Interim Report

For the six months ended
30 June 2012

Bank of Ireland Group

For small steps, for big steps, for life

Bank of Ireland

Interim Report

for the six months ended 30 June 2012

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Forward-Looking Statement

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934 and Section 27A of the US Securities Act of 1933 with respect to certain of the Bank of Ireland Group's (the Group) plans and its current goals and expectations relating to its future financial condition and performance, the markets in which it operates, and its future capital requirements. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts. Generally, but not always, words such as 'may,' 'could,' 'should,' 'will,' 'expect,' 'intend,' 'estimate,' 'anticipate,' 'assume,' 'believe,' 'plan,' 'seek,' 'continue,' 'target,' 'goal,' 'would', or their negative variations or similar expressions identify forward looking statements. Examples of forward looking statements include among others, statements regarding the Group's near term and longer term future capital requirements and ratios, loan to deposit ratios, expected impairment charges, the level of the Group's assets, the Group's financial position, future income, business strategy, projected costs, margins, future payment of dividends, the implementation of changes in respect of certain of the Group's defined benefit pension schemes, estimates of capital expenditures, discussions with Irish, UK, European and other regulators and plans and objectives for future operations.

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

- *concerns on sovereign debt and financial uncertainties in the EU and in member countries and the potential effects of those uncertainties on the Group;*
- *general economic conditions in Ireland, the United Kingdom and the other markets in which the Group operates;*
- *changes in applicable laws, regulations and taxes in jurisdictions in which the Group operates particularly banking regulation by the Irish and UK Government together with any changes arising on foot of the Euro Area Summit Statement on 29 June 2012;*
- *the impact of further downgrades in the Group's and the Irish Government's credit rating;*
- *the availability of customer deposits at sustainable pricing levels to fund the Group's loan portfolio and the outcome of the Group's disengagement from the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG scheme);*
- *development and implementation of the Group's strategy, including the Group's deleveraging plan and the Group's ability to achieve estimated net interest margin increases and cost reductions;*
- *property market conditions in Ireland and the UK;*
- *the performance and volatility of international capital markets;*
- *the potential exposure of the Group to various types of market risks, such as interest rate risk, foreign exchange rate risk, credit risk and commodity price risk;*
- *the effects of the Irish Government's stockholding in the Group (through the NPRFC) and possible increases in the level of such stockholding;*
- *the outcome of any legal claims brought against the Group by third parties or legal or regulatory proceedings more generally that may have implications for the Group;*
- *the Group's ability to address information technology issues;*
- *potential deterioration in the credit quality of the Group's borrowers and counterparties; and*
- *implications of the Personal Insolvency Bill 2012 for distressed debt recovery and impairment provisions.*

Investors should read 'Principal Risks and Uncertainties' in this document beginning on page 52) and also the discussion of risk in the Group's Annual Report and Form 20F for the year ended 31 December 2011.

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

For further information please contact:

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

Tony Joyce
Head of Group Investor Relations
Tel: +353 76 623 4729

Dan Loughrey
Head of Group Communications
Tel: +353 76 623 4770

This document constitutes the Interim Management Report required by Regulation 6 of the Transparency (Directive 2004 / 109 / EC) Regulations 2007.

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Contents | Page

Performance Summary

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011[3] €m
Group performance on an underlying[1] basis		
Operating income (net of insurance claims)	900	1,007
Operating expenses	(842)	(843)
Operating profit before impairment charges on financial assets and gain / (loss) on sale of assets to NAMA	**58**	**164**
Impairment charges on loans and advances to customers	(941)	(842)
Impairment charges on available for sale (AFS) financial assets	(43)	(16)
Impairment charges on assets sold to NAMA	-	(43)
Gain on sale of assets to NAMA	6	-
Share of results of associates and joint ventures (after tax)	13	15
Underlying[1] loss before tax	**(907)**	**(722)**
Total non-core items	(348)	166
Loss before tax	**(1,255)**	**(556)**
Group performance (underlying[1])		
Net interest margin (annualised)	1.20%	1.33%
Per unit of €0.05 ordinary stock		
Basic loss per share (€ cent)	(4.0)	(11.3)
Underlying[1] loss per share (€ cent)	(3.0)	(14.1)
Divisional performance		
Underlying[1] operating profit / (loss) before impairment charges on financial assets and gain / (loss) on sale of assets to NAMA (€ million)		
Retail Ireland	57	161
Bank of Ireland Life	36	(28)
Retail UK	9	95
Retail UK (Stg£ million equivalent)	*7*	*82*
Corporate and Treasury	250	277
Group Centre	(289)	(341)
Consolidation[2]	(5)	-
Underlying[1] operating profit before impairment charges on financial assets and gain / (loss) on sale of assets to NAMA	**58**	**164**
Impairment charges on loans and advances to customers (€ million)		
Residential mortgages	310	159
Non-property SME and corporate	216	251
Property and construction	387	386
Consumer	28	46
Impairment charges on loans and advances to customers	**941**	**842**

[1] *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. The Group has treated the following items as non-core: loss on deleveraging of financial assets, (charges) / gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss', cost of restructuring programmes, gain on liability management exercises, (loss) / profit on disposal of business activities, gross-up for policyholder tax in the Life business and investment return on treasury stock held for policyholders. See page 14 for further information.*

[2] *This relates to certain inter-segment transactions which are reported as core income in the Corporate and Treasury division but eliminated from the Group's measure of underlying (loss) / profit before tax.*

[3] *The impact of amendments to defined benefit pension schemes of €1 million is shown in operating expenses where as previously it had been shown as a separate line item.*

Balance sheet and funding metrics	30 June 2012 €bn	31 December 2011 €bn
Stockholders' equity	9	10
Total assets	158	155
Total loans and advances to customers[4] (after impairment provisions)	98	102
Total customer deposits	72	71
Loan to deposit ratio	136%	144%
Wholesale funding	53	51
Wholesale funding > 1 year to maturity	30	28
Wholesale funding < 1 year to maturity	23	23
Drawings from Monetary Authorities (net)	26	22
Capital		
Core tier 1 ratio	14.9%	15.1%
Core tier 1 ratio (PCAR / EBA)[5]	14.0%	14.3%
Total capital ratio	14.3%	14.7%
Risk weighted assets (€bn)	62	67

[4] *On the balance sheet on page 63, these amounts are presented on two lines being Loans and advances to customers and Other assets classified as held for sale.*
[5] *Core tier 1 (PCAR / EBA) is calculated in line with methodology used for the 2011 PCAR and EBA stress test. As stated in the Financial Measures Programme 'The Central Bank applied capital requirement rules and a definition of Core tier 1 capital as prescribed by the Capital Requirements Directive, which is the prevailing regulatory standard in the EU. To increase conservatism, the Central Bank has included all supervisory deductions, including 50:50 deductions'.*

Group Chief Executive's Review

Overview

Bank of Ireland has made further progress on the Group's priorities against a challenging economic back drop and interest rate environment that has impacted on the Group's financial performance.

The first half of 2012 was characterised by considerable uncertainties in the eurozone and very low official interest rates while our funding costs have remained elevated. Demand has been sluggish and consumer sentiment and investment in the domestic Irish economy has been weak with the UK having dipped back into a technical recession. This picture is balanced somewhat by continued growth in the Irish export sector and Ireland continuing to adhere to the objectives and measures agreed under the EU/IMF programme of support.

Our balance sheet deleveraging is very much on track including the completion of our targeted €10 billion in loan disposals at an average discount well within the base case assumed for the 2011 PCAR process and well within the 3 year time frame envisaged under the 2011 PLAR process.

The relationship with the Post Office which underpins our UK strategy, has been enhanced by a restructuring of the existing contract which, amongst other things, has been extended for a further 3 years to 2023 on a mutually beneficial basis.

Our ability to generate and maintain customer deposits in our core Irish and UK franchises has continued to prove to be robust as we have been implementing our objectives of reducing the quantum of our deposits covered under the Eligible Liabilities Guarantee (ELG) scheme and reducing the prices we pay for deposits in the still intensely competitive Irish market. Our loan to deposit ratio reduced further since the year end and we remain on track for our medium term deleveraging targets.

We have continued to take initiatives to achieve higher returns on new lending – albeit demand remains very subdued, to re-price backbooks of loan assets and to recover the costs of providing services to customers whilst ensuring that the cost of our products and services to customers remain competitive.

Whilst we have been able to reduce the rates we pay for deposits and the quantum covered by ELG as well as improving asset pricing, the very low level of official interest rates has adversely impacted on our earnings rates and therefore on income.

Costs remain tightly controlled and we continue to make strategic investments in our core franchises (including the UK Post Office partnership) and in processes and systems to improve efficiencies and to meet customer needs, such as investments in online, mobile, and contactless card technology. We are making rapid strides in our strategy of broadening and enhancing the full range of distribution channels for our growing customer base and our investment programme includes improving the efficiency of our branch network which is greatly valued by our customers.

As we restructure and reshape our Group and further improve efficiencies, regrettably, the number of people we employ will reduce. Our voluntary redundancy programmes to facilitate the measured and controlled departure of staff in line with the Group's revised requirements has recommenced.

While the Irish economy remains challenged and our impairment charges remain elevated, we expect the impairment charges to reduce from this level, trending to a more normalised level as the Irish economy recovers. The pace of the reduction will be particularly dependent on the future performance of our Irish residential mortgage book and commercial property markets, as well as our own credit management initiatives.

We maintained a robust Core tier 1 capital ratio of 14.9% (14.0% PCAR / EBA) at 30 June 2012 despite the after tax loss incurred in the period and primarily reflecting the impact of deleveraging in risk weighted assets.

Financial Performance

We are reporting an underlying operating loss of €907 million for the six months ended 30 June 2012 compared to an underlying loss of €722 million for the comparable period to 30 June 2011.

Operating income has been impacted by the cost of wholesale funding, a €14 billion reduction in average interest earning assets and the impact of low official interest rates on our earnings rates. Our net interest margin (before ELG costs) was 1.20%. Rebuilding net interest margin is one of our key priorities and we have taken a range of initiatives to help rebuild our net interest margin. We have taken a leadership position endeavouring to bring pricing discipline to the intensely competitive market in Ireland. In addition, we have taken measured actions to reprice loan assets. We expect that these and other initiatives will strengthen our net interest margin.

ELG costs have reduced through the implementation of our plans to reduce the quantum of our deposits covered by ELG which reduced from €42 billion at the year end to €36 billion at 30 June 2012. Further initiatives in this regard are planned for the second half and we are engaged with the Irish authorities on these.

Operating costs at €842 million are marginally below the comparable prior year period. We have made some measured investments in our franchises and in efficiencies – which we expect to yield cost benefits in subsequent periods. The impact on pension costs of the Government pension levy has offset somewhat the impact of continued wage restraint and lower staff numbers. However the recovery of the 2011 and 2012 Government pension levy from pension fund members should have a positive impact on pension costs in the second half of 2012. We have recommenced our voluntary redundancy programmes as part of our necessary requirement to realign employment numbers to a restructured, more efficient Bank.

Impairment charges on loans and advances to customers and assets were €941 million, higher than in the first half of 2011 but lower than the charge incurred in the second half of 2011.

Asset Quality

Whilst not complacent, we are becoming increasingly comfortable with the performance of our Corporate and unsecured consumer loan books and our UK Mortgage book. We are seeing some signs of stabilisation in the Irish Commercial Real Estate (CRE) market and in the Irish SME sector albeit thatvery challenging conditions remain.

The management of our Irish Mortgage book remains a critical priority. The vast majority of our customers continue to meet their mortgage repayments in full. However, the difficult economic environment has meant that a significant number of customers have encountered changed circumstances which have negatively impacted on their income. We have made further significant investments in people, in processes, in systems and in procedures to help us support such customers through engagement, modifications and restructures where they are willing and able to co-operate with the Bank. In doing so we are mindful of our responsibilities to all of our stakeholders in seeking to maximise the repayment of monies owed.

The numbers of customers moving into arrears categories has continued to increase, partially reflecting a considerable number of our buy to let customers moving from interest only to full amortisation. However, reflecting some stabilisation in the economy and the impact of our own initiatives, the rate of increase reduced during the first half of 2012 and we expect this trend to continue.

Funding

The resilience and underlying strength of our customer deposit franchises has been demonstrated by the volume of customer deposits increasing by €1 billion to €72 billion over the six month period whilst we have been reducing the quantum covered by ELG and reducing the rates we pay.

The performance of our deposit franchises and asset deleveraging enabled the loan to deposit ratio to reduce from 144% at 31 December 2011 to 136% at 30 June 2012.

The usage of monetary authority funding increased by €4.5 billion of which €2.8 billion related to the Irish Government guaranteed Repo transaction with Irish Bank Resolution Corporation approved by our shareholders in June, and €1.5 billion in incremental funding availed of from the ECB's LTRO which we utilised to purchase Irish Sovereign and Irish Government guaranteed bonds with a maturity profile to match the LTRO.

Reflecting usage of the LTRO, deleveraging and the sourcing of deposits from our customers, our reliance on and exposure to market wholesale funding has considerably reduced with just €0.4 billion in unsecured term wholesale funding maturing in the second half of 2012.

Our Customers

Our strategy for rebuilding profitability is based on our being very focussed on supporting our existing customers and winning new customers in our core franchises, on strengthening these franchises and most importantly on generating increased revenues.

In Ireland, despite muted demand, we have a wide range of initiatives to deepen our relationships with our existing customers and to win new customers. We continue to provide lending capacity into the mortgage market, into the SME sector and to the Corporate sectors. We are also making carefully judged investments in our franchises including in payment systems, new products and services and in efficiencies and sales capacity in our branch network.

These are very challenging times where there must be a rigorous focus on improving asset quality, strengthening our balance sheet and reducing our costs. However we also believe that the Irish economy will recover and we are determined to support that recovery and to emerge with an even stronger enduring franchise in Ireland.

Our business in Great Britain is underpinned by our mutually beneficial partnership with the UK Post Office with whom we have agreed a revised contract which further strengthens the partnership on a mutually rewarding basis.

In our core Corporate franchises outside Ireland we are seeing and are availing of opportunities to take measured credit risks in assets we understand, at margins which recover our funding and other costs and remunerate the capital we deploy.

Amongst our important customers and stakeholders is the Irish State. We were pleased to be able to facilitate the State through the IBRC Repo transaction on a commercial basis. We have continued to focus on reducing the risk to the State from its support for and investment in Bank of Ireland – our deleveraging, capital raising, cost programmes and material reductions in liabilities covered by ELG having facilitated this objective. The State's support and investment is being remunerated.

Since January 2009 through exceptional guarantee fees, warrants repurchased, recapitalisation fees and coupons on Preference shares and the contingent capital instrument, Bank of Ireland has paid cash of circa €2.5 billion to the State of which circa €0.4 billion was in the half year to 31 June 2012.

We will continue to work with the Irish State and the EU/ IMF on initiatives to restore sustainable profitability to Bank of Ireland and restore viability and profitability to the Irish Banking system enabling both Bank of Ireland and the system to support the Irish economy.

Summary

The first half of 2012 has been a very difficult environment in which to operate. Low official interest rates which are not reflected in our funding costs are somewhat offsetting the progress that we are making to reduce the cost of money to the Group. Whilst the Irish economy has begun to stabilise it remains a challenging environment in which to manage credit costs and sell new products.

Nevertheless, we have continued to have a strong focus on the key priorities within our control and against which we have continued to make progress. We must and will continue to work very hard on delivering against those things we can influence or which we can control.

We have made a lot of progress on balance sheet restructuring and in strengthening our core franchises. We expect to continue to make progress on credit management and cost programmes. We are placing even more focus on trying to progressively reduce the cost of money to us and increasing our revenue generating capacity through doing more business with our existing customers and winning new customers, thereby returning to sustainable profitability.

Richie Boucher
Group Chief Executive
9 August 2012

Basis of Presentation

The income statements for the Group are presented for the six months ended 30 June 2012 compared to the six months ended 30 June 2011. The balance sheets are 30 June 2012 compared to 31 December 2011, with the exception of the balance sheet numbers included in the Divisional Performance section which are June 2012 compared to June 2011.

This Operating and Financial Review is presented on an underlying basis. For an explanation of underlying see page 14.

Percentages presented throughout this document are calculated on the absolute underlying figures and so may differ from the percentage variances calculated on the rounded numbers presented.

Overview and Market Environment

Global and Eurozone economy

The pace of growth in the global economy slowed in 2011 (3.9% in 2011 as compared to 5.3% in 2010) and the IMF is forecasting growth of 3.5% in 2012[1]. In 2012, markets have been volatile and risk aversion has been a recurring feature reflecting concerns about sovereign debt dynamics in the eurozone and the level of economic activity, notably in the eurozone and the UK. The ECB has responded by easing monetary policy, reducing the main refinancing rate and providing longer term funding to the banking sector in an effort to promote stability in the market. European Governments have agreed new fiscal rules which it is hoped will strengthen public finances in member countries and hence boost investor confidence. They have also committed to provide support to Spain's banking sector as well as setting up a European banking regulator in addition to other measures. In the US, despite ending 2011 on a strong note and the easing of monetary policy by the Federal Reserve, there have been more recent signs of a slowdown in the economy and particularly in relation to the labour market. However, economic growth in the US in 2012 is expected to out perform activity in Europe.

Irish Economy[2]

The Irish recovery has been slow and uneven with modest but fluctuating growth expected in 2012. Real GDP rose by 1.4% in 2011, the first full year of growth since 2007. Real GDP in the first quarter of 2012 fell by 1.1% due to continued weakness in consumer spending and a negative contribution of net exports. A modest rise in GDP of 0.6% is forecast for 2012. Irish consumer demand is expected to remain subdued due to high unemployment, a modest decline in average earnings and a decline in real income. The labour market remains weak and the latest quarterly data shows unemployment at 14.8% in the first quarter of 2012.

Mortgage lending is contracting on an annual basis[3]. Residential property prices are still falling, albeit there appears to be some early signs of stabilisation of prices particularly in Dublin and larger urban areas. Government finances are improving and the fiscal targets under the EU / IMF programme are being met.

UK Economy

Economic activity continues to slow in the UK and it entered a technical recession following two quarters of negative growth in Q4 2011 and Q1 2012. Growth for 2011 was 0.8%[4] and the current consensus forecast is full year 2012 will be flat against 2011[5], but this is dependent on an improvement in growth in the second half of 2012. In response to the slowdown in the UK economy, the Bank of England have restarted asset purchases and begun new credit and liquidity schemes.

Unemployment in the UK of 8.1%[6] in the three months to the end of May 2012 remained relatively stable. Mortgage lending has slowed slightly since the start of the year but is broadly stable at c.£9 billion per month which is about half the level recorded in a more normal economic and credit environment[6]. The UK property sector has shown signs of uneven recovery since 2009 and uncertainty remains around the pace and scale of future performance: average house prices have risen by 12% from the trough in February 2009 according to the Nationwide index, but are still about 11% below the peak[7].

Credit ratings

In the six months ended 30 June 2012, the credit ratings of both Ireland and the Group have remained broadly stable. On 24 May 2012, DBRS placed Ireland's credit rating under review with negative implications expected.

1 *IMF World Economic Outlook Update, July 2012*
2 *Central Statistics Office (CSO)*
3 *Irish Banking Federation, Mortgage Market Profile, Quarter 1, 2012*
4 *Office for National Statistics*
5 *Reuters Poll, July 2012*
6 *Bank of England, Trends in Lending, July 2012*
7 *Nationwide House Price Index, June 2012*

Group Income Statement

Summary Consolidated Income Statement on an Underlying[1] Basis

	Table	6 months ended 30 June 2012 €m	6 months ended 30 June 2011[2] €m	Change %
Net interest income (before Government guarantee fees)	1	857	1,034	(17%)
Government guarantee fees		(212)	(239)	11%
Net other income	2	255	212	20%
Operating income (net of insurance claims)		**900**	**1,007**	**(11%)**
Operating expenses	3	(842)	(843)	-
Operating profit before impairment charges on financial assets and gain / (loss) on sale of assets to NAMA		**58**	**164**	**(65%)**
Impairment charges on loans and advances to customers	4	(941)	(842)	(12%)
Impairment charges on available for sale (AFS) financial assets		(43)	(16)	-
Impairment charges on assets sold to NAMA		-	(43)	-
Gain on sale of assets to NAMA		6	-	-
Share of results of associates and joint ventures (after tax)		13	15	(13%)
Underlying[1] loss before tax		**(907)**	**(722)**	**(26%)**
Non-core items:				
- Loss on deleveraging of financial assets		(206)	-	
- (Charges) / gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'		(125)	81	
- Cost of restructuring programmes		(66)	-	
- Gain on liability management exercises		52	11	
- (Loss) / profit on disposal of business activities		(14)	74	
- Gross-up for policyholder tax in the Life business		11	(2)	
- Investment return on treasury stock held for policyholders		-	2	
Loss before tax		**(1,255)**	**(556)**	
Tax credit		155	49	
Loss for the period		**(1,100)**	**(507)**	
Loss / profit attributable to non-controlling interests		(6)	1	
Loss attributable to stockholders		(1,094)	(508)	
Loss for the period		**(1,100)**	**(507)**	

[1] *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 14 for further information.*
[2] *The impact of amendments to defined benefit pension schemes of €1 million is shown in operating expenses where as previously it had been shown as a separate line item.*

Operating income (net of insurance claims)

Net interest income

TABLE: 1 Net interest income / Net interest margin	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Change %
Net interest income (before Government guarantee fees)	857	1,034	(17%)
IFRS income classifications	(66)	(68)	3%
Net interest income (before Government guarantee fees) after IFRS income classifications	**791**	**966**	**(18%)**
Average interest earning assets (€bn)	**132**	**146**	**(9%)**
Net interest margin (annualised)	**1.20%**	**1.33%**	**(0.13%)**

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

Net interest income (before Government guarantee fees) after IFRS income classifications of €791 million for the six months ended 30 June 2012 has decreased by €175 million compared to €966 million for the six months ended 30 June 2011 due primarily to:

- lower net interest income due to a 9% reduction in average interest earning assets due to the disposal of loan portfolios and loan repayments partly offset by increased holdings of liquid assets in Bank of Ireland (UK) plc; and
- a lower net interest margin of 1.20% (annualised) in the six months ended 30 June 2012 compared with 1.33% (annualised) in the six months ended 30 June 2011.

The key drivers of the margin decrease of 13 basis points (annualised) were as follows:

- 26 basis points decrease due to the higher cost of customer deposits as a result of intense competition and the low interest rate environment;
- 5 basis points decrease due to the change in mix of both assets and liabilities in the six months ended 30 June 2012 compared to the prior period; and
- 2 basis points decrease due to higher costs of wholesale funding.

partly offset by:

- 10 basis points increase as the Group seeks to recover its cost of funds by increasing the price of its loan assets;
- 6 basis points increase due to higher earnings on capital following recapitalisation of the Group during 2011;
- 2 basis points increase due to savings on the cost of subordinated debt following the Group's liability management exercises during the second half of 2011; and
- 2 basis points increase due to a combination of other factors.

The Group has taken actions to rebuild net interest margin including:

- leading price reductions in ROI deposits;
- resetting ROI SME loan margins to reference actual costs of funds;
- increasing the UK Mortgages standard variable rate;
- obtaining higher margins on new lending albeit demand is muted; and
- additional margin from structural transactions (IBRC / LTRO).

The net interest margin (after the cost of Government guarantee fees) reduced from 1.00% in the six months ended 30 June 2011 to 0.88% in the six months ended 30 June 2012 which reflects the reduction in Government guarantee fees as set out below.

Government guarantee fees

Government guarantee fees of €212 million for the six months ended 30 June 2012 are €27 million lower compared to fees of €239 million for the six months ended 30 June 2011. The decrease of €27 million reflects a €6 billion reduction in the level of liabilities guaranteed, including the withdrawal of Bank of Ireland (UK) plc for all new deposits from April 2012 and the repayment of €2 billion of wholesale funding partly offset by a higher average charge.

Net other income

TABLE: 2 Net other income	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Change €m
Net other income	255	212	43
IFRS income classifications	66	68	(2)
Net other income after IFRS income classifications	**321**	**280**	**41**

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

Net other income after IFRS income classifications	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Change €m
Other income from Banking businesses	266	259	7
Other income from Bank of Ireland Life	74	90	(16)
	340	**349**	**(9)**
Other items:			
Fair value movements in derivatives hedging the Group's balance sheet	(50)	(60)	10
Exchange of Irish sovereign bonds (in January 2012)	28	-	28
BIAM, BoISS and FCE Corporation	-	30	(30)
Economic assumption changes - Bank of Ireland Life	(9)	(58)	49
Investment variance - Bank of Ireland Life	6	(10)	16
Change in valuation of international investment properties	6	15	(9)
NAMA related adjustments	-	14	(14)
	(19)	**(69)**	**50**
Net other income after IFRS income classifications	**321**	**280**	**41**

Net other income, after adjusting for IFRS income classifications, for the six months ended 30 June 2012 increased by €41 million compared to the six months ended 30 June 2011.

Other income from Banking businesses was €266 million for the six months ended 30 June 2012 which was broadly in line with the prior period and reflects the current level of business activity.

Other income in Bank of Ireland Life was €74 million for the six months ended 30 June 2012. The reduction of €16 million from the prior period reflects a change in the mix of products sold together with lower sales volumes.

Other items within Net other income, after adjusting for IFRS income classifications, which amount to a net charge of €19 million for the six months ended 30 June 2012, were €50 million lower than the net charge of €69 million for the six months ended 30 June 2011, reflecting:

- a positive movement of €10 million reflecting the accounting impact of fair value movements in derivatives that economically hedge the Group's balance sheet;
- a gain of €28 million on the exchange in January 2012 of the Group's holding of Irish Government bonds in respect of a 4% Treasury bond maturing in 2014 for a new 4.5% Treasury bond maturing in 2015;
- a reduction of €30 million in fees and commissions arising in BIAM, BoISS and FCE Corporation in the six months ended 30 June 2011, which businesses were no longer held by the Group in the six months ended 30 June 2012;
- a positive movement of €49 million in economic assumption changes in Bank of Ireland Life reflecting a lower charge in the six months ended 30 June 2012 compared to the six months ended 30 June 2011 primarily reflecting the impact of changes in the value of a sovereign bond portfolio and interest rates;

Net other income (continued)

- a positive movement of €16 million in the investment variance in Bank of Ireland Life reflecting a gain of €6 million in the six months ended 30 June 2012 compared to a charge of €10 million in the six months ended 30 June 2011;
- a negative movement of €9 million due to the change in value of international investment properties in the six months ended 30 June 2012 being lower than in the six months ended 30 June 2011; and
- a gain of €14 million in the six months ended 30 June 2011 arising from a positive fair value movement on a NAMA related derivative which did not reoccur in 2012.

Operating expenses

TABLE: 3 Operating expenses	6 months ended 30 June 2012 €m	6 months ended 30 June 2011[1] €m
Staff costs	392	396
Pension costs	51	43
Other costs	399	404
Operating expenses	**842**	**843**
Average staff numbers	**13,429**	**14,004**
Staff numbers at period end	**13,397**	**13,778**

[1] *The impact of amendments to defined benefit pension schemes of €1 million is shown in operating expenses where as previously it had been shown as a separate line item.*

Operating expenses of €842 million for the six months ended 30 June 2012 were in line with operating expenses of €843 million for the six months ended 30 June 2011 due to continued tight management of all costs and lower staff numbers partly offset by higher pension costs.

Staff costs (excluding pension costs) of €392 million for the six months ended 30 June 2012 were €4 million lower when compared to €396 million for the six months ended 30 June 2011 as a result of lower staff numbers. Included within non-core items is a restructuring provision of €66 million in relation to restructuring programmes and these programmes are expected to deliver efficiency benefits by 31 December 2012.

Pension costs of €51 million for the six months ended 30 June 2012 were €8 million higher when compared to €43 million for the six months ended 30 June 2011 arising principally from costs related to the pension levy included in the six months ended 30 June 2012 which are expected to substantially reverse in the second half of 2012 as the costs of the levy are passed onto the pension scheme members.

Other costs of €399 million for the six months ended 30 June 2012 were €5 million lower when compared to €404 million for the six months ended 30 June 2011 reflecting efficiencies achieved through investment in customer service and technology initiatives and the implementation of initiatives to consolidate, standardise and simplify the Group's operations partly offset by the cost of investments aimed at further improvement in efficiencies and customer service over time.

Impairment charges on loans and advances to customers

TABLE: 4

Impairment charges on loans and advances to customers	**6 months ended 30 June 2012 €m**	6 months ended 30 June 2011 €m	Change %
Residential mortgages	310	159	95%
- Retail Ireland	*291*	*140*	*108%*
- Retail UK	*19*	*19*	*-*
Non-property SME and corporate	216	251	(14%)
- Republic of Ireland SME	*123*	*141*	*(13%)*
- UK SME	*16*	*24*	*(33%)*
- Corporate	*77*	*86*	*(10%)*
Property and construction	387	386	-
- Investment	*180*	*195*	*(8%)*
- Land and development	*207*	*191*	*8%*
Consumer	28	46	(39%)
Total impairment charges on loans and advances to customers	**941**	**842**	**12%**

Impairment charges on loans and advances to customers of €941 million for the six months ended 30 June 2012 were €99 million or 12% higher compared to impairment charges of €842 million for the six months ended 30 June 2011.

The impairment charge on **Residential mortgages** increased by €151 million from €159 million for the six months ended 30 June 2011 to €310 million for the six months ended 30 June 2012. The impairment charge on the Retail Ireland mortgage portfolio remains elevated. The impairment charge for the six months ended 30 June 2012 amounted to €291 million compared with a charge of €140 million for the six months ended 30 June 2011 and a charge of €304 million for the six months ended 31 December 2011. The volume of default arrears (based on number of cases 90 days or more past due) has continued to increase, but broadly in line with our expectations.

Residential property prices as reflected in the CSO Index continue to decline, albeit with the pace of decline appearing to slow in recent months. There is continuing evidence of an emerging urban / rural divide with residential property prices in Dublin showing some signs of stabilisation, particularly in recent months. The CSO Index for June 2012 reported that national residential prices were 50% below peak, with residential prices in Dublin 57% below peak, while properties outside of Dublin were 47% below peak.

Owner occupied default arrears (based on number of cases 90 days past due) were 7.03% at 30 June 2012 as compared with 5.60% at 31 December 2011. The level of default arrears for the Group remains below the industry average as published on a quarterly basis by the Central Bank. The volume of default arrears in the Owner occupied segment has continued to increase, primarily reflecting continued impact of the general economic downturn in Ireland and affordability issues including falling disposable incomes and elevated unemployment levels.

