Anglo Irish Bank

Interim Report

Six months ended 30 June 2010

Contents

Forward looking statements

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

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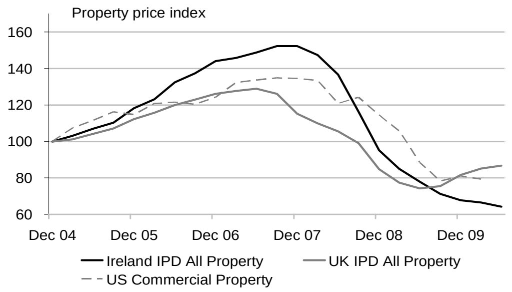
This document constitutes the interim management report required by Regulation 6 of the Transparency (Directive 2004/109/EC) Regulations 2007. It can also be found on the Group's website: www.angloirishbank.com.

Economic backdrop

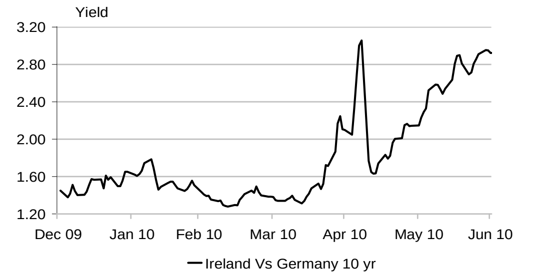
Property markets

Property prices in developed markets are significantly below their 2006/07 peaks (indices rebased to 100). Commercial property prices in Ireland continued to fall, dropping by a further 5% in the first six months of 2010.



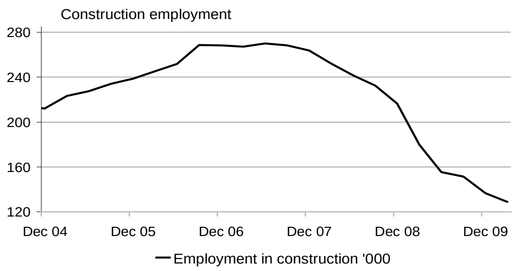
Sovereign yields

The spread of Irish Government bonds over their German equivalents rose dramatically in April and May as worries over the Greek fiscal position intensified. Investors continue to seek safety in German Bunds.



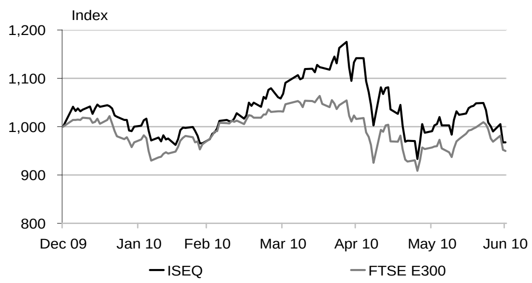
Employment in construction

The numbers employed in construction in Ireland fell further in 2010 as the industry continues to contract.



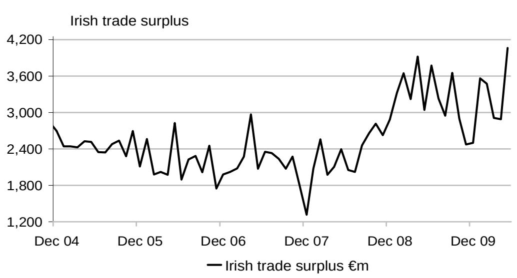
Stock markets

The ISEQ slightly outperformed the FTSE Eurofirst in the period though both indices posted losses in the first six months (indices rebased to 1000).



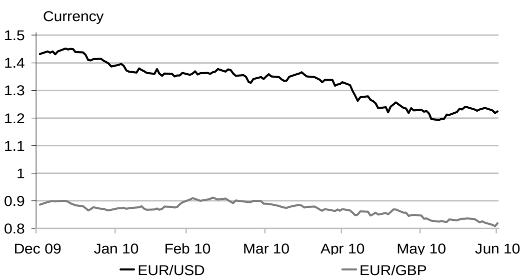
Trade surplus

The Irish seasonally adjusted monthly trade surplus picked up in the first half of the year. This was due to increased exports while imports remained low.



Currency markets

The euro weakened significantly over the period and touched its lowest level since 2006 versus the dollar.



Chairman's statement

Introduction

This is my first statement to you as Chairman and it comes at the end of what has been another very challenging period for both the Bank and the wider economy. I am acutely aware of the Board's mandate to run the Bank in the public interest and in a manner that minimises the cost to the taxpayer. Everything that we do is with that objective in mind and it is the overriding priority of all parties involved.

The severe contraction in the Irish property market, rising unemployment and weak consumer demand which characterised 2009 continued to influence asset prices and impairment charges into the first half of 2010, culminating in the reporting of a pre-tax loss of €8.2bn. In addition, international funding markets were stressed during the period, which impacted the Bank's funding and liquidity position. In this regard, the Bank is reliant on the ongoing support of its Shareholder and monetary authorities, with funding of €26.3bn borrowed from central banks as at 30 June 2010. Further analysis of these results is set out in the Group Chief Executive's review and the Business review. While the important steps taken by the Irish Government have contributed significantly to stabilising the economy, the recovery is expected to be slow and uncertainty remains around the future direction of property markets.

In addition to our primary objective of minimising the cost to the taxpayer, we continue to work closely with the Minister for Finance and his officials towards achieving our other key objectives, including: maintaining access to sources of funding and liquidity; maximising the exit options available to the Government; and reducing the negative systemic threats to the Irish banking system.

The results of the Bank in the first six months of the year only serve to re-emphasise the necessity to take concerted and decisive action. In this regard, we have considered in detail a number of alternative strategic options for the future of the Bank, including an immediate liquidation. After detailed consideration, we have decided to pursue a plan to split the Bank, winding down at least 80% of the old bank and creating a new viable bank from the remaining good quality loan assets. It is the Board's strong view that this restructuring plan represents the best possible outcome for the taxpayer of all the alternatives available.

Restructuring

A restructuring plan was submitted to the European Commission ('EC') on 31 May 2010. Following a process of consultation on the Bank's restructuring plan, a decision from the EC is expected in September 2010. Management and the Board, in consultation with the Minister for Finance and his officials, the Financial Regulator and specialist external advisors, evaluated a number of alternative strategic options as follows:

- A liquidation of all of the Bank over a 12 month period;
- A wind down of all of the Bank over a 10 year period;
- A wind down of all of the Bank over a 20 year period;
- A stabilisation and continuation of the Bank; and
- A split with a wind down of at least 80% of the Bank and the creation of a new viable bank from the remaining good quality loan assets.

Further detail on each of the options above is set out in the Group Chief Executive's review. All of the alternatives were evaluated against a range of criteria, identified by reference to the EC's policy on the restructuring of financial institutions that have received State aid. After detailed consideration, the Board has selected as the preferred option a wind down of at least 80% of the Bank and the creation of a new viable bank from the remaining good quality loan assets. This option is considered to be the most favourable in terms of cost to the taxpayer for a number of reasons:

- It requires the least amount of State aid;
- It requires the least amount of Government funding;
- It offers the prospect of participation in the reconstruction of the banking sector while safeguarding the stability of the Irish financial system; and
- It provides credible options for the Government to exit by way of a future sale with a potential return for the taxpayer.

As is commonly agreed, an immediate liquidation of the Bank would be prohibitively expensive and is simply not a viable option. A wind down over a 10 or 20 year period would be less expensive than immediate liquidation, but would create enormous funding requirements for the Irish Government over the next few years, which could have serious systemic consequences. A wind down would most likely result in the flight of foreign deposit funds, triggering further funding and liquidity stress on the Irish State. Conversely, the new smaller bank would play a valuable role in Ireland by retaining the existing €47bn domestic and international funding platform, reducing the burden on the Exchequer.

A wind down impedes the Bank's ability to manage its loan book in a constructive and beneficial manner, with lending customers less likely to work towards, and contribute to, effective repayment solutions with an institution that is in wind down. This could create asset quality problems, resulting in even greater losses for the taxpayer.

Competition in the Irish banking sector remains an important consideration, especially as foreign owned banks leave Ireland or significantly scale back their operations here in favour of their own domestic markets. Under the current plan a new entity can emerge as a viable but significantly smaller commercial bank, reinforcing competition and servicing the needs of customers requiring financing solutions.

The new bank would create an option to generate a return for the Government while minimising State aid. There is absolutely no prospect for up-side potential or return on investment in a wind down scenario. The split proposal allows the Government and the Irish taxpayer to benefit from exit options, such as a trade sale, public offering or participation in any future consolidation process.

Chairman's statement continued

It is the Bank's preferred option as it allows for the potential to create future value, thus reducing the Exchequer's overall capital losses. It is the only option that maintains an international funding franchise, reducing the Government's potential funding burden. In short, it is the only option which provides any credible path to viability, and with it, an opportunity to recover some value for the Irish taxpayer.

Capital position

As a result of the losses incurred during the period there has been a significant deterioration in the Bank's regulatory capital base. In order to protect the capital position of the Group, the Minister for Finance increased the promissory note by €2.0bn on 28 May 2010 and by a further €8.58bn on 23 August 2010.

The Bank's reported Total Capital ratio at 30 June 2010 is 16.4%. During August 2010, the Bank transferred €5.9bn of additional assets to NAMA, realising an additional loss on transfer of €1.6bn, which will be recognised in the six months to 31 December 2010, in accordance with International Financial Reporting Standards ('IFRS'). It is important to remember that impairment provisions under IFRS are not intended to predict loan discounts on transfer, which are calculated on a different basis. The transfer of further tranches of loans to NAMA will continue to reduce the Bank's risk weighted assets and the receipt of NAMA senior bonds will help improve the Group's overall liquidity position.

Further capital will be required, and while the amount needed is largely dependent on the future direction of commercial property markets, the performance of the wider economy and the level of discounts applied on the transfer of loans to NAMA, it is imperative that the proposed restructuring plan is approved and promptly implemented so as to minimise the overall financial burden on the Exchequer.

Board of Directors

There is now a completely new Board in place and none of the current Directors were on the Board when the Irish Government guarantee was first introduced in September 2008. Comprehensive enhancements have also been made to governance, control and risk mechanisms so that Board structures are aligned with best practice. In addition, we have continued to strengthen the Board with the appointment of three new Non-executive Directors: Dr. Noel Cawley, Aidan Eames and Gary Kennedy, all of whom have been approved by the Financial Regulator. Each of these Directors brings a wealth of experience to our Board and I am confident they will make a significant contribution as we continue our efforts to stabilise and de-risk the Bank.

Donal O'Connor stepped down from the Board on 14 June 2010 and I have succeeded him as Chairman. I would like to thank him for his immense contribution, dedication and leadership during his time as Chairman.

I would also like to acknowledge the continued support of my other colleagues on the Board during the period and thank them for their commitment through these challenging times.

Outlook

It is clear that we are at a critical stage for both the Bank and the wider financial services industry in Ireland. The completion of the NAMA transfer process and the recapitalisation of the participating banks is a significant milestone in the development and reconfiguration of the Irish banking sector. Considering the real concerns about risk concentrations, competition in the market and the need to maintain international funding sources, a suitable model for Ireland would comprise of three or four large domestic banks, coupled with a number of international banks, insurance and other financial service companies that focus on complementary or niche activities. It is widely recognised that in the future foreign banks operating here will focus primarily on providing credit flows in their own domestic markets rather than Ireland. This is an important point as, in the absence of foreign participation, the burden of providing essential credit back to the Irish economy will move to domestic banks. The Irish Government has correctly recognised that a properly functioning financial system is essential for a healthy economy and has taken the necessary steps to support the Irish financial system through a series of decisive actions. I would like to thank the Government, the Minister for Finance and his officials who, through their initiatives, have helped stabilise the Bank and the banking sector as a whole.

The decision to split the Bank, winding down at least 80% of the old bank and creating a new viable smaller bank, was the most favourable alternative available in terms of cost to the taxpayer. While there are considerable losses and funding requirements associated with the proposal, they are much less than those that would be generated in a full wind down scenario. Although the strategy to split is relatively straight forward and the concepts behind it are well grounded, the implementation of such a far-reaching corporate restructuring is complex and will require the commitment, leadership and resolve of all involved. However, while the challenge facing us is considerable, I am confident we now have a management team in place that is capable of meeting it successfully.

Finally, on behalf of the Board I want to acknowledge the contribution made by the Group's new management team and that of our dedicated staff for their resilience and support during this difficult period. The sheer extent and intensity of institutional change and the strain on morale from backward looking commentary mean they face significant obstacles. Reliable, committed and professional people are essential if we are to achieve our primary goal of minimising the overall cost of recovery to the taxpayer.

Alan Dukes
Chairman
31 August 2010

Group Chief Executive's review

On taking up my appointment as Group Chief Executive last September I could not have envisaged the extent of the damage created by the practices of previous management and the impact it would have on the Bank throughout my first year. Given the extensive failures in governance, risk management and control frameworks my immediate priority was to address the shortcomings in the business model and place the Bank on a stable platform. Substantial progress has been made during the period to complete the senior leadership team who will lead the process of stabilising and de-risking the Bank. Currently we are awaiting the approval in principle by the European Commission ('EC') of the Group's restructuring plan, which is fundamental to ensuring we achieve our overall objective of minimising the cost to the taxpayer.

Economic backdrop and performance overview

These are very challenging times for the Irish economy, following an unprecedented global recession and extremely stressed financial market conditions. During the period there was considerable market concern with respect to the fiscal health of peripheral European countries, which constrained access to international funding markets for all Irish banks. Despite this, the Bank has maintained a domestic and international funding platform of €47bn, which is clearly very valuable to the Irish economy. The co-ordinated measures taken by the Government, including the recapitalisation of the banking system and the application of fiscal retrenchment, have been widely acknowledged and welcomed by international markets.

Since the unprecedented market events in late 2008 the financial strength of the Irish economy has deteriorated rapidly. Severe stress in financial markets led to the disappearance of the cheap international funding that fuelled the Irish property boom. This resulted in a downward adjustment to residential and commercial property investment and a rapid deterioration in asset prices. This had devastating effects on an economy that was completely over reliant on construction activity as a contributor to economic growth. GDP fell by 3.5% in 2008 and by a further 7.6% in 2009. Commercial property values have declined by more than 50% from their peak in 2007. This includes a fall of 5% in the six months to 30 June 2010, contributing to further impairment in the period.

The Bank's other primary markets, the UK and the US, have begun to recover from sharp contractions in economic activity. In the UK, aggressive reductions in interest rates, the implementation of quantitative easing and a weaker exchange rate have helped to reinvigorate the economy and, more particularly, the property sector. Commercial property prices have recovered some poise having risen by 15% from the mid 2009 nadir. Strong economic headwinds still persist in terms of a troubled domestic banking sector and a government imperative to rein in the public sector deficit, though monetary policy is supportive of continuing recovery. In the US, headline economic growth numbers were positive in the period but unemployment remains high and the property market remains weak. Low and stable official and term interest rates have stabilised prices and activity levels in both the residential and commercial sectors, but a meaningful recovery in the US property market will require a further acceleration in economic activity and the avoidance of a 'double-dip' recession.

