010 €3.2m).

### (D) Irish Government and Government related entities

Irish Life & Permanent plc and its subsidiaries Irish Permanent (IOM) Ltd and Irish Nationwide (IOM) Ltd are participating covered institutions under the Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the "ELG scheme") which guarantees certain eligible liabilities (including deposits) of up to five years in maturity. On 1 June 2011, the European Commission approved an extension of the ELG scheme for a further issuance period of six months to 31 December 2011. The group issued a 3 year $1.75bln bond in January 2010, a 5 year €2bln bond in March 2010 and a 3 year €1.25bln bond in April 2010,all of which are guaranteed by the ELG Scheme. In January 2011 the group issued a €3.4bln bond which was bought by the group itself. This issuance is also covered under the ELG scheme.
The charge to the income statement in respect of the ELG scheme for the period ended 30 June 2011 was €94m (30 June 2010: €33m, 31 December 2010: €97m). The amount covered as at 30 June 2011 amounted to €17,776m (30 June 2010: €13,642m, 31 December 2010 €13,333m).

## 33. Related parties (continued)

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

The Act provides broad powers to the Minister for Finance (in consultation with the Governor of the Central Bank of Ireland) to act on financial stability grounds to effect the restructuring action and recapitalisation measures envisaged in the programme.
This allows the Minister to take the actions required to bringing 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 has applied the amended IAS 24 Related Party Disclosures, that exempts an entity from the related party disclosure requirements in respect of the Government and Government related entities unless transactions are individually significant or collectively significant. In the normal course of business the group has entered into transactions with the Government and Government related entities involving deposits, senior debt, commercial paper and dated subordinated debt. The following are transactions between the group and the Government and Government related entities that are collectively significant.

The group holds securities issued by the Government and Government related entities of €5,101m (30 June 2010: €2,495m, 31 December 2010 €2,643m). The increase during the six months reflects bonds issued by the National Asset Management Agency acquired by the group in its acquisition of the Irish Nationwide Building Society deposit portfolio.

Deposits by banks include deposits of €200m (30 June 2010: €200m, 31 December 2010: €200m) placed by the National Treasury Management Agency ("NTMA"). These deposits are collateralised on notes issued by special purpose vehicles controlled by the group. The notes are secured by a first fixed charge over residential mortgages held by the special purpose vehicles, which form part of the group's consolidated financial statements. As reported in Note 15, Deposits by Banks (including central banks), at 30 June 2011 the group held €2bln of deposits made by the Irish Central Bank under the Central Bank's exceptional liquidity facility (30 June 2010: €nil; 31 December 2010: €nil). These deposits are secured on €5.3bln (30 June 2010: €nil; 31 December 2010: €nil) of Irish retail mortgages. At 30 June 2011, the group also held a deposit of €3bln (30 June 2010: €nil; 31 December 2010: €nil) made by the NTMA.

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 €6.0m (30 June 2010: €6.1m, 31 December 2010: €12.4m) out of a total annual rental income of €74.1m (30 June 2010: €76.8m, 31 December 2010: €144m). Some other investment properties may include tenants who are agencies financed by the Government.

On 29 March 2010, the group through its wholly owned subsidiary Irish Life Assurance plc, acquired 17 million B shares in National Asset Management Agency Investment Limited ("NAMAIL"), corresponding to one-third of the 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. These B shares are included within equity shares per Note 7, Equity shares and units in unit trusts. NAMAIL was established by NAMA for the purpose of performing certain of NAMA's functions. The A shares and B shares generally rank equally, except as otherwise provided in the Articles of Association of NAMAIL. NAMA may appoint up to six directors to the board of NAMAIL. The B shareholders may also jointly appoint up to six directors. NAMAIL requires the prior written consent of NAMA in relation to issues such as: the disposal or transfer of B shares; the reduction of its share capital; any capital redemption reserve fund or share premium account; the declaration of dividends; the appointment or removal of directors; and the selection of a chairman to the board. In addition NAMA can veto any actions by NAMAIL, which NAMA considers not to be in accordance with its objectives as specified under the NAMA Act.

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

Since 2009 the Government has 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. The group acquired certain assets and liabilities of Irish Nationwide Building Society during 2011 as outlined in Note 31, Business combinations. 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:

| | | 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 | | | | | | |
| | **30 June 2011** | **125** | **-** | **-** | **-** | **1** |
| | 30 June 2010 | 881 | 6 | 283 | 1,677 | - |
| | 31 December 2010 | 94 | 2 | 1 | - | 3 |
| Educational Building Society | | | | | | |
| | **30 June 2011** | **139** | **-** | **97** | **-** | **-** |
| | 30 June 2010 | 570 | 1 | 1,267 | 650 | - |
| | 31 December 2010 | 125 | - | 247 | - | - |
| Irish Nationwide Building Society | | | | | | |
| | **30 June 2011** | **-** | **-** | **-** | **-** | **-** |
| | 30 June 2010 | 515 | - | - | - | - |
| | 31 December 2010 | - | - | - | 81 | - |
| Allied Irish Bank plc | | | | | | |
| | **30 June 2011** | **241** | **-** | **11** | **-** | **16** |
| | 30 June 2010 | 797 | - | 698 | - | 52 |
| | 31 December 2010 | 250 | 1 | 41 | - | 35 |
| Bank of Ireland | | | | | | |
| | **30 June 2011** | **244** | **-** | **1** | **27** | **-** |
| | 30 June 2010 | 837 | - | 263 | 43 | 2 |
| | 31 December 2010 | 182 | 2 | 34 | 92 | 1 |

As at 30 June 2011, subordinated liabilities includes €nil (30 June 2010: €25m, 31 December 2010: €25m) issued to Educational Building Society. In February the group acquired the Irish Nationwide Building Society's deposit portfolio as disclosed in Note 31, Business Combinations.

## 34. Reporting currency and exchange rates

The consolidated financial statements are presented in millions of euro.

The following tables shows, for the periods and dates indicated, the average and closing rates used by the group:

| | **30 June 2011** | 31 December 2010 |
|---|---|---|
| Closing exchange rate € / Stg£ | **0.9026** | 0.8607 |
| Average exchange rate € / Stg£ | **0.8775** | 0.8558 |
| Closing exchange rate € / US$ | **1.4453** | 1.3362 |
| Average exchange rate € / US$ | **1.4241** | 1.3205 |

## 35. Events after the reporting period

On 15 July, the results of the EU - wide European Banking Authority ("EBA") stress test for the group was published by the Central Bank of Ireland. The results of the EBA stress tests for the group, including the recapitalisation of €3.6 billion in Core Tier 1 required under PCAR, reported capital ratios for the bank in 2012 of 28.4% under the baseline scenario and 20.4% under the adverse scenario. In light of the threshold for core tier 1 capital ratio of 5%, the group has no further additional capital raising requirements.

To meet the group's additional capital requirement under the Prudential Capital Assessment Review ("PCAR") as disclosed in Note 24, Analysis of equity and capital, on 27 July the group issued €2.3 billion of ordinary shares and €0.4 billion in contingent capital notes to the Minister for Finance.

On 30 August 2011, Irish Life & Permanent plc reached an agreement with Northern Rock plc to acquire its Dublin based business. The business has 17,000 customers and approximately €650m of customer deposits. The transaction is expected to complete by the year end, subject to Ministerial approval.

## Responsibility Statement

**Statement of the directors in respect of the half year report**

We, being the Board of Directors and persons responsible within Irish Life & Permanent plc, confirm that to the best of our knowledge:

(a) the condensed half year financial statements comprising the condensed consolidated statement of financial position, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes to the condensed financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

(b) the half year management report includes a fair review of the information required by:

   i. *Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

   ii. *Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007*, being related party transactions that have taken place in the first six months of the current financial year and that have materiality affected the financial position or performance of the entity during the period; and any changes in the related party transactions described in the last annual report that could do so.

**On behalf of the board:***

**Kevin Murphy**
**Group Chief Executive**

**David McCarthy**
**Group Finance Director**

*During 2011, the following changes to the composition of the board occurred subsequent to disclosures in the Annual Report and Financial Statements 2010. Gillian Bowler retired as chairman and Alan Cook was appointed as the new chairman on 13 April 2011. Breffni Byrne and Danuta Gray retired on 18 May 2011.

## Independent Review Report to Irish Life & Permanent plc

### Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Transparency (Directive 2004/109/EC) Regulations 2007 ("the TD Regulations") and the Transparency Rules of the Republic of Ireland's Financial Regulator. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

### Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the TD Regulations and the Transparency Rules of the Republic of Ireland's Financial Regulator.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The directors are responsible for ensuring that the condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

### Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### Scope of review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Transparency Rules of the Republic of Ireland's Financial Regulator.

### Emphasis of Matter – Going Concern

In reaching our conclusion on these financial statements, which is not qualified, we have considered the adequacy of the disclosures in note 1 to the financial statements. These disclosures set out a number of material economic, political and market risks and uncertainties that impact the Irish banking system which may cast doubt upon the group's ability to continue as a going concern. These include the group's continuing ability to access funding from the Eurosystem and the Irish Central Bank to meet its liquidity requirements and its ability to raise additional capital to meet its required regulatory capital ratios. These matters, together with the options available to the group, have been considered by the directors in concluding that it is appropriate to prepare the financial statements on a going concern basis.

Paul Dobey
**For and on behalf of**
KPMG
Chartered Accountants, Statutory Audit Firm
1-2 Harbourmaster Place
International Financial Services Centre
Dublin 1
Ireland
30 August 2011