Buy to let default arrears (based on number of cases 90 days past due) were 13.99% at 30 June 2012 as compared to 10.76% at 31 December 2011. The volume of default arrears in the Buy to let segment has continued to increase, and while rents remained stable nationally, the increase in Buy to let default arrears reflects the impact on borrowers of rising repayments as interest only periods come to an end and customers move to fully amortising loans.

The impairment charge on Retail UK mortgages of €19 million for the six months ended 30 June 2012 remains unchanged from the six months ended 30 June 2011. This reflects positive underlying default arrears (based on number of cases 90 days or more past due) performance on a shrinking loan book and the impact of relatively stable house prices.

The impairment charge on the **Non-property SME and corporate** loan portfolio was €216 million for the six months ended 30 June 2012 compared to €251 million for the six months ended 30 June 2011.

The level of Republic of Ireland SME impairment charges continues to be at an elevated level due to the challenging economic conditions in Ireland and a continuation of poor consumer sentiment partly reflecting the impact of concerns regarding the eurozone. Those sectors correlated with consumer spending or the property markets are particularly impacted. As a result, the level of Republic of Ireland SME impairment charges continues to be at an elevated level.

Impairment charges on our UK SME portfolio reduced from €24 million for the six months ended 30 June 2011 to €16 million for the six months ended 30 June 2012.

Our corporate banking portfolios remain broadly stable. The domestic Irish portfolio continues to be impacted by

Impairment charges on loans and advances to customers (continued)

more challenging domestic demand and market conditions, albeit the pace of migration of new cases into our challenged portfolios has reduced. Our international corporate banking portfolios continue to perform satisfactorily.

The impairment charge of €387 million on the **Property and construction** portfolio for the six months ended 30 June 2012 compared to an impairment charge of €386 million for the six months ended 30 June 2011.

The impairment charge on the Investment property element of the Property and construction portfolio was €180 million for the six months ended 30 June 2012 compared to €195 million for the six months ended 30 June 2011.

The Irish market has experienced a significant fall in asset values, with Irish commercial property capital values down 66% from peak. While low levels of activity allied with continued illiquidity in property markets continues to impact asset values and the underlying loan book performance, there is some evidence of stabilisation in certain areas. In December 2011, the Irish Government introduced a range of initiatives and policies which addressed a number of areas of market uncertainty. Following this, in the six months ended 30 June 2012, there have been some signs of an increase in activity levels in central business district areas with a number of international institutional investors entering the market.

UK commercial property values are down 32% from the peak. Properties in central London continue to deliver strong returns. However, across the rest of the UK, returns are more subdued with some regions showing negative returns as investors and occupiers remain cautious about the potential impact of fiscal consolidation measures on consumer sentiment and economic activity.

The impairment charge on the Land and development element of the Property and construction portfolio was €207 million for the six months ended 30 June 2012 compared to €191 million for the six months ended 30 June 2011 reflecting the very challenging conditions in this sector and the highly illiquid markets.

The impairment charge of €28 million on **Consumer** loans for the six months ended 30 June 2012 is €18 million lower compared to the impairment charge of €46 million for the six months ended 30 June 2011. Consumer loans have continued to reduce significantly reflecting accelerated repayments and subdued demand for new loans and other credit facilities, as customers continue to deleverage.

Further analysis and commentary on the changes in the loan portfolios, asset quality and impairment is set out in the Asset Quality and Impairment section.

TABLE: 5

Impairment charge by nature of impairment provision	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m
Specific charge individually assessed	760	634
Specific charge collectively assessed	307	128
Incurred but not reported	(126)	80
Total Impairment charge	**941**	**842**

Impairment charge on available for sale (AFS) financial assets

During the six months ended 30 June 2012, the Group incurred an impairment charge on available for sale (AFS) financial assets of €43 million which included a charge of €40 million relating to the NAMA subordinated bonds following NAMA's updated outlook for its long term performance. During the six months ended 30 June 2011, the Group incurred an impairment charge of €16 million on a holding of subordinated debt issued by Irish Life and Permanent reflecting the liability management exercise announced by Irish Life and Permanent in respect of these securities.

Gain / (impairment charge) on sale of assets to NAMA

During the six months ended 30 June 2011, the Group incurred impairment charges on assets sold to NAMA of €43 million. All transfers to NAMA were complete by 31 December 2011. There was a €6 million gain in the six months ended 30 June 2012 relating to an adjustment to the consideration in respect of assets transferred up to 31 December 2011.

Non-core items

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

Loss on deleveraging of financial assets

The Group has achieved its 2011 to 2013 divestment target of €10 billion of international loans under the 2011 PCAR. This includes the sale of Burdale loans of €0.7 billion which were deleveraged as part of the sale of that business and included within (Loss) / profit on disposal of business activities as set out in note 16. The Group has deleveraged financial assets with a carrying value of €10.5 billion of which €9.9 billion had been completed and settled by 30 June 2012 with the remaining €0.6 billion expected to settle over the coming months.

The assets of €0.6 billion which the Group has contracted to sell but where the sale had not completed by 30 June 2012 are reported as Other assets classified as held for sale and further information is shown in note 24. An analysis of the deleveraging completed during the six months ended 30 June 2012 (which includes the sale of loan portfolios to third parties together with managed re-financing decisions taken by the Group) is set out below:

Table: 6 Six months ended 30 June 2012	Consideration received (net of costs) €m	Carrying value of assets derecognised €m	Total loss on deleveraging €m
Corporate and Treasury division			
Project Finance loan portfolios	318	382	(64)
Other international loans	557	588	(31)
Retail UK division			
UK Mortgage loan portfolio	526	635	(109)
UK Investment property loans	82	84	(2)
Total	**1,483**	**1,689**[1]	**(206)**

[1] *Of the €1,689 million, €278 million was contracted at 31 December 2011. Further details are set out in note 15.*

(Charges) / gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'

A charge of €125 million was recognised during the six months ended 30 June 2012 arising from the net impact of the tightening in credit spreads over the period relating to the Group's own debt and deposits accounted for at 'fair value through profit or loss'. These liabilities consist of certain subordinated debt, certain structured senior debt and tracker deposits. A gain of €81 million was recognised during the six months ended 30 June 2011 when the relevant credit spreads widened in that period.

Cost of restructuring programmes

To support the objective to continue to become more efficient, the Group announced in May 2012 that it has commenced a programme for a reduction in the number of people employed by the Group primarily in areas affected by business change and lower activity levels. The Group recognised a charge of €66 million in relation to restructuring programmes at 30 June 2012.

Gain on liability management exercises

A gain of €52 million on liability management exercises was recognised in the six months ended 30 June 2012 reflecting the repurchase of certain Group debt securities. A gain of €11 million was recognised in the six months ended 30 June 2011 reflecting the repurchase of Lower tier 2 Canadian subordinated debt partly offset by transaction costs. Further information is set out in note 8.

Non-core items (continued)

(Loss) / profit on disposal of business activities
The loss on disposal of business activities in the six months ended 30 June 2012 reflects the sale of Burdale which gave rise to a loss of €14 million in the period. The profit of €74 million on disposal of business activities in the six months ended 30 June 2011 primarily reflects the sale of BIAM in January 2011 which generated a profit of €43 million and the sale of BoISS in June 2011 which generated a profit of €37 million.

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

Investment return on treasury stock held for policyholders
Under accounting standards, the Group income statement excludes the impact of the change in value of Bank of Ireland stock held by Bank of Ireland Life for policyholders. There was a €nil gain at 30 June 2012 compared to a €2 million gain at 30 June 2011. Units of stock held by Bank of Ireland Life for policyholders at 30 June 2012 were 24 million units (31 December 2011: 23 million units).

Taxation

The taxation credit for the Group was €155 million for the six months ended 30 June 2012 compared to a taxation credit of €49 million for the six months ended 30 June 2011. Excluding the impact of non-core items, the effective tax rate for the six months ended 30 June 2012 is 11% (taxation credit) which is higher than the comparable rate for the six months ended 30 June 2011 of 8.5% (taxation credit). The effective tax rate is influenced by changes in the geographic mix of profits and losses and the impact on deferred tax of the reduction in the UK corporation tax rate to 24% with effect from 1 April 2012.

Group Balance Sheet (incorporating Liquidity and Funding)

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

Summary Consolidated Balance Sheet

Summary Consolidated Balance Sheet	Table	30 June 2012 €bn	31 December 2011 €bn	Change %
Loans and advances to customers[1] (after impairment provisions)		98	102	(4%)
Liquid assets	7	38	31	21%
Other assets	11	22	22	2%
Total assets		**158**	**155**	**2%**
Customer deposits	8	72	71	2%
Wholesale funding	9	53	51	4%
Subordinated liabilities		1	1	7%
Other liabilities	11	23	22	5%
Total liabilities		**149**	**145**	**3%**
Stockholders' equity	10	9	10	(13%)
Total liabilities and stockholders' equity		**158**	**155**	**2%**
Loan to deposit ratio		**136%**	**144%**	
Core tier 1 ratio		**14.9%**	**15.1%**	
Core tier 1 ratio (PCAR / EBA)[2]		**14.0%**	**14.3%**	

[1] *On the balance sheet on page 63, these amounts are presented on separate lines being Loans and advances to customers and Other assets classified as held for sale.*
[2] *Core tier 1 (PCAR / EBA) is calculated in line with methodology used for the 2011 PCAR and EBA stress test. As stated in the Financial Measures Programme 'The Central Bank applied capital requirement rules and a definition of Core tier 1 capital as prescribed by the Capital Requirements Directive, which is the prevailing regulatory standard in the EU. To increase conservatism, the Central Bank has included all supervisory deductions, including 50:50 deductions'.*

Loans and advances to customers

The Group's **loans and advances to customers (after impairment provisions)** at 30 June 2012 of €97.5 billion reflects a decrease of 4% (5% on a constant currency basis) when compared to the Group's loans and advances to customers of €101.7 billion at 31 December 2011. The key drivers of the decrease include loan book sales, a muted demand for new lending, loan repayments and foreign exchange rate movements.

The composition of the Group's loans and advances to customers by division at 30 June 2012 was broadly consistent with the composition at 31 December 2011.

The stock of impairment provisions on loans and advances to customers of €7.1 billion at 30 June 2012 reflects an increase of €0.7 billion when compared to the stock of impairment provisions of €6.4 billion at 31 December 2011.

At the time of its 2011 capital generating and raising exercises, the Group envisaged reducing the size of its loan book from €114 billion at December 2010 to c.€90 billion at December 2013, with the divestment of €10 billion of international loan assets being a key component of the deleveraging plan. In June 2012, the Group confirmed that it has exceeded its target of €10 billion divestments (total divestments of €10.5 billion achieved) at a weighted average discount on drawn balances of 7.9%. The cash proceeds of all divestments achieved to date have contributed to a reduction in the Group's wholesale funding requirements in line with its deleveraging plan. Of the €10.5 billion divestments, €0.6 billion are expected to settle in the second half of this year. Separately, total loan redemptions and repayments in the Group's loan portfolios remain in line with the Group's expectations.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the Asset Quality and Impairment section.

Liquid assets

Table: 7 Liquid assets	30 June 2012 €bn	31 December 2011 €bn
Cash at other banks	11	8
- Irish Bank Resolution Corporation (IBRC)	*3*	-
- Other	*8*	*8*
Cash and balances at Central Banks	11	8
- UK plc	*10*	*8*
- Other	*1*	-
Government bonds	6	5
NAMA senior bonds	5	5
Covered bonds	3	3
Senior bank bonds and other	2	2
	38	**31**

The Group's holding of liquid assets at 30 June 2012 of €38.0 billion has increased by €6.7 billion when compared to €31.3 billion at 31 December 2011. The increase in liquid assets of €6.7 billion is primarily due to the Group's participation in the IBRC repo transaction of €2.8 billion which settled in June 2012, the net incremental investment of €1.5 billion in Irish sovereign and government guaranteed bonds as part of the Group's participation in the ECB's LTRO operation, and increased liquid asset holdings in Bank of Ireland (UK) plc.

Of the €38 billion Group liquid assets, €10 billion relates to Bank of Ireland (UK) plc and €0.7 billion relates to Isle of Man holdings. Liquid assets in excess of regulatory liquidity requirements were held in Bank of Ireland (UK) plc as the Group awaits regulatory approval for the sale of loans to Bank of Ireland (UK) plc. On 16 July 2012, the Group sold a portfolio of UK Mortgages to Bank of Ireland (UK) plc which reduced these excess liquid assets by c.€2.2 billion. Further reductions are expected as regulatory approval is received for further sales.

As at 30 June 2012, the Group's holding of NAMA senior bonds was €4.7 billion, following the repayment by NAMA of €0.3 billion of bonds during the six months ended 30 June 2012.

Further analysis of the Group's sovereign bonds is set out on page 31.

Customer deposits

Table: 8 Customer deposits	30 June 2012 €bn	31 December 2011 €bn
Retail Ireland	35	36
- Deposits	*24*	*25*
- Current account credit balances	*11*	*11*
Retail UK	29	27
Retail UK (Stg£bn equivalent)	23	22
- UK Post Office	*17*	*16*
- Other Retail UK	*6*	*6*
Corporate and Treasury	8	8
Total customer deposits	**72**	**71**
Loan to deposit ratio	**136%**	**144%**
Deposits covered by ELG scheme	*22*	*26*

Group customer deposits increased to €71.7 billion at 30 June 2012 from €70.5 billion at 31 December 2011. On a constant currency basis, the Group's customer deposits at 30 June 2012 were unchanged when compared to the Group's customer deposits at 31 December 2011. The Group's loan to deposit ratio was 136% at 30 June 2012 as compared with 144% at 31 December 2011 which is in line with the Group's targets.

Over the past eighteen months, the Group has made significant progress in stabilising its financial position. A key objective for the Group now is to disengage from the exceptional and systemic Irish Government guarantee scheme (ELG scheme). At 30 June 2012, 70% or €50 billion of the Group's customer deposits were covered by traditional deposit protection schemes or were unguaranteed. During the six months ended 30 June 2012, the Group reduced the volume of customer deposits that were covered by the ELG scheme to €22 billion or 30% of the Group's total customer deposits at 30 June 2012 from €26 billion at 31 December 2011. On 1 April 2012, Bank of Ireland (UK) plc withdrew from the ELG scheme for all new deposits with no adverse impact on deposit volumes. On 10 July 2012, the Group announced that its Isle of Man subsidiary would withdraw from the ELG scheme with effect from 10 August 2012.

During the six months ended 30 June 2012 the Group focused on its strategy of reducing the price paid for deposits in the intensely competitive Irish market. Recent indications suggest that other institutions have started to reduce their deposit rates. The decline in deposits of €1 billion in Retail Ireland during the six months ended 30 June 2012 as a result of the above strategy was in line with the Group's expectations. Current account credit balances amounted to €11.3 billion at 30 June 2012 and remain unchanged from 31 December 2011.

The Group's retail deposit gathering activities in its joint venture with the UK Post Office continue to exceed its expectations and balances amounted to £16.9 billion at 30 June 2012, which represents an increase of £0.8 billion since 31 December 2011. Deposits in the Group's other UK businesses performed well and increased by £0.3 billion in the first six months of 2012.
In the Corporate and Treasury division the Group has also significantly reduced the bespoke pricing that it pays for customer deposits. In spite of this, the progress made by the Group in stabilising its financial position together with our relationship based approach to our customers has enabled us to maintain a stable base of corporate customer deposits which amounted to €7.6 billion as at 30 June 2012 as compared to €7.7 billion as at 31 December 2011. Our top twenty Corporate depositors represent c.2% of Group customer deposits at 30 June 2012.

Customer deposits at 30 June 2012 of €71.7 billion (31 December 2011: €70.5 billion) do not include €2.4 billion (31 December 2011: €2.2 billion) of savings and investment products sold by Bank of Ireland Life. These products have a fixed term (typically of five years) and consequently are an additional stable source of retail funding for the Group.

Wholesale funding

Table: 9 **Wholesale funding sources**	**30 June 2012** **€bn**	 **%**	31 December 2011 €bn	 %
Secured funding	43	82%	40	78%
- Monetary Authority (gross)	*28*	*52%*	*23*	*45%*
- Covered bonds	*6*	*12%*	*6*	*12%*
- Securitisations	*3*	*6%*	*4*	*8%*
- Private market repo	*6*	*12%*	*7*	*14%*
Unsecured funding	10	18%	11	22%
- Senior debt	*7*	*12%*	*9*	*18%*
- Bank deposits	*3*	*6%*	*2*	*4%*
Total Wholesale funding	**53**	**100%**	**51**	**100%**
Wholesale funding > 1 year to maturity	30	56%	28	55%
Drawings from Monetary Authorities (net)	26	-	22	-
Wholesale Funding Covered by ELG scheme	14	-	16	-

Wholesale funding requirements have increased from €50.7 billion at 31 December 2011 to €52.6 billion at 30 June 2012. This increase primarily reflected our €2.8 billion Irish Government guaranteed repo transaction with IBRC which settled in June 2012. Drawings from Monetary Authorities (gross) have increased from €22.5 billion at 31 December 2011 to €27.6 billion at 30 June 2012. In addition to the IBRC repo transaction of €2.8 billion the Group made a net incremental investment of €1.5 billion in Irish sovereign and government guaranteed bonds as part of the Group's participation in the ECB's LTRO operation.

In the six months ended 30 June 2012, the Group repaid €2.1 billion of senior unsecured debt. The Group's unsecured debt maturities are €0.4 billion for the second half of 2012, €2.6 billion in 2013 and €0.1 billion in 2014.

As previously announced, the Group did not call notes issued by the Brunel and Kildare securitisation vehicles in March 2012 and April 2012. Any future redemption decisions in respect of these notes will be taken on an economic basis having regard to prevailing market conditions.

In February 2012, the Group participated in the second ECB three year LTRO raising €4.8 billion of funding with a maturity of February 2015. Including the Group's participation in the December 2011 three year LTRO, the Group has raised €12.3 billion of three year funding, of which €10.8 billion related to the extension of the term of existing drawings from short term to longer term.

In January 2011, the Group issued and retained Government guaranteed Own-Use Bonds (OUB's) which are eligible for ECB monetary policy operations. The Group has approval up to February 2013 to maintain a nominal value of up to €9.5 billion of OUB's. The Group had €14.4 billion of ELG guaranteed wholesale debt outstanding at 30 June 2012, which included the Government guaranteed OUB's.

There were no drawings under the exceptional liquidity assistance facilities of the Central Bank during the six months ended 30 June 2012 (31 December 2011: €nil).

At 30 June 2012, 56% of wholesale funding had a term to maturity of greater than one year (31 December 2011: 55%).

A definition of liquidity risk and further information on liquidity risk management is set out on pages 103 to 104 of the Group's Annual Report for the year ended 31 December 2011.

Subordinated liabilities

At 30 June 2012, the Group's subordinated liabilities amounted to €1.5 billion (including the €1 billion nominal five year maturity Contingent Capital note which the Group issued to the State in July 2011 - see page 26 of the Group's Annual Report for the year ended 31 December 2011 for further detail).

Stockholders' equity

Table: 10

Movements in Stockholders' Equity	**6 months ended 30 June 2012 €m**	Year ended 31 December 2011 €m
Stockholders' equity at beginning of period	**10,202**	**7,351**
Movements:		
(Loss) / profit attributable to stockholders	(1,094)	45
Dividends on preference stock	(192)	(222)
Capital Raising		
Net new equity capital issued	-	2,557
Foreign exchange movements	138	180
Cash flow hedge reserve movement	51	314
Pension fund obligations	(547)	(117)
Available for sale (AFS) reserve movements	278	103
Reissue of stock / treasury stock	(1)	(1)
Other movements	(2)	(8)
Stockholders' equity at end of period	**8,833**	**10,202**

Stockholders' equity decreased from €10,202 million at 31 December 2011 to €8,833 million at 30 June 2012.

The loss attributable to stockholders of €1,094 million for the six months ended 30 June 2012 compares to the profit attributable to stockholders of €45 million in the year ended 31 December 2011.

On 20 February 2012, the Group paid a dividend of €188.3 million on the 2009 Preference Stock (€1.8 billion outstanding) held by the NPRFC and dividends due of €2.1 million and £1.1 million on its euro and sterling Preference Stock.

There was no new equity capital issued during the six months ended 30 June 2012. The net new equity capital issued of €2,557 million during the year ended 31 December 2011 comprised of the following elements:

- proceeds of Rights Issue €1,908 million;
- ordinary shares issued as part of debt for equity swap €665 million; and
- capital contribution on Contingent Capital note €116 million.

partly offset by:

- cost of liability management exercises / Rights Issue €114 million; and
- redemption of Upper tier 2 note (US$150 million FRN) €18 million.

Foreign exchange movements relate primarily to the impact on the translation of the Group's net investments in foreign operations arising primarily from the 5% strengthening of the sterling against euro in the six months ended 30 June 2012.

The cash flow hedge reserve movement reflects the impact of changes in interest rates on the mark to market value of cash flow hedge accounted derivatives. Over time, the reserve will flow through the income statement in line with the underlying hedged instruments.

The movement in retirement benefit obligations is primarily driven by movements in asset values and changes to key assumptions used in the calculation of the schemes' liabilities, including the discount rate, the inflation rate, the rate of increases in salaries and in pension payments. The movement in the six months ended 30 June 2012 is primarily due to a reduction in the discount rate.

The AFS reserve movement in the six months ended 30 June 2012 is driven by tightening credit spreads, particularly on the portfolio of Irish Government bonds and the transfer of €43 million to the income statement arising from the impairment of bonds including NAMA subordinated debt.

Other assets and other liabilities

Table: 11 Other assets and other liabilities	30 June 2012 €bn	31 December 2011 €bn
Other assets	22.3	21.9
- Bank of Ireland Life assets	*12.7*	*12.0*
- Derivative financial assets	*6.0*	*6.4*
- Deferred tax asset	*1.6*	*1.4*
- Other assets	*2.0*	*2.1*
Other liabilities	23.2	22.1
- Bank of Ireland Life liabilities	*12.7*	*12.0*
- Derivative financial instruments	*6.0*	*6.0*
- Pension deficit	*1.0*	*0.4*
- Other liabilities	*3.5*	*3.7*

At 30 June 2012, Bank of Ireland Life assets and liabilities were €12.7 billion, an increase of €0.7 billion compared to €12.0 billion at 31 December 2011, primarily due to positive investment returns on policyholder managed funds in the period.

Other assets, at 30 June 2012, include derivative financial instruments with a positive fair value of €6.0 billion compared to a positive fair value of €6.4 billion at 31 December 2011. Other liabilities, at 30 June 2012, include derivative financial instruments with a negative fair value of €6.0 billion compared to a negative fair value of €6.0 billion at 31 December 2011. The movement in the fair value of derivative assets is due to the impact of the movement in foreign exchange rates (particularly the euro / sterling exchange rate) and interest rates during the six months ended 30 June 2012.

At 30 June 2012, the deferred tax asset was €1.6 billion, an increase of €0.2 billion compared to €1.4 billion at 31 December 2011. The increase in the six months to 30 June 2012 is primarily due to the tax effect of further losses in both Ireland and the UK and the increase in the pension deficit from €0.4 billion to €1 billion. The deferred tax asset of €1.6 billion at 30 June 2012 includes an amount of €1.4 billion in respect of operating losses which are available to relieve future profits from tax. Under current Irish and UK tax legislation there is no time restriction on the utilisation of trading losses and based on its estimates of future taxable income, the Group has concluded that it is probable that sufficient taxable profits will be generated to recover this deferred tax asset, and it has been recognised in full.

At 30 June 2012, the pension deficit was €1 billion, an increase of €0.6 billion from €0.4 billion at 31 December 2011. The primary driver of this increase was a reduction in the discount rate to 4.25% at 30 June 2012 from 5.3% at 31 December 2011 which increased the deficit by €0.8 billion. This was partly offset by higher scheme assets of €0.2 billion. The reduction in the discount rate is due to the significant fall in yields on high-quality (AA-rated) corporate bonds since 31 December 2011.

Capital

Regulatory capital and key capital ratios

	30 June 2012 €m	31 December 2011 €m
Capital Base		
Total equity	8,891	10,252
Regulatory adjustments	**292**	**(146)**
- Retirement benefit obligations	*1,006*	*414*
- Available for sale reserve	*447*	*725*
- Intangible assets and goodwill	*(364)*	*(380)*
- Own credit spread adjustment (net of tax)	*(263)*	*(372)*
- Cash flow hedge reserve	*(130)*	*(79)*
- Pension supplementary contributions	*(120)*	*(117)*
- Capital contribution on Contingent Capital Note (CCN)	*(116)*	*(116)*
- Dividend expected on 2009 Preference Stock	*(68)*	*(162)*
- Other adjustments	*(100)*	*(59)*
Core tier 1 capital	**9,183**	**10,106**
Regulatory deductions	(561)	(498)
- Expected loss deduction	*(415)*	*(366)*
- Securitisation deduction	*(90)*	*(85)*
- Deduction for unconsolidated investments	*(56)*	*(47)*
Core tier 1 capital (PCAR / EBA)[1]	**8,622**	**9,608**
Tier 1 hybrid debt	93	92
Total tier 1 capital	**8,715**	**9,700**
Tier 2		
Regulatory deductions	(561)	(498)
- Expected loss deduction	*(415)*	*(366)*
- Securitisation deduction	*(90)*	*(85)*
- Deduction for unconsolidated investments	*(56)*	*(47)*
Tier 2 dated debt	1,075	1,172
Tier 2 undated debt	97	94
Standardised IBNR provisions	126	111
Revaluation reserves	6	6
Other adjustments	107	55
Total tier 2 capital	**850**	**940**
Total tier 1 and tier 2 capital	**9,565**	**10,640**
Regulatory deductions		
- Life and pension business	*(750)*	*(748)*
Total Capital	**8,815**	**9,892**

[1] *Core tier 1 (PCAR / EBA) is calculated in line with methodology used for the 2011 PCAR and EBA stress test. As stated in the Financial Measures Programme 'The Central Bank applied capital requirement rules and a definition of Core tier 1 capital as prescribed by the Capital Requirements Directive, which is the prevailing regulatory standard in the EU. To increase conservatism, the Central Bank has included all supervisory deductions, including 50:50 deductions'.*

Risk Weighted Assets (RWA) - Basel II	**30 June 2012 €bn**	31 December 2011 €bn
Credit risk	56.0	61.5
Market risk	1.2	1.1
Operational risk	4.5	4.5
Total RWA	**61.7**	**67.1**

Key Capital Ratios	**30 June 2012 €bn**	**30 June 2012 % of RWA**	31 December 2011 €bn	31 December 2011 % of RWA
Core tier 1	9.2	14.9%	10.1	15.1%
Core tier 1 (PCAR / EBA)[1]	8.6	14.0%	9.6	14.3%
Tier 1	8.7	14.1%	9.7	14.4%
Total capital	8.8	14.3%	9.9	14.7%

[1] *Core tier 1 (PCAR / EBA) is calculated in line with methodology used for the 2011 PCAR and EBA stress test. As stated in the Financial Measures Programme 'The Central Bank applied capital requirement rules and a definition of Core tier 1 capital as prescribed by the Capital Requirements Directive, which is the prevailing regulatory standard in the EU. To increase conservatism, the Central Bank has included all supervisory deductions, including 50:50 deductions'.*

Risk Weighted Assets (RWA) at 30 June 2012 are €5.4 billion lower than 31 December 2011 due to a reduction in the quantum of loans and advances to customers, the impact of a higher level of impaired loans at 30 June 2012 as compared to 31 December 2011 and the favourable impact of credit risk mitigation partly offset by the impact of foreign exchange movements.

The **Core tier 1 ratio** at 30 June 2012 of 14.9% compares to 15.1% at 31 December 2011 driven by underlying losses in the six months ended 30 June 2012 partly offset by lower RWA's.

The **Core tier 1 (PCAR / EBA) ratio** at 30 June 2012 of 14.0% compares to 14.3% at 31 December 2011 driven by underlying losses in the six months ended 30 June 2012 and a higher expected loss deduction partly offset by lower RWA's.

The **Tier 1 ratio** at 30 June 2012 of 14.1% compares to 14.4% at 31 December 2011 driven by underlying losses in the six months ended 30 June 2012 and a higher expected loss deduction partly offset by lower RWA's.

The **Total capital ratio** at 30 June 2012 of 14.3% compares to 14.7% at 31 December 2011 driven by underlying losses in the six months ended 30 June 2012 and a higher expected loss deduction partly offset by lower RWA's.

Asset Quality and Impairment

Asset Quality

The information below forms an integral part of the interim financial statements as described in the Basis of preparation on page 67.

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

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

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

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

'Past due but not impaired' loans are defined as follows:

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

'Impaired' loans are defined as follows:

- loans with a specific impairment provision attaching to them together with loans (excluding Residential mortgages) which are greater than 90 days in arrears.

Asset Quality - Loans and advances to customers

Loans and advances to customers including held for sale **Book composition (before impairment provisions)**	**30 June 2012** **€m**	 **%**	31 December 2011 €m	 %
Residential mortgages	56,512	54%	57,490	53%
- Retail Ireland	*27,582*	*26%*	*27,854*	*26%*
- Retail UK	*28,930*	*28%*	*29,636*	*27%*
Non-property SME and corporate	24,806	24%	26,718	25%
- Republic of Ireland SME	*11,157*	*11%*	*11,497*	*11%*
- UK SME	*3,697*	*3%*	*3,662*	*3%*
- Corporate	*9,952*	*10%*	*11,559*	*11%*
Property and construction	20,060	19%	20,580	19%
- Investment	*16,445*	*16%*	*16,864*	*16%*
- Land and development	*3,615*	*3%*	*3,716*	*3%*
Consumer	3,213	3%	3,314	3%
Total loans and advances to customers	**104,591**	**100%**	**108,102**	**100%**

The information below is additional disclosure and it does not form an integral part of the interim financial statements as described in the Basis of preparation on page 67.

The Group's loans and advances to customers at 30 June 2012 were €105 billion before impairment provisions compared to €108 billion before impairment provisions at 31 December 2011. Residential mortgages accounted for 54% of total loans and advances to customers at 30 June 2012, broadly unchanged from 53% at 31 December 2011.

The other loan portfolios account for broadly equivalent proportions of the loan book at 30 June 2012 and at 31 December 2011.

Risk profile of loans and advances to customers

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

Asset Quality - Loans and advances to customers (continued)

The information below forms an integral part of the interim financial statements as described in the Basis of preparation on page 67.