Domestic and international economic conditions have clearly had very serious repercussions for the Group. The Bank, under the previous management, entered this economic downturn over-leveraged and over-exposed to commercial property markets. The unprecedented contraction in economic output and the legacy effects of the policy mistakes pre-nationalisation have had a considerable adverse impact on the Group's results and financial position, contributing to a loss for the six month period of €8.2bn. Of course this is again very disappointing from an Irish taxpayer's perspective, but it is important to remember that decisions taken some time ago have driven this loss.

Further details of the financial results are provided in the Business review, with the key points being:

- On 31 March 2010, the Bank received a promissory note to the value of €8.3bn from the Minister for Finance;
- The Minister increased the principal amount of the promissory note by €2.0bn to €10.3bn on 28 May 2010;
- On 30 June 2010 the Minister wrote to the Chairman to confirm his commitment to increase the principal amount of the promissory note to ensure the Bank had sufficient capital to continue to meet its regulatory capital requirements. On 23 August 2010 the Minister fulfilled his June 2010 commitment by increasing the principal amount of the promissory note by €8.58bn to €18.88bn;
- Specific lending impairment charges total €4.8bn for the period, of which €2.3bn relates to NAMA loans;
- €10.1bn of assets were transferred to NAMA during the period and a further €5.9bn transferred in August 2010;
- Losses of €3.5bn were incurred in relation to the transfer of assets to NAMA during the period;
- At 30 June 2010 €25.9bn of customer loans are classified as held for sale in advance of their expected transfer to NAMA. The cumulative provisions on these loans total €9.7bn or 38%;
- Total operating expenses for the six months to 30 June 2010 are €133m, compared to €151m for the six months to 31 March 2009;
- Staff numbers have fallen from 1,537 at 31 December 2009 to 1,253 at 30 June 2010 following a voluntary redundancy programme;
- Operating profit before impairment and disposals to NAMA was €151m;
- Core Tier 1 Capital at 30 June 2010 is €7.0bn. With total regulatory capital of €10.2bn and risk weighted assets of €62.6bn, the Total Capital ratio is 16.4% at 30 June 2010;
- Customer deposits are down €5.5bn on a constant currency basis since 31 December 2009;
- Funding balances at 30 June 2010 include central bank funding of €26.3bn, including €11.6bn borrowed under special liquidity facilities;
- The Bank currently has a €47bn funding franchise excluding central bank funding.

Stabilisation and risk reduction

In addition to the five senior external appointments announced in my last review on 31 March 2010, we have made good progress in further strengthening the senior management team with a number of additional external appointments. Richard Woodhouse was appointed as Head of Corporate Projects in April 2010 to work on high impact recoveries and complex restructurings, and Mark Layther was appointed as Head of Group Recovery Management in July 2010. Both bring significant international experience in corporate recovery and insolvency to the management team. Dr. Max Barrett joins as the Bank's new company secretary and he brings significant legal experience to the Board.

The priorities of the new management team are:

- To stabilise and de-risk the Bank;
- To assess and report on the actual position of the Bank;
- To maintain access to sources of funds and liquidity;
- To maximise recovery on all loans;
- To co-operate with all investigations into legacy issues; and
- To develop and implement a business plan.

All of these priorities are for the benefit of the economy and the Irish taxpayer. We needed to make comprehensive changes at the top and throughout the organisation, and we have implemented these changes decisively. Much of the effort of the Board and management team over the past six months has been concentrated on a number of key areas which are critical to achieving these priorities.

NAMA - The Bank was designated as a participating institution on 12 February 2010. The formal process of transferring loans to NAMA has commenced and in the six months to June 2010 the Bank transferred €10.1bn of assets. During August 2010, the Bank transferred €5.9bn of additional assets, realising an additional loss on transfer of €1.6bn, which will be recognised in the six months to 31 December 2010 in accordance with International Financial Reporting Standards ('IFRS'). It should be noted that impairment provisions under IFRS are not a predictor of NAMA valuation discounts on transfers, which are calculated on a different basis. The Business review on page 10 provides a detailed explanation as to the differences in methodology.

Funding and Liquidity - As a result of contagion concerns arising from the debt crisis, conditions in wholesale funding markets remain extremely difficult. The Group is currently reliant on borrowings from central banks through both open market operations and special funding facilities. Continued access to central bank facilities is likely to be required over the coming months as significant amounts of debt financed under the Government guarantee scheme falls due. NAMA senior bonds from future transfers are eligible for sale and repurchase agreements with the European Central Bank. A key focus of the new management team, and an integral part of the restructuring plan, is to reduce the Group's reliance on Government and monetary authority support mechanisms.

Risk Management and Oversight - The process of de-risking the Bank involves more than merely reducing risk exposures to counterparties. It begins with a clearly defined risk appetite and strategy, specifying exposures that are acceptable or unacceptable. Linked to this are risk frameworks covering each of the critical areas, combined with detailed risk policies and operational limits. New comprehensive governance, control and risk mechanisms are being put in place and the Bank's risk appetite statement has been fundamentally overhauled. Key Board and management committee structures have been reconstructed to align with best practice. The risk management processes around credit risk have been enhanced and there is a new focus now on balance sheet and capital management.

Asset Recovery - Asset quality in the loan book has deteriorated further during the period due to continued weakness in commercial property markets, contributing to a specific lending impairment charge of €4.8bn. The extremely difficult operating environment in our core markets has not only affected the level of impairment, but has also constrained our capability to generate solutions to realise value from these assets. It is important however to differentiate between 'bad loans' and 'bad assets'. An impaired loan may involve a commercially performing underlying asset which has been over-leveraged by the existing owners. The fact that the cash flow from the asset (for example, an office block or a retail department store) is insufficient to finance loan repayments does not mean that it is a 'bad asset'. Specialist work-out units have now been established to proactively resolve such distressed loans, maximise recovery and, where appropriate, restructure such loans so as to strengthen and improve asset quality. It is essential that the Bank undertakes the restructuring of loan facilities. If the Bank were simply to let these businesses deteriorate further without action, losses would be greater, requiring even further taxpayer support. Recovery and restructuring work is not only a natural and fundamental part of banking, it is necessary to ensure a better prospect of recovery of funds extended to these clients.

Efficiency and Cost Management - Following a voluntary redundancy programme the cost base of the Group has been significantly reduced. The Group's headcount has fallen from over 1,800 pre-nationalisation to 1,253 in June 2010. Excluding the NAMA unit, the Group's headcount stands at 1,161. The business is being fundamentally reorganised to reflect our new priorities and is now a very different organisation to that which existed pre-nationalisation. We will continue to focus on enhancing, refining and right-sizing our workforce to ensure it remains aligned to the evolving business needs. I would like to thank all the staff for the commitment they continue to demonstrate and for their flexibility in aligning to the changes made within the organisation.

Capital Management - The Group's regulatory capital position has continued to benefit from derogations in respect of certain regulatory capital requirements granted on a temporary basis by the Financial Regulator. On 31 March 2010, the Bank received an initial promissory note to the value of €8.3bn from the Minister for Finance. The Minister increased the principal amount of the promissory note by €2.0bn to €10.3bn on 28 May 2010. On 30 June 2010 the Minister wrote to the Chairman to confirm his commitment to ensure the Bank had sufficient capital to continue to meet its regulatory capital requirements. Subsequently on 23 August 2010 the Minister increased the principal amount of the promissory note by €8.58bn to €18.88bn. The ongoing support of the Minster for Finance is essential to the Bank's continued solvency and we are extremely grateful for his support. Management and the Board have prepared a comprehensive plan to limit the downside exposure for the Exchequer and create an option to recover some value for the taxpayer by way of returning the Bank to private ownership in the future.

Restructuring plan

In framing a restructuring plan an extensive review of the Bank and its business was undertaken and all strategic options, including a wind down and liquidation, were considered. Any consideration of the relative merits of the various options requires careful reflection of the likely losses that will be realised, the additional funding burden that must be met by the Government and the systemic consequences of particular courses of action.

A liquidation of all of the Bank over a 12 month period - The first option considered was a 100% liquidation of the Bank over a 12 month period. To execute this option the Government would have to sell the Bank's post NAMA customer loan book at a significant discount. This course of action was clearly the least optimal for the taxpayer as it would crystallise significant capital losses from fire-sale disposals in an already depressed property market, triggering highly negative systemic effects. In addition, there would be an immediate exit of foreign deposit funds, creating further liquidity stress on the Irish State. It is not difficult to see why the Government, the Financial Regulator and the Bank's Directors consider that an immediate liquidation of the Bank is prohibitively expensive.

A wind down of all of the Bank over a 10 year period - This would require the Government to effectively close the Bank to new business and pro-actively run-off the customer loan book and treasury assets. A wind down over a 10 year period would realise less losses than the liquidation scenario above as it would be expected that the amounts recovered from the disposal of loans and other assets would be higher over time. However, a bank in wind down will quickly lose its deposit base as customers move elsewhere and access to wholesale capital markets becomes restricted. This would create additional funding requirements for the Government with possible systemic effects.

A wind down of all of the Bank over a 20 year period - Extending the wind down period to 20 years would not necessarily improve the recovery value of assets given the structural dislocation that Ireland has experienced. Once a wind down is announced the funding condition of the Bank is likely to deteriorate as quickly under a 20 year wind down as it would under 10 year wind down as depositors and bondholders withdraw funds or let positions unwind.

A stabilisation and continuation of the Bank - This option would involve the Government re-capitalising the entire bank at minimum regulatory capital levels and providing long term Government guarantees while the Bank would continue to restructure and re-finance existing loans, originate new loans, gather new deposits and raise additional wholesale funding. Given this option would not represent an in-depth restructuring of the Bank, nor would it provide a path to return to long term viability, the Board agreed not to evaluate it in further detail as it would be inconsistent with the EC's guidance.

A split with a wind down of at least 80% of the Bank and the creation of a new viable bank from the remaining good quality loan assets - The final option evaluated was a split of the Bank into two entities. The first entity would be an asset recovery vehicle for the lower quality assets that have not transferred to NAMA. This company would not conduct any new business and would be fully wound down over a period of approximately 10 years. The second entity would be a new smaller bank, which would deliver viability with a significantly reduced and de-risked balance sheet, initially structured around the remaining good quality assets. It would be a significantly different State owned commercial bank to the previous one, with a customer loan book at least 80% smaller. The new bank could be sold in the future to partially compensate the Government for some portion of its capital loss or participate in the likely consolidation of the Irish financial landscape by becoming part of a larger and more diversified institution. Importantly, this option retains the Bank's existing €47bn funding franchise for the benefit of the State.

The Bank's recommended option of splitting the Bank was arrived at from the perspective of minimising State aid, minimising Government funding and creating options that provide for the possibility of recovery for the taxpayer whilst minimising the systemic impact that either a liquidation or wind down might have.

The Bank and the Government are currently in active dialogue with the European Commission with regard to all options with an expectation of a decision on the Bank's future in September.

Legacy matters

The Bank is continuing to co-operate fully with each of the investigations that are being carried out by external authorities. Given the nature of these investigations it would be inappropriate to comment further on them.

The new management team has instigated a number of internal reviews into the practices, procedures and controls that were in existence across a number of areas of the Bank. These reviews are ongoing and it is not possible at this stage to give any indication as to what their outcome may be. Where it is determined that there are, or have been, material deficiencies in the application of internal controls we will take the necessary steps to ensure that the appropriate governance and risk management frameworks are put in place.

The Bank is currently undertaking an internal review of historical interest rate setting procedures as applied to certain loan accounts. The review deals with the period prior to July 2004 and will determine whether interest rates that were applied were consistent with the terms of the associated customer loan documentation. As part of the review the Bank will have to examine a substantial amount of historical customer loan documentation before it can reliably estimate the amount of any liability that arises to customers who may have been adversely affected.

Group Chief Executive's review continued

The future

After a severe recession the Irish economy is showing signs of some improvement. However, expectations for growth remain subdued and trading conditions are anticipated to remain challenging for the immediate future as unwinding the imbalances created during the economic boom will continue to restrain consumption and investment.

The Bank is awaiting the decision in principle from the EC regarding the restructuring plan. The Bank is focused on the implementation of the preferred option. The plan provides for a new entity to emerge as a viable but significantly smaller commercial bank. This new bank can play a valuable role for the economy by retaining a large funding franchise, both in Ireland and internationally, diversifying asset risk and reinforcing competition. In doing so, the new bank can create better options for the Government to generate a return and minimise State aid. Approval of the plan by the EC will be recognition that it provides the best value to Irish taxpayers while leaving the most room for competition and safeguarding the stability of the Irish banking system.

The new bank would adopt a conservative, liability led business model, de-risking away from property and re-balancing towards commercial banking. It would demonstrate its viability by operating within constrained capital, liquidity, risk and cost frameworks whilst upholding effective and independent governance and risk management processes. Importantly, the plan offers a credible path to viability, with the opportunity for the taxpayer to recover value by way of a future sale or participation in the consolidation agenda for Irish banking.

Finally, I would like to again thank the Minister for Finance and his officials, the Chairman and Board, and our staff for their support since I have joined the Bank and I look forward to continuing to work with them in the future.

A.M.R. (Mike) Aynsley
Group Chief Executive
31 August 2010

Business review

This business review covers the six months to 30 June 2010 and includes commentary on key areas of financial and operating performance of the Group during that period. During the prior period, the Bank extended its financial reporting date by three months from 30 September to 31 December in line with the reporting dates of other State bodies. Regarding the comparable interim period, the Bank has determined that it is appropriate to provide comparative information for the six months to 31 March 2009.

The Bank reports a loss before taxation for the period of €8.2bn reflecting total impairment charges of €4.9bn and a loss on disposal of assets to the National Asset Management Agency ('NAMA') of €3.5bn. For the comparable period to 31 March 2009 the Bank reported a loss before taxation of €4.1bn including total impairment charges of €4.3bn. The level of impairment charges to June 2010 reflects the deteriorating quality of the Bank's loan book and the stressed market conditions within which the Bank operates. Of a total specific lending impairment charge of €4.8bn, €2.3bn relates to NAMA loans. The loss on disposal to NAMA relates to the transfer of €10.1bn of assets at an average discount to par of 54%.

The focus of the Bank's Lending division during the period has been to actively work with clients to minimise the Bank's exposure and to maximise recovery of outstanding debt. Loan advances made during the period have been restricted to funds that had been previously committed or approved to protect asset quality and aligned with the objective of reducing overall risk to the Bank.

The quantity and quality of the Bank's customer and market funding has continued to deteriorate resulting in an increased reliance on support from central banks, including access to special funding facilities. Access to these sources of funding will continue to be required as significant amounts of Government guaranteed debt issuance matures by September this year.

During the financial period the Shareholder provided additional capital contributions totalling €10.58bn to the Bank, bringing the total capital provided since nationalisation to €22.88bn and resulting in a Total Capital ratio at 30 June 2010 of 16.4%. The Group's regulatory capital position throughout the period has continued to benefit from derogations from certain regulatory capital requirements granted by the Financial Regulator. In approving the €8.58bn capital contribution of 30 June 2010, the European Commission also allowed for €1.47bn of additional capital support. The Bank expects that this additional capital will be required in the near term and that further capital support may also be required, the level of which will primarily depend on the discounts applied by NAMA on the full transfer of eligible assets.