30 June 2012 **Risk profile of loans and advances to customers including held for sale (before impairment provisions)**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total loans and advances to customers €m**	**Total loans and advances to customers %**
High quality	48,268	5,256	913	2,128	56,565	54%
Satisfactory quality	575	9,282	3,859	568	14,284	14%
Acceptable quality	1,225	3,995	3,362	39	8,621	8%
Lower quality but not past due nor impaired	-	1,645	2,387	-	4,032	4%
Neither past due nor impaired	**50,068**	**20,178**	**10,521**	**2,735**	**83,502**	**80%**
Past due but not impaired	4,071	364	1,075	157	5,667	5%
Impaired	2,373	4,264	8,464	321	15,422	15%
Total	**56,512**	**24,806**	**20,060**	**3,213**	**104,591**	**100%**

31 December 2011 Risk profile of loans and advances to customers including held for sale (before impairment provisions)	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
High quality	49,924	5,530	836	2,154	58,444	54%
Satisfactory quality	564	10,329	4,526	619	16,038	15%
Acceptable quality	1,008	4,446	3,961	45	9,460	9%
Lower quality but not past due nor impaired	-	1,940	2,592	-	4,532	4%
Neither past due nor impaired	51,496	22,245	11,915	2,818	88,474	82%
Past due but not impaired	4,520	430	1,042	158	6,150	6%
Impaired	1,474	4,043	7,623	338	13,478	12%
Total	57,490	26,718	20,580	3,314	108,102	100%

The information below is additional disclosure and it does not form an integral part of the interim financial statements as described in the Basis of preparation on page 67.

Loans and advances to customers classified as 'neither past due nor impaired' amounted to €84 billion or 80% of the Group's loan book at 30 June 2012 compared to €88 billion or 82% at 31 December 2011. Asset disposals as part of the Group's deleveraging initiatives contributed significantly to the reduction in loans and advances to customers classified as 'neither past due nor impaired'.

The 'past due but not impaired' category amounted to €6 billion or 5% of loans and advances to customers at 30 June 2012 compared to €6 billion or 6% of loans and advances to customers at 31 December 2011.

'Impaired' loans increased from €13 billion or 12% of loans and advances to customers at 31 December 2011 to €15 billion or 15% of loans and advances to customers at 30 June 2012, an increase of three percentage points.

Asset Quality - Loans and advances to customers (continued)

The information below forms an integral part of the interim financial statements as described in the Basis of preparation on page 67.

30 June 2012 **Loans and advances to customers including held for sale Composition and impairment**	**Advances (pre-impairment) €m**	**Impaired loans €m**	**Impaired loans as % of advances %**	**Impairment provisions €m**	**Impairment provisions as % of impaired loans %**
Residential mortgages	56,512	2,373	4.2%	1,460	62%
- Retail Ireland	*27,582*	*2,259*	*8.2%*	*1,323*	*59%*
- Retail UK	*28,930*	*114*	*0.4%*	*137*	*120%*
Non-property SME and corporate	24,806	4,264	17.2%	1,790	42%
- Republic of Ireland SME	*11,157*	*2,537*	*22.7%*	*1,168*	*46%*
- UK SME	*3,697*	*648*	*17.5%*	*208*	*32%*
- Corporate	*9,952*	*1,079*	*10.8%*	*414*	*38%*
Property and construction	20,060	8,464	42.2%	3,544	42%
- Investment	*16,445*	*5,278*	*32.1%*	*1,707*	*32%*
- Land and development	*3,615*	*3,186*	*88.1%*	*1,837*	*58%*
Consumer	3,213	321	10.0%	262	82%
Total loans and advances to customers	**104,591**	**15,422**	**14.7%**	**7,056**	**46%**

31 December 2011 Loans and advances to customers including held for sale Composition and impairment	Advances (pre-impairment) €m	Impaired loans €m	Impaired loans as % of advances %	Impairment provisions €m	Impairment provisions as % of impaired loans %
Residential mortgages	57,490	1,474	2.6%	1,159	79%
- Retail Ireland	*27,854*	*1,347*	*4.8%*	*1,026*	*76%*
- Retail UK	*29,636*	*127*	*0.4%*	*133*	*105%*
Non-property SME and corporate	26,718	4,043	15.1%	1,723	43%
- Republic of Ireland SME	*11,497*	*2,335*	*20.3%*	*1,088*	*47%*
- UK SME	*3,662*	*605*	*16.5%*	*217*	*36%*
- Corporate	*11,559*	*1,103*	*9.5%*	*418*	*38%*
Property and construction	20,580	7,623	37.0%	3,205	42%
- Investment	*16,864*	*4,553*	*27.0%*	*1,562*	*34%*
- Land and development	*3,716*	*3,070*	*82.6%*	*1,643*	*54%*
Consumer	3,314	338	10.2%	278	82%
Total loans and advances to customers	108,102	13,478	12.5%	6,365	47%

Impairment Provision by nature of impairment provision	**30 June 2012 €m**	31 December 2011 €m
Specific provisions individually assessed	4,940	4,321
Specific provisions collectively assessed	1,233	1,045
Incurred but not reported	883	999
Total Impairment provision	**7,056**	6,365

Asset Quality - Loans and advances to customers (continued)

The information below is additional disclosure and it does not form an integral part of the interim financial statements as described in the Basis of preparation on page 67.

Loans and advances to customers reduced by 3% or €3 billion, from €108 billion at 31 December 2011 to €105 billion at 30 June 2012 due to deleveraging initiatives undertaken by the Group, muted demand for new lending and actions taken by customers to reduce their levels of debt.

'Impaired' loans increased from €13 billion or 12.5% of Loans and advances to customers at 31 December 2011 to €15 billion or 14.7% at 30 June 2012. The loan book continued to be impacted by the general economic downturn in Ireland resulting in falling asset values and low levels of transactions and illiquidity in property markets, high levels of unemployment, lower disposable incomes, poor consumer sentiment and the heightened level of business insolvencies.

The stock of **impairment provisions** of €7.1 billion at 30 June 2012 represented 46% of impaired loans (31 December 2011: impairment provisions of €6.4 billion representing 47% of impaired loans).

Total **Residential mortgages** impaired loans increased to €2.4 billion or 4.2% of the loan book at 30 June 2012 from €1.5 billion or 2.6% of the loan book at 31 December 2011, reflecting increasing default arrears (based on number of cases 90 days or more past due), in the Irish mortgage book and particularly in the Owner occupied segment.

Residential property prices in Ireland as reflected in the CSO index continue to decline albeit with the pace of decline appearing to slow in recent months. There is continuing evidence of an emerging urban / rural divide with residential property prices in Dublin showing some signs of stabilisation, particularly in recent months. The CSO index for June reported that national residential prices were 50% below peak, with residential prices in Dublin 57% below peak, while properties outside of Dublin were 47% below peak.

Owner occupied default arrears (based on number of cases 90 days past due) were 7.03% at 30 June 2012 as compared with 5.60% at 31 December 2011. The level of default arrears for the Group remains below the industry average as published on a quarterly basis by the Central Bank. The volume of default arrears in the Owner occupied segment has continued to increase, primarily reflecting continued impact of the general economic downturn in Ireland and affordability issues including falling disposable incomes and elevated unemployment levels.

Buy to let default arrears (based on number of cases 90 days past due) in the Retail Ireland Residential mortgage book were 13.99% at 30 June 2012 as compared to 10.76% at 31 December 2011. The volume of default arrears in the Buy to let segment has continued to increase, and while rents remained stable nationally, the increase in Buy to let default arrears reflects the impact on borrowers of rising repayments as interest only periods come to an end and customers moving to full amortisation.

The Retail UK Residential mortgage loan book is broadly unchanged reflecting positive underlying default arrears (based on number of cases 90 days or more past due) performance and the impact of relatively stable house prices on a shrinking loan book.

Further additional disclosures on the Retail Ireland and Retail UK Residential mortgages is set out in the Supplementary Asset Quality Disclosures - Mortgages section on page 106.

Non-property SME and corporate impaired loans increased to €4.3 billion or 17.2% of the loan book at 30 June 2012 from €4.0 billion or 15.1% of the loan book at 31 December 2011. Our customers continue to face difficult trading conditions given general pressure on the Irish SME sector due to the challenging economic conditions in Ireland and a continuation of poor consumer sentiment partly reflecting the impact of concerns regarding the eurozone. Those sectors correlated with consumer spending or the property markets are particularly impacted. As a result, the level of Republic of Ireland SME impairment charges continues to be at an elevated level. Impairment charges on our UK SME portfolio reduced from €24 million for the six months ended 30 June 2011 to €16 million for the six months ended 30 June 2012 albeit, there has been some evidence of a recent slowdown in economic activity in the UK.

Our corporate banking portfolios remain broadly stable. The domestic Irish portfolio continues to be impacted by more challenging domestic demand and market conditions, albeit the pace of migration of new corporates into our lower quality portfolios has reduced. Our international corporate banking portfolios continue to perform satisfactorily, but remain exposed to global, rather than exclusively Irish economic indicators.

Impaired loans in the **Property and construction** portfolio increased from €7.6 billion or 37.0% of the portfolio at 31 December 2011 to €8.5 billion or 42.2% of the portfolio at 30 June 2012. The Irish market has experienced a significant fall in asset values, with Irish commercial property capital values down 66% from peak. While low levels of activity allied with continued illiquidity in property markets continues to impact asset values and the underlying loan book performance, there is some evidence of stabilisation in certain areas. In December 2011, the Irish Government introduced a range of initiatives and policies which addressed a number of areas of market uncertainty. Following this, in the six months ended 30 June 2012, there have been some signs of an increase in activity levels in central business district areas with a number of international institutional investors entering the market.

Asset Quality - Loans and advances to customers (continued)

UK commercial property values are down 32% from the peak. Properties in central London continue to deliver strong returns. However, across the rest of the UK, returns are more subdued with some regions showing negative returns as investors / occupiers remain cautious about the potential impact of fiscal consolidation measures on consumer sentiment and economic activity.

In the Land and development portfolio the proportion of the book that is impaired has increased in the six months ended 30 June 2012 as compared with the six months ended 30 June 2011 reflecting the significant challenges being faced by this sector and the very illiquid markets.

Consumer impaired loans amounted to €0.3 billion or 10.0% of the loan portfolio at 30 June 2012 (31 December 2011: impaired loans of €0.3 billion or 10.2% of the loan portfolio). Consumer loans have reduced significantly reflecting accelerated repayments and subdued demand for new loans and other credit facilities, as customers continue to deleverage.

Impairment charges on loans and advances to Customers

Elevated unemployment levels, lower disposable incomes, falling asset values, poor consumer sentiment, rising business insolvencies and low levels of transactions in property markets are the key drivers of the impairment charges across the Group's loan portfolios.

The impairment charges on loans and advances to customers of €941 million for the six months ended 30 June 2012 increased by €99 million compared to the impairment charge of €842 million for the six months ended 30 June 2011 reflecting overall higher impairment charges on Residential mortgages partly offset by overall lower impairment charges on the Non-property SME and corporate and Consumer portfolios. Further commentary is set out under Impairment charges on loans and advances to customers on pages 12 to 13.

Asset Quality - Assets classified as held for sale

The information below forms an integral part of the interim financial statements as described in the Basis of preparation on page 67.

As at 30 June 2012, the Group has €557 million of loans and advances to customers classified as held for sale. These assets consist of loans to corporates within the Corporate and Treasury division and are 'neither past due nor impaired'. These loans are included within the asset quality analysis of Loans and advances to customers as set out in the table on page 25.

Asset Quality - Other Financial Instruments

Other financial instruments include available for sale financial assets, NAMA senior bonds, derivative financial instruments, loans and advances to banks, interest receivable and any reinsurance assets. The table below sets out the Group's exposure to Other financial instruments based on the gross amount before provisions for impairment.

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

Asset quality: **Other financial instruments with ratings equivalent to:**	**30 June 2012** **€m**	 **%**	31 December 2011 €m	 %
AAA to AA+	5,246	14%	7,005	21%
AA to A-	14,415	39%	14,213	42%
BBB+ to BBB-	16,886	45%	11,310	33%
BB+ to BB-	559	2%	646	2%
B+ to B-	131	-	521	2%
Lower than B-	120	-	163	-
Total	**37,357**	**100%**	**33,858**	**100%**

Sovereign debt and certain other exposures

Set out in the tables below is an analysis of the Group's exposure to sovereign debt and certain other exposures for selected balance sheet line items as at 30 June 2012. For these line items, further information on the Group's exposures to eurozone countries that have a Standard & Poor's credit rating of AA or below where the Group has an exposure of over €250 million (being Ireland, Italy and Spain), is set out on pages 34 to 37.

	30 June 2012							31 December 2011
Assets	**Ireland €m**	**United Kingdom €m**	**United States €m**	**Spain €m**	**Italy €m**	**Other[2] €m**	**Total €m**	**Total €m**
Cash and balances at central banks	753	10,644	180	-	-	-	11,577	8,181
Trading securities	21	17	118	-	-	4	160	6
Other financial assets at fair value through profit or loss[1]	451	42	15	2	29	560	1,099	1,033
Loans and advances to banks	3,618	5,907	56	9	-	1,061	10,651	8,059
Available for sale financial assets	6,115	1,160	385	1,126	289	2,205	11,280	10,262
NAMA senior bonds	4,684	-	-	-	-	-	4,684	5,016
Total	**15,642**	**17,770**	**754**	**1,137**	**318**	**3,830**	**39,451**	**32,557**

1 This excludes those assets held by the Group's life assurance business which are linked to policyholder liabilities. See page 32 for details.
2 Others primarily made up of exposures to the following countries: France: €1.7 billion, Netherlands: €0.4 billion, Austria: €0.2 billion, Canada: €0.2 billion, Finland: €0.2 billion, Germany: €0.2 billion, Denmark: €0.1 billion, Luxembourg: €0.1 billion, Norway: €0.1 billion, Portugal: €0.1 billion, Sweden: €0.1 billion and Turkey: €0.1 billion.

Cash and balances at central banks

Cash and balances at central banks	**30 June 2012 €m**	31 December 2011 €m
Bank of England	10,627	7,624
Central Bank of Ireland	565	-
United States Federal Reserve	180	194
Cash holdings	205	363
Total	**11,577**	**8,181**

The amounts held at the Bank of England of €10.6 billion primarily relates to liquid assets held by Bank of Ireland (UK) plc.

Cash and balances at central banks are accounted for at amortised cost.

Sovereign debt and certain other exposures (continued)

Trading securities

Trading securities	30 June 2012 Ireland €m	United Kingdom €m	United States €m	Other €m	Total €m	31 December 2011 Total €m
Government bonds	10	17	118	-	145	2
Corporate and other bonds	11	-	-	4	15	4
Total	**21**	**17**	**118**	**4**	**160**	**6**

At 30 June 2012 and 31 December 2011, the credit rating applicable to the trading securities above was at least investment grade.

Trading securities are carried in the balance sheet at their fair value. Any changes in the fair value of these assets are treated as gains or charges in the Group's income statement.

Other financial assets at fair value through profit or loss

Other financial assets at fair value through profit or loss	30 June 2012 Ireland €m	United Kingdom €m	United States €m	Spain €m	Italy €m	Other[1] €m	Total €m	31 December 2011 Total €m
Government bonds	317	-	-	-	26	491	834	804
Other	134	42	15	2	3	69	265	229
Total	**451**	**42**	**15**	**2**	**29**	**560**	**1,099**	**1,033**

[1] *Other is primarily made up of exposures to the following countries: France: €0.3 billion and Austria: €0.2 billion.*

The Group’s holdings of ‘Other financial assets at fair value through profit or loss’ primarily relate to the Group’s life assurance business.

A portion of the Group’s life assurance business takes the legal form of investment contracts, under which legal title to the underlying asset is held by the Group, but the inherent risks and rewards in the assets are borne by the policyholders. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal change in the value of the amounts due to policyholders. At 30 June 2012, such assets amounted to €8,188 million (31 December 2011: €7,881 million) and the associated liabilities are included in liabilities to customers under investment contracts and insurance contract liabilities on the balance sheet. For the purposes of the above disclosure on the Group’s exposure, these assets have been excluded.

Sovereign debt and certain other exposures (continued)

Loans and advances to banks

	30 June 2012							31 December 2011
	Ireland €m	United Kingdom €m	United States €m	Spain €m	Italy €m	Other[2] €m	Total €m	Total €m
Loans and advances to banks	3,618[1]	5,907	56	9	-	1,061	10,651	8,059

[1] *This includes the impact of the Group's participation in the IBRC repo transaction of €2.8 billion which settled in June 2012. See note 35 for details.*
[2] *Other is primarily made up of exposures to the following countries: France: €0.4 billion, Germany`: €0.2 billion, Finland: €0.1 billion and Turkey: €0.1 billion.*

Loans and advances to banks include loans to and placements with credit institutions and certain placements with central banks which are accounted for at amortised cost. No provisions are held against these balances.

Available for sale financial assets

	30 June 2012							31 December 2011
Available for sale financial assets	Ireland €m	United Kingdom €m	United States €m	Spain €m	Italy €m	Other[2] €m	Total €m	Total €m
Government bonds	5,517	-	1	-	31	76	5,625	4,570
Senior bank debt	443	163	57	-	248	736	1,647	1,394
Covered bonds	-	666	251	1,066	-	1,237	3,220	3,474
Subordinated debt	90[1]	-	-	-	-	27	117	152
Asset backed securities	65	331	76	60	10	129	671	672
Total	**6,115**	**1,160**	**385**	**1,126**	**289**	**2,205**	**11,280**	**10,262**

[1] *NAMA subordinated debt of €90 million is classified as an available for sale debt instrument. The Group incurred an impairment charge of €40 million on the NAMA subordinated bonds during the six months ended 30 June 2012.*
[2] *Other is primarily made up of exposures to the following countries: France: €1.0 billion, Netherlands: €0.4 billion, Canada: €0.2 billion, Denmark: €0.1 billion, Finland: €0.1 billion, Luxembourg: €0.1 billion, Norway: €0.1 billion and Sweden: €0.1 billion. The Group also had an exposure to Portuguese covered bonds of €75 million (31 December 2011: €63 million)*

Available for sale financial assets are carried in the balance sheet at their fair value. Other than in respect of impairment, any change in fair value is treated as a movement in the AFS reserve in Stockholder's equity.

NAMA senior bonds

At 30 June 2012, the Group had holdings of NAMA senior bonds which are guaranteed by the Irish Government with a nominal value of €4,739 million (31 December 2011: €5,079 million) and a fair value at that date of €4,642 million (31 December 2011: €5,055 million). The contractual maturity date of the NAMA senior bonds is 1 March 2013. NAMA may, with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

NAMA senior bonds are classified as 'Loans and receivables' and accounted for at amortised cost which includes any provisions for impairment. The carrying value of these assets is not adjusted for changes in their fair value.

Credit default swaps (CDS)

At 30 June 2012, the Group had no net exposure to credit default swaps (CDS).

Sovereign debt and certain other exposures (continued)

Additional information on selected European countries

The tables below show the Group's exposures to eurozone countries that have a Standard & Poor's credit rating of AA or below where the Group has an exposure of over €250 million (being Ireland, Italy and Spain). The maturity analysis in the tables below is based on the residual contractual maturity of the exposures (except where otherwise indicated).

Ireland

As at 30 June 2012, Ireland's credit rating from Standard & Poor's was BBB+ (31 December 2011: BBB+). The table below shows the Group's exposure to Ireland by selected balance sheet line items:

	Carrying Value							**Nominal value**
As at 30 June 2012	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Cash and balances at central banks	753	-	-	-	-	-	753	753
Trading securities	-	-	11	10	-	-	21	21
Other financial assets at fair value through profit or loss	46	19	40	193	105	48	451	460
- Government bonds	*-*	*-*	*-*	*184*	*86*	*47*	*317*	*325*
- Other	*46*	*19*	*40*	*9*	*19*	*1*	*134*	*135*
Loans and advances to banks	663	2,955 [1]	-	-	-	-	3,618	3,618
Available for sale financial assets	-	1,009	850	2,820	1,384	52	6,115	6,338
- Government bonds	*-*	*967*	*850*	*2,406*	*1,294*	*-*	*5,517*	*5,668*
- Senior bank debt and other[2]	*-*	*42*	*-*	*414*	*90*	*52*	*598*	*670*
NAMA senior bonds[3]	-	-	-	-	4,684	-	4,684	4,739
Total	**1,462**	**3,983**	**901**	**3,023**	**6,173**	**100**	**15,642**	**15,929**

	Carrying Value							Nominal value
As at 31 December 2011	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Total €m
Cash and balances at central banks	316	-	-	-	-	-	316	316
Trading securities	-	-	-	-	-	-	-	-
Other financial assets at fair value through profit or loss	89	-	52	231	79	58	509	563
- Government bonds	*-*	*-*	*52*	*182*	*79*	*41*	*354*	*392*
- Other	*89*	*-*	*-*	*49*	*-*	*17*	*155*	*171*
Loans and advances to banks	746	61	-	-	-	-	807	807
Available for sale financial assets	517	27	1,066	1,739	1,100	4	4,453	5,052
- Government bonds	*437*	*-*	*1,066*	*1,732*	*987*	*-*	*4,222*	*4,648*
- Senior bank debt and other[2]	*80*	*27*	*-*	*7*	*113*	*4*	*231*	*404*
NAMA senior bonds[3]	-	-	-	-	5,016	-	5,016	5,079
Total	1,668	88	1,118	1,970	6,195	62	11,101	11,817

[1] *This includes the impact of the Group's participation in the IBRC repo transaction of €2.8 billion which settled in June 2012. See note 35 for details.*

[2] *Senior bank debt and other primarily relates to the Group's holdings of Irish Government guaranteed senior bank debt issued by Irish financial institutions. Further details are set out in note 35.*

[3] *The maturity date of the NAMA senior bonds is based on their ultimate expected maturity.*

Sovereign debt and certain other exposures (continued)

Ireland (continued)

Available for sale financial assets As at 30 June 2012 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	-	1,007[1]	863[1]	2,934	1,475	59	6,338
Fair value	-	1,009	850	2,820	1,384	52	6,115
AFS reserve (before tax)	-	14	(8)	(30)	(45)	7	(62)

[1] *On 26 July 2012, the National Treasury Management Agency offered holders of existing bonds due to mature in 2013 and 2014 respectively, the opportunity to switch their holdings of these bonds into a new 5.5% five year bond maturing in October 2017. The Group converted €350 million of its 2013 Treasury bond and €400 million of its 2014 Treasury bond into the new 2017 Treasury bond.*

Available for sale financial assets As at 31 December 2011 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	525	30	1,104	1,913	1,476	4	5,052
Fair value	517	27	1,066	1,739	1,100	4	4,453
AFS reserve (before tax)	(8)	(4)	(15)	(92)	(171)	-	(290)

Sovereign debt and certain other exposures (continued)

Spain

As at 30 June 2012, Spain's credit rating from Standard & Poor's was BBB+ (31 December 2011: A). The table below shows the Group's exposure to Spain by selected balance sheet line items:

	Carrying Value							Nominal Value
As at 30 June 2012	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Other financial assets at fair value through profit or loss	-	-	-	-	2	-	2	2
Loans and advance to banks	9	-	-	-	-	-	9	9
Available for sale financial assets								
- Covered bonds and other	-	144	107	678	187	10	1,126	1,271
Total	**9**	**144**	**107**	**678**	**189**	**10**	**1,137**	**1,282**

	Carrying Value							Nominal Value
As at 31 December 2011	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Total €m
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-
Loans and advance to banks	7	-	-	-	-	-	7	7
Available for sale financial assets								
- Covered bonds and other	-	104	284	491	429	11	1,319	1,449
Total	7	104	284	491	429	11	1,326	1,456

At 30 June 2012 and 31 December 2011, the credit rating applicable to the covered bonds and other above was at least investment grade.

Available for sale financial assets As at 30 June 2012 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	-	145	112	748	253	13	1,271
Fair value	-	144	107	678	187	10	1,126
AFS reserve (before tax)	-	(3)	(5)	(132)	(90)	3	(227)

Available for sale financial assets As at 31 December 2011 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	-	105	290	534	506	14	1,449
Fair value	-	104	284	491	429	11	1,319
AFS reserve (before tax)	-	(1)	(14)	(79)	(132)	(3)	(229)

Sovereign debt and certain other exposures (continued)

Italy

As at 30 June 2012, Italy's credit rating from Standard & Poor's was BBB+ (31 December 2011: BBB+). The table below shows the Group's exposure to Italy by selected balance sheet line items:

	Carrying Value							Nominal Value
As at 30 June 2012	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Other financial assets at fair value through profit or loss	-	-	-	-	3	26	29	33
Available for sale financial assets								
- Government bonds	-	-	-	31	-	-	31	32
- Senior bank debt and other	-	192	-	54	5	7	258	270
Total	**-**	**192**	**-**	**85**	**8**	**33**	**318**	**335**

	Carrying Value							Nominal Value
As at 31 December 2011	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Total €m
Other financial assets at fair value through profit or loss	-	-	-	-	-	24	24	30
Available for sale financial assets								
- Government bonds	-	-	-	29	-	-	29	31
- Senior bank debt and other	100	30	154	48	9	8	349	372
Total	100	30	154	77	9	32	402	463

At 30 June 2012 and 31 December 2011, the credit rating applicable to the senior bank debt and other above was at least investment grade.

Available for sale financial assets As at 30 June 2012 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	-	195	-	92	6	9	302
Fair value	-	192	-	85	5	7	289
AFS reserve (before tax)	-	(4)	-	(6)	(1)	1	(10)

Available for sale financial assets As at 31 December 2011 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	100	30	164	90	10	9	403
Fair value	100	30	154	77	9	8	378
AFS reserve (before tax)	-	-	(10)	(12)	(1)	(1)	(24)

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Divisional Performance

Divisional Performance - on an Underlying Basis

The information below is additional disclosure and it does not form an integral part of the interim financial statements as described in the Basis of preparation on page 67.

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

Income statement - underlying (loss) / profit before tax	**6 months ended 30 June 2012 €m**	6 months ended 30 June 2011[2] €m	Change %
Retail Ireland	(600)	(373)	(61%)
Bank of Ireland Life	36	(28)	-
Retail UK	(173)	(114)	(52%)
Corporate and Treasury	164	134	22%
Group Centre	(329)	(341)	4%
Consolidation[1]	(5)	-	-
Underlying loss before tax	**(907)**	**(722)**	**(26%)**
Non-core items	(348)	166	-
Loss before tax	**(1,255)**	**(556)**	**-**

[1] *This relates to certain inter-segment transactions which are reported as core income in the Corporate and Treasury division but eliminated from the Group's measure of underlying (loss) / profit before tax.*
[2] *The impact of amendments to defined benefit pension schemes of €1 million is shown in operating expenses where as previously it had been shown as a separate line item.*

Retail Ireland

Retail Ireland incorporates the Group's Branch Network, Mortgage Business, Consumer Banking, Business Banking and Private Banking activities in the Republic of Ireland and is built on a broad distribution platform and a comprehensive suite of retail and business products and services.

Retail Ireland reported an underlying loss before tax of €600 million for the six months ended 30 June 2012 compared to an underlying loss before tax of €373 million for the six months ended 30 June 2011.

Retail Ireland: Income statement	**6 months ended 30 June 2012 €m**	6 months ended 30 June 2011 €m	Change %
Net interest income	335	422	(21%)
Net other income	151	170	(11%)
Operating income	**486**	**592**	**(18%)**
Operating expenses	(429)	(431)	-
Operating profit before impairment charges on financial assets and gain / (loss) on sale of assets to NAMA	**57**	**161**	**(65%)**
Impairment charges on loans and advances to customers	(660)	(525)	(26%)
Impairment charges on assets sold to NAMA	-	(9)	-
Gain on sale of assets to NAMA	6	-	-
Share of results of associates and joint ventures (after tax)	(3)	-	-
Underlying loss before tax	**(600)**	**(373)**	**(61%)**
Loans and advances to customers (€bn)	43	46	
Customer deposits (€bn)	35	34	

Loans and advances to customers (after impairment provisions) of €43 billion at 30 June 2012 were €3 billion lower than the loans and advances to customers (after impairment provisions) of €46 billion at 30 June 2011. This decrease is primarily a result of loan repayments and subdued demand for new lending, particularly from Property and construction as well as unsecured Consumer customers, and increased impairment provisions. Loan balances with SME customers were broadly unchanged as at 30 June 2012 compared with 30 June 2011.

Customer deposits of €35 billion at 30 June 2012 were €1 billion higher than customer deposits of €34 billion at 30 June 2011 with increases in both current accounts and term deposit accounts.

Net interest income of €335 million for the six months ended 30 June 2012 was €87 million or 21% lower than net interest income of €422 million for the six months ended 30 June 2011. This decrease is primarily a result of the higher cost of both deposit and other funding, only some of which has been recovered from customers and a reduction in average loan volumes due to scheduled loan repayments and subdued demand for new lending partly offset by an increase in earnings on capital following the Group's capital raise in July 2011.

Net other income of €151 million for the six months ended 30 June 2012 was €19 million or 11% lower than net other income of €170 million for the six months ended 30 June 2011. This is primarily due to the impact arising from the sale of FCE Corporation in August 2011 and of Real Estate Investment Management in June 2011 as well as decreases in the value of international investment properties of €9 million partly offset by an increase in retail banking fees and commissions.

Operating expenses of €429 for the six months ended 30 June 2012 are broadly in line with the costs of €431 million for the six months ended 30 June 2011. The impact of the sale of FCE Corporation in August 2011 and lower staff numbers is broadly offset by investment in the Group's distribution models which will support the delivery of future efficiencies.

The **share of results of associates and joint ventures (after tax)**, gave rise to a loss of €3 million for the six months ended 30 June 2012 compared to a loss of €nil million for the six months ended 30 June 2011, primarily due to a decrease in the value of an investment in an international investment property.

Retail Ireland (continued)

Impairment charges on loans and advances to customers	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Change %
Residential mortgages	291	140	108%
Non-property SME and corporate	123	141	(13%)
Property and construction	230	213	8%
Consumer	16	31	(48%)
Impairment charges on loans and advances to customers	**660**	**525**	**26%**

Impairment charges on loans and advances to customers of €660 million for the six months ended 30 June 2012 were €135 million or 26% higher compared to impairment charges of €525 million for the six months ended 30 June 2011.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the Asset Quality and Impairment section.

The **impairment charges on assets sold to NAMA** of €nil for the six months ended 30 June 2012 compares to the impairment charges of €9 million for the six months ended 30 June 2011. In the six months ended 30 June 2012 there was a **gain on sale of assets to NAMA** of €6 million.

Bank of Ireland Life

Bank of Ireland Life comprises the life assurer, New Ireland Assurance Company plc (which distributes protection, investment and pension products to the Irish market, through independent brokers and its Financial Advisors) and the business unit which distributes New Ireland's products through the Group's branch network.

Under the terms of the Group's EU restructuring plan, the Group has committed to dispose of its shareholding in New Ireland Assurance Company plc, but retains the ability to distribute protection, investment and pension products.

Operating profit of €39 million for the six months ended 30 June 2012 was €1 million or 2% lower than the six months ended 30 June 2011 primarily due to lower operating income partly offset by lower operating expenses.

Bank of Ireland Life: Income statement (IFRS performance)	**6 months ended 30 June 2012 €m**	6 months ended 30 June 2011 €m	Change %
Operating income	85	90	(6%)
Operating expenses	(46)	(50)	8%
Operating profit	**39**	**40**	**(2%)**
Investment variance	6	(10)	-
Economic assumption changes	(9)	(58)	84%
Underlying profit / (loss) before tax	**36**	**(28)**	**-**

Operating income of €85 million for the six months ended 30 June 2012 is €5 million or 6% lower than operating income of €90 million for the six months ended 30 June 2011 primarily due to lower sales volumes and a change in business mix.

The Life business continues to grow market share in a challenging environment as annual premium equivalent (APE) sales for the six months ended 30 June 2012 were 3% lower than the six months ended 30 June 2011, compared to a market which decreased by 13% over the same period. Higher sales of single premium pension products were offset by lower sales of life single premium and regular premium pension products. Overall new business margins were stable.

In aggregate, the profits from the existing business are consistent for the six months ended 30 June 2012 as compared to the six months ended 30 June 2011. In the existing business book, persistency levels continue below long term trends albeit at a better experience than the same period last year. Mortality and morbidity experience was positive over the period and has marginally improved in the six months ended 30 June 2012 as compared to the six months ended 30 June 2011.

Operating expenses of €46 million for the six months ended 30 June 2012 are €4 million or 8% lower than operating expenses of €50 million for the six months ended 30 June 2011 reflecting efficiencies achieved through investment in customer service and technology initiatives together with lower staff numbers.

The **underlying profit before tax** for the six months ended 30 June 2012 reflects a positive investment variance and the impact of lower interest rates on economic assumptions.

During the six months ended 30 June 2012, investment funds outperformed the unit growth assumption to give rise to a positive investment variance of €6 million. This compares to a negative investment variance of €10 million in the six months 30 June 2011.

The impact of economic assumption changes and interest rate movements (including changes in the value of sovereign bonds and reducing interest rates), gave rise to a net charge of €9 million for the six months ended 30 June 2012, compared to a net charge of €58 million for the six months ended 30 June 2011. The value of Irish and other sovereign bonds held increased during the six months ended 30 June 2012 as compared to the six months ended 30 June 2011. Risk free rates reduced over the same period. The discount rate applied to future cash flows was 6.5% at 30 June 2012 (a reduction of 50bps as compared to December 2011) compared to 7.75% at 30 June 2011. The future growth rate on unit linked assets of 4.25% at 30 June 2012 (a reduction of 50bps as compared to December 2011) compared to 5.75% at 30 June 2011.

Bank of Ireland Life (continued)

Embedded Value Performance

Bank of Ireland Life: Income Statement (Embedded Value performance)	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Change %
New business profits	13	13	-
Existing business profits	34	34	-
Expected return	*34*	*38*	*(11%)*
Experience variance	-	*(2)*	-
Assumption changes	-	*(2)*	-
Inter company payments	(6)	(5)	(20%)
Operating profit	**41**	**42**	**(2%)**
Investment variance	17	(25)	-
Economic assumption changes	(15)	(58)	74%
Underlying profit / (loss) before tax	**43**	**(41)**	**-**

The alternative method of presenting the performance of the Life business is on an Embedded Value basis. This method is widely used in the life assurance industry.

Under this approach **operating profit** for the six months to 30 June 2012 of €41 million compares to an operating profit of €42 million for the six months ended 30 June 2011. New business profits were €13 million for the six months ended 30 June 2012 compared to €13 million for the six months ended 30 June 2011, with lower volumes offset by reductions in new business costs.

Existing business profits were €34 million for the six months ended 30 June 2012 as compared to €34 million for the six months ended 30 June 2011. In the existing business book, persistency levels continue below long term trends albeit at a better experience than the same period last year. Mortality and morbidity experience was positive over the period and has marginally improved in the six months ended 30 June 2012 as compared to the six months ended 30 June 2011.

The key assumptions used in the Embedded Value methodology are consistent with those used under the IFRS methodology. The discount rate applied to future cash flows was 6.5% at 30 June 2012 (a reduction of 50bps as compared to December 2011) compared to 7.75% at 30 June 2011. The future growth rate on unit linked assets of 4.25% at 30 June 2012 (a reduction of 50bps as compared to December 2011) compared to 5.75% at 30 June 2011.

The **underlying profit before tax**, on an Embedded Value basis of €43 million for the six months ended 30 June 2012 compares to an underlying loss before tax of €41 million for the six months ended 30 June 2011.

Retail UK (Sterling)

The Retail UK Division incorporates the joint ventures with the UK Post Office, the UK residential mortgage business, the Group's branch network in Northern Ireland and the Group's business banking business in Great Britain and Northern Ireland. The Retail UK division includes the activities of Bank of Ireland (UK) plc, a wholly owned UK licensed banking subsidiary that commenced trading on 1 November 2010.

Retail UK reported an **underlying loss before tax** of £143 million for the six months ended 30 June 2012 compared to an underlying loss before tax of £101 million for the six months ended 30 June 2011.

Retail UK: Income statement	**6 months ended 30 June 2012 £m**	6 months ended 30 June 2011 £m	Change %
Net interest income	139	189	(26%)
Net other income	27	54	(50%)
Operating income	**166**	**243**	**(32%)**
Operating expenses	(159)	(161)	1%
Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA	**7**	**82**	**(93%)**
Impairment charges on loans and advances to customers	(161)	(173)	7%
Impairment charge on available for sale (AFS) financial assets	(1)	-	-
Impairment charges on assets sold to NAMA	-	(23)	-
Loss on sale of assets to NAMA	(1)	-	-
Share of results of associates and joint ventures (after tax)	13	13	-
Underlying loss before tax	**(143)**	**(101)**	**(42%)**
Underlying loss before tax (€m equivalent)	**(173)**	**(114)**	
Loans and advances to customers (£bn)	34	41	
Customer deposits (£bn)	23	19	

Loans and advances to customers (after impairment provisions) of £34 billion at 30 June 2012 were £7 billion lower than the loans and advances to customers of £41 billion (after impairment provisions) at 30 June 2011. This decrease is primarily a result of the sales of portfolios of both residential mortgage and investment property loans and of loan repayments.

Customer deposits of £23 billion at 30 June 2012 were £4 billion higher than customer deposits of £19 billion at 30 June 2011 arising from growth in deposits originated through the joint venture with the UK Post Office and also the Group's retail and business banking activities in Northern Ireland.

Net interest income of £139 million for the six months ended 30 June 2012 is £50 million or 26% lower than the six months ended 30 June 2011 primarily due to the reduction in lending volumes and the impact of increased liquid asset holdings in Bank of Ireland (UK) plc. Increases in funding costs have been recovered through increased asset pricing, primarily on residential mortgages.

Net other income of £27 million for the six months ended 30 June 2012 decreased by £27 million compared to net other income of £54 million for the six months ended 30 June 2011. Net other income in the six months ended 30 June 2011 included a NAMA related adjustment of £11 million which did not reoccur in 2012. The remainder of the decrease is primarily due to lower income from insurance products marketed through the joint venture with the Post Office and lower transaction related fees and commissions given lower customer demand and ongoing deleveraging. The decreases were partly offset by a marginal increase in ATM income primarily reflecting transaction volumes. This ATM income continues to be a material element within net other income.

Operating expenses of £159 million for the six months ended 30 June 2012 decreased by £2 million compared to operating expenses of £161 million for the six months ended 30 June 2011. The reductions in staff and infrastructure costs have been partly offset by the continued investment in the joint venture relationship with the Post Office and higher regulatory costs including the UK bank levy.

The **share of results of associates and joint ventures (after tax)** of £13 million which relates to First Rate Exchange Services Limited (FRES) is unchanged as income has been maintained despite a continued decline in the overall UK travel market.

Retail UK (Sterling) (continued)

Impairment charges on loans and advances to customers	6 months ended 30 June 2012 £m	6 months ended 30 June 2011 £m	Change %
Residential mortgages	15	16	(6%)
Non-property SME and corporate	14	21	(33%)
Property and construction	122	123	(1%)
Consumer	10	13	(23%)
Impairment charges on loans and advances to customers	**161**	**173**	**(7%)**

Impairment charges on loans and advances to customers of £161 million for the six months ended 30 June 2012 were £12 million or 7% lower compared to impairment charges of £173 million for the six months ended 30 June 2011.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the Asset Quality and Impairment section.

The **impairment charges on assets sold to NAMA** of £nil for the six months ended 30 June 2012 compares to the impairment charges of £23 million for the six months ended 30 June 2011. In the six months ended 30 June 2012 there was a **loss on sale of assets to NAMA** of £1 million.

Corporate and Treasury

The Corporate and Treasury Division comprises Corporate Banking, Global Markets and IBI Corporate Finance. The Group disposed of Bank of Ireland Asset Management (BIAM), Bank of Ireland Securities Services (BoISS) and the Group's shareholding in Paul Capital Investments LLC during the year ended 31 December 2011.

Corporate and Treasury: Income statement	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Change %
Net interest income	322	420	(23%)
Net other income	24	(30)	-
Operating income	**346**	**390**	**(11%)**
Operating expenses	(96)	(113)	15%
Operating profit before impairment charges on financial assets and gain / (loss) on sale of assets to NAMA	**250**	**277**	**(10%)**
Impairment charges on loans and advances to customers	(85)	(118)	28%
Impairment charge on available for sale (AFS) financial assets	(2)	(16)	88%
Impairment charges on assets sold to NAMA	-	(9)	-
Gain on sale of assets to NAMA	1	-	-
Underlying profit loss before tax	**164**	**134**	**22%**
Loans and advances to customers (€bn)	13	17	
Customer deposits (€bn)	8	10	

Corporate and Treasury reported an **underlying profit before tax** of €164 million for the six months ended 30 June 2012 compared with an underlying profit before tax of €134 million for the six months ended 30 June 2011.

Loans and advances to customers (after impairment provisions) of €13 billion at 30 June 2012 were €4 billion lower than the loans and advances to customers of €17 billion (after impairment provision) at 30 June 2011 primarily as a result of deleveraging together with loan repayments.

Customer deposits of €8 billion at 30 June 2012 were €2 billion lower than the customer deposits of €10 billion at 30 June 2011 reflecting the repayment of an NTMA deposit in July 2011.

The change in 'Net interest income' and 'Net other income' is impacted by IFRS income classifications between the two income categories (see page 9).

Net interest income	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Change %
Net interest income	322	420	(23%)
IFRS income classifications	(66)	(63)	(5%)
Net interest income (after IFRS income classifications)	**256**	**357**	**(28%)**

Net interest income (after IFRS income classifications) amounted to €256 million for the six months ended 30 June 2012 and was €101 million lower than net interest income of €357 million for the six months ended 30 June 2011. There were lower average loan volumes as a result of deleveraging initiatives while the higher cost of wholesale and other funding was only partly recovered from customers. Other elements of the reduction include lower funds based fee income as a result of these deleveraging initiatives and a reduced demand for new facilities in general, lower net income from the liquid asset portfolio due to lower requirements to hold liquid assets as the Group increases the term of its wholesale funding profile together with the loss of BoISS related net interest income following its disposal in June 2011.

Corporate and Treasury (continued)

Net Other Income	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Change %
Net other income	24	(30)	-
IFRS income classifications	66	63	5%
Net other income (after IFRS income classifications)	**90**	**33**	**-**

Net other income (after IFRS income classifications) amounted to €90 million for the six months ended 30 June 2012 and has increased by €57 million compared to €33 million for the six months ended 30 June 2011. The loss of BoISS related income following its disposal in June 2011 and lower fees earned due to subdued activity level in the six months ended 30 June 2012 were more than offset by the partial reversal of some derivative related charges incurred in the six months ended 30 June 2011.

Operating expenses of €96 million for the six months ended 30 June 2012 are €17 million lower compared to €113 million for the six months ended 30 June 2011 primarily due to lower costs following the sale of BIAM, BoISS and REIM in 2011, the impact of lower staff numbers and other efficiency benefits partly offset by some one off cost recoveries in 2011 which did not reoccur in 2012.

The **impairment charge on available for sale (AFS) financial assets** was €2 million for the six months ended 30 June 2012. During the six months ended 30 June 2011, the Group incurred an impairment charge of €16 million on subordinated debt issued by Irish Life and Permanent plc.

Impairment charges on loans and advances to customers	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Change %
Non-property SME and Corporate	77	86	(10%)
Property and construction	8	32	(75%)
Total impairment charges on loans and advances to customers	**85**	**118**	**(28%)**

Impairment charges on loans and advances to customers of €85 million for the six months ended 30 June 2012 were €33 million or 28% lower compared to impairment charges of €118 million for the six months ended 30 June 2011.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the Asset Quality and Impairment section.

The **impairment charges on assets sold to NAMA** of €nil for the six months ended 30 June 2012 compares to the impairment charges of €9 million for the six months ended 30 June 2011. In the six months ended 30 June 2012 there was a **gain on sale of assets to NAMA** of €1 million.

Group Centre

Group Centre comprises capital management activities, Government guarantee fees and unallocated Group support costs.

Group Centre reported an **underlying loss before tax** of €329 million for the six months ended 30 June 2012 compared to an underlying loss before tax of €341 million for the six months ended 30 June 2011.

Group Centre: Income statement	6 months ended 30 June 2012 €m	6 months ended 30 June 2011[1] €m	Change %
Government guarantee fees	**(212)**	**(239)**	**11%**
Other income	-	(38)	-
Net operating expense	**(212)**	**(277)**	**23%**
Operating expenses	(77)	(64)	(20%)
Impairment charge on available for sale (AFS) financial assets	(40)	-	-
Underlying loss before tax	**(329)**	**(341)**	**4%**

[1] *The impact of amendments to defined benefit pension schemes of €1 million is shown in operating expenses where as previously it had been shown as a separate line item.*

Net operating expense was a charge of €212 million for the six months ended 30 June 2012 compared to a charge of €277 million for the six months ended 30 June 2011. The decreased charge of €65 million in the current period is driven primarily by:

- lower **Government guarantee fees** of €212 million for the six months ended 30 June 2012 compared to fees of €239 million for the six months ended 30 June 2011. The decrease of €27 million reflects a reduction in the level of liabilities guaranteed, including the withdrawal of Bank of Ireland (UK) plc from the Government guarantee scheme for all new deposits from April 2012 partly offset by a higher fee structure;
- lower interest expense on subordinated debt securities following the liability management exercises completed during 2011;
- favourable trading gains on the exchange of the Group's holding of Irish Government bonds in respect of a 4% Treasury bond 2014 for a new 4.5% Treasury bond maturing in 2015;

partly offset by:

- charges associated with hedging the Group's structural balance sheet given the movement in exchange rates together with hedge ineffectiveness.

Operating expenses of €77 million for the six months ended 30 June 2012 compares to operating expenses of €64 million for the six months ended 30 June 2011. The increase of €13 million is primarily driven by higher pension costs arising from the pension levy together with continued investment in the consolidation, standardisation and simplification of the Group's operations which is expected to generate future efficiencies.

An **impairment charge on available for sale (AFS) financial assets** of €40 million for the six months ended 30 June 2012 relates to the NAMA subordinated bonds following NAMA's updated outlook for its long term performance.

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Income Statement - Operating Segments

6 months ended 30 June 2012	Net interest income €m	Insurance net premium income €m	Other income €m	**Total operating income €m**	Insurance contract liabilities and claims paid €m	**Total operating income net of insurance claims €m**	Operating expenses €m	**Operating profit / (loss) before impairment charges on financial assets and gains / (charges) related to assets sold to NAMA €m**	Impairment charge on loans and advances to customers €m	Impairment charge on available for sale assets €m	Gain on sale of assets to NAMA €m	Loss on deleveraging of financial assets €m	Share of results of associates and joint ventures (after tax) €m	Loss on disposal of business activities €m	**(Loss) / profit before tax €m**
Retail Ireland	335	-	151	**486**	-	**486**	(429)	**57**	(660)	-	6	-	(3)	-	**(600)**
Bank of Ireland Life	11	508	366	**885**	(803)	**82**	(46)	**36**	-	-	-	-	-	-	**36**
Retail UK	170	-	33	**203**	-	**203**	(194)	**9**	(196)	(1)	(1)	-	16	-	**(173)**
Corporate and Treasury	322	-	24	**346**	-	**346**	(96)	**250**	(85)	(2)	1	-	-	-	**164**
Group Centre	(193)	5	(21)	**(209)**	(3)	**(212)**	(77)	**(289)**	-	(40)	-	-	-	-	**(329)**
Consolidation[1]	-	-	(5)	**(5)**	-	**(5)**	-	**(5)**	-	-	-	-	-	-	**(5)**
Group - underlying[2]	**645**	**513**	**548**	**1,706**	**(806)**	**900**	**(842)**	**58**	**(941)**	**(43)**	**6**	**-**	**13**	**-**	**(907)**
- Loss on deleveraging of financial assets	-	-	-	**-**	-	**-**	-	**-**	-	-	-	(206)	-	-	**(206)**
- Charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	-	-	(125)	**(125)**	-	**(125)**	-	**(125)**	-	-	-	-	-	-	**(125)**
- Cost of restructuring programmes	-	-	-	**-**	-	**-**	(66)	**(66)**	-	-	-	-	-	-	**(66)**
- Gain on liability management exercises	-	-	52	**52**	-	**52**	-	**52**	-	-	-	-	-	-	**52**
- Loss on disposal of business activities	-	-	-	**-**	-	**-**	-	**-**	-	-	-	-	-	(14)	**(14)**
- Gross-up for policyholder tax in the Life business	-	-	11	**11**	-	**11**	-	**11**	-	-	-	-	-	-	**11**
Group total	**645**	**513**	**486**	**1,644**	**(806)**	**838**	**(908)**	**(70)**	**(941)**	**(43)**	**6**	**(206)**	**13**	**(14)**	**(1,255)**

[1] *This relates to certain inter-segment transactions which are reported as core income in the Corporate and Treasury division but eliminated from the Group's measure of underlying (loss) / profit before tax.*
[2] *Underlying performance excludes the impact of non-core items (see page 14).*

Income Statement - Operating Segments

6 months ended 30 June 2011[1]	Net interest income €m	Insurance net premium income €m	Other income €m	Total operating income €m	Insurance contract liabilities and claims paid €m	Total operating income net of insurance claims €m	Operating expenses €m	Operating profit / (loss) before impairment charges on financial assets and gains / (charges) related to assets sold to NAMA €m	Impairment charge on loans and advances to customers €m	Impairment charge on available for sale assets €m	Impairment charges on assets sold to NAMA €m	Share of results of associates and joint ventures (after tax) €m	Profit on disposal of business activities €m	(Loss) / profit before tax €m
Retail Ireland	422	-	170	592	-	592	(431)	161	(525)	-	(9)	-	-	(373)
Bank of Ireland Life	2	475	(142)	335	(313)	22	(50)	(28)	-	-	-	-	-	(28)
Retail UK	218	-	62	280	-	280	(185)	95	(199)	-	(25)	15	-	(114)
Corporate and Treasury	420	-	(30)	390	-	390	(113)	277	(118)	(16)	(9)	-	-	134
Group Centre	(261)	6	(14)	(269)	(8)	(277)	(64)	(341)	-	-	-	-	-	(341)
Other reconciling items	(6)	-	6	-	-	-	-	-	-	-	-	-	-	-
Group - underlying[2]	795	481	52	1,328	(321)	1,007	(843)	164	(842)	(16)	(43)	15	-	(722)
- Gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	-	-	81	81	-	81	-	81	-	-	-	-	-	81
- (Loss) / profit on disposal of business activities	-	-	-	-	-	-	(6)	(6)	-	-	-	-	80	74
- Gain on liability management exercises	-	-	11	11	-	11	-	11	-	-	-	-	-	11
- Gross-up for policyholder tax in the Life business	-	-	(2)	(2)	-	(2)	-	(2)	-	-	-	-	-	(2)
- Investment return on treasury stock held for policyholders	-	-	2	2	-	2	-	2	-	-		-	-	2
Group total	795	481	144	1,420	(321)	1,099	(849)	250	(842)	(16)	(43)	15	80	(556)

1 *The impact of amendments to defined benefit pension schemes of €1 million is shown in operating expenses where as previously it had been shown as a separate line item.*
2 *Underlying performance excludes the impact of non-core items (see page 14).*

Principal Risks and Uncertainties

Given the challenging conditions that remain in financial markets, heightened concerns over sovereign debt levels particularly of certain eurozone countries and the continuing weakness of the economies in which the Group operates, the precise nature of all the risks and uncertainties it faces cannot be predicted and many of these risks are outside the Group's control.

The overall risks and uncertainties for the Group are set on in pages 49 to 56 of the Group's Annual Report for the year ended 31 December 2011 and pages 12 to 21 of the Group's Form 20-F for the year ended 31 December 2011, both of which are located on the Group's website at: www.bankofireland.com.

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

Concerns regarding European sovereign debt have resulted in instability in financial markets, adversely impacting market sentiment and macro-economic conditions.

These concerns continue due to the focus in international debt markets on the level of fiscal deficits, requirement for support of the banking system, evolving sovereign debt levels of EU member states and the potential impact of these on the individual EU member state economies. The contagion effect arising from severe sovereign debt issues has given rise to increased speculation regarding the overall stability of the eurozone including the potential for a country exit from the system and the available mechanisms within the single currency area to deal appropriately with the specific circumstances of individual member states.

It is proposed to introduce new, tighter budgetary rules to enforce economic discipline and deepen economic integration, commonly referred to as a 'fiscal compact'. There is no certainty that the fiscal compact (if ratified by a sufficient number of EU member states), or any mechanisms available or to be made available within the eurozone, will resolve the instability in financial markets, the adverse market sentiment or weak macro-economic conditions.

The June Euro Area Summit included a commitment to allow the direct capitalisation of banks by the ESM to 'break the vicious circle between banks and sovereigns'. Specifically for Ireland it committed to 'examine the situation of the Irish financial sector with the view of further improving the sustainability of the well-performing adjustment programme'. However, neither the detail of potential proposals nor the certainty of their implementation is known at this point.

The Group's businesses are subject to inherent risks arising from macroeconomic conditions in the Group's main markets, particularly in Ireland and the UK. As Ireland is a small open economy and is dependent on the export sector for growth, on-going weakness in world economies may dampen export demand. Downside risks to the global economy are particularly driven by concerns regarding growth in the UK and the rest of Europe.

Reduced growth prospects in Ireland's trading partners increases the likelihood of prolonging the on-going downturn in economic conditions which could further adversely impact the Group's results, financial condition and prospects.

The continued downturn in economic conditions, particularly in Ireland, has resulted in a decline in demand for business products and services, weak business and consumer confidence, lower personal expenditure and consumption, a high level of debt service burden for consumers and businesses and a reduction in the number of suppliers of credit.

The downward pressure on firms' profitability and household disposable incomes from austerity measures, as well as the high level of private sector debt combined with the resulting deterioration in the business environment are likely to further impact demand for financial products.

In addition to Ireland, the Group's businesses are subject to inherent risks arising from general and sector specific economic conditions in other countries to which the Group has an exposure, particularly in the UK.

Any threat to the overall stability of the euro system may have profound recessionary impacts, particularly on a small open economy such as Ireland and may materially adversely affect the Group's results, financial position and prospects.

The Group is subject to a number of risks associated with the Irish banking system and the regulatory environment in the jurisdictions in which it carries out its principal activities, primarily in Ireland and the UK. Regulatory obligations could have a material adverse impact on the Group's results, financial condition and prospects.

Irish and UK Banking System

The exercise of powers under existing legislation, in particular the Credit Institutions (Stabilisation) Act and the Central Bank and Credit Institutions (Resolution) Act 2011, the introduction of new government policies or the amendment of existing policies in Ireland or the UK (including supervision, regulation, capital levels and structure), or the introduction of new regulatory obligations by the Group's regulators, could have an adverse impact on the Group's results, financial condition and prospects.

Basel III / CRD IV

CRD IV will implement Basel III rules in the EU. The legislation is currently in draft form with consideration of the final proposals now expected in Q4 2012. The rules are expected to be implemented on a phased basis commencing in 2013 and currently planned to complete by 2019. In the absence of final legislation, and with significant items remaining under discussion, it is difficult to assess the full impact on the Group of the revised rules at this time. However, in line with other financial institutions, the impact on the Group's capital ratios, in the absence of mitigating actions, is expected to be material.

Regulatory Obligations

The Group is subject to extensive regulation and oversight. Regulatory obligations are increasing and there appears to be an increasing tendency by regulators to impose more stringent sanctions or fines. Where breaches occur, a sanction or fine requiring public disclosure may be imposed by a regulator, which could adversely impact market sentiment and consequently adversely impact Group results, financial conditions and prospects.

Bank of Ireland (UK) plc

Bank of Ireland (UK) plc is the Group's licensed banking subsidiary in the UK and is currently regulated by the FSA (though it is anticipated that it will be regulated in the future by the Prudential Regulation Authority and the Financial Conduct Authority, these entities are expected to replace the FSA following the enactment of the Financial Services Bill, which is expected later in 2012). It comprises the Group's Post Office joint ventures, its branch business in Northern Ireland, certain assets from its former intermediary sourced mortgage business, and other parts of its UK business banking operations. Bank of Ireland (UK) plc could be subject to future structural and non-structural reforms to promote financial stability and competition and to protect UK retail depositors currently under consideration by the UK government. Further, Bank of Ireland (UK) plc could be subject to special resolution regime powers under the UK Banking Act 2009.

Banking Inquiry

The government has commissioned and received three preliminary reports into the factors which contributed to the Irish banking crisis. Further inquiry, such as by a committee of the Oireachtas, may result. The scope of such further inquiry (if any), its costs and potential implications for the Group are currently unknown.

EU Restructuring Plan

On 20 December 2011 the European Commission approved the revised 2011 EU Restructuring Plan prepared by the Group. This revised 2011 EU Restructuring Plan included the additional deleveraging of assets, together with the deferral of the market opening measures by twelve months and the expansion and extension of other behavioural measures already agreed in the Approved 2010 EU Restructuring Plan.

The Group could be subject to a variety of risks as a result of implementing the EU Restructuring Plan. If the Group fails to comply with commitments contained in the EU Restructuring Plan or if the Group materially deviates from the EU Restructuring Plan or needs additional State aid not foreseen in the Commission's decision approving the EU Restructuring Plan, the Commission may reopen the State aid control procedure and / or open a new procedure and reassess the aid measures in their entirety. This may result in an adverse outcome for the Group such as the requirement to complete a new or revised plan and the imposition of additional divestiture obligations or behavioural restrictions going beyond the ones contained in the current EU Restructuring Plan.

Other

The Government, through the NPRFC, is in a position to exert a significant level of influence over the Group. The NPRFC could exercise its voting rights in a manner which is not aligned with the interests of the Group or its other stockholders. The Group has also given a number of undertakings to the Minister for Finance (the Undertakings) in respect of its lending, corporate governance and remuneration.

The Group's participation in the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG Scheme), and actions on foot of the NPRFC Investment and the Undertakings could require the Group to implement operational policies that could adversely affect the Group's results, financial condition and prospects.

Further downgrades to the Irish sovereign credit ratings or outlook could further impair the Group's access to private sector funding, trigger additional collateral requirements and weaken its financial position.

The Irish sovereign credit ratings and outlook are set out on page 105. Further downgrades would be likely to delay a return to normal market funding for the State and may impact the financial position of the Group. As the guarantor of certain liabilities of the Group under the ELG scheme, further Irish sovereign downgrades are also likely to impact adversely on the Group's credit rating and may result in withdrawals of deposits from the Group. Further downgrades could also adversely impact the funding received from Irish Government bonds used as collateral for the purposes of accessing the liquidity provision operations offered by Monetary Authorities or secured borrowing from wholesale markets. Further downgrades would also impact the value of Irish Government bonds held by the Group's life assurance business to meet its liabilities.

Further downgrades to the Group's credit ratings or credit outlook could impair the Group's access to private sector funding, trigger additional collateral requirements, trigger withdrawals of deposits and / or weaken its financial position. In addition, any such downgrade could result in the Group having to pay more fees than anticipated in respect of its participation in the ELG scheme.

The Group's credit ratings and outlook are set out on page 105. Further downgrades in the credit ratings of the Group could have a negative impact on the volume and pricing of its private sector funding and its financial position, further limit the Group's access to the capital and funding markets, trigger material collateral requirements or associated obligations in other secured funding arrangements or derivative contracts, make ineligible or lower the liquidity value of pledged securities and weaken the Group's competitive position in certain markets. The availability of deposits is often dependent on credit ratings and further downgrades for the Group could lead to withdrawals of corporate and / or retail deposits which could result in a deterioration in the Group's funding and liquidity position. In addition, any such downgrade could result in the Group having to pay more fees than anticipated in respect of its participation in the ELG scheme.

A foreign owned bank with stronger credit ratings than the Group could acquire one of the Group's principal competitors in the Irish banking market. This could have an adverse impact on the Group's funding profile if a significant number of depositors transferred their deposits from the Group to the competitor due to the new owner's stronger credit ratings. In addition, the competitor could be in a position to lend to the Group's customers at lower rates due to access to cheaper funding with a consequent adverse impact on the Group's results, financial condition and prospects.

The Group has a continuous need for liquidity to fund its business activities. It may suffer periods of market-wide and / or firm specific funding constraints and is exposed to the risk that funding is not made available to it even when its underlying business is strong.

The Group relies on customer deposits to fund a considerable portion of its loan portfolio. Loss of customer confidence in the Group's business or in banking businesses generally, among other things, could result in unexpectedly high levels of customer deposit withdrawals, which could have a material adverse effect on the Group's results, financial condition and prospects.

The termination on or before 31 December 2012 of, or certain changes to the operation of, or the participation by the Group in, the ELG scheme or changes in the terms of the Group's participation in this scheme could have an adverse impact on the Group's results, financial condition and prospects.

Continued concerns regarding the stability of the eurozone, including a potential break-up, could materially adversely impact the Group by increasing its costs of funding, triggering withdrawals of deposits, reducing its access to the wholesale funding markets and / or increasing its reliance on funding from Monetary Authorities, which could materially adversely impact the Group's results, financial condition and prospects.

The Group is currently receiving funding from Monetary Authorities and any disruption to access could increase the Group's liquidity and funding risks.