NAMA

In April 2009 the Irish Government announced the establishment of NAMA for the purposes of acquiring certain assets from Irish banks, holding, managing and realising those assets and facilitating the restructuring of credit institutions of systemic importance to the Irish economy. On 9 February 2010 the Bank applied to be designated as a participating institution in NAMA. This application was accepted by the Minister for Finance on 12 February 2010 and the Bank was designated accordingly. The transfer of assets to NAMA, which are primarily investment and property development related lending, is a fundamental aspect of the Bank's restructuring process.

During May and June 2010 the Bank transferred €10.1bn of assets (gross of impairment provisions) to NAMA, of which €0.2bn related to the fair value of associated derivative contracts, at an average discount rate of 54%. As consideration, the Bank received NAMA senior bonds in the form of Government Guaranteed Floating Rate Notes with a nominal value of €4.5bn and NAMA subordinated bonds with a nominal value of €0.2bn. The total loss on disposal amounted to €3.5bn, including a fair value adjustment of €0.5bn in respect of the NAMA bonds received. Details on the loss on disposal are contained in note 11 to the interim financial statements.

The Bank's impairment charge is calculated in accordance with IFRS and reflects losses incurred in the period based on conditions existing at 30 June 2010. Losses expected as a result of future events, no matter how likely, are not recognised under IFRS. Specific impairment on individual loans is calculated based on the difference between the current loan balance and the discounted value of estimated future cash flows on the loan. These cash flows may be greater than the current market value of the underlying collateral. The discount rate used in the calculation is the effective interest rate on the loan. Future cash flows are determined based on the Bank's strategy in relation to the particular case, formulated by lending teams and Group Risk in conjunction with the client, to maximise the recovery of the outstanding debt. The current market value of collateral is only used in the impairment calculation where the expectation is that the asset will be disposed of in the immediate term.

The valuation that NAMA applies to loans transferred is based on a process approved by the European Commission, whereby the market value of the underlying loan collateral is adjusted to reflect a longer term economic value which the underlying asset could reasonably be expected to attain in a stable financial system when the current stressed market conditions ameliorate. The starting point, and one of the most important factors in the calculation of this value, is the market value of the underlying loan collateral at 30 November 2009. The NAMA valuation model permits a maximum 25% uplift on this market value. NAMA then use a discounted cash flow methodology that incorporates the adjusted market value and other cash flows associated with the asset together with a 3 year, 5 year or 8 year discount rate. This discount rate in most cases would be significantly higher than the rate as required in the IFRS impairment assessment, resulting in lower NAMA values. All customer loans, including NAMA eligible loans, are assessed for impairment, however as a result of the methodology differences outlined, IFRS based impairment provisions on held for sale assets should not be considered an indicator of future NAMA loan discounts.

The remaining eligible assets which the Bank expects to transfer to NAMA have been categorised as held for sale. At 30 June 2010 €25.9bn of customer loans were expected to be sold to NAMA. The cumulative impairment provisions on these loans total €9.7bn or 38%. During August 2010 the Bank transferred assets with a carrying value of €3.3bn (net of impairment provisions of €2.6bn) to NAMA at an average discount rate of 66%. As consideration, the Bank received NAMA bonds with a fair value of €1.7bn. The total loss on disposal of €1.6bn, will be recognised in the income statement in the six months to 31 December 2010. The average discount of 62% which was publicly referred to by NAMA includes certain loans that were transferred pre 30 June 2010 and does not relate solely to those loans that transferred in August.

Business review continued

NAMA has complete discretion as to which assets will be acquired and has not confirmed to the Bank the total value of loans that it expects to purchase. Accordingly, not all loans currently classified as held for sale may ultimately transfer to NAMA. Since the period end, NAMA have confirmed that they will not now be acquiring €1.2bn of the €25.9bn of loans classified as held for sale at 30 June 2010.

NAMA discounts

During the six months to 30 June 2010, the Group transferred €10.1bn of assets to NAMA, of this total €8.2bn (81%) related to the Irish Lending division and €1.9bn (19%) related to the UK. Of the assets transferred €4.5bn (44%) are land and development loans with a further €5.6bn (56%) of associated lending. A wide range of discounts were applied by NAMA to the assets transferred as indicated in the table below.

Assets transferred to NAMA - discount range	**€bn**
0%	**1.2**
0% to 20%	**1.0**
20% to 40%	**0.9**
40% to 60%	**1.4**
60% to 80%	**3.1**
80% to 100%	**1.9**
100%	**0.6**
Total	**10.1**
Average discount	**54%**

Customer lending and asset quality

The six months to 30 June 2010 continued to be a very difficult period for the Bank's Lending division. Operating conditions across all our core markets remain extremely challenging, as both domestic and international markets have not recovered from the global recession and stressed financial market conditions. The unprecedented collapse in the Irish property market has had a severe impact on the local economy and significant uncertainty remains as property values continue to fall and as the NAMA process evolves. The Bank continues to focus on de-risking its lending portfolio with total gross customer loan balances declining by 15%[2] in the period to €64.3bn[1], primarily as a result of transfers to NAMA. However, the continued decline in collateral values and in our clients' net worth has resulted in further deterioration in the asset quality across the portfolio. Impaired loans at 30 June 2010 totalled €34.5bn, 54% of loan balances. The specific impairment charge for the six months to June 2010 totalled €4.8bn.

Customer lending

Analysis of customer lending[1]	**30 June 2010**					
	Held for sale		**Loans and advances to customers**		**Total**	
	€bn	**%**	**€bn**	**%**	**€bn**	**%**
Ireland	**18.4**	**69%**	**17.6**	**47%**	**36.0**	**56%**
UK	**5.8**	**22%**	**11.8**	**31%**	**17.6**	**27%**
US	**2.4**	**9%**	**8.3**	**22%**	**10.7**	**17%**
Total	**26.6**	**100%**	**37.7**	**100%**	**64.3**	**100%**
Provisions for impairment	**(10.0)**		**(7.5)**		**(17.5)**	
Customer lending net of impairment	**16.6**		**30.2**		**46.8**	
Provision / % of loan balances	**10.0**	**38%**	**7.5**	**20%**	**17.5**	**27%**

Customer lending balances, gross of provisions, total €64.3bn, of which €37.7bn or 59% relate to loans and advances to customers with €26.6bn or 41% classified as held for sale.

Total customer lending balances declined significantly during the period primarily due to the transfer of loans to NAMA. Net loan repayments and other movements during the six months contributed to an additional reduction in loan balances of €1.7bn. Repayments in the period were primarily in the UK division where market conditions are showing some signs of improvement. On a geographic basis Ireland accounts for 56% of all lending with 27% and 17% in the UK and US respectively.

Total held for sale loans can be broken down as follows: €18.4bn relates to Ireland, representing 51% of total Irish lending; €5.8bn relates to the UK, representing 33% of total UK lending and €2.4bn relates to the US, representing 22% of total US lending. Held for sale assets include loans expected to be transferred to NAMA totalling €25.9bn together with €0.7bn of loans to US customers which the Bank expects to sell outside of the NAMA process. Of the total gross assets currently expected to be transferred to NAMA €12.1bn are land and development loans, which amounts to 91% of the Group's land and development exposure at 30 June 2010. Cumulative impairment provisions amount to €17.5bn, 27% of total loan balances. Provision balances consist of specific provisions of €16.2bn and a

Business review continued

collective provision of €1.3bn. €10.0bn, or 57%, of the total impairment provisions relate to held for sale loans, representing 38% of related balances. The impairment provisions on the post NAMA loan book (loans and advances to customers) represent 20% of loans and advances to customers balances. A reconciliation of opening to closing impairment provisions is detailed in notes 18 and 23 to the interim financial statements.

Interest income on customer lending (including held for sale assets) for the period to 30 June 2010 totals €0.9bn. Included in interest income is €0.1bn of interest which has been capitalised on customers' loans and also €0.3bn relating to interest on impaired loans. Customer margin income has reduced significantly compared with the corresponding prior period, reflecting an increase in impaired loans and also the impact of NAMA transfers. The Bank continues to actively re-price existing loan facilities where possible in order to reflect the increased cost of funding.

New lending remains low and continues to be governed by the conditions of the Subscription Agreement entered into with the Irish Government during 2009. Advances during the period have been restricted to funds that had been previously committed or approved to protect asset quality and aimed at reducing overall risk to the Bank. At 30 June 2010, committed lending work in progress ('WIP') totalled €1.1bn (31 December 2009: €1.9bn). The reduced level of WIP reflects the conditions of the Subscription Agreement, the re-evaluation by both clients and the Bank of previously approved projects due to the changed economic environment and the expiry of previously approved facilities.

Lending asset quality

Grading analysis

	30 June 2010					
	Held for sale		Loans and advances to customers		Total	
	€bn	%	€bn	%	€bn	%
Good quality	1.2	5%	12.4	33%	13.6	21%
Satisfactory quality	0.1	0%	0.7	2%	0.8	1%
Lower quality but not past due or impaired	1.5	6%	5.1	14%	6.6	10%
Total neither past due or impaired	2.8		18.2		21.0	
Past due but not impaired	3.2	12%	5.6	15%	8.8	14%
Impaired loans	20.6	77%	13.9	36%	34.5	54%
	26.6	100%	37.7	100%	64.3	100%
Provisions for impairment	(10.0)		(7.5)		(17.5)	
Total	16.6		30.2		46.8	

As a consequence of the continued deterioration in economic and market conditions in the period to 30 June 2010, the grading of the Bank's loan book across all sectors and locations has been adversely impacted. Loans that are either impaired, past due but not impaired or lower quality are deemed 'at risk' by management. At 30 June 2010, 95% of held for sale assets (31 December 2009: 84%) and 65% of loans and advances to customers (31 December 2009: 53%) are considered 'at risk'.

Impaired loans at 30 June 2010 total €34.5bn, which is a decrease in the amount previously reported at 31 December 2009 of €35.9bn[2]. Allowing for the transfers of impaired loans to NAMA, there has been an actual increase of €5.3bn[2] in impaired loans during the period under review. Held for sale assets represent 60%, or €20.6bn, of the total impaired loans as at 30 June 2010.

The amount of loans classified as past due but not impaired has decreased to €8.8bn from €9.1bn[2] at 31 December 2009. Adjusting for the impact of transfers to NAMA, the amount of loans classified as past due but not impaired has increased by €0.3bn[2]. This increase reflects the impact on business cash flows caused by the ongoing economic uncertainty across all of our core markets. Ireland accounts for €6.4bn (73%) of the total past due but not impaired amount, the UK €1.4bn (16%), and the US €1.0bn (11%).

Loans past due for more than 90 days represent the highest risk element of past due but not impaired loans. At 30 June 2010, €5.1bn of loans are past due for more than 90 days (31 December 2009: €3.8bn) which represents 8% of total lending assets (31 December 2009: 5%). Of the total at 30 June, €2.4bn is attributable to held for sale loans. A full aged analysis is included within note 35 to the interim financial statements.

Lower quality but not past due or impaired loans at 30 June 2010 totalled €6.6bn or 10% of gross lending assets. Although currently not past due or impaired, these loans represent those which management deems to have a high risk of deterioration.

The amount of lending assets which management deem to be good quality total €13.6bn at 30 June 2010, representing 21% of total gross lending assets. These loans (excluding the held for sale portion of €1.2bn) will form the core of the lending portfolio in the proposed new bank. After allowing for transfers to NAMA during the period the amount of good quality lending assets is €6.7bn[2] lower than as at 31 December 2009.

The quality of the Bank's loan book is a reflection of the distress that many of our customers are experiencing. The collapse in Irish commercial property values has resulted in little or no equity value remaining in many projects that the Bank has financed. The Bank has recently established a Group Recovery Management team with the objective to pro-actively resolve distressed loans, maximise recovery and, where appropriate, restructure such loans so as to strengthen and improve asset quality. As part of the normal activity in the management and recovery of the distressed loan portfolio the Bank expects to acquire ownership interests in distressed corporate

Business review continued

customers, particularly in Ireland and the US. At this point in the economic cycle this represents normal and fundamental banking practice and is necessary to protect the Bank's financial position. While the particulars of each case will be unique, the Bank does not expect to become involved in the day-to-day management, but will ensure that the necessary steps are taken that will allow businesses to be run in the best long term interests of all stakeholders.

Lending impairment – charge for the period

Income statement - lending impairment	**6 months ended 30 June 2010 €m**	6 months ended 31 March 2009 €m	15 months ended 31 December 2009 €m
Specific charge - loans and advances to customers	**2,492**	3,694	3,701
Specific charge - held for sale	**2,280**	-	10,160
Total specific lending impairment	**4,772**	3,694	13,861
Collective charge	**27**	411	583
Total lending impairment	**4,799**	4,105	14,444
Annualised % of closing loan balances	**14.9%**	11.4%	16.0%

The specific lending impairment charge for the period of €4.8bn brings the closing statement of financial position specific impairment provision to €16.2bn, or 25% of closing loan balances.

Impairment is calculated in accordance with IFRS and reflects losses incurred in the period based on conditions existing at 30 June 2010. The specific charge was determined following a detailed asset quality assessment by Group Risk Management. This charge is calculated based on discounting estimated future cash flows on loans and reflects the substantial price reductions in development assets and land holdings, reduced investment cash flows and asset values, much reduced borrower net worth and the increased time envisaged to sell assets and realise investments.

The collective impairment charge for the period totals €27m, bringing the cumulative collective impairment provision to €1.3bn, or 4.3%, of total loans and advances to customers and held for sale (excluding impaired loans). This provision reflects an allowance for loan losses existing in the performing loan book where there is currently no specific evidence of impairment on individual loans. The provision has been calculated with reference to historical loss experience supplemented by observable market evidence and management's judgement regarding market conditions at 30 June 2010.

Income statement - specific lending impairment	**Held for sale €m**	**Loans and advances to customers €m**	**Total €m**
Ireland	**1,813**	**1,942**	**3,755**
UK	**277**	**182**	**459**
US	**190**	**368**	**558**
Total	**2,280**	**2,492**	**4,772**
Annualised % of closing loan balances	**17.1%**	**13.2%**	**14.8%**

The specific lending impairment charge for the six months to 30 June 2010 totals €4.8bn (six months to 31 March 2009: €3.7bn). Of this charge €2.3bn (48%) relates to held for sale assets with the balance of €2.5bn attributable to the expected post NAMA portfolio. On an overall geographic basis €3.7bn of the total specific impairment charge relates to Ireland with €0.5bn and €0.6bn relating to the UK and US respectively.

Losses relating to development loans amount to €1.5bn (31%) of the total specific charge of €4.8bn. This charge covers loans related to all phases of development from unzoned land to completed units available for sale. The Ireland Lending division accounts for 82% of the development charge and reflects the continuing decline in land values, the uncertainty regarding the timing and availability of funding to complete partially completed developments and the significant overhang of supply in both the commercial and residential markets.

A further €2.1bn relates to investment assets, with 59% of this attributable to the leisure and retail sectors. Operating conditions for businesses in these sectors have been particularly hard hit by the decline in retail sales and the increase in unemployment. Ireland, which has seen a steady rise in unemployment to 13.4% over the last six months, was the worst affected market and accounted for €1.4bn of the €2.1bn charge. The remaining specific charge of €1.2bn is attributable to business banking, personal and other lending, of which 99% relates to Ireland.