The Central Bank prescribes regulatory liquidity ratios for Irish domestic financial institutions. Compliance with these ratios can be adversely impacted by a range of factors, including the term of borrowings, the split between unsecured and secured funding and the mix of liquidity facilities provided by Monetary Authorities. If the Group fails to achieve the actions agreed with the Central Bank to delever the balance sheet in line with the PLAR requirements this may jeopardise the Group's ability to comply with regulatory liquidity ratios.

Liquid assets in excess of regulatory liquidity requirements were held in Bank of Ireland (UK) plc at 30 June 2012, as the Group awaits regulatory approval for the transfer of loans (primarily UK mortgages) to Bank of Ireland (UK) plc. On 16 July 2012, the Group sold a portfolio of UK Mortgages to Bank of Ireland (UK) plc which reduced these excess liquid assets by €2 billion. If regulatory approval for further transfers is not forthcoming or is delayed, this excess liquidity will be retained in Bank of Ireland (UK) plc and will not be available for use elsewhere in the Group. This would delay the Group's planned reduction in wholesale funding and borrowings and adversely impact the Group's results, financial condition and prospects.

Deterioration in the credit quality of the Group's borrowers and counterparties, as well as increased difficulties in relation to the recoverability of loans and other amounts due from such borrowers and counterparties, have resulted in significant increases, and could result in further significant increases, in the Group's impaired loans and impairment provisions.

Exposures originated and managed in Ireland and the UK represent a substantial majority of the Group's credit risk. The Group has exposures to Residential mortgages and to a range of SME and corporate customers in different sectors, in particular to investors in commercial property and residential property. Economic conditions may deteriorate further in the Group's main markets, which may lead to, amongst other things, further declines in values of collateral and investments, persistently high unemployment levels, weakened consumer and corporate spending, declining corporate profitability, declining equity markets and bond markets and a further increase in corporate insolvencies.

Continuing turmoil in the eurozone area could result in further downgrades and deterioration in the credit quality of the Group's Irish and eurozone sovereign and banking exposures.

The Personal Insolvency Bill 2012 may have material impacts on the Group's management of distressed debt recovery in Ireland and could result in further significant increases in the Group's impaired loans and impairment provisions.

The introduction of the Personal Insolvency Bill which is currently scheduled for enactment in Ireland by the end of 2012 provides for judicial and non-judicial resolution options for consumers deemed under the provisions of the Act to have unsustainable indebtedness levels. The Bill as drafted amends existing bankruptcy provisions by reducing the timescale for discharge from bankruptcy from twelve years to a proposed three year period. The Bill also introduces three routes to debt resolution as an alternative to bankruptcy, namely:

- *Debt Relief Notice*: a full write-off of qualifying secured and unsecured debt up to €20,000 designed for customers with few assets and minimal incomes and who are unable to meet any debt obligations;
- *Debt Settlement Arrangement:* a settlement structure for unsecured debts designed for more complex cases where the debtor can meet some but not all of his or her debt obligations; and
- *Personal Insolvency Arrangement:* a settlement structure for secured and unsecured debt where the debtor's secured liabilities are less than €3 million (unsecured liabilities in any amount can also be dealt with in this process), in order to reach a sustainable debt level.

The final form of the Bill; the degree to which participation of creditors is mandatory, the degree to which debtors are obliged to exhaust attempts to agree alternative payment arrangements by negotiation with their creditors before resorting to the new debt relief mechanisms together with the guidelines and regulation of Personal Insolvency Practitioners who will propose solutions are as yet unknown and could ultimately have material impacts on the Group's management of distressed debt recovery for Consumers and SMEs, and could ultimately result in a material adverse impact on the Group's results, financial condition and prospects.

There is also a risk that following the introduction of the regime, unintended behavioural changes in borrowers could arise which could adversely impact on the Group's results, financial condition and prospects.

The Group is exposed to market risks such as changes in interest rates, interest rate spreads (or bases) and foreign exchange rates.

The Group is exposed to a range of market risks including the interest rate risks that arise from the presence of non-interest related assets and liabilities on the balance sheet, the exposure of Group earnings to basis risk (including cross-currency basis risk) and the exposure of the Group's net worth and its principal capital ratios to exchange rate movements. The challenge of managing these risks has increased in recent years due to the impact of the crisis on interest rate and foreign exchange markets. The Group remains potentially exposed to adverse movements in interest rates, interest rate bases (the differential between variable interest rates), cross-currency basis (the cost of borrowing in euros to fund assets in sterling) and exchange rates.

The persistence of exceptionally low interest rates for an extended period into the future could adversely affect the Group's financial condition and prospects through, among other things, the compression of net interest margin, the low absolute level of yields at which certain liabilities are invested together with the rate at which pension liabilities are discounted.

Reputation risk is inherent in the Group's business.

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

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

The Group may be subject to litigation and regulatory proceedings which could have a material adverse impact on its results, financial condition and prospects.

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

Currently, the Group is responding to regulatory inquiries and examinations including one in respect of compliance (since rectified) with certain provisions of the Asset Covered Securities Act 2001, (as amended). Further, Bank of Ireland (UK) plc was required to appoint a skilled person to prepare a report pursuant to a request by the FSA in accordance with the Financial Services and Markets Act 2000, (as amended), the outcome of which is still unknown.

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

The Group is subject to various tax rates in various jurisdictions computed in accordance with local legislation and practice. There is a risk that such tax rates, legislation and practice may change, which could adversely impact the results, financial condition and prospects of the Group.

In accordance with applicable accounting rules, the Group has recognised deferred tax assets on losses available to relieve future profits to the extent that it is probable that such losses will be utilised.

Failure to demonstrate convincing evidence of the availability of future taxable profits, or changes in tax legislation, may reduce the recoverable amount of the deferred tax assets currently recognised in the financial statements, and result in a material adverse impact on the Group's results, financial condition and prospects.

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

Changes in tax rates, legislation and practice could also adversely impact the results, financial condition and prospects of the Group.

The Group may be required to make further contributions to its pension schemes if the value of pension fund assets is not sufficient to cover potential obligations.

While significant progress was made in 2010 to confine the size of liabilities, the Group's pension funds are subject to market fluctuations and changes in the value of underlying assets, as well as to interest rate risk, mortality risk and changes to actuarial assumptions. These fluctuations could impact on the value of the schemes' asset portfolios and result in returns on the pension funds being less than expected and / or result in there being a greater than expected increase in the estimated value of the schemes' liabilities.

Legislative changes were made to the Irish Pensions Act in June 2012 introducing a revised statutory funding standard for Republic of Ireland schemes. The Group is currently assessing the new requirements. The introduction of these new requirements could have an adverse impact on the Group's financial condition and prospects.

A failure in the Group's processes, operational systems, technology or infrastructure, or those of third parties, could disrupt its businesses, result in the disclosure of confidential information, damage the Group's reputation and impact the Group's financial condition and prospects.

Operational risks are inherently present in the Group's businesses, including as a result of potentially inadequate or failed internal processes, information technology or equipment failures or the failure of external systems and controls including those of the Group's suppliers or counterparties or from people-related or external events.

The Group processes and monitors on a daily basis a large number of transactions, some of which are highly complex, across different markets and in different currencies. The Group's financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond its control, such as a spike in transaction volume, cyber-attack or other unforeseen catastrophic events, which may adversely affect the Group's ability to process these transactions or provide services.

The Group is continually updating its information technology structure to meet changing business and regulatory requirements. Failure to comply with regulatory requirements may result in regulatory sanctions and / or fines and may impact the Group's financial condition and reputation. The cost of achieving compliance with regulatory requirements could be greater than anticipated adversely impacting the Group's financial condition and reputation.

Further, the Group's operations rely on the secure processing, storage and transmission of confidential and other information on its computer systems and networks. Although the Group takes protective measures to maintain the confidentiality, integrity and availability of the Group's and its clients information and endeavours to modify these protective measures as circumstances warrant, the nature of the threat continues to evolve. As a result, the Group's computer systems, software and networks may be vulnerable to unauthorised access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber-attacks and other events that could have an adverse security impact.

If one or more of the above occurs this could result in a material adverse impact on the Group's reputation, results and financial condition.

The Group's success depends in part on the availability of skilled management and the continued services of key members of its management team, both at its head office and at each of its business units.

Failure by the Group to staff its operations appropriately, or the loss of one or more key senior executives and failure to replace them in a satisfactory and timely manner may have a material adverse impact on the Group's results, financial condition and prospects. In addition, if the Group fails to attract and appropriately train, motivate and retain highly skilled and qualified people, its businesses may also be negatively impacted. The Group's ability to recruit and retain key executives and highly skilled and qualified people may also be adversely impacted by restrictions on remuneration imposed by the Government, tax or regulatory authorities or by Irish legislation and the European Banking Authority remuneration guidelines, or other factors outside the Group's control.

Responsibility Statement for the six months ended 30 June 2012

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

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

- important events that have occurred during the first six months of the year;
- the impact of those events on the condensed financial statements;
- a description of the principal risks and uncertainties for the remaining six months of the financial year (see pages 52 to 58); and
- details of any related party transactions that have materially affected the Group's financial position or performance in the six months ended 30 June 2012 (see note 35 to the financial statements).

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

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

Signed on behalf of the Court by

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

9 August 2012

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

Introduction

We have been engaged by the Governor and Company of the Bank of Ireland (the Group) to review the condensed set of financial statements (the interim financial statements) in the Interim Report for the six months ended 30 June 2012, which comprise the Consolidated income statement, Consolidated statement of other comprehensive income, Consolidated balance sheet, Consolidated condensed statement of changes in equity, Consolidated condensed cash flow statement, Basis of preparation and accounting policies, the related notes on pages 70 to 103 and the information in the sections of the Operating and Financial Review that are described as being an integral part of the interim financial statements. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Directors' responsibilities

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

As disclosed on page 67, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The interim financial statements included in this Interim Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and in accordance with International Accounting Standard 34 as issued by the International Accounting Standards Board.

Our responsibility

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

Scope of review

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

Conclusion

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

PricewaterhouseCoopers,
Chartered Accountants,
Dublin.

9 August 2012

Consolidated income statement
(unaudited) for the six months ended 30 June 2012

	Notes	**6 months ended 30 June 2012 €m**	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Interest income	2	2,049	2,350	4,618
Interest expense	3	(1,404)	(1,555)	(3,084)
Net interest income		645	795	1,534
Net insurance premium income	4	513	481	929
Fee and commission income	5	279	318	612
Fee and commission expense	5	(99)	(106)	(192)
Net trading (expense) / income	6	(142)	(44)	19
Life assurance investment income, gains and losses	7	333	(115)	(38)
Gain on liability management exercises	8	52	11	1,789
Other operating income	9	63	80	12
Total operating income		**1,644**	**1,420**	**4,665**
Insurance contract liabilities and claims paid	10	(806)	(321)	(750)
Total operating income, net of insurance claims		**838**	**1,099**	**3,915**
Other operating expenses	11	(908)	(849)	(1,642)
Operating (loss) / profit before impairment charges on financial assets, gain on NAMA and loss on deleveraging		**(70)**	**250**	**2,273**
Impairment charges on financial assets (excluding assets sold to NAMA)	12	(984)	(858)	(1,960)
Impairment charges on assets sold to NAMA	13	-	(43)	(44)
Gain on sale of assets to NAMA including associated costs	14	6	-	33
Loss on deleveraging of financial assets	15	(206)	-	(565)
Operating loss		**(1,254)**	**(651)**	**(263)**
Share of results of associates and joint ventures (after tax)		13	15	39
(Loss) / profit on disposal of business activities	16	(14)	80	34
Loss before tax		**(1,255)**	**(556)**	**(190)**
Taxation credit	17	155	49	230
(Loss) / profit for the period		**(1,100)**	**(507)**	**40**
Attributable to stockholders		(1,094)	(508)	45
Attributable to non-controlling interests		(6)	1	(5)
(Loss) / profit for the period		**(1,100)**	**(507)**	**40**
Earnings per unit of €0.05 ordinary stock (June 2011: €0.10)	18	(4.0c)	(11.3c)[1]	(0.7c)
Diluted earnings per unit of €0.05 ordinary stock	18	(4.0c)	(11.3c)[1]	(0.7c)

[1] *Restated to reflect the bonus element of the Rights Issue which took place in July 2011. See note 18 for further details.*

Consolidated statement of other comprehensive income (unaudited) for the six months ended 30 June 2012

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
(Loss) / profit for the period	**(1,100)**	**(507)**	**40**
Other comprehensive income, net of tax:			
Revaluation of property, net of tax	-	-	(6)
Net change in cashflow hedge reserve	51	100	314
Net change in available for sale reserve	278	(159)	103
Net actuarial (loss) / gain on defined benefit pension funds	(547)	185	(117)
Foreign exchange translation gains / (losses)	138	(211)	180
Other comprehensive income for the period, net of tax	**(80)**	**(85)**	**474**
Total comprehensive income for the period, net of tax	**(1,180)**	**(592)**	**514**
Total comprehensive income attributable to equity stockholders	(1,174)	(593)	520
Total comprehensive income attributable to non-controlling interests	(6)	1	(6)
Total comprehensive income for the period, net of tax	**(1,180)**	**(592)**	**514**

The effect of tax on these items is shown in note 17.

Consolidated balance sheet (unaudited) as at 30 June 2012

	Notes	As at 30 June 2012 €m	As at 31 December 2011 €m
Assets			
Cash and balances at central banks		11,577	8,181
Items in the course of collection from other banks		500	443
Trading securities		160	6
Derivative financial instruments		6,036	6,362
Other financial assets at fair value through profit or loss	19	9,287	8,914
Loans and advances to banks	20	10,651	8,059
Available for sale financial assets	21	11,280	10,262
NAMA senior bonds	22	4,684	5,016
Loans and advances to customers	23	96,978	99,314
Other assets classified as held for sale	24	610	2,446
Interest in associates		34	31
Interest in joint ventures		224	245
Intangible assets		375	393
Investment properties		1,149	1,204
Property, plant and equipment		343	336
Current tax assets		22	9
Deferred tax assets	31	1,574	1,381
Other assets		2,341	2,270
Retirement benefit asset	30	4	8
Total assets		**157,829**	**154,880**
Equity and liabilities			
Deposits from banks	26	34,527	31,534
Customer accounts	27	71,657	70,506
Items in the course of transmission to other banks		236	271
Derivative financial instruments		6,044	6,018
Debt securities in issue		18,015	19,124
Liabilities to customers under investment contracts		5,179	4,954
Insurance contract liabilities		7,502	7,037
Other liabilities		3,056	3,111
Current tax liabilities		74	86
Provisions	28	91	38
Deferred tax liabilities	31	89	88
Retirement benefit obligations	30	1,010	422
Subordinated liabilities	29	1,458	1,426
Other liabilities classified as held for sale	24	-	13
Total liabilities		**148,938**	**144,628**
Equity			
Capital stock		2,452	2,452
Stock premium account		5,127	5,127
Retained earnings		1,645	3,507
Other reserves		(376)	(869)
Own stock held for the benefit of life assurance policyholders		(15)	(15)
Stockholders' equity		**8,833**	**10,202**
Non-controlling interests		58	50
Total equity		**8,891**	**10,252**
Total equity and liabilities		**157,829**	**154,880**

Consolidated condensed statement of changes in equity (unaudited) for the six months ended 30 June 2012

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Capital stock			
Balance at the beginning of the period	2,452	1,210	1,210
Issue of ordinary stock	-	-	1,242
Balance at the end of the period	**2,452**	**1,210**	**2,452**
Stock premium account			
Balance at the beginning of the period	5,127	3,926	3,926
Premium on issue of ordinary stock	-	-	1,331
Transaction costs	-	(20)	(114)
Transferred to retained earnings	-	-	(16)
Balance at the end of the period	**5,127**	**3,906**	**5,127**
Retained earnings			
Balance at the beginning of the period	3,507	3,740	3,740
(Loss) / profit for period attributable to stockholders	*(1,094)*	*(508)*	*45*
Dividends on 2009 Preference Stock and other preference equity interests paid in cash	*(192)*	*(218)*	*(222)*
Transfer (to) / from capital reserve	*(26)*	*24*	*(2)*
Loss retained	(1,312)	(702)	(179)
Net actuarial (loss) / gain on defined benefit pension funds	(547)	185	(117)
Repurchase of capital note	-	1	41
Repurchase of treasury stock	(1)	(1)	(1)
Transfer from revaluation reserve	-	(12)	2
Transfer from share based payment reserve	-	-	5
Transfer from stock premium account	-	-	16
Other movements	(2)	-	-
Balance at the end of the period	**1,645**	**3,211**	**3,507**
Other Reserves:			
Available for sale reserve			
Balance at the beginning of the period	(725)	(828)	(828)
Net changes in fair value	309	(187)	68
Deferred tax on reserve movements	(40)	22	(14)
Transfer to income statement (pre tax)	9	6	49
Balance at the end of the period	**(447)**	**(987)**	**(725)**
Cash flow hedge reserve			
Balance at the beginning of the period	79	(235)	(235)
Changes in fair value net of transfers to income statement	63	113	346
Deferred tax on reserve movements	(12)	(13)	(32)
Balance at the end of the period	**130**	**(135)**	**79**
Foreign exchange reserve			
Balance at the beginning of the period	(862)	(1,042)	(1,042)
Exchange adjustments during the period	138	(211)	180
Balance at the end of the period	**(724)**	**(1,253)**	**(862)**

Consolidated condensed statement of changes in equity (unaudited) for the six months ended 30 June 2012 (continued)

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Capital reserve			
Balance at the beginning of the period	510	508	508
Transfer from / (to) retained earnings	26	(24)	2
Balance at the end of the period	**536**	**484**	**510**
Share based payment reserve			
Balance at the beginning of the period	7	12	12
Transfer to retained earnings	-	-	(5)
Balance at the end of the period	**7**	**12**	**7**
Revaluation reserve			
Balance at the beginning of the period	6	14	14
Transfer to retained earnings	-	12	(2)
Revaluation of property	-	-	(8)
Deferred tax on revaluation of property	-	-	2
Other	-	(1)	-
Balance at the end of the period	**6**	**25**	**6**
Other equity reserves			
US$150 million capital note			
Balance at the beginning of the period	-	61	61
Repurchase of capital note	-	(3)	(61)
Balance at the end of the period	**-**	**58**	**-**
Capital contribution			
Balance at the beginning of the period	116	-	-
Contribution during the period	-	-	116
Balance at the end of the period	**116**	**-**	**116**
	-		
Total other reserves	**(376)**	**(1,796)**	**(869)**
Own stock held for the benefit of life assurance policyholders			
Balance at the beginning of the period	(15)	(15)	(15)
Changes in value and amount of stock held	-	1	-
Balance at the end of the period	**(15)**	**(14)**	**(15)**
Total stockholders' equity excluding non-controlling interests	**8,833**	**6,517**	**10,202**
Non-controlling interests			
Balance at the beginning of the period	50	56	56
Share of net (loss) / profit	(6)	1	(5)
Capital contribution by non-controlling interest	14	-	-
Other movements	-	-	(1)
Balance at the end of the period	**58**	**57**	**50**
Total equity	**8,891**	**6,574**	**10,252**
Total comprehensive income included within the above:			
Total comprehensive income attributable to equity stockholders	(1,174)	(593)	520
Total comprehensive income attributable to non-controlling interests	(6)	1	(6)
Total comprehensive income for the period, net of tax	**(1,180)**	**(592)**	**514**

Consolidated condensed cash flow statement (unaudited) for the six months ended 30 June 2012

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Cash flows from operating activities			
Loss before tax	(1,255)	(556)	(190)
Share of results of associates and joint ventures	(13)	(15)	(39)
Loss / (profit) on disposal of business activities	14	(80)	(34)
Depreciation and amortisation	69	67	136
Impairment charges on financial assets (excluding assets sold to NAMA)	984	858	1,960
Impairment charges on assets sold to NAMA	-	43	44
Gain on sale of assets to NAMA including associated costs	(6)	-	(33)
Loss on deleveraging of financial assets	206	-	565
Interest expense on subordinated liabilities and other capital instruments	59	88	171
Gain on liability management exercises	(52)	(11)	(1,789)
Losses / (gains) arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	125	(81)	(56)
Other non cash items	(39)	16	156
Cash flows from operating activities before changes in operating assets and liabilities	**92**	**329**	**891**
Net cash flow from operating assets and liabilities	1,479	(3,516)	(7,434)
Net cash flow from operating activities before tax	**1,571**	**(3,187)**	**(6,543)**
Tax (paid) / refunded	(7)	9	22
Net cash flow from operating activities	**1,564**	**(3,178)**	**(6,521)**
Investing activities:			
Net proceeds from disposal of loan portfolios	1,483	-	6,996
Disposal of business activities	651	108	148
Net (additions) / disposals of available for sale financial assets	(556)	916	5,628
Purchase of property, plant and equipment, investment property and intangible assets	(54)	(39)	(103)
Disposal of property, plant and equipment, investment property and intangible assets	63	15	35
Dividends received from joint ventures	-	-	52
Net change in interest in associates	-	-	(6)
Cash flows from investing activities	**1,587**	**1,000**	**12,750**
Financing activities:			
Dividend paid on 2009 Preference Stock and other preference equity interests	(192)	(218)	(222)
Interest paid on subordinated liabilities	(27)	(121)	(240)
Net proceeds from Rights Issue	-	-	1,794
Net proceeds from Contingent Capital note	-	-	985
Consideration paid in respect of liability management exercises	(296)	-	(983)
Capital contribution by Non-controlling interest	14	-	-
Cash flows from financing activities	**(501)**	**(339)**	**1,334**
Net change in cash and cash equivalents	**2,650**	**(2,517)**	**7,563**
Opening cash and cash equivalents	15,772	8,135	8,135
Effect of exchange translation adjustments	308	1,314	74
Closing cash and cash equivalents	**18,730**	**6,932**	**15,772**

Basis of preparation and accounting policies

Basis of preparation

The interim financial statements for the six months ended 30 June 2012 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as published by the International Accounting Standards Board (IASB) and adopted by the European Union (EU). These financial statements should be read in conjunction with the Group's audited financial statements for the year ended 31 December 2011, which are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) and with those parts of the Companies Acts, 1963 to 2009 applicable to companies reporting under IFRS, with the European Communities (Credit Institutions: Accounts) Regulations, 1992 and with the Asset Covered Securities Acts, 2001 to 2007. The version of IAS 39 adopted by the EU currently relaxes some of the hedge accounting rules in IAS 39 'Financial Instruments – Recognition and Measurement'. The Group has not availed of this, hence the financial statements for the year ended 31 December 2011 comply with both IFRS as adopted by the EU and IFRS as issued by the IASB.

Statutory accounts

These interim financial statements do not comprise statutory accounts within the meaning of Section 19 of the Companies (Amendment) Act 1986. The statutory accounts for the year ended 31 December 2011 were approved by the Court of Directors on 19 February 2012, contained an unqualified audit report and have been filed with the Companies Registration Office on 8 August 2012.

Interim financial statements

The interim financial statements comprise the Consolidated income statement, Consolidated statement of other comprehensive income, Consolidated balance sheet, Consolidated condensed statement of changes in equity, Consolidated condensed cash flow statement, the related notes on pages 70 to 103 and the information in the sections of the Operating and Financial Review that are described as being an integral part of the interim financial statements.

Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the six months ended 30 June 2012 is a period of twelve months from the date of approval of these interim financial statements (the period of assessment).

In making this assessment, the Directors considered the Group's business, profitability forecasts, funding and capital plans, including under base and stress scenarios, together with a range of factors such as the outlook for the Irish economy taking account of the impact of fiscal realignment measures, the impact of the EU / IMF Programme, the availability of collateral to access the eurosystem, together with the possible impacts of the eurozone sovereign debt crisis, and in particular the Directors have focussed on the matters set out below:

Context

The deterioration of the Irish economy throughout 2010, culminating in the Programme for the Recovery of the Banking System announced by the Irish Government on 28 November 2010, and running until November 2013, (the 'EU / IMF programme'), adversely impacted the Group's financial condition and performance and poses ongoing challenges. Since that time, the Group has had limited access to market sources of wholesale funding and does not currently have access to unsecured term wholesale funding markets. As a result the Group became dependent on secured funding from the European Central Bank (the 'ECB'), and during late 2010 and 2011 the Group accessed exceptional liquidity assistance from the Central Bank of Ireland (the 'Central Bank'). This poses a liquidity risk for the Group which the Directors addressed in detail as part of the going concern assessment.

Concerns regarding the European sovereign debt crisis have remained heightened during 2012, which has resulted in continued instability in financial markets, adversely impacting market sentiment and restricting access to wholesale funding markets for certain sovereigns and financial institutions across Europe. During 2012, the sovereign bond yield of certain additional countries rose to levels that are not generally considered to be consistent with stable long term funding. These concerns have prompted a series of strong policy responses from European governments and institutions including the EU and the ECB, summarised below. However, political and economic risks remain.

On 21 July 2011, a formal Statement by the Heads of State or Government of the euro area and EU institutions reaffirmed their commitment to the euro and to do whatever was needed to ensure the financial stability of the euro area as a whole and its Member States. This Statement ultimately led to the decision by the ECB to actively implement its Securities Markets Programme.

Basis of preparation and accounting policies (continued)

The Statement also included a number of announcements that were positive for Ireland such as a reduction in the interest rates on loans under the EU / IMF Programme and an extension to the maturity date of these loans. It also noted the commitment of the Heads of State or Government of the euro area and the EU institutions to the success of the EU / IMF Programme and critically it confirmed their determination to provide support to countries under such programmes until they have regained market access, provided they successfully implement those programmes.

A package of measures to restore confidence and address the tensions in financial markets was agreed by the European Council and euro area Heads of State or Government on 9 December 2011. These measures included a new fiscal compact and the strengthening of stabilisation tools for the euro area, including a more effective European Financial Stability Facility (EFSF), and the bringing forward of the implementation of the European Stability Mechanism (ESM). Following a referendum on 31 May 2012, Ireland ratified the new fiscal compact.

On 29 June 2012, the euro area Heads of State or Government announced that, following the establishment of a single European banking supervisory mechanism, involving the ECB, banks in the euro area could be recapitalised directly by the European Stability Mechanism (ESM). The announcement also stated that the eurogroup 'will examine the situation of the Irish financial sector with the view of further improving the sustainability of the well-performing adjustment programme'.

In July 2012, Ireland successfully concluded the latest review of the EU / IMF programme, which concluded that 'Ireland's policy implementation remains on track despite challenging macroeconomic conditions.'

Irish sovereign bond yields have narrowed significantly during 2012. In July 2012 the NTMA returned to the funding markets with an initial €500 million short-term bill auction, followed by the sale of €4.2 billion of bonds maturing in 2017 and 2020.

Capital
As part of the EU / IMF programme, the Central Bank undertook the 2011 PCAR incorporating a Prudential Liquidity Assessment Review (2011 PLAR) and the results were announced on 31 March 2011.

As a result of the 2011 PCAR, the Central Bank assessed that the Group needed to generate an additional €4.2 billion (including a prudent regulatory buffer of €0.5 billion) of equity capital. In addition, €1.0 billion of contingent capital was required via the issue of a debt instrument which, under certain stressed circumstances, would convert to equity capital.

The Group successfully generated all of the required equity capital of €4.2 billion by 31 December 2011 and in July 2011, the Group issued a €1 billion debt instrument to the Irish Government which under certain stressed circumstances would convert to equity capital.

The Group separately passed the EBA stress test in July 2011 and the EBA capital exercise (incorporating a capital buffer against sovereign exposures) in December 2011 without any requirement for further additional capital. A further PCAR exercise is expected to be undertaken in 2013.

The Directors believe this satisfactorily addresses the capital risk.

Liquidity and funding
The 2011 PLAR established funding targets in order to reduce the leverage of the Group, reduce its reliance on short-term, largely ECB and Central Bank funding, and ensure convergence to Basel III liquidity standards over time.

As a consequence the Group is required to achieve a target loan to deposit ratio of 122.5% by December 2013. An objective of the Central Bank in the 2011 PLAR was to ensure that the required improvement in banks' loan to deposit ratios would be by way of deleveraging i.e. the reduction of loans through the disposal and run-down of non-core portfolios.

In June 2012, the Group announced loan divestments totalling €10.5 billion, which exceeds the required three year (2011 – 2013) target of €10 billion. The sales proceeds in respect of €9.9 billion of divestments were settled by 30 June 2012, with the remaining €0.6 billion due to settle later in 2012.

Group customer deposits were €71.7 billion at 30 June 2012, compared to €70.5 billion at 31 December 2011, having increased by €5 billion during 2011, from €65 billion at 31 December 2010. The Group's loan-to-deposit ratio at 30 June 2012 was 136%, representing a reduction of 8 percentage points from the level of 144% at 31 December 2011.

Basis of preparation and accounting policies (continued)

The Group's net drawings from Monetary Authorities increased by €3.8 billion during the six months ended 30 June 2012, from €22 billion at 31 December 2011 to €25.8 billion at 30 June 2012. The increase primarily relates to the IBRC repo transaction of €2.8 billion, together with a net incremental investment of €1.5 billion in LTRO-funded sovereign and government-guaranteed bonds. Drawings from Monetary Authorities consisted entirely of secured funding from the ECB with no drawings under the exceptional liquidity facilities of the Central Bank during the six months ended 30 June 2012 (drawings at 31 December 2011: €nil).

The maturity profile of the Group's funding from Monetary Authorities was extended through its participation in the three year ECB long term refinancing operation (LTRO) in December 2011, when the Group converted €7.5 billion of shorter term ECB funding into the three year facility. The Group also participated in the second ECB three year LTRO, obtaining c.€4.8 billion of three year funding with a maturity of February 2015. The remainder of the Group's funding from Monetary Authorities, amounting to €15 billion at 30 June 2012, rolls over on a short-term basis.

It is expected that the Group will continue to be dependent on Monetary Authorities for funding during the period of assessment.

Following the announcement that the Irish banks would generate the 2011 PCAR capital, the ECB confirmed on 31 March 2011 that the eurosystem would continue to provide liquidity to banks in Ireland and hence the Group.

In addition, in the context of its assessment of going concern, the Group discussed the relevant public announcements from the ECB, the EC and the IMF and the Minister for Finance (together 'the announcements') with the Central Bank and the Department of Finance (together 'the State authorities') and it sought assurance on the continued availability of required liquidity from the eurosystem during the period of assessment. The Directors are satisfied, based on the announcements and the clarity of confirmations received from the State authorities, that, in all reasonable circumstances, the required liquidity and funding from the ECB and the Central Bank will be available to the Group during the period of assessment.

The Directors believe that this satisfactorily addresses the liquidity risk above.

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

Accounting policies
The accounting policies and methods of computation and presentation applied by the Group in the preparation of these interim financial statements are consistent with those set out on pages 183 to 206 of the Group's Annual Report for the year ended 31 December 2011.

Comparatives
Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current period.

Recently adopted accounting pronouncements
During the six months ended 30 June 2012, the Group adopted the amendment to IFRS 7 'Disclosures - Transfer of financial assets'. The required disclosures will be reflected in the Annual Report for the year ended 31 December 2012. The amendment has not had an impact on the disclosures in these interim financial statements.

New accounting pronouncements
For details of new standards, interpretations and amendments to standards which had been issued by 31 December 2011 and which will be effective for periods beginning on or after 1 July 2012, see pages 204 to 206 of the Group's Annual Report for the year ended 31 December 2011.

There were no new standards or amendments to standards issued in the six months ended 30 June 2012, which are relevant to the Group.

Critical accounting estimates and judgements
The preparation of interim financial statements requires the Group to make estimates and judgements that impact the reported amounts of assets and liabilities, income and expense. There have been no significant changes to the Group's approach to, and methods of, making critical accounting estimates and judgements compared to those applied at 31 December 2011, as set out on pages 207 to 209 of the Group's Annual Report for the year ended 31 December 2011.

Index to the notes to the consolidated interim financial statements (unaudited)

1 Operating segments

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

Retail Ireland
Retail Ireland, which incorporates the Group's distribution channels (including the branch network and the online and mobile channels), mortgage business, consumer banking, business banking and wealth management business activities in the Republic of Ireland, is built on a broad distribution platform and a comprehensive suite of retail and business products and services. The Group's mortgage business is conducted through its subsidiary entities Bank of Ireland Mortgage Bank and ICS Building Society.

Bank of Ireland Life (BoI Life)
The Group operates in the life and pensions market in Ireland through its wholly owned subsidiary New Ireland Assurance Company plc which trades as Bank of Ireland Life. BoI Life offers life assurance, protection, pensions and investment products to the Group's customers in Ireland via the branch network. These products are manufactured by New Ireland Assurance Company plc. New Ireland Assurance Company plc also operates in the independent intermediary market under the New Ireland brand and through a direct sales force.

Under the terms of the 2011 EU restructuring plan, the Group has agreed to dispose of New Ireland Assurance Company plc by 31 December 2013, albeit the Group retains the right to distribute life assurance, protection, pensions and investment products to its customers after any disposal.

Retail UK
Retail UK comprises the business activities with the UK Post Office, the UK residential mortgage business, the branch network in Northern Ireland and the business banking businesses in Great Britain and Northern Ireland. The business banking unit provides loan facilities to medium and large corporate clients in addition to international banking, working capital financing, leasing and electronic banking services. Offshore deposit taking services are offered in the Isle of Man. The business activities with the UK Post Office provides a range of retail financial services. A substantial part of the Retail UK operations are conducted through the Group's wholly owned UK licensed banking subsidiary, Bank of Ireland (UK) plc.

As set out in note 36, on 3 August 2012, the Bank announced that it has signed definitive agreements with Post Office Limited (Post Office) which will enhance the financial services business, which the Bank and the Post Office launched in 2004. Under the agreements, the relationship will move to a direct Bank / Post Office relationship, with the Post Office continuing to be primarily responsible for product sales and marketing and Bank of Ireland continuing to be primarily responsible for product development and delivery. As a consequence of the transition to a direct Bank / Post Office model, the Bank's UK subsidiary will purchase the Post Office's shareholding in Midasgrange Limited.

During the six months ended 30 June 2012, the Group sold an element of its UK mortgage loan portfolio. See note 15 for more details.

Corporate and Treasury
This division comprises Global Markets, Corporate Banking and IBI Corporate Finance.

Global Markets is responsible for managing the Group's interest rate and foreign exchange risks, and is responsible for executing the Group's liquidity and funding requirements. Global Markets transacts in a range of market instruments on behalf of the Group itself and the Group's customers. The activities include transactions in inter-bank deposits and loans, foreign exchange spot and forward contracts, options, financial futures, bonds, swaps, forward rate agreements and equity tracker products. Global Markets' operations are based in Ireland, the UK and the US.

Corporate Banking provides integrated relationship banking services to a significant number of the major Irish corporations, financial institutions and multinational corporations operating in, or out of, Ireland. The range of lending products provided includes overdraft and short term loan facilities, term loans, project finance and structured finance. Corporate Banking is also engaged in international lending, with offices located in the UK, France, Germany and the US. Its international lending business includes acquisition finance, project finance, term lending and asset based financing, principally in the UK, Continental Europe and the US.

1 Operating segments (continued)

During the six months ended 30 June 2012, the Group has divested of certain project finance loan portfolios, the Burdale business and certain other international loans, all of which formed part of the Corporate Banking business. Further information is shown in notes 15 and 16.

IBI Corporate Finance provides independent financial advice to public and private companies on takeovers, mergers and acquisitions, disposals and restructurings, in addition to fund raisings, public flotations and stock exchange listings.

Group Centre
Group Centre comprises capital management activities, unallocated Group support costs and the cost of the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG scheme).

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

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

The Group's management reporting and controlling systems use accounting policies that are the same as those referenced in 'Group accounting policies' on pages 182 to 206 of the Group's Annual Report for the year ended 31 December 2011. Allocation methods are also unchanged. The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as 'Underlying profit' in its internal management reporting systems. Underlying profit or loss excludes:

- loss on deleveraging of financial assets;
- (charges) / gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss';
- the cost of restructuring programmes;
- gain on liability management exercises;
- (loss) / profit on disposal of business activities;
- gross-up for policyholder tax in the Life business; and
- investment return on treasury stock held for policyholders in the Life business.

Gross revenue comprises interest income, net insurance premium income, fee and commission income, net trading income / expense, life assurance investment income gains and losses, gain on liability management exercises, other operating income, insurance contract liabilities and claims paid and share of results of associates and joint ventures.

1 Operating segments (continued)

6 months ended 30 June 2012	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Net interest income	335	11	170	322	(193)	-	645
Other income, net of insurance claims	151	71	33	24	(19)	(5)[1]	255
Total operating income, net of insurance claims	**486**	**82**	**203**	**346**	**(212)**	**(5)**	**900**
Other operating expenses	(408)	(43)	(176)	(92)	(54)	-	(773)
Depreciation and amortisation	(21)	(3)	(18)	(4)	(23)	-	(69)
Total operating expenses	**(429)**	**(46)**	**(194)**	**(96)**	**(77)**	**-**	**(842)**
Underlying operating profit / (loss) before impairment charges on financial assets and gain on NAMA	**57**	**36**	**9**	**250**	**(289)**	**(5)**	**58**
Impairment charges on financial assets	(660)	-	(197)	(87)	(40)	-	(984)
Gain on sale of assets to NAMA including associated costs	6	-	(1)	1	-	-	6
Share of results of associates and joint ventures	(3)	-	16	-	-	-	13
Underlying (loss) / profit before tax	**(600)**	**36**	**(173)**	**164**	**(329)**	**(5)**	**(907)**

[1] *This relates to certain inter-segment transactions which are reported as core income in the Corporate and Treasury division but eliminated from the Group's measure of underlying (loss) / profit.*

Reconciliation of Underlying loss before tax to Loss before tax	Group €m
Underlying loss before tax	(907)
Loss on deleveraging of financial assets	(206)
Charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	(125)
Cost of restructuring programmes	(66)
Gain on liability management exercises	52
Loss on disposal of business activities	(14)
Gross-up for policyholder tax in the Life business	11
Loss before tax	**(1,255)**

1 Operating segments (continued)

6 months ended 30 June 2011	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Net interest income	422	2	218	420	(261)	(6)	795
Other income, net of insurance claims	170	20	62	(30)	(16)	6	212
Total operating income, net of insurance claims	592	22	280	390	(277)	-	1,007
Other operating expenses	(409)	(47)	(166)	(108)	(46)[1]	-	(776)
Depreciation and amortisation	(22)	(3)	(19)	(5)	(18)	-	(67)
Total operating expenses	(431)	(50)	(185)	(113)	(64)	-	(843)
Underlying operating profit / (loss) before impairment charges on financial assets and loss on NAMA	161	(28)	95	277	(341)	-	164
Impairment charges on financial assets (excluding assets sold to NAMA)	(525)	-	(199)	(134)	-	-	(858)
Impairment charges on assets sold to NAMA	(9)	-	(25)	(9)	-	-	(43)
Share of results of associates and joint ventures	-	-	15	-	-	-	15
Underlying (loss) / profit before tax	(373)	(28)	(114)	134	(341)	-	(722)

[1] *The impact of amendments to defined benefit pension schemes of €1 million is shown in operating expenses whereas previously it had been shown as a separate line item.*

Reconciliation of Underlying loss before tax to Loss before tax	Group €m
Underlying loss before tax	(722)
Gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	81
Gain on liability management exercises	11
Profit on disposal of business activities	74
Gross-up for policyholder tax in the Life business	(2)
Investment return on treasury stock held for policyholders in the Life business	2
Loss before tax	(556)

1 Operating segments (continued)

Year ended 31 December 2011	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Net interest income	849	5	367	742	(420)	(9)	1,534
Other income, net of insurance claims	297	122	119	44	(36)	(22)	524
Total operating income, net of insurance claims	1,146	127	486	786	(456)	(31)[2]	2,058
Other operating expenses	(818)	(95)	(342)	(178)	(75)[1]	-	(1,508)
Depreciation and amortisation	(43)	(6)	(38)	(9)	(41)	-	(137)
Total operating expenses	(861)	(101)	(380)	(187)	(116)	-	(1,645)
Underlying operating profit / (loss) before impairment charges on financial assets and loss on NAMA	285	26	106	599	(572)	(31)	413
Impairment charges on financial assets (excluding sold to NAMA)	(1,297)	-	(435)	(228)	-	-	(1,960)
Impairment charges on assets sold to NAMA	(9)	-	(26)	(9)	-	-	(44)
Gain / (loss) on sale of assets to NAMA including associated costs	1	-	(5)	24	13	-	33
Share of results of associates and joint ventures	3	-	36	-	-	-	39
Underlying (loss) / profit before tax	(1,017)	26	(324)	386	(559)	(31)	(1,519)

[1] The impact of amendments to defined benefit pension schemes of €2 million is shown in operating expenses whereas previously it had been shown as a separate line item.
[2] This relates to certain inter-segment transactions which are reported as core income in the Corporate and Treasury division but eliminated from the Group's measure of underlying (loss) / profit.

Reconciliation of Underlying loss before tax to Loss before tax	Group €m
Underlying loss before tax	(1,519)
Loss on deleveraging of financial assets	(565)
Gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	56
Cost of restructuring programmes	3
Gain on liability management exercises	1,789
Profit on disposal of business activities	34
Gross-up for policyholder tax in the Life business	10
Investment return on treasury stock held for policyholders in the Life business	2
Loss before tax	(190)

1 Operating segments (continued)

Gross external revenue by operating segment

6 months ended 30 June 2012	**Retail Ireland €m**	**Bank of Ireland Life €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Group Centre €m**	**Other reconciling items €m**	**Group €m**
External revenue	**870**	**69**	**871**	**584**	**(40)**	**-**	**2,354**

6 months ended 30 June 2011	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
External revenue	1,051	79	997	587	61	-	2,775

Year ended 31 December 2011	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
External revenue	1,850	184	1,933	1,487	1,776	-	7,230

2 Interest income

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Loans and advances to customers	1,706	2,050[1]	3,980[1]
Available for sale financial assets	253	206	465
Finance leases and hire purchases receivables	52	58	109
Loans and advances to banks	38	36	64
Interest income	**2,049**	**2,350**	**4,618**

[1] *Interest income on loans and advances to customers for the six months ended 30 June 2011 and the year ended 31 December 2011 includes the interest income on loans sold to NAMA.*

3 Interest expense

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Customer accounts	860	830	1,598
Debt securities in issue	255	250	549
Deposits from banks	230	387	766
Subordinated liabilities	59	88	171
Interest expense	**1,404**	**1,555**	**3,084**

Included within interest expense for the six months ended 30 June 2012 is an amount of €212 million (30 June 2011: €239 million, 31 December 2011: €449 million) relating to the cost of the ELG scheme. The cost of this scheme is classified as interest expense as it is directly attributable and incremental to the issue of specific financial liabilities. Further information on this scheme is outlined in note 35.

4 Net insurance premium income

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Gross premiums written	562	530	1,026
Ceded reinsurance premiums	(50)	(50)	(104)
Net premiums written	512	480	922
Change in provision for unearned premiums	1	1	7
Net insurance premium income	**513**	**481**	**929**

5 *Fee and commission income and expense*

Income	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Retail banking customer fees	190	181	386
Insurance commissions	36	42	76
Credit related fees	20	37	66
Brokerage fees	6	5	11
Asset management fees	3	24	28
Other	24	29	45
Fee and commission income	**279**	**318**	**612**

Fee and commission expense of €99 million (30 June 2011: €106 million, 31 December 2011: €192 million) primarily comprises brokerage fees, sales commissions and other fees to third parties.

6 Net trading (expense) / income

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Financial assets designated at fair value	1	2	(1)
Financial liabilities designated at fair value			
- (Charges) / gains arising on the movement in credit spreads on the Group's own debt and deposits (see analysis below)	(106)	57	42
- Other	(19)	42	14
Related derivatives held for trading	(3)	(58)	(82)
	(127)	**43**	**(27)**
Other financial instruments held for trading	(20)	(92)	44
Net fair value hedge ineffectiveness	4	6	1
Cash flow hedge ineffectiveness	1	(1)	1
Net trading (expense) / income	**(142)**	**(44)**	**19**

Net trading (expense) / income includes the gains and losses on financial instruments held for trading and those designated at fair value through profit or loss (other than unit linked life assurance assets and investment contract liabilities). It includes the gains and losses arising on the purchase and sale of these instruments, the interest income receivable and expense payable and the fair value movement on these instruments, together with the funding cost of the trading instruments. It also includes €12 million (30 June 2011: €33 million, 31 December 2011: €54 million) in relation to net gains arising from foreign exchange.

Net trading (expense) / income includes the total fair value movement (including interest receivable and payable) on liabilities that have been designated at fair value through profit or loss. The interest receivable on amortised cost assets, which are funded by those liabilities, is reported in net interest income. Net trading (expense) / income also includes the total fair value movements on derivatives that are economic hedges of assets and liabilities which are measured at amortised cost, the net interest receivable or payable on which is also reported within net interest income. The net amount reported within net interest income relating to these amortised cost instruments was €66 million (30 June 2011: €68 million, 31 December 2011: €102 million).

Net fair value hedge ineffectiveness comprises a net charge from hedging instruments of €14 million (30 June 2011: net charge of €41 million, 31 December 2011: net gain of €56 million) offsetting a net gain from hedged items of €18 million (30 June 2011: net gain of €47 million, 31 December 2011: net charge of €55 million).

6 Net trading (expense) / income (continued)

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

(Charges) / gains arising on the movement in credit spreads on the Group's own debt and deposits	**6 months ended 30 June 2012 €m**	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Recognised in			
- Net trading income (see above)	(106)	57	42
- Insurance contract liabilities and claims paid	(18)	22	11
- Other operating income	(1)	2	3
	(125)	81	56
Cumulative impact from change in credit spreads relating to liabilities recognised on the balance sheet	300	469	425

7 Life assurance investment income, gains and losses

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Gross life assurance investment income, gains and losses	333	(116)	(39)
Elimination of investment return on treasury stock held for the benefit of policyholders in the Life businesses	-	1	1
Life assurance investment income, gains and losses	**333**	**(115)**	**(38)**

8 Gain on liability management exercises

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Repurchase for cash	52	-	526
Debt for debt exchange	-	17	17
Debt for equity offer	-	-	1,177
Call option	-	-	101
Transaction costs	-	(6)[1]	(32)
Gain on liability management exercises	**52**	**11**	**1,789**

[1] *The transaction costs during the six months ended 30 June 2011 relate to the liability management activities which completed in July 2011.*

Six months ended 30 June 2012

During the six months ended 30 June 2012, the Group repurchased certain debt securities for cash, generating a gain of €52 million (€46 million after taxation), being the difference between the consideration paid of €296 million and the carrying value of the securities repurchased of €348 million.

Six months ended 30 June 2011

During the six months ended 30 June 2011, the Group undertook a debt exchange relating to two Canadian dollar subordinated notes and a euro subordinated note, which generated a gain of €17 million being the difference between the consideration paid of €57 million (fair value of new notes issued €56 million and cash of €1 million) and the carrying value of the securities repurchased of €74 million.

Year ended 31 December 2011

Following the 2011 PCAR, the Group was required to generate additional equity capital of €4.2 billion. As part of the initiatives to generate this capital, the Group undertook various liability management exercises which generated gains of €1,772 million in the second half of 2011 as set out in the table below.

	Fair value of consideration €m	Carrying value of securities €m	Net gain (before tax) €m
Debt exchanges of dated securities	625	1,657	1,032
Debt exchanges of undated securities	131	596	465
Repurchase of mortgage backed securities	872	1,179	307
	1,628	3,432	1,804
Transaction costs			(32)
Total			**1,772[1]**

[1] *This excludes the gain of €17 million in the six months ended 30 June 2011 as set out above.*

Further information on the liability management exercises completed during the year ended 31 December 2011 are set out in note 9 of the Group's Annual Report for the year ended 31 December 2011.

9 Other operating income

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Transfer from available for sale reserve on asset disposal	35	5	(28)
Other insurance income	21	28	49
Movement in value of in force asset	5	3	(19)
Dividend income	1	1	2
Elimination of investment return on treasury stock held for the benefit of policyholders in the Life business	-	1	1
Other income	1	42	7
Other operating income	**63**	**80**	**12**

10 Insurance contract liabilities and claims paid

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Claims paid			
Policy surrenders	(408)	(347)	(795)
Death and critical illness claims	(67)	(77)	(148)
Annuity payments	(23)	(20)	(41)
Policy maturities	(1)	(2)	(1)
Other claims	(7)	(13)	(39)
Gross claims paid	**(506)**	**(459)**	**(1,024)**
Recovered from reinsurers	31	31	53
Net claims paid	**(475)**	**(428)**	**(971)**
Change in insurance contract liabilities			
Gross liabilities	(465)	76	151
Reinsured liabilities	134	31	70
Net change in insurance contract liabilities	**(331)**	**107**	**221**
Insurance contract liabilities and claims paid	**(806)**	**(321)**	**(750)**

11 Other operating expenses

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Administrative expenses			
Staff costs			
- Wages and salaries	350	353	692
- Social security costs	36	37	72
- Retirement benefit costs (defined benefit plans) (note 30)	51	43[1]	86[1]
- Retirement benefit costs (defined contribution plans)	1	-	2
- Restructuring costs	60	-	-
- Other staff costs	5	10	8
Staff costs	**503**	**443**	**860**
Other administrative expenses			
- Other administrative expenses	330	339	638
- Restructuring costs	6	-	(3)
Depreciation			
- Intangible assets	50	49	99
- Property, plant and equipment	19	18	37
Reversal of impairment of intangible assets	-	-	(4)
Revaluation of property	-	-	15
Total other operating expenses	**908**	**849**	**1,642**

[1] *Included in other operating expenses for the six months ended 30 June 2011 is a gain on amendments to defined benefit pension schemes of €1 million (31 December 2011: gain of €2 million) which was previously shown as a separate line item on the income statement.*

During the six months ended 30 June 2012, the Group announced that it has commenced a programme for a reduction in the number of people employed by the Group primarily in areas affected by business change and lower activity levels. Included within Other operating expenses for the six months ended 30 June 2012 is a charge of €66 million (staff costs: €60 million; other administrative expenses: €6 million) in relation to these restructuring programmes (see note 28) as plans were in place and appropriate communications had been made at the period end.

Staff numbers

In the six months ended 30 June 2012 the average number of staff (full time equivalents) was 13,429 (six months ended 30 June 2011: 14,004; year ended 31 December 2011: 13,671).

12 Impairment charges on financial assets (excluding assets sold to NAMA)

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Loans and advances to customers (note 25)	941	842	1,939
Available for sale financial assets	43	16	21
Impairment charges on financial assets (excluding assets sold to NAMA)	**984**	**858**	**1,960**

Included within impairment charges on available for sale financial assets is a charge of €40 million relating to the NAMA subordinated bonds following an updated outlook from NAMA for its long term performance.

13 Impairment charges on assets sold to NAMA

Impairment charges	**6 months ended 30 June 2012 €m**	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Impairment charges on assets sold to NAMA	-	43	44

14 Gain on sale of assets to NAMA including associated costs

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Gain on sale of assets to NAMA including associated costs	6	-	33

The Group completed the transfer of the remaining Eligible Bank Assets to NAMA during the year ended 31 December 2011.

During the six months ended 30 June 2012, the Group recognised a gain of €6 million which relates to an adjustment to the consideration in respect of assets previously transferred to NAMA.

During the year ended 31 December 2011, the Group recognised a net gain of €33 million on the sale of assets to NAMA, comprised of a charge of €57 million in relation to loans sold to NAMA during the year and a gain of €90 million related to an adjustment to the consideration in respect of assets previously transferred to NAMA.

Further details on these amounts are set out in note 16 of the Group's Annual Report for the year ended 31 December 2011.

15 Loss on deleveraging of financial assets

The Group has completed or contracted the deleveraging of financial assets with a carrying value of €10.5 billion of which €9.9 billion had been completed and settled by 30 June 2012 with the remaining €0.6 billion expected to settle over the coming months. This includes the sale of Burdale loans of €0.7 billion which were deleveraged as part of the sale of that business and is included within Loss on disposal of business activities as set out in note 16.

The assets of €0.6 billion which the Group has contracted to sell but where the sale had not completed by 30 June 2012 are reported as Other assets classified as held for sale as at 30 June 2012 and further information is shown in note 24.

An analysis of the deleveraging completed during the six months ended 30 June 2012 and the year ended 31 December 2011 (which includes the sale of loan portfolios to third parties together with managed refinancing decisions taken by the Group) is set out below.

Six months ended 30 June 2012

6 months ended 30 June 2012	Consideration received (net of costs) €m	Carrying value of assets derecognised €m	Loss €m
Corporate and Treasury division			
Project Finance loan portfolios	318	382	(64)
Other International loans	557	588	(31)
Retail UK division			
UK Mortgage loan portfolio	526	635	(109)
UK Investment property loans	82	84	(2)
Total	**1,483**	**1,689** [1]	**(206)**

[1] *Of this amount, assets with a carrying value of €278 million were contracted to be sold at 31 December 2011.*

Project Finance loan portfolios

Project Finance loans totalling €0.4 billion were derecognised during the six months ended 30 June 2012. The Group received consideration of €0.3 billion for these loans, giving rise to a loss on disposal of €0.1 billion. Of these assets €0.3 billion were contracted for sale but not settled at 31 December 2011. A further €0.6 billion of assets which were contracted to be sold but not settled at 30 June 2012 are included within Other assets classified as held for sale as set out in note 24.

Other International loans

Other International loans with a carrying value of €0.6 billion were derecognised during the six months ended 30 June 2012. This was principally through managed refinancing decisions taken by the Group with some sales of individual loans.

UK Mortgage loan portfolio

During the six months ended 30 June 2012, a loan portfolio with a carrying value of €0.6 billion was sold to ITL Limited, a subsidiary of Coventry Building Society. The consideration for these loans was €0.5 billion, giving rise to a loss on disposal after transaction costs of €0.1 billion.

UK Investment property loans

UK Investment property loans with a carrying value of €0.1 billion were derecognised during the period through managed refinancing decisions taken by the Group.

15 Loss on deleveraging of financial assets (continued)

Year ended 31 December 2011

Year ended 31 December 2011	Consideration received (net of costs) €m	Carrying value of assets derecognised €m	Loss €m
Retail UK division			
UK Investment property loan portfolio	1,169	1,464	(295)
UK Mortgage loan portfolio	1,275	1,399	(124)
Corporate and Treasury division			
Project Finance loan portfolios	833	944	(111)
US Investment property loan portfolio	803	805	(2)
Other International loans	2,916	2,949	(33)
Total	6,996	7,561	(565)

UK Investment property loan portfolio
A loan portfolio and certain associated derivatives with a carrying value of €1.5 billion were sold to Kennedy Wilson and its institutional partners. The consideration for these loans was €1.2 billion, giving rise to a loss on disposal after transaction costs of €0.3 billion. The sale was completed in December 2011.

UK Mortgage loan portfolio
A loan portfolio with a carrying value of €1.4 billion was sold to The Mortgage Works (UK) plc, a wholly owned subsidiary of Nationwide Building Society. The consideration for these loans was €1.3 billion, giving rise to a loss on disposal after transaction costs of €0.1 billion. The sale was completed in December 2011.

Project Finance loan portfolios
During 2011, the Group agreed the sale of Project Finance loans with a total carrying value of €1.3 billion to GE Energy Financial Services, Sumitomo Mitsui Banking Corporation and other third parties. By 31 December 2011, €944 million of these sales had completed and the assets were derecognised. The consideration received for these loans was €833 million, giving rise to a loss on disposal after transaction costs of €111 million. Further details are set out in note 24.

US Investment property loan portfolio
A loan portfolio with a carrying value of €0.8 billion was sold to Wells Fargo Bank N.A. for a consideration of €0.8 billion. The sale was completed during September 2011.

Other International loans
Other International loans with a carrying value of €2.9 billion were derecognised during 2011, principally through managed refinancing decisions taken by the Group with some sales of individual loans.

16 (Loss) / profit on disposal of business activities

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Corporate and Treasury Division			
Burdale			
- Loss on disposal	(14)	-	-
- Impairment of goodwill	-	-	(45)
Bank of Ireland Asset Management (BIAM)	-	43	39
Bank of Ireland Securities Services (BOISS)	-	37	32
Paul Capital Investments LLC	-	-	-
Retail Ireland Division			
Foreign Currency Exchange (FCE) Corporation	-	-	8
(Loss) / profit on disposal of business activities	**(14)**	**80**	**34**

Burdale
In line with the agreements given in the EU Restructuring Plan, on 19 December 2011 the Group announced the sale of Burdale to Wells Fargo Bank N.A. in exchange for cash of €655 million. The Group incurred a charge of €45 million in the year ended 31 December 2011, being the impairment of the goodwill on Burdale Financial Holdings Limited following the announcement of the sale of this business. The sale was completed on 1 February 2012 and gave rise to a loss on disposal of €14 million.

Bank of Ireland Asset Management (BIAM)
In line with the agreements given in the EU Restructuring plan, on 22 October 2010 the Group announced the sale of BIAM to State Street Global Advisors for cash consideration of €57 million, subject to certain conditions. On 10 January 2011, all conditions of the sale were satisfied and the sale was completed, with a resulting profit on disposal of €39 million.

Bank of Ireland Securities Services (BoISS)
On 24 February 2011, the Group announced the sale of BoISS to Northern Trust Corporation for cash and deferred consideration. The fair value of the consideration was estimated to be €51 million and the sale was completed on 1 June 2011, with a resulting profit on disposal of €32 million.

Paul Capital Investments LLC
In line with the agreements given in the EU Restructuring plan, on 21 April 2011 the Group completed the sale of its 50% holding in Paul Capital Investments LLC to the firm's existing management team for consideration of €9 million. The profit on disposal was less than €1 million.

Foreign Currency Exchange (FCE) Corporation
In line with the agreements given in the EU Restructuring plan, on 9 May 2011 the Group announced the sale of FCE Corporation to Wells Fargo Bank N.A. for consideration of €31 million. On 1 August 2011, all conditions were satisfied and the sale was completed with a resulting profit on disposal of €8 million.

17 Taxation

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Current tax			
Irish Corporation Tax			
- Current year	(18)	(18)	(25)
- Prior year	9	9	32
Double taxation relief	-	-	2
Foreign tax			
- Current year	8	(23)	(49)
- Prior year	11	(11)	7
	10	**(43)**	**(33)**
Deferred tax			
Current year losses	182	99	324
Impact of Corporation Tax rate change	(17)	(11)	(18)
Origination and reversal of temporary differences	(3)	13	(14)
Prior year	(17)	(9)	(29)
	145	**92**	**263**
Taxation credit	**155**	**49**	**230**

The taxation credit for the Group was €155 million for the six months ended 30 June 2012 (30 June 2011: €49 million, 31 December 2011: €230 million). The main factor contributing to the tax credit is the loss incurred in the period.

The effective tax rate for the six months ended 30 June 2012 is 12% (tax credit) (30 June 2011: 9% (tax credit), 31 December 2011: 121% (tax credit)).

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

	6 months ended 30 June 2012			6 months ended 30 June 2011			Year ended 31 December 2011		
	Pre tax €m	Tax €m	Net of tax €m	Pre tax €m	Tax €m	Net of tax €m	Pre tax €m	Tax €m	Net of tax €m
Net change in revaluation reserve	-	-	-	-	-	-	**(8)**	**2**	**(6)**
Cash flow hedge									
Changes in fair value	(403)	60	(343)	141	(21)	120	(1,034)	234	(800)
Transfer to income statement	466	(72)	394	(28)	8	(20)	1,380	(266)	1,114
Net change in cash flow hedge reserve	**63**	**(12)**	**51**	**113**	**(13)**	**100**	**346**	**(32)**	**314**
Available for sale									
Changes in fair value	309	(39)	270	(187)	23	(164)	68	(8)	60
Transfer to income statement	9	(1)	8	6	(1)	5	49	(6)	43
Net change in reserve	**318**	**(40)**	**278**	**(181)**	**22**	**(159)**	**117**	**(14)**	**103**
Net actuarial (loss) / gain on defined benefit pension funds	**(630)**	**83**	**(547)**	**218**	**(33)**	**185**	**(137)**	**20**	**(117)**
Foreign exchange translation gains / (losses)	**138**	**-**	**138**	**(211)**	**-**	**(211)**	**180**	**-**	**180**
Other comprehensive income for the period	**(111)**	**31**	**(80)**	**(61)**	**(24)**	**(85)**	**498**	**(24)**	**474**

18 Earnings per share

The calculation of basic earnings per unit of €0.05 (30 June 2011: €0.10, 31 December 2011: €0.05) ordinary stock is based on the loss attributable to ordinary stockholders divided by the weighted average number of units of ordinary stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders.

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

For the six months ended 30 June 2012, the six months ended 30 June 2011 and the year ended 31 December 2011 there was no difference in the earnings or the weighted average number of units of stock used for basic and diluted earnings per share as the effect of all potentially dilutive ordinary units of stock outstanding was anti-dilutive.