Business review continued

Post NAMA loan portfolio

Divisional lending balances by sector[1]	30 June 2010				
	Commercial €bn	**Residential €bn**	**Business Banking €bn**	**Other €bn**	**Total €bn**
Loans and advances to customers					
Ireland	**10.0**	**0.6**	**3.9**	**3.1**	**17.6**
UK	**11.0**	**0.6**	**0.1**	**0.1**	**11.8**
US	**6.8**	**1.5**	**-**	**-**	**8.3**
	27.8	**2.7**	**4.0**	**3.2**	**37.7**

Commercial lending in total represents 74% of the post NAMA loan portfolio and consists of investment and development property lending across all sectors including retail, office and leisure, which together account for €21.7bn, or 78%, of total commercial lending. Business Banking accounts for €4.0bn, or 11%, of the post NAMA loan portfolio and consists of lending to small and medium enterprises ('SME') and the corporate sector where the bank is looking primarily to business earnings to service debt obligations. Residential lending represents €2.7bn, or 7%, of the portfolio and consists of investment and development lending into the residential sector. Other lending represents €3.2bn, or 8%, of the post NAMA loan portfolio, of which personal lending accounts for €2.8bn.

The Bank's post NAMA loan portfolio remains concentrated. The top 20 customer groups (as defined by the Irish Financial Regulator), excluding loans classified as held for sale, represent €9.2bn or 24% (31 December 2009: €8.8bn or 24%) of the Group's total loans and advances to customers before provisions for impairment. Of the top 20 customer groups, one group accounts for 6% of total loans and advances to customers. In addition, a further two groups have borrowings in excess of €500m. In total, there are 21 customer groups which have borrowings in excess of €250m.

A regulatory customer group typically consists of a number of connected entities and the balances represent multiple individual loans secured by diverse portfolios of assets and multiple contracted cash flows. A detailed geographic and sectoral analysis of the post NAMA loan book is contained in note 35 to the interim financial statements.

Financial markets

Funding overview

The composition of the Bank's funding profile has continued to deteriorate since 31 December 2009 with further declines in customer funding balances and unsecured deposits from market counterparts. Consequently, the Bank has had to continue to rely on funding support from central banks and monetary authorities (€26.3bn at 30 June 2010, representing 36% of total funding). The decrease in customer and market funding has been driven by market wide risk aversion towards the banking sector in general as well as Bank specific ratings actions. The market for customer deposits remains extremely competitive, particularly the retail deposit market where pricing pressure makes deposit retention challenging. Retail deposits have reduced by €3.8bn[2] in the six months to 30 June 2010.

The dislocation in wholesale term funding markets continues, making it difficult to achieve the Group's long term funding requirements. The Group will have a significant funding requirement by the end of September 2010 with €7.2bn of medium term notes ('MTNs') maturing when the Credit Institutions (Financial Support) ('CIFS') Government guarantee scheme expires. Continued access to European Central Bank ('ECB') facilities is therefore required over the coming months to meet the Bank's funding requirement. NAMA senior bonds from future transfers are eligible for sale and repurchase agreements with the ECB.

The Bank is a participating institution in both the CIFS and the Credit Institutions (Eligible Liabilities Guarantee) ('ELG') Government guarantee schemes. The CIFS scheme covers pre-existing deposits and certain other liabilities (senior unsecured debt, asset covered securities and dated subordinated debt) until 29 September 2010. The Group became a participating institution in the ELG scheme on 28 January 2010 and certain new qualifying deposits and securities issued by the Group from this date onwards are covered by the scheme. The Bank successfully issued €2.4bn of Government guaranteed MTNs during the period, with maturities of 2 to 5 years. The Irish Government has recently extended the ELG scheme for certain eligible liabilities to 31 December 2010, however certain deposits with a maturity under 3 months will not be eligible beyond the end of September 2010. The Bank has publicly called for the scheme to be extended.

Customer funding

	30 June 2010 €m	31 December 2009[2] €m
Retail	**11,656**	15,498
Non-retail	**11,500**	13,119
Total	**23,156**	28,617

Business review continued

Customer funding balances account for 32% of total funding at 30 June 2010, down from 36% at 31 December 2009. Average total customer deposits for the six months to 30 June 2010 were €25.0bn. Customer accounts have decreased by €5.5bn[2] since December 2009. Retail balances have decreased by €3.8bn[2] largely as a result of maturing one year deposit products launched in 2009 and retention difficulties due to pricing restrictions in the UK. Retail balances in Ireland have fallen by €1.5bn[2] since December 2009 with further declines in the UK and the Isle of Man of €1.8bn[2] and €0.5bn[2] respectively. At 30 June 2010 38% of retail balances were sourced in Ireland, 42% in the UK and 20% in the Isle of Man.

Non-retail balances have decreased by €1.7bn[2]. There has been a decline in funding from non-bank financial institutions (insurance companies, asset managers, pension funds) and more granular corporate deposits due to a reduction in corporate cash balances and adverse ratings actions impacting both the Bank and the Irish sovereign.

The cost of customer funding for both retail and corporate deposits remained at elevated levels during the period reflecting the intensely competitive market conditions and the cost of the Government guarantee schemes.

Market funding

	30 June 2010 €m	31 December 2009[2] €m
Debt securities in issue	**16,518**	15,811
Deposits from banks	**33,301**	33,178
Total	**49,819**	48,989

Market funding, including borrowings from central banks, accounts for 68% of total funding, up from 64% at 31 December 2009.

Debt securities in issue have increased by €0.7bn[2] primarily due to the issuance of €2.4bn of Government guaranteed MTNs in April and an increase in short term programme (commercial paper and certificates of deposit) balances of €0.2bn[2]. €1.4bn of debt securities matured or were redeemed during the period and €0.5bn of the Bank's covered bonds also matured during the six months to 30 June 2010. The overall cost of term debt has increased as new issuance was priced at higher margins than maturing programmes.

Short term balances have increased from €1.5bn[2] at 31 December 2009 to €1.7bn at 30 June 2010 primarily due to an increase in the Bank's US commercial paper issuance. The outstanding balances at the end of June have an average residual duration of less than one month.

The decline in customer funding has been offset by increased borrowings from central banks, which is collateralised funding. Deposits from banks and central banks have increased to €33.3bn, and represent 46% of total funding at 30 June 2010, compared to 44% at December 2009. Funding is received from central banks and monetary authorities under open market operations and other secured liquidity facilities. Total borrowings from central banks was €26.3bn at 30 June 2010. Included within this was €11.6bn (31 December 2009: €11.5bn) borrowed under a Special Master Repurchase Agreement ('SMRA') and a Master Loan Repurchase Agreement ('MLRA') from the Central Bank and Financial Services Authority of Ireland. The majority of the funds were advanced under the SMRA, involving the sale and repurchase of the promissory note. Collateral assigned under the MLRA is derived from the Bank's customer lending assets. The interest rate on both facilities is set by the Central Bank and advised at each rollover, and is currently linked to the ECB marginal lending facility rate. Due to the short term and concentrated nature of its funding base, the Bank is not in full compliance with a number of regulatory requirements.

The total amount of loan assets assigned as collateral under rated securitisation programmes and secured central bank borrowings at 30 June 2010 was €18.8bn (31 December 2009: €29.7bn).

Loans and advances to banks

Placements with banks and central banks increased by €0.5bn[2] in the period. The total balance of €8.0bn at 30 June 2010 includes €3.4bn of primarily short term placements and secured reverse repurchase agreements with banks, of which €2.4bn relates to Irish banks. Also included in the total is €2.9bn of cash collateral placed with banking counterparties to offset credit risk arising from derivative contracts, an increase of €1.4bn from 31 December 2009, primarily due to the impact of foreign exchange rate movements during the period.

Treasury assets

The Bank holds a portfolio of debt securities that are held for investment purposes or liquidity reasons. Most debt securities are classified as available-for-sale ('AFS'), though certain investments with embedded derivatives are included within financial assets at fair value through profit or loss. While the debt securities portfolio mainly comprises sovereign investments and debt issued by financial institutions, it also includes residential mortgage backed securities and other asset backed securities.

Consistent with the ongoing efforts to de-risk the Bank, a strategic decision was made during the period to reduce the Bank's exposure over time to asset backed securities. The Bank realised capital losses of €85m on the disposal of €0.8bn of asset backed securities and bank subordinated debt during the period. These losses were offset by a gain of €55m realised on the disposal of €1.5bn of government bonds. A net loss on disposal of €30m is reported in other operating expense. A further €0.9bn of government bonds matured since 31 December 2009.

Business review continued

Available-for-sale financial assets total €4.6bn at 30 June 2010, a decrease of €3.3bn from 31 December 2009. The following table represents the credit quality of AFS assets.

Available-for-sale financial assets	**30 June 2010 €m**	31 December 2009 €m
AAA / AA	**3,407**	6,228
A	**921**	1,346
BBB+ / BBB / BBB-	**197**	206
Sub investment grade	**50**	105
Unrated	**47**	5
Total	**4,622**	7,890

Of the Bank's holdings of AFS securities 74% are graded AA or above, with 94% graded A and above, and €97m being sub investment grade or unrated.

Euro denominated sovereign bonds account for 15% of holdings, bank bonds 65%, residential mortgage backed securities 13%, asset backed securities 6% and NAMA subordinated bonds 1%. Of the total bank bonds included within the portfolio €1.7bn, or 36%, relate to bonds issued by Irish banks covered under the Irish Government guarantee schemes. At 30 June 2010 the Bank's total underlying exposure to issuers in Spain, Portugal and Greece is less than €280m.

All bonds are reviewed for impairment on an individual basis, with impairment charges reflected in the income statement. The Group incurred an impairment charge of €10m on its portfolio of subordinated bank paper during the period to 30 June 2010. Non impaired AFS debt securities on watch total €139m at 30 June 2010 (31 December 2009: €91m). The carrying value of impaired AFS assets is €82m (31 December 2009: €106m).

Financial markets revenue

Financial markets net interest income (excluding customer lending margin and arrangement fees) has declined relative to the prior comparable period primarily due to a significant increase in funding costs, especially with respect to customer deposits and the special liquidity facilities arranged through the Central Bank. Funding costs are likely to continue at elevated levels in the short to medium term.

The cost of the Government guarantee schemes, particularly the ELG scheme, has also contributed to increased funding costs during the period. The cost of the CIFS and ELG Government guarantee schemes for the six months to 30 June 2010 was €39m and €38m respectively. The cost of the CIFS scheme, which covers liabilities already in issue at 29 September 2008, is classified as fee and commission expense. The cost of the ELG scheme is classified as interest expense as the cost of this scheme is directly attributable to each specific eligible liability and represents an incremental cost of issuance.

Corporate treasury income is down by 70% to €11m due to the low level of new deal flows on interest rate derivatives given the lack of new lending volumes and reduced client demand for hedging derivatives. Net trading income includes credit fair value losses of €31m on lending client originated derivative transactions. These derivatives, whereby customers pay a fixed rate, were put in place to hedge the interest rate exposure on their borrowings. Interest rate derivative contracts have increased in value during the period given the significant decline in long term market interest rates and therefore give rise to increased counterparty risk from the Bank's perspective. The equivalent charge calculated with respect to the 15 months ending 31 December 2009 was €212m.

Wealth management

The Bank's Wealth Management division has experienced a significant and prolonged decline in activity as a result of the ongoing recession in Ireland. Recurring fee income relating to assets under management continues to be the primary source of income for the division. Reflecting a decline in the value of assets under management, this recurring fee income is lower than the prior comparable period. Minimal structuring and set up fee income was earned in the six months to 30 June 2010 due to an absence of new business. Lending activity within the Wealth Management business was transferred to the Lending division during the period and management's primary focus is now on generating fee income from investment related activities. Trust and fiduciary fee income has decreased from the comparable prior period primarily due to the sale of Anglo Irish Bank (Austria) A.G. in December 2008.

As part of normal business activity the Bank previously acquired property assets with the intention of placing these investments with Wealth Management clients. However, as a result of market conditions and a lack of investor appetite, these assets are now being held on the Group's Balance Sheet. Depending on the investment structure used to acquire the assets, they are included in the consolidated statement of financial position as either investment property held on own account or interests in joint ventures. Given the significant decline in property values since they were acquired the Group does not expect to recover all of its initial investment in these assets. Accordingly, a further €44m of losses have been recognised in the period due to a decline in their recoverable amounts. In addition, the Group has incurred negative fair value movements of €18m in relation to swaps that were put in place to hedge interest payments on these investments. These fair value movements reflect the decline in long term market interest rates over the six month period. The Group has investigated the restructuring of some of these investment assets and continues to evaluate its strategic options in this regard.

Business review continued

Promissory note and Amount due from Shareholder

On 31 March 2010 the Minister for Finance settled the amount due from Shareholder at 31 December 2009 by providing the Bank with a promissory note with a value of €8.3bn. The principal amount of the promissory note was subsequently increased through the receipt of a €2.0bn adjustment instrument on 28 May 2010. Both the promissory note and the adjustment instrument pay a fixed coupon at a market rate of interest for the term of the assets and accordingly were fair valued at par on initial recognition. The promissory note is carried at amortised cost in accordance with IFRS and the Bank does not therefore recognise any gains or losses associated with changes to its fair value arising from market rate changes.

The receipt of the promissory note and adjustment instrument has resulted in the Bank holding €10.3bn of fixed interest rate exposure. As part of its capital and interest rate risk management policies the Group has elected to hedge a portion of this exposure.

The Minister for Finance recapitalised the Bank with a further €8.58bn, effective 30 June 2010. On 23 August 2010 the €8.58bn due from the Shareholder was settled via the receipt of a further adjustment instrument to the promissory note. Note 21 to the interim financial statements provides further details on the promissory note and adjustment instruments.

Capital

The Group's regulatory capital position has remained under considerable stress due to the losses incurred during the period. The Minister for Finance, as the Bank's sole Shareholder, has committed that the Bank will remain adequately capitalised. As evidence of this commitment the Minister for Finance provided an additional capital contribution of €2.0bn on 28 May 2010 by way of an adjustment instrument to the €8.3bn promissory note issued on 31 March 2010. A further capital contribution of €8.58bn, relating to the amount due from Shareholder at 30 June 2010, brings the total amount of capital contributed by the Shareholder to date to €22.88bn, all of which qualifies as Core Tier 1 regulatory capital.

The inclusion of the capital contribution of 30 June 2010 restored the Group's regulatory capital position resulting in a Tier 1 Capital ratio of 11.6% and a Total Capital ratio of 16.4% (31 December 2009: 6.6% and 10.7% respectively). Included in the Group's regulatory capital base is €0.3bn of perpetual preferred securities (Non-Core Tier 1 capital). A significant amount of these capital instruments were bought back through a Liability Management Exercise in August 2009. The Group continues to defer payment on all coupons in relation to these instruments.

The Group adopts the Basel II Standardised Approach in calculating its minimum capital requirements. Risk weighted assets ('RWA') at 30 June 2010 total €62.6bn, a decrease of €10.4bn from 31 December 2009, primarily as a result of the transfer of assets to NAMA during the period. RWA have also reduced due to the specific impairment charges made during the period, offset somewhat by an increase in exposures that are in excess of 90 days past due and risk weighted at 150% and by the impact of exchange rate fluctuations on the Bank's asset base.

The senior NAMA bonds received are risk weighted at 0% as they are guaranteed by the Irish Government. The promissory note issued by the Minister for Finance and the amount due from Shareholder are also risk weighted at 0%. The total amount of exposure to the Irish Government at 30 June 2010 which is risk weighted at 0% is €29bn.