	6 months ended 30 June 2012 €m	6 months ended 30 June 2011 €m	Year ended 31 December 2011 €m
Basic and diluted earnings per share			
(Loss) / profit attributable to stockholders	(1,094)	(508)	45
Dividend on 2009 Preference Stock	(94)[1]	(94)	(188)
Dividend on other equity interests	(3)	-	(7)
Repurchase of capital note	-	1	41
Loss attributable to ordinary stockholders	**(1,191)**	**(601)**	**(109)**
	Units (millions)	Units (millions)	Units (millions)
Weighted average number of units of stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders	30,109	5,335[2]	15,704
Basic and diluted earnings per share (cent)	**(4.0)**	**(11.3)**	**(0.7)**

[1] Where a dividend on the 2009 Preference Stock is not paid in either cash or units of ordinary stock, that dividend must subsequently be paid in the form of units of ordinary stock before a subsequent dividend on the 2009 Preference Stock or dividend on ordinary stock can be paid. The dividend allocated for the six months to 30 June 2012 has been deducted in the calculation of basic earnings per share.

[2] In July 2011, as part of the recapitalisation of the Bank, (see note 48 of the Group's Annual Report for the year ended 31 December 2011) 19,078 million new units of €0.05 ordinary stock were issued at €0.10 per share on the basis of eighteen new units of ordinary stock for every five units held under the terms of the Rights Issue. The actual cum rights price on 11 July 2011, the last day of quotation cum rights, was €0.101 per unit of ordinary stock and the theoretical ex-rights price per unit of €0.05 ordinary stock was therefore €0.1002 per share. The comparative loss per share figures have been calculated by applying a factor of 1.007809 to the average number of units of ordinary stock in issue for the six months ended 30 June 2011 in order to adjust for the bonus element of the Rights Issue.

At 30 June 2012, there were stock options over 3 million units of potential ordinary stock (30 June 2011: 6 million units, 31 December 2011: 3 million units) which could potentially have a dilutive impact in the future, but which were anti-dilutive in the six months ended 30 June 2012, the six months ended 30 June 2011 and the year ended 31 December 2011 respectively.

19 Other financial assets at fair value through profit or loss

	30 June 2012 €m	31 December 2011 €m
Assets linked to policyholder liabilities		
Equity securities	6,391	5,926
Government bonds	940	1,008
Unit trusts	805	855
Debt securities	52	92
Loans and advances	-	-
	8,188	**7,881**
Other financial assets		
Government bonds	833	804
Other	266	229
	1,099	**1,033**
Other financial assets at fair value through profit or loss	**9,287**	**8,914**

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying investment is held by the Group, but the inherent risks and rewards in the investments are borne by the policyholders. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal change in the value of the amounts due to policyholders. The associated liabilities are included in liabilities to customers under investment contracts and insurance contract liabilities on the balance sheet. At 30 June 2012, such assets amounted to €8,188 million (31 December 2011: €7,881 million).

Other financial assets of €1,099 million (31 December 2011: €1,033 million) primarily relate to assets held by the Group's life assurance business for solvency margin purposes or as backing for non-linked policyholder liabilities. See page 31 for further details.

20 Loans and advances to banks

	30 June 2012 €m	31 December 2011 €m
Placements with other banks	6,093	6,088
Securities purchased with agreement to resell		
- IBRC repo transaction (note 35)	2,843	-
- Other	379	417
Mandatory deposits with central banks	1,336	1,392
Funds placed with central banks	-	162
Loans and advances to banks	**10,651**	**8,059**

Placements with other banks includes cash collateral of €2.5 billion (31 December 2011: €2.2 billion) placed with derivative counterparties in relation to net derivative liability positions.

The Group has entered into transactions to purchase securities with agreement to resell and has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The fair value of this collateral at 30 June 2012 was €3,554 million (31 December 2011: €417 million).

An amount of €980 million included within mandatory deposits with central banks relates to collateral in respect of the Group's issued notes in circulation in Northern Ireland (31 December 2011: €1,012 million).

21 Available for sale financial assets

	30 June 2012 €m	31 December 2011 €m
Government bonds	5,625	4,568
Other debt securities		
- listed	5,304	5,326
- unlisted	291	315
Equity securities		
- listed	1	1
- unlisted	59	52
Available for sale financial assets	**11,280**	**10,262**

At 30 June 2012, available for sale financial assets with a fair value of €8.7 billion (31 December 2011: €7.8 billion) had been pledged to third parties in sale and repurchase agreements.

Included within unlisted debt securities are subordinated bonds issued by NAMA with a fair value of €90 million (31 December 2011: €113 million). During the six months ended 30 June 2012, the Group incurred an impairment charge of €40 million on the NAMA subordinated bonds (see note 12).

Further details of these assets are set out on pages 31 to 37.

22 NAMA senior bonds

	30 June 2012 €m	31 December 2011 €m
NAMA senior bonds	**4,684**	**5,016**

The NAMA senior bonds are guaranteed by the State. At 30 June 2012 and 31 December 2011, all NAMA senior bonds had been pledged to Monetary Authorities in sale and repurchase agreements.

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

During the six months ended 30 June 2012, NAMA redeemed bonds with a nominal value of €351 million (year ended 31 December 2011: €221 million).

23 Loans and advances to customers

	30 June 2012 €m	31 December 2011 €m
Loans and advances to customers	102,375	104,006
Finance leases and hire purchase receivables	1,659	1,652
	104,034	105,658
Less allowance for impairment charges on loans and advances to customers (note 25)	(7,056)	(6,344)
Loans and advances to customers	**96,978**	**99,314**

24 Other assets and liabilities classified as held for sale

Assets classified as held for sale	30 June 2012 €m	31 December 2011 €m
Corporate and Treasury division		
Project Finance loan portfolios and associated derivatives	610	998
Assets of Burdale	-	646
Retail UK division		
UK Mortgage loan portfolio	-	802
Total	**610**	**2,446**

Liabilities classified as held for sale	30 June 2012 €m	31 December 2011 €m
Corporate and Treasury division		
Liabilities of Burdale	-	13
Total	-	13

Of the €1.0 billion of Project Finance loans which were included in Other assets classified as held for sale at 31 December 2011, €0.3 billion has settled during the period, €0.6 billion has been contracted and is expected to settle over the coming months and €0.1 billion has been reclassified to loans and advances to customers as the Group no longer expects to sell these loans. See note 15 for further details.

The sale of Burdale was completed in February 2012. See note 16 for further details.

The sale of a portfolio of UK Mortgage loans with a carrying value of €0.6 billion was completed in June 2012. The remaining €0.2 billion of UK Mortgage loans which were classified as Other assets held for sale at 31 December 2011 have been reclassified to Loans and advances to customers as the Group no longer expects to sell these loans.

25 Impairment provisions

The following tables show the movement in the impairment provisions on total loans and advances to customers (including loans and advances included within other assets classified as held for sale).

30 June 2012	**Residential Mortgages €m**	**Non-Property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Provisions at 1 January 2012	1,159	1,723	3,205	278	6,365
Exchange adjustments	4	17	37	2	60
Charge against income statement	310	216	387	28	941
Recoveries	(1)	-	-	6	5
Amounts written off	(23)	(185)	(95)	(57)	(360)
Release of provisions on loan book disposals	-	(18)	-	-	(18)
Other movements	11	37	10	5	63
Provisions at 30 June 2012	**1,460**	**1,790**	**3,544**	**262**	**7,056**

31 December 2011	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total impairment provisions €m
Provision at 1 January 2011	725	1,475	2,529	321	5,050
Exchange adjustments	4	11	32	1	48
Charge against income statement	470	497	936	80	1,983
Recoveries	(2)	1	(2)	10	7
Amounts written off	(49)	(254)	(166)	(147)	(616)
Release of provision on sale of assets to NAMA	(4)	-	(194)	-	(198)
Release of provision on loan book disposals	-	(25)	15	-	(10)
Other movements	15	18	55	13	101
Provision at 31 December 2011	**1,159**	**1,723**	**3,205**	**278**	**6,365**

Included in the total provision of €7,056 million above (31 December 2011: €6,365 million) is €nil (31 December 2011: €21 million) relating to provisions on loans and advances to customers classified as assets held for sale.

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

Further details on the Group's impaired loans and impairment provisions are set out on page 27.

26 Deposits from banks

	30 June 2012 €m	31 December 2011 €m
Securities sold under agreement to repurchase	32,768	29,585
Deposits from banks	1,591	1,817
Other bank borrowings	168	132
Deposits from banks	**34,527**	**31,534**

At 30 June 2012, drawings from Monetary Authorities were €26 billion (net) (31 December 2011: €22 billion (net)). Of the total drawings from Monetary Authorities, €15 billion (31 December 2011: €15 billion) rolls over on a short term basis (up to three months). Included in drawings from Monetary Authorities is €2.8 billion in connection with the IBRC repo transaction (see note 35 for further details).

Deposits from banks include cash collateral of €0.9 billion (31 December 2011: €1.1 billion) received from derivative counterparties in relation to net derivative asset positions.

27 Customer accounts

	30 June 2012 €m	31 December 2011 €m
Term deposits and other products	38,913	39,379
Demand deposits	17,613	16,397
Current accounts	15,131	14,730
Customer accounts	**71,657**	**70,506**

At 30 June 2012, the Group's largest 20 customer deposits amounted to 2% (31 December 2011: 2%) of customer accounts.

28 Provisions

	Total €m
As at 1 January 2012	38
Exchange adjustments	1
Charge to income statement	
- Restructuring programmes	66
- Other	3
Utilised during the period	(16)
Unused amounts reversed during the period	(1)
As at 30 June 2012	**91**

During the six months ended 30 June 2012, the Group recognised a provision in respect of restructuring programmes (see note 11).

29 Subordinated liabilities

	30 June 2012 €m	31 December 2011 €m
Opening balance	1,426	2,775
Exchange adjustments	6	(24)
Nominal exchanged or repurchased during the period	-	(2,313)
Issued during the period	-	960
Fair value movements and impact of hedge accounting adjustments	34	12
Amortisation	(8)	16
Closing balance	**1,458**	**1,426**

Following the 2011 PCAR, the Group was required to generate additional equity capital of €4.2 billion. As part of the initiatives to generate this capital, the Group undertook various liability management exercises including the repurchase or exchange of subordinated liabilities with a nominal value of €2.3 billion (see note 8 for further details).

In July 2011, the Group issued a Contingent Capital note to the State, satisfying the requirement under the 2011 PCAR to issue €1 billion of contingent capital. The nominal value of this note is €1 billion and cash proceeds of €985 million were received (net of a fee paid to the State of €15 million) (see note 35 for further details).

30 Retirement benefit obligations

The net IAS 19 pension deficit across the Group's defined benefit schemes at 30 June 2012 was €1,006 million (31 December 2011: €414 million). This is shown on the balance sheet as a retirement benefit asset of €4 million (31 December 2011: €8 million) and retirement benefit obligations of €1,010 million (31 December 2011: €422 million).

The principal changes in the assumptions used to calculate the value of pension obligations at 30 June 2012 as compared to 31 December 2011 are set out in the table below.

	30 June 2012 % p.a.	31 December 2011 % p.a.
RoI Schemes		
Inflation Rate	1.90	2.00
Discount Rate	4.25	5.30
UK Schemes		
Consumer Price Inflation	1.90	2.10
Retail Price Inflation	2.80	3.00
Discount Rate	4.90	4.90

Pension levy

The Irish Finance (No. 2) Act 2011 introduced a stamp duty levy of 0.6% on the market value of assets under management in Irish pension funds, for the years 2011 to 2014 (inclusive). The levy is based on scheme assets as at 30 June in each year or as at the end of the preceding scheme financial year. A charge for the full 0.6% for 2012 has been recognised by the Group at 30 June 2012, in the form of a reduction in scheme assets which has led to a reduction in the Group's stockholders' equity of €19 million.

During July 2012 the Group and the Trustees of the Bank of Ireland Staff Pensions Fund (BSPF) (which is the largest pension scheme sponsored by the Group and represents c.78% of pension assets) agreed in principle that in exchange for additional security for scheme members, the cost of the pension levies incurred to date would be borne by appropriate Republic of Ireland scheme members. The additional security is to be provided by a charge over a portfolio of Group assets with an initial value of €250 million (a contingent asset) which is expected to remain in place until the scheme's current core liabilities satisfactorily meet the Minimum Funding Standard.

The Group has estimated that its stockholders' equity is expected to increase by €35 million on final execution of this contingent asset.

31 Deferred tax

The deferred tax assets of €1,574 million (31 December 2011: €1,381 million) are shown on the Consolidated balance sheet after netting by jurisdiction (€1,596 million before netting by jurisdiction, 31 December 2011: €1,388 million). At 30 June 2012 deferred tax assets include an amount of €1,354 million (31 December 2011: €1,195 million) in respect of operating losses which are available to relieve future profits from tax.

The deferred tax assets have been recognised on the basis that it is probable they will be recovered as the Directors are satisfied that it is probable that the Group will have sufficient future taxable profits against which the deferred tax assets can be utilised to the extent they have not already reversed. Under current Irish and UK tax legislation there is no time restriction on the utilisation of operating losses. There is, however, a restriction on the utilisation of Irish tax losses carried forward by a financial institution participating in NAMA. This significantly lengthens the period over which the deferred tax asset will reverse by restricting by 50% the amount of profits in any year against which the carried forward trading losses can be utilised. The balance continues to be available for indefinite carry forward and there is no time limit, under existing Irish and UK legislation, on the utilisation of these losses.

Under accounting standards these assets are measured on an undiscounted basis.

The UK Government announced that the main rate of corporation tax would reduce to 24% from 1 April 2012 (and not 25% as previously announced) to be followed by further 1% reductions per annum to 22% for the year beginning 1 April 2014. The reduction in the corporation tax rate to 24% was substantively enacted in the first half of 2012 and the effect of this change has been to reduce the deferred tax asset at 30 June 2012 by €17 million. The reduction in the corporation tax rate to 23% from 1 April 2013 was substantively enacted through the UK Finance Act 2012 in July 2012 and has not been reflected in the interim financial statements and the reduction to 22% by 1 April 2014 has yet to be enacted. The overall effect of the future reductions from 24% to 22% would be to reduce the deferred tax asset at 30 June 2012 by €41 million.

The deferred tax liabilities at 30 June 2012 are €89 million (31 December 2011: €88 million).

32 Contingent liabilities and commitments

The table below gives the contract amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

Contingent Liabilities	**30 June 2012 Contract amount €m**	31 December 2011 Contract amount €m
Acceptances and endorsements	11	10
Guarantees and irrevocable letters of credit	878	983
Other contingent liabilities	244	249
	1,133	**1,242**
Commitments		
Documentary credits and short-term trade-related transactions	131	178
Undrawn note issuance and revolving underwriting facilities	-	100
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- irrevocable or revocable with original maturity of 1 year or less	14,127	14,017
- irrevocable with original maturity of over 1 year	3,822	5,217
	18,080	**19,512**

33 Liquidity risk

The tables below summarise the maturity profile of the Group's financial liabilities (excluding those arising from insurance and investment contracts in Bank of Ireland Life and those arising on derivative financial instruments) at 30 June 2012 and 31 December 2011 based on contractual undiscounted repayment obligations.

The Group does not manage liquidity risk on the basis of contractual maturity. Instead the Group manages liquidity risk based on expected cash flows. The balances will not agree directly to the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,179 million and €7,502 million respectively (31 December 2011: €4,954 million and €7,037 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts.

As at 30 June 2012 **Contractual maturity**	**Demand €m**	**Up to 3 months €m**	**3-12 months €m**	**1-5 years €m**	**Over 5 years €m**	**Total €m**
Deposits from banks	494	3,829	327	3,602	270	8,522
Drawings from Monetary Authorities	-	15,346	-	12,588	-	27,934
Customer accounts	46,438	19,547	3,638	2,247	182	72,052
Debt securities in issue	-	562	3,054	10,322	5,693	19,631
Subordinated liabilities	-	101	34	1,739	272	2,146
Contingent liabilities	1,133	-	-	-	-	1,133
Commitments	14,258	-	-	3,822	-	18,080
Total	**62,323**	**39,385**	**7,053**	**34,320**	**6,417**	**149,498**

As at 31 December 2011 **Contractual maturity**	**Demand €m**	**Up to 3 months €m**	**3-12 months €m**	**1-5 years €m**	**Over 5 years €m**	**Total €m**
Deposits from banks	115	4,091	935	3,845	230	9,216
Drawings from Monetary Authorities	430	14,657	-	7,705	-	22,792
Customer accounts	48,368	18,378	2,402	1,444	224	70,816
Debt securities in issue	-	2,216	1,138	13,390	5,358	22,102
Subordinated liabilities	-	24	113	1,641	386	2,164
Contingent liabilities	1,242	-	-	-	-	1,242
Commitments	14,295	-	-	5,217	-	19,512
Total	**64,450**	**39,366**	**4,588**	**33,242**	**6,198**	**147,844**

34 Fair value of assets and liabilities

Fair value hierarchy

The table below shows the Group's financial assets and liabilities that are recognised and subsequently measured at fair value, together with their classification within a three-level fair value hierarchy.

Level 1 comprises financial assets and liabilities valued using quoted market prices in active markets. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2 comprises financial assets and liabilities valued using techniques based significantly on observable market data.

Level 3 comprises financial assets and liabilities valued using techniques where the impact of the non-observable market data is significant in determining the fair value of the instrument. Non-observable market data is not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

30 June 2012	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets held at fair value				
Trading securities	160	-	-	160
Derivative financial instruments	-	5,532	504	6,036
Other assets classified as held for sale - derivatives	-	53	-	53
Other financial assets at FVTPL	8,582	688	17	9,287
AFS financial assets	10,360	716	204	11,280
Interest in associates	-	-	34	34
	19,102	**6,989**	**759**	**26,850**
As a % of financial assets at fair value	**71.1%**	**26.0%**	**2.9%**	**100%**
Financial liabilities held at fair value				
Deposits from banks	-	168	-	168
Customer accounts	-	1,725	5	1,730
Derivative financial instruments	-	5,962	82	6,044
Liabilities to customers under investment contracts	-	5,179	-	5,179
Insurance contract liabilities	-	7,502	-	7,502
Debt securities in issue	-	-	536	536
Subordinated liabilities	-	-	35	35
Other liabilities	42	-	-	42
	42	**20,536**	**658**	**21,236**
As a % of fair value liabilities	**0.2%**	**96.7%**	**3.1%**	**100%**

The movement in level 3 liabilities between 31 December 2011 and 30 June 2012 is primarily attributable to fair value movements on debt securities in issue and derivative financial instruments.

34 Fair value of assets and liabilities (continued)

31 December 2011	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets held at fair value				
Trading securities	6	-	-	6
Derivative financial instruments	-	5,831	531	6,362
Other financial assets at FVTPL	8,270	627	17	8,914
AFS financial assets	9,442	646	174	10,262
Interest in associates	-	-	31	31
	17,718	**7,104**	**753**	**25,575**
As a % of fair value assets	**69.3%**	**27.8%**	**2.9%**	**100%**
Financial liabilities held at fair value				
Deposits from banks	-	132	-	132
Customer accounts	-	1,774	11	1,785
Derivative financial instruments	-	5,968	50	6,018
Liabilities to customers under investment contracts	-	4,954	-	4,954
Insurance contract liabilities	-	7,037	-	7,037
Debt securities in issue	-	-	457	457
Subordinated liabilities	-	-	27	27
Other liabilities	4	-	-	4
	4	**19,865**	**545**	**20,414**
As a % of fair value liabilities	**-**	**97.3%**	**2.7%**	**100%**

35 Summary of relations with the State

The State, through both the Group's participation in the Government Guarantee Schemes and the investment by the NPRFC in the 2009 Preference Stock of the Bank, is a related party of the Group.

Further details of the Group's relations with the State are set out in note 57 of the Group's Annual Report for the year ended 31 December 2011.

(a) Ordinary stock
At 30 June 2012, the State held 15% of the ordinary stock of the Bank. There has been no change to the State's holding of the ordinary stock of the Bank in the six months to 30 June 2012.

(b) 2009 Preference Stock: Dividend
At 30 June 2012 and at 31 December 2011, there were 1,837,041,304 number of units of 2009 Preference Stock in issue, all of which were held by the NPRFC.

On 20 February 2012, the Group paid a cash dividend of €188.3 million on the 2009 Preference Stock to the NPRFC.

(c) Contingent capital note
In July 2011, the Group issued a Contingent Capital note to the State, satisfying the requirement under the 2011 PCAR to issue €1 billion of contingent capital. The nominal value of this note is €1 billion and cash proceeds of €985 million were received (net of a fee paid to the State of €15 million). The note has a term of five years and a coupon of 10%, which can be increased to a maximum of 18% if the State sells the note to a third party. For further details see note 29.

(d) Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG scheme)
On 4 June 2012, the European Commission approved an extension of the ELG scheme for a further issuance period of six months to 31 December 2012.

A fee is payable in respect of each liability guaranteed under the ELG scheme. This fee amounted to €212 million for the six months ended 30 June 2012 (six months ended 30 June 2011: €239 million; year ended 31 December 2011: €449 million). Further details are set out in note 3.

From 1 April 2012, in line with a strategy of prudently disengaging from the ELG scheme, the Group's UK Banking subsidiary withdrew from the ELG scheme for all new deposits. On 10 July 2012, the Group announced that its Isle of Man subsidiary would withdraw from the ELG scheme with effect from 10 August 2012.

At 30 June 2012, €36 billion of customer deposits and wholesale funding (excluding subordinated liabilities) continue to be covered under the ELG scheme (31 December 2011: €42 billion).

(e) Indemnity on Ministerial Guarantee
Details of the Indemnity on Ministerial Guarantee are set out on page 304 of the Group's Annual Report for the year ended 31 December 2011. At 31 December 2011, the amount of the facility was €10 billion which was subsequently reduced to €5 billion on 23 January 2012. The facility expired on 30 June 2012.

(f) Bonds issued by the State
At 30 June 2012, the Group held sovereign bonds issued by the State with a carrying value of €5,945 million (31 December 2011: €4,684 million) of which €5,517 million (31 December 2011: €4,222 million) is classified as available for sale assets, €418 million (31 December 2011: €462 million) is classified as other financial assets at fair value through profit or loss and €10 million (31 December 2011: €nil) is classified as trading securities. Further details are set out on page 31.

35 Summary of relations with the State (continued)

(g) National Asset Management Agency (NAMA)

At 30 June 2012, the Group held bonds issued by NAMA with a carrying value of €4,774 million (31 December 2011: €5,129 million)

	30 June 2012 €m	31 December 2011 €m
NAMA senior bonds (guaranteed by the State)	4,684	5,016
NAMA subordinated bonds	90	113
Total	**4,774**	**5,129**

An impairment charge of €40 million was incurred on the NAMA subordinated bonds during the six months ended 30 June 2012 (see note 12). Additional details are set out in notes 13 and 14.

(h) National Asset Management Agency Investment Limited (NAMAIL)

On 30 March 2010, the Group, through its wholly-owned subsidiary New Ireland Assurance Company plc, acquired 17 million B shares in NAMAIL. Further details are set out in note 57 of the Group's Annual Report for the year ended 31 December 2011.

A discretionary non-cumulative dividend on the capital invested may be paid on an annual basis and this is limited to the yield on ten year State bonds. A dividend of €1.15 million was received by the Group on 2 April 2012.

(i) Securities repurchase transaction with Irish Bank Resolution Corporation (IBRC)

On 29 March 2012, the Bank, the State and IBRC, reached a conditional agreement to enter into a securities repurchase transaction (repo) whereby the Group would purchase long term Irish Government Bonds from IBRC for a purchase price of €3.1 billion, less any cash margin payable by IBRC to the Bank on the purchase date. IBRC has an obligation to repurchase the bonds for €3.1 billion in cash, less any cash margin held by the Bank on the repurchase date, not later than 364 days after the effective date of the transaction. The transaction was considered to be a related party transaction under the Listing Rules and consequently required independent stockholder approval which involved the publication of a stockholder circular and an Extraordinary General Court (EGC) which approved the transaction. The transaction was financed by the Group by using the bonds, which are eurosystem eligible, to access standard ECB open market operations. The transaction maybe terminated early in certain prescribed circumstances, including in the event of the bonds ceasing to quality as eurosystem eligible. The margin for the Group over ECB funding which applies to this transaction is 135bps. The transaction is governed by a Global Master Repurchase Agreement which incorporates standard market terms including daily margining provisions with respect to changes in the value of the bonds. All IBRC's payment obligations to the Group under the terms of the transaction are guaranteed by the Minister for Finance.

The impact of this transaction on the financial statements at 30 June 2012 is an increase in Loans and advances to banks of €2.8 billion (net of cash margin), an increase in Deposits from banks of €2.8 billion and net interest income of €1 million. Transaction costs of €6 million were incurred and, under the terms of the transaction agreement, will be reimbursed by IBRC.

35 Summary of relations with the State (continued)

(j) Other transactions with the State and entities under its control or joint control
In addition to the matters set out above, the Group enters into other transactions in the normal course of business with the State, its agencies and entities under its control or joint control. These transactions include the provision of banking services, including money market transactions, dealing in government securities and trading in financial instruments issued by certain banks. Other than as set out below, none of these transactions is considered to be individually or collectively significant.

At 30 June 2012, the Group held senior bonds with a carrying value of €443 million issued by the following entities which are related parties of the Group, as follows:

	30 June 2012 €m	31 December 2011 €m
Allied Irish Banks plc	306	57
Permanent TSB Group Holdings plc	137	-
IBRC	-	36
Total	**443**	**93**

At 30 June 2012, the Group also had loans of €94 million to AIB (31 December 2011: €70 million) and €6 million to Permanent TSB Group Holdings plc (31 December 2011: €nil) which were included within loans and advances to banks.

In addition, the Group held deposits from the National Treasury Management Agency (NTMA) of €100 million (31 December 2011: €nil). These deposits were on normal commercial terms. The maximum amount of these deposits during the period was €200 million. The Group also held a number of deposits from the State, its agencies and entities under its control or joint control, which are considered to be collectively significant, totalling c.€0.4 billion (31 December 2011: c.€0.4 billion).

36 Post balance sheet events

Bank of Ireland announces the strengthening of its long term financial services partnership with the UK Post Office
On 3 August 2012, the Bank announced that it has signed definitive agreements with Post Office Limited (Post Office) which will enhance the financial services business which the Bank and Post Office launched in 2004. Under the agreements, the relationship will move to a direct Bank / Post Office relationship, with the Post Office continuing to be primarily responsible for product sales and marketing and Bank of Ireland continuing to be primarily responsible for product development and delivery. In addition, certain amendments will be made to Post Office commission rates and the contract term will be extended to 2023 at a minimum.

As a consequence of the transition to a direct Bank / Post Office model, the Bank's UK subsidiary will purchase the Post Office's shareholding in Midasgrange Limited for a cash consideration of c.£3 million. These new arrangements are expected to become effective in September 2012.

37 Approval of Interim Report

The Interim Report was approved by the Court of Directors on 9 August 2012.

Other Information

1 Average balance sheet and interest rates

The following table shows the average balances and interest rates of interest earning assets and interest bearing liabilities for the six months ended 30 June 2012 and the year ended 31 December 2011. The calculations of average balances are based on daily, weekly or monthly averages, depending on the reporting unit. The average balances used are considered to be representative of the operations of the Group. The Group's operating divisions are managed on a net product margin basis, with funding and interest exposure managed centrally. The explanation of the underlying business trends in the Group's net interest margin, after adjusting for the impact of IFRS income classifications, is outlined on page 9. Rates for the six months ended 30 June 2012 are annualised.

Average Balance Sheet

	6 months ended 30 June 2012			Year ended 31 December 2011		
	Average Balance €m	**Interest[1] €m**	**Rate %**	Average Balance €m	Interest[1] €m	Rate %
Assets						
Loans and advances to banks	16,171	38	0.5	9,810	64	0.7
Loans and advances to customers[2]	99,533	1,758	3.5	113,582	4,089	3.6
Available for sale financial assets and NAMA senior bonds	16,415	253	3.1	18,999	465	2.4
Other financial assets at fair value through profit or loss	30	-	-	70	-	-
Total interest earning assets	**132,149**	**2,049**	**3.1**	**142,461**	**4,618**	**3.2**
Non interest earning assets	22,844	-	-	16,177	-	-
Total Assets	**154,993**	**2,049**	**2.6**	**158,638**	**4,618**	**2.9**
Liabilities and stockholders' equity						
Deposits from banks	32,447	227[1]	1.4	38,518	675[1]	1.8
Customer accounts	57,409	717[1]	2.5	53,529	1,300[1]	2.4
Debt securities in issue	17,241	189[1]	2.2	21,414	489[1]	2.2
Subordinated liabilities	1,401	59	8.4	2,141	171	8.0
Total interest earning liabilities	**108,498**	**1,192**	**2.2**	**115,602**	**2,635**	**2.3**
Current accounts	13,212	-	-	12,862	-	-
Non interest bearing liabilities	23,599	-	-	21,153	-	-
Stockholders' Equity	9,684	-	-	9,021	-	-
Total liabilities and Stockholders' Equity	**154,993**	**1,192**	**1.5**	**158,638**	**2,635**	**1.7**

The balance sheet of the life assurance business has been consolidated and is reflected under 'non-interest earning assets' and 'non-interest bearing liabilities'.

[1] *Excludes the cost of the ELG scheme of €212 million for the six months ended 30 June 2012 (31 December 2011: €449 million) which is included within interest expense.*
[2] *Includes other assets classified as held for sale.*

2 Rates of exchange

Principal rates of exchange used in the preparation of the accounts are as follows:

	30 June 2012		30 June 2011		31 December 2011	
	Closing	**Average**	**Closing**	**Average**	**Closing**	**Average**
€ / US$	1.2590	1.2965	1.4453	1.4388	1.2939	1.3920
€ / Stg£	0.8068	0.8225	0.9026	0.8874	0.8353	0.8679

3 Credit ratings

Ireland - Senior debt	**30 June 2012**	31 December 2011
Standard & Poor's	BBB+ (Negative)	BBB+ (Negative)
Moody's	Ba1 (Negative)	Ba1 (Negative)
Fitch	BBB+ (Negative)	BBB+ (Negative)
DBRS	A (Low) (Under Review - Negative)	A (Low) (Negative trend)

BOI - Senior debt	**30 June 2012**	31 December 2011
Standard & Poor's	BB+ (Negative)	BB+ (Negative)
Moody's	Ba2 (Negative)	Ba2 (Negative)
Fitch	BBB (Negative)	BBB (Negative)
DBRS	BBB (High) (Negative trend)	BBB (High) (Negative trend)

4 Supplementary Asset Quality Disclosures - Mortgages

Retail Ireland mortgages

Retail UK mortgages

Supplementary section - Retail Ireland Mortgages

The following disclosures represent additional disclosures for the Retail Ireland mortgage loan book. These disclosures provide additional detail and analysis on the composition and quality of the loan book.