The Group reported a Total Capital ratio of 7.7% as at 31 May 2010, a breach of the minimum requirement, in revised regulatory returns which were submitted to the Financial Regulator on 31 August 2010. These returns were revised following the final determination of the appropriate fair value of the senior NAMA bonds, of which a nominal amount of €3.9bn were received in May. This breach was temporary as the €8.58bn capital contribution of 30 June 2010 restored the Bank's capital ratio above the minimum required.

The Group's regulatory capital position throughout the period to 30 June 2010 has continued to benefit from derogations from certain regulatory capital requirements which were granted on a temporary basis by the Financial Regulator following requests from the Bank. The derogations in effect at 30 June 2010 were granted by the Financial Regulator on 31 May 2010 and are consistent with those applicable at 31 December 2009. Details of all derogations currently applicable are disclosed in note 37 to the interim financial statements. On 30 July 2010, these derogations were extended to 31 August 2010 by the Financial Regulator.

During the period the Bank established a Group Balance Sheet Management team with the objective to significantly strengthen the Group's balance sheet and capital management capabilities. The Group has RWA denominated in non-Euro currencies, predominantly GBP and USD. The Group's regulatory capital ratios are therefore sensitive to fluctuations in foreign exchange rates which result in changes to the Euro equivalent of RWA. A key immediate responsibility of the team was to put in place open long GBP and USD positions to hedge potential volatility in the regulatory capital ratios. These positions have generated gains in the period which offset the impact of the related increase in RWA on the Bank's Tier 1 capital ratio.

On 30 March 2010 the Financial Regulator published the results of its Prudential Capital Assessment Review ('PCAR') of Irish banking capital requirements over a three year period. New capital levels are being set for certain Irish banks covered under the Government guarantee schemes to ensure that they can withstand future losses, even under very stressed conditions. The PCAR process was undertaken to determine the recapitalisation requirements with reference to a target Core Tier 1 capital ratio of 8%. This capital will be principally in the form of equity, as a minimum 7% equity ratio requirement will apply. The new requirements will also mean that a bank must maintain a minimum level of 4% Core Tier 1 capital in a severely stressed scenario. The Financial Regulator has stated that these new capital requirements must be in place by 31 December 2010.

The PCAR process has not yet been undertaken for the Bank as discussions on its restructuring plan are still ongoing.

Business review continued

Costs

Operating expenses	**6 months ended 30 June 2010 €m**	Restated* 6 months ended 31 March 2009 €m	Restated* 15 months ended 31 December 2009 €m
Staff costs	**67**	54	155
Share-based payments	**-**	37	37
Other administrative expenses	**40**	50	117
Depreciation and amortisation	**12**	10	35
Recurring operating expenses	**119**	151	344
Exceptional costs	**14**	-	42
Total operating expenses	**133**	151	386

Total recurring operating expenses for the six months to 30 June 2010 are €119m and exceptional costs are €14m.

Staff costs for the period total €67m compared to €54m for the six months to 31 March 2009. Included in staff costs to 31 March 2009 are a release of prior period bonus accruals of €18m and a release of accruals relating to approved employee profit share schemes of €9m. Adjusting for these, staff costs have decreased by 17% on a like for like basis.

Staff costs have been impacted by a reduction in the average number of employees, which has fallen by 393 from 1,753 in the period to 31 March 2009 to 1,360 in the period to 30 June 2010. The reduction in average staff numbers is primarily due to the voluntary redundancy programme announced in November 2009. As at 30 June 2010, 262 people have left the Bank under this programme with a small number of deferred leavers due to depart in the coming months. The remainder of the decrease can be attributed to natural attrition with limited replacements made to date. The Group headcount at 30 June 2010 is 1,253 which includes 92 people working in the Bank's NAMA unit, a reduction from 1,537 as at 31 December 2009.

There are no share-based payment scheme costs in the period to 30 June 2010. The prior period figure included an accelerated charge following the extinguishment of share options upon nationalisation. This represents an accounting charge recognised in accordance with IFRS and did not represent any value or payments to affected employees for the termination of their share options.

Other administrative expenses have decreased by 20% since the corresponding prior period. Active cost management and control of discretionary spending has resulted in savings across general administrative, occupational, travel and promotional expenditure which offset increased legal costs arising in the period.

Exceptional costs of €14m were incurred in the period and primarily relate to professional fees associated with the Bank's restructuring process and the ongoing investigations into legacy matters.

* The prior periods have been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on pages 33 and 34.

Taxation

No net taxation charge arises during the period.

Risks and uncertainties

The Group is subject to a variety of risks and uncertainties in the normal course of its business activities. The principal risks and uncertainties facing the Bank at present are those related to general economic conditions, restructuring, NAMA, liquidity risk, credit risk, operational risk, capital and regulatory compliance risk, government policy risk, market risk, valuation risk, tax risk and litigation risk. The potential impact of these risks is mitigated by the Government's explicit ongoing support regarding the Bank's solvency. More detail is contained in the Principal risks and uncertainties statement on pages 19 to 22.

Subsequent events and likely future developments

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

[1]Gross of impairment provisions and including lending associated with the Group's assurance company
[2]On a constant currency basis

Principal risks and uncertainties

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

The Board of Directors and senior management have ultimate responsibility for the governance of all risk taking activity and have established a framework to manage risk throughout the Group. Details of the risk management policies and processes that the Group adopts are contained in note 51 to the 2009 Annual Report and Accounts.

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

General economic conditions

The Group's results are influenced by general economic and other business conditions. The economic outlook remains challenging in the Group's three key markets: Ireland, the UK and the US. These economies have experienced higher unemployment, reduced consumer and business confidence and a contraction in their housing markets, all of which have contributed to a decline in economic growth.

Significant declines in the property markets in Ireland, the UK and the US have contributed to large write-downs in asset values by financial institutions, including the Bank. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions, to be nationalised and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have substantially reduced and, in some cases, stopped providing funds to borrowers, including other financial institutions.

The results of the Group have been adversely affected by the deterioration in general economic conditions in the economies in which it operates, as well as by the decrease in the availability and increased cost of funding. Any continued deterioration in property prices could further adversely affect the Group's financial condition and results of operations. The Group's financial performance may also be affected by future recovery rates on assets and the historical assumptions underlying asset recovery may no longer be accurate given general economic instability. While conditions have improved there remains uncertainty surrounding the sustainability of the global economic recovery, particularly if fiscal and monetary supports are withdrawn.

Restructuring

Financial support provided by the Government to the Group is subject to review by the European Commission ('EC') under EU State Aid rules. Over the last number of months the Group has been involved in detailed discussions with the Department of Finance and the EC in relation to the terms of the restructuring plan which was submitted on 31 May 2010. The EC will consider whether the plan demonstrates the Group's long term viability, whether there is an appropriate sharing of the burden of restructuring costs and what measures are taken to limit distortions to competition arising from the financial support provided by the Government to the Group.

The Board has submitted a plan to the EC to split the Bank, winding down at least 80% of the old bank and creating a new viable bank from the remaining good quality loan assets. No decision in relation to the form of the restructuring has yet been announced by the EC.

NAMA

On 9 February 2010, the Bank applied to be designated as a participating institution in NAMA ('National Asset Management Agency'). This application was accepted by the Minister for Finance on 12 February 2010.

The NAMA Act provides for the acquisition by NAMA from participating institutions of eligible bank assets, which may include performing and non-performing loans made for the purpose, in whole or in part, of purchasing, exploiting or developing development land, and loans associated with those loans.

In the six months to June 2010 the Bank transferred €10.1bn of assets to NAMA at an average discount of 54%. A further €25.9bn of loan assets have been identified for transfer in future tranches. A number of uncertainties remain over the nature, number, timing and valuation of the assets that are yet to be transferred, the fees that the Group will be paid for any work undertaken in relation to such assets and the fair value of the consideration to be received for those assets. A significant discount on the price that NAMA will pay for future tranches of loans could impact the Group's ability to meet its financial obligations without further Government support.

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

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

Notwithstanding these uncertainties, the transfer of assets to NAMA is a fundamental part of the Bank's restructuring process and will serve as the primary mechanism for deleveraging the balance sheet, reducing risk exposure and providing additional liquidity.

Principal risks and uncertainties continued

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient funds available at all times to meet its contractual and contingent cash flow obligations. This risk is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events. The Group's liquidity is dependent on the continued support of its Shareholder and monetary authorities and may also be adversely affected by a number of other factors, including significant unforeseen changes in interest rates, ratings downgrades, higher than anticipated losses on loans and disruptions in the financial markets generally.

The crisis in the global financial system has resulted in a sustained period of significant turbulence and uncertainty, with unprecedented levels of illiquidity, resulting in considerable problems at many financial institutions. The terms on which funding is available have also become more onerous and expensive.

In response to major market instability and illiquidity, governments and central banks around the world have intervened in order to inject liquidity and capital into financial markets, and, in some cases, to prevent the failure of systemically important financial institutions. These various initiatives to stabilise financial markets are subject to revocation or change, which could have an adverse effect on the availability of funding to the Group. The Bank is a participating institution in both the guarantee scheme pursuant to the Credit Institutions (Financial Support) Scheme 2008 ('CIFS scheme') and the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 ('ELG scheme'). The ELG scheme updates and revises the guarantee issued under the CIFS scheme and is subject to ongoing six monthly review and approval under EU State Aid rules. The EC has approved a continuation and extension of the issuance period of the ELG scheme until 31 December 2010 for certain types of deposits and debt securities. The scheduled expiry in September 2010 of guarantees for certain previously covered liabilities may adversely impact the availability of funding. A review and amendment to the ELG scheme could impact the financial position of the Group.

The perception of counterparty and country risk has remained high during the period with contagion concerns arising from the debt crisis contributing to reductions in, and increased costs of, wholesale funding. Accordingly, in common with many other banks, the Group's access to traditional sources of liquidity remains constrained. This has resulted in a further reduction in liquidity and an increase in the Group's reliance on liquidity schemes provided by monetary authorities. The quality of the Group's eligible collateral which is capable of being pledged against borrowings from monetary authorities may be influenced by the sovereign rating of Ireland. In addition, the Bank, like other Irish financial institutions which issued debt under the Government guarantee schemes, has significant debt obligations falling due in September 2010 which will require refinancing. As the Bank's reserves of unencumbered liquid assets which it can pledge as collateral are limited, and depending on the timing of the transfer of future tranches to NAMA (and corresponding receipt of NAMA bonds), refinancing may require increased access to special funding facilities with monetary authorities. Should monetary authorities materially change their eligibility criteria or limit the Bank's access to such special funding facilities this would adversely affect the Group's financial condition and prospects.

The Group relies on customer deposits to meet a considerable portion of its funding requirements and those deposits are subject to fluctuation due to certain factors, such as a loss of confidence, reputational damage or competitive pressures, which could result in a significant outflow of deposits within a short period of time. Macro-economic factors can also impact the quantum of funds customers have available to place on deposit. The availability of commercial deposits is often dependent on credit ratings and any further downgrade could limit the Group's liquidity and therefore increase liquidity risk. The availability of government support is a consideration in credit rating agencies' assessments of financial institutions. A downgrade in the sovereign rating of Ireland may result in a downgrading of the Group, which could in turn impact the volume and pricing of its funding. In addition, restrictions imposed by monetary or regulatory authorities on the Group's deposit taking activities could also materially impact the Group.

Negative public and market opinion can result from the actual or perceived manner in which the Group conducts its business activities and could adversely affect the Group's ability to attract and retain corporate and retail deposit customers.

Within the banking industry the default by any one institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, whose commercial soundness may be closely related as a result of their credit, trading, clearing or other relationships. This risk is sometimes referred to as systemic risk and may adversely affect the Group's ability to raise funding.

Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers or counterparties fail to fulfil their contractual obligations to the Group. The principal credit risk that the Group faces arises mainly from loans and advances to customers.

Adverse changes in the credit quality of the Group's borrowers, counterparties and their guarantors, and adverse changes arising from the general deterioration in global economic conditions, have reduced the recoverability of the Group's loan assets and have increased the quantum of impaired loans and impairment charges during the period.

The Group has exposures to a range of customers in different geographies, including exposures to investors in, and developers of, commercial and residential property. Property prices have shown significant declines throughout the last year and developers of commercial and residential property are facing particularly challenging market conditions, including substantially lower prices and volumes. In addition, the Group's exposure to credit risk is exacerbated when the collateral it holds cannot be realised or is liquidated at prices that are not sufficient to recover the full amount of the loan, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those currently being experienced.

Property markets have been severely impacted by a lack of confidence and liquidity which has led to a significant reduction in property values across all of the Bank's markets. This, together with an extremely difficult operating environment in the Group's key markets,

Principal risks and uncertainties continued

particularly in Ireland, and the rapid erosion of clients' net worth has resulted in a substantial deterioration in the asset quality of the Bank's loan book.

While there are positive signs that the Group's key markets are emerging from recession there remains continuing uncertainty surrounding the sustainability of this recovery, the long term impact of NAMA and the future direction of commercial property markets. The Group's financial performance will be affected by future recovery rates on loan assets. Any further deterioration in property prices, any failure of prices to recover to their long term averages or any delay in realising collateral secured on these loan assets will further adversely affect the Group's financial condition and results of operations.

Operational risk

Operational risk is the risk of loss arising from inadequate controls and procedures, unauthorised activities, outsourcing, human error, systems failure and business continuity. Operational risk is inherent in every business organisation and covers a wide spectrum of issues.

The Group's operations are dependent on the ability to process a large number of transactions efficiently and accurately while complying with applicable laws and regulations. There are inherent limitations to the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls and procedures. Operational risk and losses can therefore result from internal and external fraud, errors by employees and failure to document or execute transactions properly. The Group's management of its exposure to operational risk is governed by a policy prepared by Group Risk Management and approved by the Risk and Compliance Committee.

The Group's capacity to successfully minimise operational risk is partially dependent on its ability to attract and retain highly skilled and qualified personnel. The loss of key employees could have a material adverse impact on the Group's operations.

Capital and regulatory compliance risk

Capital risk is the risk that the Group has insufficient capital resources to meet its minimum regulatory capital requirements. Regulatory compliance risk arises from a failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial services industry.

Changes in government policy, legislation or regulatory interpretation applying to the financial services industry may adversely affect the Group's capital requirements and, consequently, reported results and financing requirements. These changes include possible amendments to government and regulatory policies and solvency and capital requirements.

The Group's ability to maintain its regulatory capital ratios could be affected by a number of factors, including the price NAMA will pay for future tranches of loans to be transferred, the credit quality of the Group's loan portfolio following the NAMA transfer and the level of risk weighted assets ('RWA'). The level of RWA is impacted by market factors such as changes to interest rates and foreign exchange rates and also changes to the external credit ratings of counterparties.

Non-compliance with capital and other regulatory requirements could lead to fines, public reprimands, damage to reputation, enforced suspension of operations or, in extreme cases, withdrawal of authorisations to operate. If the Group is required to strengthen its capital position it will necessitate further capital contributions by its Shareholder.

As a result of the continuing losses incurred during the period there has been a further deterioration in the Bank's regulatory capital base. The Minister for Finance, having acknowledged the Group's systemic importance to the Irish economy, has again taken measures to ensure the Bank is appropriately capitalised. On 31 March 2010 the Bank received an initial promissory note to the value of €8.3bn from the Minister for Finance. The promissory note provided for the issuance of adjustment instruments which could amend the original principal amount of the note. In this regard, the Minister increased the principal amount of the promissory note by €2.0bn to €10.3bn on 28 May 2010. On 30 June 2010 the Minister wrote to the Chairman to once again confirm his commitment to increase the principal amount of the promissory note to ensure the Bank had sufficient capital to continue to meet its regulatory capital requirements as at 30 June 2010. Subsequently on 23 August 2010 the Minister fulfilled his June 2010 commitment by increasing the principal amount of the promissory note by €8.58bn to €18.88bn.

The capital contributions made to date by the Minister for Finance are evidence of the Shareholder's stated commitment to ensuring that the Bank remains adequately capitalised. €25.9bn of assets have been identified for future transfer to NAMA and while the final determined transfer price may trigger additional losses and further capital requirements in the short term, the asset transfers are expected to significantly reduce the level of risk weighted assets, easing pressure on the Bank's overall capital requirement in the future.

Government policy risk

As the only Shareholder, the Government is in a position to exert significant influence over the Group and its business. Irish Government policy in respect of both the Bank and the wider financial services sector has a major impact on the Group. Changes to Government policies or the amendment of existing policies could adversely impact the financial condition and prospects of the Group.

Principal risks and uncertainties continued

Market risk

Market risk is the risk that the Group's earnings will be adversely affected by changes in the level, or volatility, of market rates or prices such as interest rates, credit spreads, equity prices and foreign exchange rates. Changes in interest rates and spreads may affect the interest rate margin realised between lending and borrowing costs.

Valuation risk

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

Tax risk

The Group is subject to the application and interpretation of tax laws in all the countries in which it operates. Tax risk is the risk associated with changes in tax law or the interpretation of tax law. It also includes the risk of changes in tax rates and the risk of consequences arising from a failure to comply fully with the laws and procedures required by the relevant tax authorities. Failure to manage tax risks could lead to increased tax charges, including financial or operational penalties.

Litigation risk

The Group's business is subject to the risk of litigation by customers, employees, shareholders or other third parties through private actions, class actions, administrative proceedings, regulatory actions, criminal proceedings or other litigation. The outcome of any such litigation, proceedings or actions is difficult to assess or quantify. The cost to defend future proceedings or actions may be significant. There may also be adverse publicity associated with any such litigation, proceedings or actions that could impact the Group and result in a decrease in customer acceptance of the Group's services, regardless of whether the allegations are valid or whether the Group is ultimately found liable. As a result, such litigation, proceedings or actions may adversely affect the Group's business, financial condition, results, operations or reputation.

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

Statement of Directors' responsibilities

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

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

- important events that have occurred during the six months ended 30 June 2010;
- the impact of those events on the condensed financial statements;
- a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- details of any related party transactions that have materially affected the Group's financial position or performance in the six months ended 30 June 2010.

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

Secretary:
Dr. Max Barrett

Consolidated income statement (unaudited)

For the 6 months ended 30 June 2010

	Note	**6 months ended 30 June 2010 €m**	Restated* 6 months ended 31 March 2009 €m	Restated* 15 months ended 31 December 2009 €m
Interest and similar income		**1,098**	2,597	4,634
Interest expense and similar charges		**(746)**	(1,741)	(3,109)
Net interest income	3	**352**	856	1,525
Fee and commission income	4	**23**	57	98
Fee and commission expense	4	**(41)**	(57)	(142)
Net trading income/(expense)	5	**1**	(389)	(427)
Financial assets designated at fair value	6	**(23)**	(68)	(53)
Gains on repurchase of financial liabilities measured at amortised cost	7	**-**	6	1,758
Other operating (expense)/income	8	**(28)**	35	15
Other (expense)/income		**(68)**	(416)	1,249
Total operating income		**284**	440	2,774
Administrative expenses	9	**(121)**	(141)	(351)
Depreciation		**(8)**	(4)	(22)
Amortisation of intangible assets - software		**(4)**	(6)	(13)
Total operating expenses		**(133)**	(151)	(386)
Operating profit before loss on disposals to NAMA and provisions for impairment		**151**	289	2,388
Loss on disposal of assets to NAMA	11	**(3,468)**	-	-
Provisions for impairment	12	**(4,853)**	(4,335)	(15,105)
Operating loss		**(8,170)**	(4,046)	(12,717)
Share of results of associate and joint ventures		**(40)**	(126)	(167)
Profit on disposal of businesses		**-**	49	49
Loss before taxation		**(8,210)**	(4,123)	(12,835)
Taxation	13	**-**	335	120
Loss for the period		**(8,210)**	(3,788)	(12,715)
Attributable to:				
Owner of the parent		**(8,210)**	(3,778)	(12,705)
Non-controlling interests		**-**	(10)	(10)
		(8,210)	(3,788)	(12,715)

The notes on pages 32 to 79 form an integral part of the condensed interim financial statements.

* The prior periods have been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on pages 33 and 34.

Consolidated statement of comprehensive income (unaudited)

For the 6 months ended 30 June 2010

	Note	**6 months ended 30 June 2010 €m**	Restated* 6 months ended 31 March 2009 €m	Restated* 15 months ended 31 December 2009 €m
Loss for the period		**(8,210)**	(3,788)	(12,715)
Other comprehensive income				
Net actuarial (losses)/gains in retirement benefit schemes, after tax	10	**(16)**	(6)	2
Net change in cash flow hedging reserve, after tax	31	**(24)**	196	119
Net change in available-for-sale reserve, after tax	31	**(11)**	(460)	356
Foreign exchange translation	31	**37**	3	(47)
Other comprehensive income for the period, after tax	32	**(14)**	(267)	430
Total comprehensive income for the period		**(8,224)**	(4,055)	(12,285)
Attributable to:				
Owner of the parent		**(8,224)**	(4,045)	(12,275)
Non-controlling interests		**-**	(10)	(10)
		(8,224)	(4,055)	(12,285)

The notes on pages 32 to 79 form an integral part of the condensed interim financial statements.

* The prior periods have been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on pages 33 and 34.

Consolidated statement of financial position (unaudited)

As at 30 June 2010

	Note	**30 June 2010 €m**	31 December 2009 €m	31 March 2009 €m
Assets				
Cash and balances with central banks	14	**79**	302	266
Financial assets at fair value through profit or loss				
- held on own account	15	**79**	118	166
- held in respect of liabilities to customers under investment contracts	27	**239**	244	277
Derivative financial instruments	16	**2,742**	2,483	4,708
Loans and advances to banks	17	**8,032**	7,360	6,698
Assets classified as held for sale	18	**16,886**	25,892	-
Amount due from Shareholder	19	**8,580**	8,300	-
Available-for-sale financial assets	20	**4,622**	7,890	7,761
Promissory note	21	**10,407**	-	-
Government debt securities at amortised cost	22	**4,061**	-	-
Loans and advances to customers	23	**29,478**	30,852	66,638
Interests in joint ventures		**108**	142	147
Intangible assets - software		**20**	21	20
Investment property				
- held on own account		**254**	267	293
- held in respect of liabilities to customers under investment contracts	27	**1,228**	1,143	1,107
Property, plant and equipment		**22**	24	31
Current taxation		**60**	74	123
Retirement benefit assets	10	**-**	7	-
Deferred taxation		**63**	46	230
Other assets		**40**	29	31
Prepayments and accrued income		**23**	18	46
Total assets		**87,023**	85,212	88,542
Liabilities				
Deposits from banks	24	**33,301**	32,971	30,478
Customer accounts	25	**23,156**	27,214	34,106
Derivative financial instruments	16	**4,391**	2,669	4,017
Debt securities in issue	26	**16,518**	15,148	14,228
Liabilities to customers under investment contracts	27	**366**	383	469
Current taxation		**2**	2	-
Other liabilities		**193**	170	86
Accruals and deferred income		**114**	102	106
Retirement benefit liabilities	10	**9**	-	2
Deferred taxation		**-**	-	4
Subordinated liabilities and other capital instruments	28	**2,447**	2,383	4,945
Total liabilities		**80,497**	81,042	88,441
Share capital	29	**4,123**	4,123	123
Share premium		**1,156**	1,156	1,156
Capital reserve	30	**18,880**	8,300	-
Other reserves	31	**(150)**	(152)	(841)
Retained earnings		**(17,484)**	(9,258)	(339)
Shareholders' funds		**6,525**	4,169	99
Non-controlling interests		**1**	1	2
Total equity		**6,526**	4,170	101
Total equity and liabilities		**87,023**	85,212	88,542

The notes on pages 32 to 79 form an integral part of the condensed interim financial statements.

Consolidated statement of changes in equity (unaudited)

For the 6 months ended 30 June 2010

	Attributable to owner of the parent										
				Other reserves							
	Share capital €m	Share premium €m	Capital reserve €m	Non-distributable capital €m	Exchange translation €m	Cash flow hedging €m	Available-for-sale €m	Retained earnings €m	Total €m	Non-controlling interests €m	Total equity €m
<u>6 months ended 30 June 2010</u>											
Balance at 31 December 2009	4,123	1,156	8,300	1	(56)	110	(207)	(9,258)	4,169	1	4,170
Total comprehensive income											
Loss for the period	-	-	-	-	-	-	-	(8,210)	(8,210)	-	(8,210)
Other comprehensive income (net of tax):											
Net actuarial losses in retirement benefit schemes	-	-	-	-	-	-	-	(16)	(16)	-	(16)
Net change in cash flow hedging reserve	-	-	-	-	-	(24)	-	-	(24)	-	(24)
Net change in available-for-sale reserve	-	-	-	-	-	-	(11)	-	(11)	-	(11)
Foreign exchange translation	-	-	-	-	37	-	-	-	37	-	37
	-	-	-	-	37	(24)	(11)	(8,226)	(8,224)	-	(8,224)
Transactions with owner											
Capital contribution	-	-	10,580	-	-	-	-	-	10,580	-	10,580
	-	-	10,580	-	-	-	-	-	10,580	-	10,580
Balance at 30 June 2010	4,123	1,156	18,880	1	(19)	86	(218)	(17,484)	6,525	1	6,526

The notes on pages 32 to 79 form an integral part of the condensed interim financial statements.

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

For the 6 months ended 30 June 2010

	Attributable to owner of the parent											
				Other reserves								
	Share capital €m	Share premium €m	Capital reserve €m	Non-distributable capital €m	Exchange translation €m	Cash flow hedging €m	Available-for-sale €m	Share-based payments €m	Retained earnings €m	Total €m	Non-controlling interests €m	Total equity €m
Restated*												
6 months ended 31 March 2009												
Balance at 30 September 2008	123	1,156	-	1	(9)	(9)	(563)	37	3,389	4,125	7	4,132
Total comprehensive income												
Loss for the period	-	-	-	-	-	-	-	-	(3,778)	(3,778)	(10)	(3,788)
Other comprehensive income (net of tax):												
Net actuarial losses in retirement benefit schemes	-	-	-	-	-	-	-	-	(6)	(6)	-	(6)
Net change in cash flow hedging reserve	-	-	-	-	-	196	-	-	-	196	-	196
Net change in available-for-sale reserve	-	-	-	-	-	-	(460)	-	-	(460)	-	(460)
Foreign exchange translation	-	-	-	-	3	-	-	-	-	3	-	3
	-	-	-	-	3	196	(460)	-	(3,784)	(4,045)	(10)	(4,055)
Transactions with owners												
Net movement in own shares	-	-	-	-	-	-	-	-	(5)	(5)	-	(5)
Share-based payments	-	-	-	-	-	-	-	28	-	28	-	28
Extinguishment of share options and awards	-	-	-	-	-	-	-	(61)	61	-	-	-
Other movements	-	-	-	-	-	-	-	(4)	-	(4)	5	1
	-	-	-	-	-	-	-	(37)	56	19	5	24
Balance at 31 March 2009	123	1,156	-	1	(6)	187	(1,023)	-	(339)	99	2	101

* The prior periods have been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on pages 33 and 34.

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

For the 6 months ended 30 June 2010

	Attributable to owner of the parent											
				Other reserves								
	Share capital €m	Share premium €m	Capital reserve €m	Non-distributable capital €m	Exchange translation €m	Cash flow hedging €m	Available-for-sale €m	Share-based payments €m	Retained earnings €m	Total €m	Non-controlling interests €m	Total equity €m
Restated*												
15 months ended 31 December 2009												
Balance at 30 September 2008	123	1,156	-	1	(9)	(9)	(563)	37	3,389	4,125	7	4,132
Total comprehensive income												
Loss for the period	-	-	-	-	-	-	-	-	(12,705)	(12,705)	(10)	(12,715)
Other comprehensive income (net of tax):												
Net actuarial gains in retirement benefit schemes	-	-	-	-	-	-	-	-	2	2	-	2
Net change in cash flow hedging reserve	-	-	-	-	-	119	-	-	-	119	-	119
Net change in available-for-sale reserve	-	-	-	-	-	-	356	-	-	356	-	356
Foreign exchange translation	-	-	-	-	(47)	-	-	-	-	(47)	-	(47)
	-	-	-	-	(47)	119	356	-	(12,703)	(12,275)	(10)	(12,285)
Transactions with owners												
Issue of share capital	4,000	-	-	-	-	-	-	-	-	4,000	-	4,000
Capital contribution	-	-	8,300	-	-	-	-	-	-	8,300	-	8,300
Net movement in own shares	-	-	-	-	-	-	-	-	(5)	(5)	-	(5)
Share-based payments	-	-	-	-	-	-	-	28	-	28	-	28
Extinguishment of share options and awards	-	-	-	-	-	-	-	(61)	61	-	-	-
Other movements	-	-	-	-	-	-	-	(4)	-	(4)	4	-
	4,000	-	8,300	-	-	-	-	(37)	56	12,319	4	12,323
Balance at 31 December 2009	4,123	1,156	8,300	1	(56)	110	(207)	-	(9,258)	4,169	1	4,170

* The prior periods have been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on pages 33 and 34.

Consolidated statement of cash flows (unaudited)

For the 6 months ended 30 June 2010

	Note	**6 months ended 30 June 2010 €m**	Restated* 6 months ended 31 March 2009 €m	Restated* 15 months ended 31 December 2009 €m
Cash flows from operating activities				
Loss before taxation		**(8,210)**	(4,123)	(12,835)
Provisions for impairment		**4,853**	4,335	15,105
Loss on disposal of assets to NAMA		**3,468**	-	-
Gains on repurchase of financial liabilities measured at amortised cost		**-**	(6)	(1,758)
Interest earned on available-for-sale financial assets		**(67)**	(175)	(336)
Financing costs of subordinated liabilities and other capital instruments		**13**	132	131
Other non-cash items	34	**(109)**	32	75
		(52)	195	382
Changes in operating assets and liabilities				
Net increase in deposits from banks		**330**	9,508	12,001
Net decrease in customer accounts		**(4,058)**	(16,818)	(23,710)
Net increase/(decrease) in debt securities in issue		**1,370**	(3,046)	(2,126)
Net (increase)/decrease in loans and advances to customers (1)		**(1,929)**	1,342	964
Net increase in loans and advances to banks		**(1,722)**	(1,511)	(1,654)
Net (increase)/decrease in assets held in respect of liabilities to customers under investment contracts		**(80)**	881	878
Net decrease in investment contract liabilities		**(17)**	(722)	(808)
Net decrease in financial assets at fair value through profit or loss held on own account		**39**	79	127
Net movement in derivative financial instruments		**1,426**	221	1,004
Net (increase)/decrease in other assets		**(11)**	2	(2)
Net decrease in other liabilities		**(18)**	(70)	(69)
Exchange movements		**(135)**	82	87
Net cash flows from operating activities before taxation		**(4,857)**	(9,857)	(12,926)
Tax (paid)/refunded		**-**	(9)	22
Net cash flows from operating activities		**(4,857)**	(9,866)	(12,904)
Cash flows from investing activities (note a)		**3,500**	(27)	375
Cash flows from financing activities (note b)		**(9)**	(105)	2,998
Net decrease in cash and cash equivalents		**(1,366)**	(9,998)	(9,531)
Opening cash and cash equivalents		**4,779**	14,535	14,535
Effect of exchange rate changes on cash and cash equivalents		**93**	(315)	(225)
Closing cash and cash equivalents	34	**3,506**	4,222	4,779

(1) Net (increase)/decrease in loans and advances to customers includes assets classified as held for sale.