The Group has a long established infrastructure for the origination, underwriting and management of its mortgage portfolio. The portfolio has all been underwritten by the Group which manages this entire portfolio.

The processes of underwriting through to account management are centralised and delegated discretions are not in operation outside the centralised units. Mortgage applications are assessed utilising a stressed interest rate. The mortgage process relies on documentary evidence of key borrower information including an independent valuation of security.

Book composition

Table 1:

Retail Ireland mortgages - Volumes (before impairment provisions)	**30 June 2012 €m**	31 December 2011 €m
Owner occupied mortgages	20,711	20,863
Buy to let mortgages	6,871	6,991
Total Retail Ireland mortgages	**27,582**	**27,854**

Retail Ireland mortgages were €27.6 billion at 30 June 2012 compared to €27.9 billion at 31 December 2011. The decrease of €272 million or 1% reflects principal repayments and muted demand for new mortgages. Of the Owner occupied mortgages of €20.7 billion, the repayment basis for 88% of these loans is on a ‘principal and interest’ repayment basis with the balance of 12% on at least an ‘interest only’ repayment basis. Of the Buy to let mortgages of €6.9 billion, the repayment basis for 49% of these loans is on a ‘principal and interest’ repayment basis with a balance of 51% on an ‘interest only’ repayment basis.

Book composition (continued)

Bank of Ireland's strategy is to continue to support the mortgage market in the Republic of Ireland albeit the demand for new facilities remains muted. Based on the most recent data available from the Irish Mortgage Council, Bank of Ireland has been the largest provider of mortgages in the Republic of Ireland for the twelve months to 31 March 2012 providing 50% of all new mortgages in the market during the period.

Table 2: 30 June 2012 Origination of Retail Ireland mortgage loan book (before impairment provisions)	Total Retail Ireland mortgage loan book		Loans > 90 days past due and / or impaired	
	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]
1996 and before	**108**	6,299	**9**	358
1997	**60**	2,365	**5**	152
1998	**103**	3,336	**9**	197
1999	**185**	4,704	**15**	279
2000	**333**	6,392	**31**	420
2001	**471**	7,242	**39**	489
2002	**870**	10,565	**84**	748
2003	**1,456**	14,494	**172**	1,221
2004	**2,392**	18,996	**295**	1,654
2005	**3,731**	24,293	**488**	2,361
2006	**5,471**	29,389	**934**	3,683
2007	**4,724**	23,838	**779**	2,973
2008	**3,254**	17,482	**388**	1,503
2009	**1,780**	11,630	**65**	375
2010	**1,258**	7,859	**9**	63
2011	**1,069**	6,896	**2**	15
Six months ended 30 June 2012	**317**	2,262	**-**	1
Total	**27,582**	**198,042**	**3,324**	**16,492**

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

The table above illustrates that €9.7 billion or 35% of the Retail Ireland mortgage loan book originated before 2006, €13.4 billion or 49% between 2006 and 2008 and €4.4 billion or 16% in the years since. Total loans that are 'greater than 90 days past due and / or impaired' were €3.3 billion (December 2011: €2.7 billion) or 12% of the Retail Ireland mortgage loan book at 30 June 2012. Of the total loans that are 'greater than 90 days past due and / or impaired', €2.1 billion or 7.6% were originated between 2006 and 2008.

Book composition (continued)

Table 3a:

30 June 2012 **Risk profile of Retail Ireland mortgage loan book** **(before impairment provisions)**	**Owner occupied**		**Buy to let**		**Total**	
	€m	**%**	**€m**	**%**	**€m**	**%**
Neither past due nor impaired	18,037	87%	5,093	74%	23,130	84%
1-90 days past due but not impaired	772	4%	356	5%	1,128	4%
> 90 days past due and / or impaired	1,902	9%	1,422	21%	3,324	12%
Total Retail Ireland mortgages	**20,711**	**100%**	**6,871**	**100%**	**27,582**	**100%**

31 December 2011 Risk profile of Retail Ireland mortgage loan book (before impairment provisions)	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Neither past due nor impaired	18,458	89%	5,398	77%	23,856	85%
1-90 days past due but not impaired	867	4%	422	6%	1,289	5%
> 90 days past due and / or impaired	1,538	7%	1,171	17%	2,709	10%
Total Retail Ireland mortgages	20,863	100%	6,991	100%	27,854	100%

Table 3b:

Mortgage Arrears **> 90 days past due and / or impaired (number of cases)**	**30 June 2012 %**	31 December 2011 %	30 June 2011 %	31 December 2010 %
Owner occupied mortgages	7.03%	5.60%	4.55%	3.76%
Buy to let mortgages	13.99%	10.76%	7.84%	5.91%
Residential mortgages	**8.33%**	**6.57%**	**5.18%**	**4.17%**
Industry owner occupied (number of cases)	N/a	9.22%	7.17%	5.66%

Mortgage Arrears **> 90 days past due and / or impaired (value)**	**30 June 2012 €m**	31 December 2011 €m	30 June 2011 €m	31 December 2010 €m
Owner occupied mortgages	1,902	1,538	1,219	1,002
Buy to let mortgages	1,422	1,171	877	679
Residential mortgages	**3,324**	**2,709**	**2,096**	**1,681**

The tables above illustrates that €23.1 billion or 84% of the total Retail Ireland mortgage loan book at 30 June 2012 was classified as 'neither past due nor impaired' compared to €23.9 billion or 85% at 31 December 2011.

The '1 – 90 days past due but not impaired' category amounted to €1.1 billion or 4% of the total Retail Ireland mortgage loan book at 30 June 2012 compared to €1.3 billion or 5% at 31 December 2011.

The 'greater than 90 days past due and / or impaired' category amounted to €3.3 billion or 12% of the total Retail Ireland mortgage loan book at 30 June 2012 compared to €2.7 billion or 10% at 31 December 2011.

Based on the latest quarterly information available published in March 2012, default arrears (90 days or more past due) for the Group's owner occupied mortgages remain below the industry average as published by the Central Bank. At 31 March 2012 the default arrears (90 days or more past due) for the industry was 10.16% and for Bank of Ireland was 6.13%.

Book composition (continued)

In the following tables (3b, 3c, and 3d), property values are primarily determined by reference to the original or latest property valuations held, indexed to the Residential property price index published by the Central Statistics Office (CSO). Equity / negative equity values are determined using the Residential property price index published by the CSO at 30 June 2012.

Table 3c:

30 June 2012 **Value of negative equity**	**Owner occupied €m**	**Buy to let €m**	**Total €m**	**Total %**
Neither past due nor impaired	2,302	979	3,281	76%
1-90 days past due but not impaired	129	80	209	5%
> 90 days past due and / or impaired	430	366	796	19%
Total	**2,861**	**1,425**	**4,286**	**100%**

31 December 2011 Value of negative equity	Owner occupied €m	Buy to let €m	Total €m	Total %
Neither past due nor impaired	2,042	896	2,938	79%
1-90 days past due but not impaired	130	83	213	6%
> 90 days past due and / or impaired	302	262	564	15%
Total	2,474	1,241	3,715	100%

At 30 June 2012 the total value of negative equity in the Retail Ireland mortgage loan book was €4.3 billion, of which €3.3 billion (76%) related to loans that were 'neither past due nor impaired', €0.2 billion (5%) related to loans that were '1 – 90 days past due but not impaired' and €0.8 billion (19%) related to loans that were 'greater than 90 days past due and / or impaired'.

Book composition (continued)

Table 3d:

30 June 2012 **Loan to value ratio of total Retail Ireland mortgage loan book**	**Owner occupied** **€m**	**%**	**Buy to let** **€m**	**%**	**Total** **€m**	**%**
Less than 100%	9,410	45%	1,865	27%	11,275	41%
Greater than 100%	11,301	55%	5,006	73%	16,307	59%
Total	**20,711**	**100%**	**6,871**	**100%**	**27,582**	**100%**
Weighted average LTV[1]:						
New Residential mortgages during the period		74%		66%		73%
Stock of Residential mortgages at the period end (index value)		106%		125%		110%

31 December 2011 Loan to value ratio of total Retail Ireland mortgage loan book	Owner occupied €m	%	Buy to let €m	%	Total €m	%
Less than 100%	10,296	50%	2,174	31%	12,470	45%
Greater than 100%	10,567	50%	4,817	69%	15,384	55%
Total	20,863	100%	6,991	100%	27,854	100%
Weighted average LTV[1]:						
New Residential mortgages during the year		79%		60%		79%
Stock of Residential mortgages at the year end (index value)		100%		118%		105%

The table above sets out the indexed loan to value ratio of the total Retail Ireland mortgage loan book at 30 June 2012. €11.3 billion (41%) of Retail Ireland mortgages are in positive equity. 45% of Owner occupied Retail Ireland mortgages and 27% of Buy to let Retail Ireland mortgages are in positive equity.

The weighted average LTV for new Residential mortgages during the six months ended 30 June 2012 was 73% (74% for Owner occupied mortgages and 66% for Buy to let mortgages).

The weighted average indexed LTV for the total Retail Ireland mortgage loan book was 110% at 30 June 2012 (106% for Owner occupied mortgages and 125% for Buy to let mortgages).

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

Book composition (continued)

Table 3e:

30 June 2012

Loan to value ratio of Retail Ireland mortgages > 90 days past due and / or impaired	**Owner occupied €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
Less than 100%	536	28%	246	17%	782	24%
Greater than 100%	1,366	72%	1,176	83%	2,542	76%
Total	**1,902**	**100%**	**1,422**	**100%**	**3,324**	**100%**
Weighted average LTV[1]:						
> 90 days past due and / or impaired mortgages		129%		137%		132%

31 December 2011

Loan to value ratio of Retail Ireland mortgages > 90 days past due and / or impaired	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 100%	493	32%	240	20%	733	27%
Greater than 100%	1,045	68%	931	80%	1,976	73%
Total	1,538	100%	1,171	100%	2,709	100%
Weighted average LTV[1]:						
> 90 days past due and / or impaired mortgages		121%		129%		125%

The table above sets out the indexed loan to value ratio of the loans that were 'greater than 90 days past due and / or impaired' at 30 June 2012.

Of the loans that were 'greater than 90 days past due and / or impaired', €0.8 billion (24%) are not in negative equity (31 December 2011: €0.7 billion (27%)). Of the Owner occupied Retail Ireland mortgages 28% (31 December 2011: 32%) of the loans that were 'greater than 90 days past due and / or impaired' are not in negative equity and 17% (31 December 2011: 20%) of the loans that were 'greater than 90 days past due and / or impaired' Buy to let Retail Ireland mortgages are not in negative equity.

The weighted average indexed LTV for the 'greater than 90 days past due and / or impaired' Retail Ireland mortgages is 132% at 30 June 2012 (31 December 2011: 125%), 129% for Owner occupied (31 December 2011: 121%) and 137% Buy to let (31 December 2011: 129%).

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

Asset quality

Table 4:

30 June 2012 Retail Ireland mortgages Composition and impairment	**Retail Ireland mortgages €m**	**Loans > 90 days past due and / or impaired loans €m**	**Loans > 90 days past due and / or impaired loans as % of advances %**	**Impairment provisions €m**	**Impairment provisions as % of loans > 90 days past due and / or impaired loans %**
Owner occupied mortgages	20,711	1,902	9.2%	672	35%
Buy to let mortgages	6,871	1,422	20.7%	651	46%
Total Retail Ireland mortgages	**27,582**	**3,324**	**12.0%**	**1,323**	**40%**

31 December 2011 Retail Ireland mortgages Composition and impairment	Retail Ireland mortgages €m	Loans > 90 days past due and / or impaired loans €m	Loans > 90 days past due and / or impaired loans as % of advances %	Impairment provisions €m	Impairment provisions as % of loans > 90 days past due and / or impaired loans %
Owner occupied mortgages	20,863	1,538	7.4%	489	32%
Buy to let mortgages	6,991	1,171	16.8%	537	46%
Total Retail Ireland mortgages	27,854	2,709	9.7%	1,026	38%

Retail Ireland mortgages that were 'greater than 90 days past due and / or impaired' at 30 June 2012 were €3.3 billion (12%) as compared to €2.7 billion (10%) at 31 December 2011. The Owner occupied mortgages that were 'greater than 90 days past due and / or impaired' have increased from €1.5 billion at 31 December 2011 to €1.9 billion at 30 June 2012, partly reflecting the continued impact of the general economic downturn in Ireland and affordability issues including falling disposable incomes and elevated unemployment levels. The Buy to let mortgages that were 'greater than 90 days past due and / or impaired' have increased from €1.2 billion at 31 December 2011 to €1.4 billion at 30 June 2012, partly reflecting that borrowers that have migrated to full repayment status as 'interest only' periods have come to an end.

Asset quality (continued)

The Group has already extended, and continues to extend, significant support to customers who are experiencing current difficulties in repaying their mortgage through the use of a range of short term and longer term sustainable mortgage repayment solutions. Forbearance and / or restructuring options are deployed as appropriate, subject to individual case assessment. Experience demonstrates that for a considerable portion of customers in difficulties, forbearance solutions implemented to date have been and remain effective.

The main type of formal restructuring arrangements for Retail Ireland mortgages are analysed below:

Table 5: **30 June 2012** **Formal restructuring arrangements** **- Retail Ireland mortgages (before impairment provisions)**	**Loans not in default[1]**		**Loans > 90 days past due and / or impaired**		**All loans**	
	Balance €m	**Number of accounts[2]**	**Balance €m**	**Number of accounts[2]**	**Balance €m**	**Number of accounts[2]**
Owner occupied						
Interest Only (temporary arrangement)	**658**	4,386	**405**	2,579	**1,063**	6,965
Reduced Payment (greater than interest only)	**375**	1,950	**91**	428	**466**	2,378
Term Extension (including interest servicing)	**198**	2,267	**19**	176	**217**	2,443
Other	**35**	216	**18**	120	**53**	336
Total	**1,266**	**8,819**	**533**	**3,303**	**1,799**	**12,122**
Buy to let						
Interest Only (temporary arrangement)	**247**	1,241	**116**	627	**363**	1,868
Reduced Payment (greater than interest only)	**243**	1,083	**46**	163	**289**	1,246
Term Extension (including interest servicing)	**76**	539	**19**	70	**95**	609
Other	**1**	6	**1**	10	**2**	16
Total	**567**	**2,869**	**182**	**870**	**749**	**3,739**
Total						
Interest Only (temporary arrangement)	**905**	5,627	**521**	3,206	**1,426**	8,833
Reduced Payment (greater than interest only)	**618**	3,033	**137**	591	**755**	3,624
Term Extension (including interest servicing)	**274**	2,806	**38**	246	**312**	3,052
Other	**36**	222	**19**	130	**55**	352
Total	**1,833**	**11,688**	**715**	**4,173**	**2,548**	**15,861**

[1] *Loans neither > 90 days past due nor impaired.*
[2] *The number of accounts does not equate to either the number of customers or the number of properties.*

Asset quality (continued)

The main type of formal restructuring arrangements for Retail Ireland mortgages are analysed below:

31 December 2011 Formal restructuring arrangements - Retail Ireland mortgages (before impairment provisions)	Loans not in default[1] Balance €m	Loans not in default[1] Number of accounts[2]	Loans > 90 days past due and / or impaired Balance €m	Loans > 90 days past due and / or impaired Number of accounts[2]	All loans Balance €m	All loans Number of accounts[2]
Owner occupied						
Interest only (temporary arrangement)	519	3,415	200	1,230	719	4,645
Reduced payment (greater than interest only)	261	1,228	29	114	290	1,342
Term extension (including interest servicing)	191	2,162	15	116	206	2,278
Other	28	176	5	36	33	212
Total	999	6,981	249	1,496	1,248	8,477
Buy to let						
Interest only (temporary arrangement)	209	1,030	65	310	274	1,340
Reduced payment (greater than interest only)	185	798	23	48	208	846
Term extension (including interest servicing)	75	517	13	49	88	566
Other	1	4	-	-	1	4
Total	470	2,349	101	407	571	2,756
Total						
Interest only (temporary arrangement)	728	4,445	265	1,540	993	5,985
Reduced payment (greater than interest only)	446	2,026	52	162	498	2,188
Term extension (including interest servicing)	266	2,679	28	165	294	2,844
Other	29	180	5	36	34	216
Total	1,469	9,330	350	1,903	1,819	11,233

[1] *Loans neither > 90 days past due nor impaired.*
[2] *The number of accounts does not equate to either the number of customers or the number of properties.*

The Group has an operating infrastructure in place to assess and restructure arrangements for customers on a case-by-case basis. Arrears are not generally capitalised at point of restructure and remain in the applicable past due category.

The nature and type of formal restructurings include:
- Interest only (temporary arrangement): an arrangement where the borrower pays the interest on the principal balance, on a temporary or longer term basis, with the principal balance unchanged.
- Reduced payment (greater than interest only) incorporating some principal repayments: a temporary or medium term arrangement where the borrower pays the full interest due plus an element of principal on the basis that principal payments will increase in the future.
- Term extension (including servicing interest): a permanent arrangement where the original term of the mortgage is extended and all interest is fully serviced.
- Other: incorporating short term / temporary payment suspensions or payment reductions.

Asset quality (continued)

The above table illustrates Retail Ireland mortgages that have been subject to formal restructuring arrangements. These arrangements include temporary forbearance arrangements, permanent forbearance arrangements and permanent restructuring arrangements.

Of the €2.5 billion of Retail Ireland mortgages (before impairment provisions) subject to formal restructuring at 30 June 2012 (31 December 2011: €1.8 billion), 98% of these restructures are for repayments of interest only or greater on their balances (December 2011: 98%). Of the 98% of restructures for interest only or greater on the balances, interest only (temporary arrangement) has increased to 56% (December 2011: 55%) and reduced payment (greater than interest only) has increased to 30% (December 2011: 27%). 12% have had their mortgage term extended (December 2011: 16%).

The Group has adopted the requirements of the Central Bank of Ireland Code of Conduct on Mortgage Arrears (CCMA) which, among other things, requires mortgage lenders to establish a Mortgage Arrears Resolution Process (MARP) for defined Owner occupied mortgages. The MARP sets out the framework for case by case consideration and implementation of a range of measures for qualifying borrowers. In addition, the Group has set out a clearly defined Mortgage Arrears Resolution Strategy incorporating both Owner occupied and Buy to let mortgages. The process adopted by the Group seeks to maximise recoveries arising from non repayment of customer mortgages while ensuring that customers are treated fairly and with respect throughout the arrears management and resolution process.

A range of options are deployed, for customers in arrears or facing potential arrears, in order to arrange, where viable or possible, sustainable mortgage repayment solutions. Implementation of forbearance and / or formal restructuring solutions occur on either a temporary or permanent basis to facilitate sustainable repayment plans. Forbearance and / or formal restructuring options are applied as appropriate, subject to individual case assessment.

Temporary forbearance options include setting short term revised repayments or short term suspension of repayments.

Permanent forbearance and / or formal restructuring solutions include, term extensions, phased step-up repayments over total contracted term and capitalisation of arrears.

An analysis of formal restructures outlined in the table above shows that the overall level of those restructures has increased from €1.8 billion or 11,233 accounts at 31 December 2011 to €2.5 billion or 15,861 accounts at 30 June 2012, an increase of 40% and 41% respectively. Owner occupier has increased from €1.2 billion or 8,477 accounts to €1.8 billion or 12,122 accounts at 30 June 2012. Buy to let have increased from €0.6 billion or 2,756 accounts to €0.7 billion or 3,739 accounts.

The increase in restructure activity reflects the ongoing effectiveness of the Group's Mortgage Arrears Resolution Strategy programme in dealing with customers encountering mortgage difficulties.

In the six months to end June 2012, the Group has agreed a number of new longer term restructure options with the Central Bank of Ireland for implementation on a pilot basis.

The Personal Insolvency Bill 2012 as recently published provides for judicial and non judicial resolution options for consumers deemed to have unsustainable indebtedness levels. The Bill amends existing bankruptcy provisions by primarily reducing the timescale for discharge from bankruptcy from 12 years previously to a proposed 3 year period. The Bill also introduces three routes to debt resolution as an alternative to bankruptcy, namely; Debt Relief Notice, Debt Settlement Arrangement and Personal Insolvency Arrangement. The Bill is expected to be passed in the second half of 2012.

Repossessions

At 30 June 2012, the Group had possession of properties held as security as follows:

Table 6:

Repossessions Retail Ireland mortgages	**30 June 2012** Number of repossessions at balance sheet date	**30 June 2012** Balance outstanding before impairment provisions €m	31 December 2011 Number of repossessions at balance sheet date	31 December 2011 Balance outstanding before impairment provisions €m
Owner occupied	115	34	99	29
Buy to let	85	32	67	20
Total residential repossessions	**200**	**66**	**166**	**49**

Table 6a:

6 months ended 30 June 2012 Disposals of repossessions Retail Ireland mortgages	**Number of disposals during the period**	**Balance outstanding after provisions €m**	**Proceeds from disposals €m**
Owner occupied	32	3	3
Buy to let	26	2	2
Total residential repossessions	**58**	**5**	**5**

6 months ended 31 December 2011 Disposals of repossessions Retail Ireland mortgages	Number of disposals during the period	Balance outstanding after provisions €m	Proceeds from disposals €m
Owner occupied	33	5	5
Buy to let	17	3	3
Total residential repossessions	50	8	8

During the six months ended 30 June 2012 the Group disposed of 58 repossessed properties[1] (six months ended 31 December 2011: 50 repossessed properties[1] disposed of). The total contracted disposal proceeds was adequate to cover the balance outstanding after provisions.

[1] *The number of properties disposed of includes those which were subject to an unconditional contract for sale at the reporting date.*

Supplementary section - UK Mortgages

The following disclosures represent additional disclosures on the Retail UK mortgage loan book. These disclosures provide additional detail and analysis on the composition and quality of the loan book.

Book composition

Table 1:

Retail UK mortgages - Volumes (before impairment provisions)	**30 June 2012 £m**	31 December 2011[1] £m
Standard mortgages	10,433	10,905
Buy to let mortgages	9,043	9,826
Self certified mortgages	3,864	4,024
Total Retail UK mortgages	**23,340**	**24,755**

[1] *Loans and advances to customers at 31 December 2011 includes loans held for sale.*

Retail UK mortgages were £23.3 billion at 30 June 2012 compared to £24.8 billion at 31 December 2011. The decrease of £1.4 billion or 6% is primarily due to principal repayments and the Group's deleveraging initiatives. In January 2009 the Group announced its withdrawal from the intermediary sourced mortgage market in the UK, which has resulted in a significant reduction in the volume of new mortgages issued.

Book composition (continued)

Table 2a:

30 June 2012 Risk profile of Retail UK mortgage loan book (before impairment provisions)	**Standard £m**	**Standard %**	**Buy to let £m**	**Buy to let %**	**Self certified £m**	**Self certified %**	**Total £m**	**Total %**
Neither past due nor impaired	9,937	95%	8,504	94%	3,291	85%	21,732	93%
1-90 days past due but not impaired	394	4%	323	4%	431	11%	1,148	5%
> 90 days past due and / or impaired	102	1%	216	2%	142	4%	460	2%
Total Retail UK mortgages	**10,433**	**100%**	**9,043**	**100%**	**3,864**	**100%**	**23,340**	**100%**

31 December 2011 Risk profile of Retail UK mortgage loan book (before impairment provisions)[1]	Standard £m	Standard %	Buy to let £m	Buy to let %	Self certified £m	Self certified %	Total £m	Total %
Neither past due nor impaired	10,407	96%	9,232	94%	3,449	86%	23,088	93%
1-90 days past due but not impaired	342	3%	334	3%	382	9%	1,058	4%
> 90 days past due and / or impaired	156	1%	260	3%	193	5%	609	3%
Total Retail UK mortgages	10,905	100%	9,826	100%	4,024	100%	24,755	100%

Table 2b:

Mortgage Arrears > 90 days past due and / or impaired (number of cases)	**30 June 2012 %**	31 December 2011[1] %	30 June 2011[1] %	31 December 2010 %
Standard mortgages	1.00%	1.28%	1.26%	1.27%
Buy to let mortgages	1.61%	1.66%	1.91%	1.92%
Self certified mortgages	3.15%	4.16%	5.28%	5.45%
Mortgage arrears	**1.51%**	**1.78%**	**1.96%**	**1.99%**

[1] *Loans and advances to customers at 31 December 2011 and 30 June 2011 include loans held for sale.*

The table above illustrates that £21.7 billion or 93% of the total Retail UK mortgage loan book at 30 June 2012 was classified as 'neither past due nor impaired' compared to £23.1 billion or 93% at 31 December 2011.

The '1 – 90 days past due but not impaired' category comprised £1.1 billion or 5% of the total Retail UK mortgage loan book at 30 June 2012 compared to £1.1 billion or 4% at 31 December 2011.

The 'greater than 90 days past due and / or impaired' category comprised £0.5 billion or 2% of the total Retail UK mortgage loan book at 30 June 2012 compared to £0.6 billion or 3% at 31 December 2011.

Book composition (continued)

In the following tables, property values are primarily determined by reference to the original or latest property valuations held, indexed to the Nationwide UK house price index. In the tables the June 2012 Residential Property Price Index published by Nationwide UK provides the relevant index to be applied to the original market values.

Equity / negative equity values are determined using the Nationwide UK house price index at 30 June 2012.

Table 2c:

30 June 2012 Value of negative equity - Retail UK mortgage loan book	**Standard £m**	**Buy to let £m**	**Self certified £m**	**Total £m**	**Total %**
Neither past due nor impaired	104	33	11	148	86%
1-90 days past due but not impaired	6	2	2	10	6%
> 90 days past due and / or impaired	3	8	2	13	8%
Total	**113**	**43**	**15**	**171**	**100%**

31 December 2011 Value of negative equity - Retail UK mortgage loan book[1]	Standard £m	Buy to let £m	Self certified £m	Total £m	Total %
Neither past due nor impaired	105	23	11	139	86%
1-90 days past due but not impaired	5	2	1	8	5%
> 90 days past due and / or impaired	4	7	3	14	9%
Total	114	32	15	161	100%

The total value of negative equity in the Retail UK mortgage loan book was £171 million at 30 June 2012 which comprised £148 million (86%) related to loans that were 'neither past due nor impaired', £10 million (6%) related to loans that were '1 – 90 days past due but not impaired' and £13 million (8%) related to loans that were 'greater than 90 days past due and / or impaired'.

The weighted average LTV of the Retail UK mortgage book at 30 June 2012 was 75% (31 December 2011: 75%).

Table 2d:

30 June 2012 Loan to value ratio of Retail UK mortgages > 90 days past due and / or impaired	**Standard**		**Buy to let**		**Self certified**		**Total residential mortgage portfolio**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
1% to 100%	74	73%	155	72%	114	81%	343	75%
Greater than 100%	28	27%	61	28%	28	19%	117	25%
Total	**102**	**100%**	**216**	**100%**	**142**	**100%**	**460**	**100%**

31 December 2011 Loan to value ratio of Retail UK mortgages > 90 days past due and / or impaired[1]	Standard		Buy to let		Self certified		Total residential mortgage portfolio	
	£m	%	£m	%	£m	%	£m	%
1% to 100%	100	64%	186	72%	156	81%	442	73%
Greater than 100%	56	36%	74	28%	37	19%	168	27%
Total	**156**	**100%**	**260**	**100%**	**193**	**100%**	**610**	**100%**

[1] *Loans and advances to customers at 31 December 2011 includes loans held for sale.*

Asset quality

Table 3:

30 June 2012 Retail UK mortgages Composition and impairment	**Retail UK mortgages £m**	**Loans > 90 days past due and / or impaired loans £m**	**Loans > 90 days past due and / or impaired loans as % of advances %**	**Impairment provisions £m**	**Impairment provisions as % of loans > 90 days past due and / or impaired loans %**
Standard mortgages	10,433	102	1.0%	26	25%
Buy to let mortgages	9,043	216	2.4%	58	27%
Self certified mortgages	3,864	142	3.7%	26	19%
Total Retail UK mortgages	**23,340**	**460**	**2.0%**	**110**	**24%**

31 December 2011 Retail UK mortgages Composition and impairment[1]	Retail UK mortgages £m	Loans > 90 days past due and / or impaired loans £m	Loans > 90 days past due and / or impaired loans as % of advances %	Impairment provisions £m	Impairment provisions as % of loans > 90 days past due and / or impaired loans %
Standard mortgages	10,905	156	1.4%	16	10%
Buy to let mortgages	9,826	260	2.6%	67	26%
Self certified mortgages	4,024	193	4.8%	28	15%
Total Retail UK mortgages	24,755	609	2.5%	111	18%

[1] *Loans and advances to customers at 31 December 2011 includes loans held for sale.*

At 30 June 2012 total Retail UK mortgages had decreased by £1.4 billion or 6% to £23.3 billion (31 December 2011: £24.8 billion) and £0.5 billion of this decrease is attributable to deleveraging initiatives undertaken by the Group during June 2012.

Retail UK mortgages that were ‘greater than 90 days past due and / or impaired’ are £460 million at 30 June 2012 compared to £609 million at 31 December 2011.

Overall impairment provision coverage ratios on Retail UK mortgages that were ‘greater than 90 days past due and / or impaired’ have increased from 18% at 31 December 2011 to 24% at 30 June 2012.

Repossessions

At 30 June 2012, the Group had possession of collateral held as security as follows:

Table 4:

Repossessions Retail UK mortgages	**30 June 2012** Number of repossessions at balance sheet date	**30 June 2012** Balance outstanding before impairment provisions £m	31 December 2011 Number of repossessions as at balance sheet date	31 December 2011 Balance outstanding before impairment provisions £m
Standard	77	10	71	9
Buy to let	137	20	147	19
Self certified	57	12	55	11
Total residential repossession	**271**	**42**	**273**	**39**

Table 4a:

6 months ended 30 June 2012 Disposal of repossessions Retail UK mortgages	**Number of disposals during the period**	**Balance outstanding after impairment provisions £m**	**Proceeds from disposals £m**
Standard	95	8	10
Buy to let	177	14	15
Self certified	70	10	10
Total residential repossessions	**342**	**32**	**35**

6 months ended 31 December 2011 Disposal of repossessions Retail UK mortgages	Number of disposals during the period	Balance outstanding after impairment provisions £m	Proceeds from disposals £m
Standard	120	11	12
Buy to let	173	15	17
Self certified	99	13	14
Total residential repossessions	392	39	43

During the six months ended 30 June 2012 the Group disposed of 342 repossessed properties[1] (six months ended 31 December 2011: 392 repossessed properties[1] disposed of). The total contracted disposal proceeds was adequate to cover the balance outstanding after provisions.

[1] *The number of properties disposed of includes those which were subject to an unconditional contract for sale at the reporting date.*

Notes