* The prior periods have been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on pages 33 and 34.

Consolidated statement of cash flows (unaudited) (continued)

For the 6 months ended 30 June 2010

	6 months ended 30 June 2010 €m	6 months ended 31 March 2009 €m	15 months ended 31 December 2009 €m
(a) Cash flows from investing activities			
Purchases of available-for-sale financial assets	**(540)**	(2,473)	(3,252)
Sales and maturities of available-for-sale financial assets	**3,950**	2,391	3,471
Interest received on available-for-sale financial assets net of associated hedges	**99**	193	338
Proceeds on disposals of businesses	**-**	141	141
Purchases of property, plant and equipment	**-**	(2)	(3)
Additions to intangible assets - software	**(3)**	(6)	(14)
Investments in joint venture interests	**(2)**	(1)	(37)
Proceeds on disposals of joint venture interests	**-**	-	5
Distributions received from joint venture interests	**1**	2	5
Purchases of investment property held on own account	**(12)**	(272)	(279)
Proceeds on disposals of investment property held on own account	**7**	-	-
Net cash flows from investing activities	**3,500**	(27)	375
(b) Cash flows from financing activities			
Proceeds of equity share issues	**-**	-	4,000
Repurchase of subordinated liabilities and other capital instruments	**-**	(1)	(827)
Coupons paid on subordinated liabilities and other capital instruments	**(9)**	(104)	(175)
Net movements in own shares	**-**	(5)	(5)
Additions to non-controlling interests	**-**	10	10
Distributions paid to non-controlling interests	**-**	(5)	(5)
Net cash flows from financing activities	**(9)**	(105)	2,998

The notes on pages 32 to 79 form an integral part of the condensed interim financial statements.

Notes to the interim financial statements

Index to the notes to the interim financial statements

Notes to the interim financial statements continued

1. Basis of preparation

1.1 Basis of preparation

The Interim Report for the six months ended 30 June 2010 has been prepared in accordance with the requirements of the European Union ('EU') Transparency Directive and IAS 34 'Interim Financial Reporting', as adopted by the EU. It should be read in conjunction with the Group's financial statements for the fifteen months ended 31 December 2009 which were prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and applicable as at that date. The accounting policies applied in preparing this Interim Report are consistent with those set out in the 2009 Annual Report and Accounts. The financial statements are presented in euro, rounded to the nearest million.

In line with the financial reporting periods of other commercial State bodies, the Bank has changed its reporting period end from 30 September to 31 December, and therefore its interim period end from 31 March to 30 June. The Bank has determined that it is appropriate to provide comparative information for the six months to 31 March 2009, as previously published, rather than to restate to the new interim reporting period basis. As a result, comparative information for the six months ended 31 March 2009 has been presented.

Both the figures for the six months ended 30 June 2010 and the figures for the six months ended 31 March 2009 are unaudited. The summary financial statements for the period ended 31 December 2009, as presented in this Interim Report, represent an abbreviated version of the Group's full accounts for that period, which have been filed in the Companies Registration Office in Ireland.

Following an assessment, the Directors have determined that it is reasonable to conclude that the Bank will continue in operational existence for the foreseeable future and therefore the financial statements have been prepared on a going concern basis. This assessment is underpinned by the Minister for Finance's consistent statements that the Government will ensure the continued viability of all systemic Irish financial institutions, including the Bank, in a manner which is consistent with EU State Aid rules.

In making this assessment the Directors considered the potential impact that the following risk factors and uncertainties could have on the future performance and financial position of the Bank: liquidity and funding, the NAMA process, credit quality, regulatory capital, EU State Aid considerations, regulatory considerations and political factors impacting both the Group and the industry. Liquidity and funding risk considerations take into account the Group's ability to continue to access wholesale and money market lines, the ability to continue to access essential central bank and other special funding arrangements, projected re-finance risks and the expected behaviour of the Bank's retail and corporate depositors, especially in the context of amendments to Government guarantees. The timing of the NAMA asset disposals and the valuation discounts applied are important considerations both from a capital perspective but also from a liquidity perspective. Credit quality will largely follow trends in the main economic environments in which the Group operates, which are still uncertain. In addition, decisions by regulatory authorities, the EU or the body politic could adversely impact upon the Bank's ability to continue as a going concern.

Notwithstanding the existence of such uncertainties, the Directors, in making this determination, have taken into account the following mitigating factors: total capital injections in 2009 of €12.3bn, a further €2.0bn in May 2010 and an additional €8.58bn in June 2010, consideration of the Minister's letters of 22 December 2009 and 30 June 2010 which restate his previous commitments in relation to ensuring that the Bank has sufficient capital to continue to meet its regulatory capital requirements, the commencement of the NAMA disposals process and receipt of NAMA senior floating rate notes which are liquidity enhancing, evidence of an improvement in both the UK and US commercial property markets, the continued support of the Government in relation to funding, and the restatement of the Government's commitment to safeguard the financial system of the State as evidenced by the introduction of measures by the Government to improve liquidity.

In making the determination the Board has assumed the continuing availability of secured funding facilities with the Central Bank and other special funding arrangements if required. As a result, the Directors are satisfied that it is appropriate that the Group's financial statements continue to be prepared on a going concern basis.

1.2 Adoption of new accounting standards

The following standards and amendments to standards, which apply to the Group, have been adopted during the period ended 30 June 2010:

Amendment to IFRS 2 - Share-based Payment

The amendment to IFRS 2 clarifies the accounting treatment of cancellations and vesting conditions of share-based payment schemes. It clarifies that the only allowable vesting conditions are service or performance conditions. Other features of a share-based payment are not vesting conditions. The amendment also clarifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The main impact of this amendment for the Group arises from cancellations by employees of contributions to the Group's Save As You Earn ('SAYE') scheme. Previously such cancellations would have resulted in the reversal of SAYE scheme expenses recognised in prior periods.

Notes to the interim financial statements continued

1. **Basis of preparation** continued

1.2 Adoption of new accounting standards continued

Amendment to IFRS 2 - Share-based Payment *continued*

Under the amendment, in the event of a cancellation the Group recognises immediately the amount of the expense that would have otherwise been recognised over the remainder of the vesting period. As all rights outstanding under the various share-based payment schemes were extinguished following the Bank's nationalisation in January 2009, the adoption of the amendment has had no impact on the Group's financial statements for the current period. However, the amendment is applied retrospectively and has resulted in a restatement of the comparative figures. The comparative income statements for the fifteen months ended 31 December 2009 and the six months ended 31 March 2009 have been adjusted to increase administrative expenses, and therefore the loss before taxation, by €6m. The adoption of the amendment has not impacted the statement of financial position for the comparative reporting dates.

Amendment to IFRS 7 - Financial Instruments: Disclosures

The amendment to IFRS 7 requires the use of a three-level fair value hierarchy to provide additional disclosures about the relative reliability of measurement bases used to calculate financial instrument fair values. In addition, the amendment clarifies and enhances the disclosures in respect of liquidity risk required in annual financial statements.

IFRS 8 - Operating Segments

IFRS 8 replaces IAS 14 'Segmental Reporting'. It requires segmental information to be presented on the same basis as that used by the chief operating decision maker in order to allocate resources and to assess segment performance. The introduction of this standard has not had a significant impact on Group reporting.

A number of other amendments and interpretations to IFRS have been published that first apply from 1 January 2010. These have not resulted in any material changes to the Group's accounting policies.

1.3 Prospective accounting changes

A number of accounting developments which will apply in future years are described in the 2009 Annual Report and Accounts. The most significant is IFRS 9 - Financial Instruments: Classification and Measurement. Adoption of the standard is not mandatory until accounting periods beginning on or after 1 January 2013 and therefore the Group has not yet fully assessed the potential impact of this development. It is the first phase of a project to replace IAS 39 - Financial Instruments: Recognition and Measurement. Its aim is to reduce the complexity of accounting for financial assets and in so doing to aid investors' and other users' understanding of financial information. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. It also requires a single impairment method to be used which replaces the various methods currently prescribed in IAS 39.

1.4 Significant accounting estimates and judgements

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The judgements and estimates involved in the Group's accounting policies that are considered by the Board to be the most important to the portrayal of the Group's financial condition are summarised in note 1 to the 2009 Annual Report and Accounts. The use of estimates, assumptions or models that differ from those adopted by the Group could affect its reported results.

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

Loan impairment

The estimation of potential loan losses is inherently uncertain and dependent upon many factors. On an ongoing basis potential issues are identified as a result of individual loans being regularly monitored. The Group also performs, semi-annually, a formal bottom up review of its loan portfolios. This loan monitoring and review process determines whether there is any objective evidence of incurred impairment. Impairment under IFRS is only recognised in respect of incurred losses. Future potential losses cannot be provided for. If there is objective evidence that a loan is currently impaired, a provision is recognised equating to the amount by which the carrying value of the loan exceeds the present value of its expected future cash flows. Provisions are calculated on an individual basis with reference to expected future cash flows, including those arising from the realisation of collateral.

The determination of these provisions requires the exercise of considerable subjective judgement by management involving matters such as future economic conditions, trading performance of client businesses and the valuation of underlying collateral held. Provision calculations are highly sensitive to the underlying assumptions made in relation to the amount and timing of future cash flows, including the sale of assets held as collateral. The Group's assessment in cases where it plans to continue to support the borrower is primarily based on the strategy and business model of the client, which may make assumptions in relation to a return to more normalised property market conditions and higher asset values over time.

Notes to the interim financial statements continued

1. **Basis of preparation** continued

1.4 Significant accounting estimates and judgements continued

Loan impairment continued

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

The Group has evaluated the impact on its specific impairment charge, for both loans and advances to customers and loans classified as held for sale, of applying a lower estimate of the realisable value of collateral and of a change in the timing of the realisation of these assets. The Bank estimates that a decrease of 10% in realisable collateral values on currently impaired loans would have increased the impairment charge for the period by approximately €1.8bn (15 months ended 31 December 2009: approximately €2.0bn). Similarly, an extension of one year in the timing of the realisation of these assets would have increased the impairment charge by approximately €0.6bn (15 months ended 31 December 2009: approximately €0.6bn). These estimates are based on impaired loans at 30 June 2010. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly.

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

This provision is calculated by applying incurred loss factors to groups of loans sharing common risk characteristics. Loss factors are determined by historical loan loss experience as adjusted for current observable market data. Adjustments reflect the impact of current conditions that did not affect the years on which the historical loss experience is based and remove the effects of conditions in the historical period that do not exist currently. The provision amount is also adjusted to reflect the appropriate loss emergence period. The loss emergence period represents the time it takes following a specific loss event on an individual loan for that loan to be identified as impaired. The loss emergence period applied in the period was six months (31 December 2009: six months).

The future credit quality of loan portfolios against which an IBNR collective provision is applied is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include factors such as local and international economic conditions, borrower specific factors, industry trends, interest rates, unemployment levels and other external factors. For loan impairment details, see notes 18 and 23.

Assets classified as held for sale

Assets that the Bank believes will be transferred to NAMA are classified as held for sale in the statement of financial position. The Bank has no control over the quantity of eligible assets that NAMA will acquire or over the valuation NAMA will place on those assets. NAMA has not confirmed to the Bank the total value of eligible assets it expects to purchase or the consideration it will pay in respect of those assets. Held for sale assets also include certain US assets scheduled to be sold to third parties. Assets continue to be measured on the same basis as prior to their reclassification as held for sale.

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

Impairment of available-for-sale financial assets

In the case of debt instruments classified as available-for-sale financial assets the Group has considered the decline in fair values to ascertain whether any impairment has occurred. Impairment is recognised when there is objective evidence that a specific financial asset is impaired. Evidence of impairment is assessed by reference to the underlying assets of the debt instrument, the most up to date market valuations and whether there is evidence of a significant or prolonged decline in fair value, and all other available information.

The determination of whether or not objective evidence of impairment is present requires the exercise of management judgement, particularly in relation to asset backed securities ('ABS') where exposures are not to a single obligor but rather to a diverse pool of underlying collateral. In addition, these investments also include credit enhancement features such as over-collateralisation or subordination that must also be evaluated in the impairment assessment.

Notes to the interim financial statements continued

1. **Basis of preparation** continued

1.4 Significant accounting estimates and judgements continued

Fair value

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

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

2. Segmental reporting

The Group has four reportable operating segments, as detailed below, which reflect the internal financial and management reporting structure. The chief operating decision makers rely primarily on the Group management accounts as the basis for assessing the performance of each segment and making decisions about resource allocations.

Business Lending

The Bank has business banking operations in three main markets - Ireland, the United Kingdom and North America.

Financial Markets

The Financial Markets division manages the Group's funding and liquidity requirements and executes Group interest rate and foreign exchange risk management strategies. This segment also includes revenue from the provision of foreign exchange and risk management solutions for corporate customers.

Wealth Management

The Wealth Management division provides clients with a variety of services including private banking, fund management and retirement planning.

Group items

Group includes capital-related items including the return earned on the Group's equity capital, gains on repurchase of financial liabilities, the margin cost of subordinated liabilities and other capital instruments, and other central costs and items.

Amounts reported for each segment are as disclosed in the management accounts. On 1 January 2010 all Wealth Management loans and advances and the related income were transferred to Business Lending. Prior period comparatives have been adjusted to reflect these changes.

Revenue includes interest and similar income, fee and commission income, net trading income/(expense), the net change in value of financial assets designated at fair value, gains on repurchase of financial liabilities measured at amortised cost and other operating (expense)/income. Inter-segment transactions are conducted on an arm's length basis.

Notes to the interim financial statements continued

2. Segmental reporting continued

Business segments

	6 months ended 30 June 2010					
	Business Lending €m	**Financial Markets €m**	**Wealth Management €m**	**Group items €m**	**Inter-segment eliminations €m**	**Group €m**
Revenue from external customers	**805**	**113**	**(18)**	**171**	**-**	**1,071**
Inter-segment revenue	**-**	**593**	**-**	**76**	**(669)**	**-**
Total revenue	**805**	**706**	**(18)**	**247**	**(669)**	**1,071**
Loss before taxation	**(7,506)**	**(41)**	**(74)**	**(589)**	**-**	**(8,210)**
Total external assets	**46,519**	**15,467**	**1,771**	**23,266**	**-**	**87,023**

	6 months ended 31 March 2009					
	Business Lending €m	Financial Markets €m	Wealth Management €m	Group items €m	Inter-segment eliminations €m	Group €m
Revenue from external customers	2,159	290	(34)	(177)	-	2,238
Inter-segment revenue	-	1,347	-	-	(1,347)	-
Total revenue	2,159	1,637	(34)	(177)	(1,347)	2,238
Loss before taxation	(3,346)	(288)	(209)	(274)	-	(4,117)
Total external assets	66,767	19,473	1,851	451	-	88,542

	15 months ended 31 December 2009					
	Business Lending €m	Financial Markets €m	Wealth Management €m	Group items €m	Inter-segment eliminations €m	Group €m
Revenue from external customers	3,971	420	(14)	1,648	-	6,025
Inter-segment revenue	-	1,918	-	-	(1,918)	-
Total revenue	3,971	2,338	(14)	1,648	(1,918)	6,025
Loss before taxation	(12,254)	(1,339)	(615)	1,379	-	(12,829)
Total external assets	56,940	18,069	1,711	8,492	-	85,212

Notes to the interim financial statements continued

3. Net interest income

	6 months ended 30 June 2010 €m	6 months ended 31 March 2009 €m	15 months ended 31 December 2009 €m
Interest and similar income			
Interest on loans and advances to banks	**25**	143	194
Interest on loans and advances to customers (including loans classified as held for sale)	**899**	2,270	4,091
Interest on available-for-sale financial assets	**67**	175	336
Interest on promissory note	**94**	-	-
Interest on Government debt securities at amortised cost	**10**	-	-
Finance leasing and hire purchase income	**1**	3	5
	1,096	2,591	4,626
Interest on financial assets at fair value through profit or loss held on own account	**2**	6	8
	1,098	2,597	4,634
Interest expense and similar charges			
Interest on deposits from banks	**(251)**	(361)	(758)
Interest on customer accounts	**(342)**	(927)	(1,716)
Interest on debt securities in issue	**(140)**	(321)	(504)
Interest on subordinated liabilities and other capital instruments	**(13)**	(132)	(131)
	(746)	(1,741)	(3,109)
Net interest income	**352**	856	1,525

A reduction in market interest rates across the Bank's three core operating currencies of EUR, GBP and USD has resulted in a decrease in gross interest income and expense relative to the comparative period. Furthermore, customer lending advances during the period are governed by the conditions of the Subscription Agreement entered into with the Irish Government during 2009 and therefore have been restricted to funds that had previously been committed or approved to protect asset quality.

Group net interest income has declined by 59% versus the 6 months to 31 March 2009 reflecting the significant increase in funding costs due to greater competition for customer deposits, continued stressed funding market conditions, an increased reliance by the Bank on funding from central banks and the significant increase in the level of impaired customer loans.

Interest income on customer lending includes margin interest and arrangement fees amortised over the expected lives of the related loans. The average expected loan life has increased during the period as a result of very difficult operating conditions for clients. Interest on loans and advances to customers includes interest income on held for sale loans which, at 30 June 2010, represent 41% of total customer loan balances.

Interest on loans and advances to customers includes €94m (31 March 2009: €667m; 31 December 2009: €1,212m) which has been capitalised on customer loan balances. The Bank's credit policy was revised in 2009 to restrict the approval of new or extended interest roll-up facilities.

Included within net interest income is €254m (31 March 2009: €29m; 31 December 2009: €236m) in respect of impaired customer loan balances. Specific impairment on individual loans is calculated based on the difference between the current loan balance and the discounted value of estimated future cash flows on the loan. The impact of the unwinding of this discount, as the time to the realisation of the estimated future cash flows shortens, is recognised as interest income in accordance with IFRS.

Interest and similar income includes net exchange losses of €33m (31 March 2009: gains of €71m; 31 December 2009: gains of €47m).

Interest on deposits from banks includes €153m (31 March 2009: €27m; 31 December 2009: €240m) in respect of amounts borrowed under a Special Master Repurchase Agreement and a Master Loan Repurchase Agreement from the Central Bank and Financial Services Authority of Ireland (note 24). The interest rate on both facilities is set by the Central Bank and advised at each rollover, and is currently linked to the European Central Bank marginal lending facility rate.

Notes to the interim financial statements continued

3. Net interest income continued

The decrease in interest expense on subordinated liabilities and other capital instruments is primarily attributable to the Group's repurchase of certain subordinated liabilities in August 2009 as part of its ongoing capital management activities (note 28). Also, in July 2009, as a condition of its approval of the Government's capitalisation of the Bank, the European Commission required that no further coupon payments be made on the Group's Tier 1 securities.

Included within interest expense for the period is €38m (31 March 2009: €nil, 31 December 2009: €nil) relating to the cost of the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009. The cost of this scheme is classified as interest expense as it is directly attributable and incremental to the issuance of specific financial liabilities. The cost of the Credit Institutions (Financial Support) Scheme 2008 is included in fee and commission expense (note 4).

4. Fee and commission income and expense

	6 months ended 30 June 2010 €m	6 months ended 31 March 2009 €m	15 months ended 31 December 2009 €m
Fee and commission income			
Corporate treasury commissions	**11**	37	61
Asset management and related fees	**5**	7	15
Financial guarantee fees	**4**	5	12
Trust and other fiduciary fees	**-**	1	1
Other fees	**3**	7	9
	23	57	98
Fee and commission expense	**(41)**	(57)	(142)

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

The Corporate Financial Markets division provides foreign exchange and interest rate management services to the Bank’s corporate clients. Corporate treasury commissions have continued to fall in the current financial period due to ongoing decreased sales of interest rate derivatives as a result of a significant reduction in lending volumes.

Asset management and related fees are earned for the sourcing, structuring and ongoing management of investments on behalf of clients. The decline in these fees in the current period reflects the significant reduction in new client investment activity and a decrease in the value of assets under management. The decrease in both trust and other fiduciary fees and other fees is primarily due to the disposal of Anglo Irish Bank (Austria) A.G. in December 2008.

Fee and commission expense includes €39m (31 March 2009: €53m; 31 December 2009: €134m) in respect of the Credit Institutions (Financial Support) Scheme 2008.

Notes to the interim financial statements continued

5. Net trading income/(expense)

	6 months ended 30 June 2010 €m	6 months ended 31 March 2009 €m	15 months ended 31 December 2009 €m
Interest rate contracts	**(42)**	(214)	(251)
Foreign exchange contracts	**42**	(169)	(179)
Credit contracts	**-**	(3)	1
Hedge ineffectiveness	**1**	(3)	2
	1	(389)	(427)

Interest rate contracts include credit fair value losses of €31m (31 March 2009: €175m; 31 December 2009: €212m) relating to corporate swaps, reflecting the deterioration in corporate counterparty credit quality.

Also included within interest rate contracts are negative mark-to-market movements of €18m (31 March 2009: €62m; 31 December 2009: €47m) in respect of interest rate swaps entered into in connection with the acquisition of investment assets by the Group's Wealth Management business that have not been allocated to policyholders under investment contracts or sold to Wealth Management clients.

Foreign exchange contracts include a net gain of €57m (31 March 2009: €nil; 31 December 2009: €nil) as a result of the Group's capital management strategy to minimise the impact of foreign exchange movements on regulatory capital ratios.

Included within foreign exchange contracts for the 6 months ended 31 March 2009 and 15 months ended 31 December 2009 is the impact of a non-trading Japanese Yen financing arrangement, which ended by January 2009.

6. Financial assets designated at fair value

	6 months ended 30 June 2010 €m	6 months ended 31 March 2009 €m	15 months ended 31 December 2009 €m
Net change in value of financial assets designated at fair value through profit or loss held on own account	**(23)**	(68)	(53)

The charge in the current period primarily relates to negative fair value movements on equity shares resulting from challenging business conditions facing the entities in which the shares are held.

7. Gains on repurchase of financial liabilities measured at amortised cost

	6 months ended 30 June 2010 €m	6 months ended 31 March 2009 €m	15 months ended 31 December 2009 €m
Gains on repurchases under the Group's liability management exercise ('LME')	**-**	-	1,752
Gains on other repurchases	**-**	6	6
	-	6	1,758

The Group repurchased certain subordinated liabilities in August 2009 as part of its ongoing capital management activities. €1,805m of Tier 1, €307m of Upper Tier 2 and €388m of Lower Tier 2 securities were bought back at prices of 27%, 37% and 55% of par respectively (note 28).

Notes to the interim financial statements continued

8. Other operating (expense)/income

	6 months ended 30 June 2010 €m	6 months ended 31 March 2009 €m	15 months ended 31 December 2009 €m
Decrease in value of assets designated at fair value held in respect of liabilities to customers under investment contracts	**(5)**	(508)	(534)
Decrease in value of liabilities designated at fair value held in respect of liabilities to customers under investment contracts	**5**	520	539
Net (losses)/gains on disposal of available-for-sale financial assets	**(30)**	25	5
Rental income	**4**	2	11
Net losses on disposal of trade finance assets	**(1)**	(4)	(6)
Other	**(1)**	-	-
	(28)	35	15

The decrease in the value of assets held in respect of liabilities to customers under investment contracts (note 27) is mainly attributable to declining property and equity markets.

Prior to nationalisation and the Group's LME, the elimination of negative investment returns on own shares and subordinated liabilities held for the benefit of policyholders gave rise to a credit of €12m in the 6 months ended 31 March 2009 (15 months ended 31 December 2009: €5m).

The Group recognised losses of €85m on the disposal of asset backed securities and investments in bank subordinated debt during the period. These capital losses were partially offset by gains of €55m on the sale of €1.5bn of government bonds during the period.

9. Administrative expenses

	6 months ended 30 June 2010 €m	Restated* 6 months ended 31 March 2009 €m	Restated* 15 months ended 31 December 2009 €m
Staff costs:			
Wages and salaries	**50**	35	114
Share-based payment schemes	**-**	37	37
Retirement benefits cost - defined contribution plans	**5**	8	17
Retirement benefits cost - defined benefit plans	**1**	3	4
Social welfare costs	**5**	5	14
Other staff costs	**6**	3	6
	67	91	192
Other administrative costs	**40**	50	117
Exceptional costs	**14**	-	42
	121	141	351

Excluding the impact of a release of staff related accruals of €27m in the 6 months to 31 March 2009, wages and salaries have decreased by €12m. This decrease is due to a fall in average staff numbers from 1,753 during the period ended 31 March 2009 to 1,360 during the current period, primarily due to the voluntary redundancy programme that was announced in late 2009.

The 6 months ended 31 March 2009 included a charge of €37m (31 December 2009: €37m) in relation to share-based compensation, €21m of which represents the release of unamortised costs following nationalisation.

Exceptional costs are those incurred in relation to the Bank's EC restructuring plan, the NAMA process and nationalisation. The costs of €14m incurred during the period include €11m in respect of the restructuring of the Bank and preparation for the transfer of loans to NAMA, while the remainder relates to ongoing legacy issues and external reviews.

* The prior periods have been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on pages 33 and 34.

Notes to the interim financial statements continued

10. Retirement benefits

The parent Bank operates two defined benefit non-contributory pension schemes in Ireland. The assets of these schemes are held in separate trustee-administered funds. These schemes have been closed to new members since January 1994. New Irish employees after that date join a funded scheme on a defined contribution basis. There are also funded defined contribution pension plans covering eligible Group employees in other locations.

Defined benefit pension schemes

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Fair value of scheme assets	**100**	98	86
Funded defined benefit obligation	**(109)**	(91)	(88)
(Deficit)/surplus within funded schemes	**(9)**	7	(2)

The deficit in the Group's funded defined benefit pension schemes, measured in accordance with IAS 19, is €9m (31 December 2009: surplus of €7m; 31 March 2009: deficit of €2m).

Financial assumptions

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

	6 months ended 30 June 2010 % p.a.	6 months ended 31 March 2009 % p.a.	15 months ended 31 December 2009 % p.a.
Discount rate for liabilities of the schemes	**5.10**	6.25	6.00
Rate of increase in salaries	**3.00**	4.00	3.00
Rate of increase in pensions	**2.00 to 3.00**	2.00 to 3.00	2.00 to 3.00
Inflation rate	**2.00**	2.00	2.00

Amount recognised in other comprehensive income

	6 months ended 30 June 2010 €m	6 months ended 31 March 2009 €m	15 months ended 31 December 2009 €m
Change in assumptions underlying the present value of schemes' liabilities	**(17)**	5	4
Experience gains on liabilities of the pension schemes	**2**	2	4
Actual return less expected return on assets of the pension schemes	**(1)**	(13)	(6)
Actuarial (losses)/gains recognised under IAS 19	**(16)**	(6)	2
Deferred tax on actuarial losses/(gains)	**-**	-	-
Actuarial (losses)/gains after tax	**(16)**	(6)	2

Notes to the interim financial statements continued

11. Loss on disposal of assets to NAMA

	6 months ended 30 June 2010 €m	6 months ended 31 March 2009 €m	15 months ended 31 December 2009 €m
Fair value of consideration received	**4,177**	-	-
Carrying value of assets transferred to NAMA	**(7,645)**	-	-
Loss on disposal of assets to NAMA	**(3,468)**	-	-

On 7 April 2009 the Irish Government announced its intention to establish the National Asset Management Agency ('NAMA') and, on 22 November 2009, the National Asset Management Agency Act, 2009 ('the Act') provided for its establishment. Under the Act, NAMA has commenced the process of acquiring certain assets from Irish financial institutions, which it will hold, manage and realise, in order to facilitate the restructuring of credit institutions of systemic importance to the Irish economy. On 12 February 2010 the Bank became a participating institution in NAMA, and is now subject to NAMA's statutory powers.

The disposal of assets to NAMA is a fundamental aspect of the Bank's restructuring process. During the period the Bank transferred loans to NAMA with a gross value of €9,924m (before provisions for impairment of €2,461m), and related derivatives with a fair value on date of disposal of €182m. Of the nominal consideration received, €4,451m, or 95%, comprised Government Guaranteed Floating Rate Notes, with the remaining 5% comprising Callable Perpetual Subordinated Fixed Rate Bonds. The senior floating rate notes are classified as Government debt securities at amortised cost (note 22) at an initial fair value of €4,056m. The subordinated bonds are classified as available-for-sale financial assets (note 20). The initial fair value of the subordinated bonds on acquisition was €121m.

The Bank's impairment charge is calculated in accordance with IFRS and reflects losses incurred in the period based on conditions existing at 30 June 2010. Losses expected as a result of future events, no matter how likely, are not recognised under IFRS. In accordance with IFRS, specific impairment on individual loans is calculated based on the difference between the current loan balance and the discounted value of estimated future cash flows on the loan, discounted using the original effective interest rate on the loan. The current market value of collateral is only used in the impairment calculation where the expectation is that the asset will be disposed of in the immediate term.

The valuation that NAMA applies starts with the estimated market value of the underlying loan collateral as at 30 November 2009, adjusted to reflect a longer term economic value which the underlying asset could reasonably be expected to attain in a stable financial system when the current stressed market conditions have abated. This valuation is discounted using rates based on Government bond yields plus a risk premium. In most cases these rates would be higher than the rates as required in the IFRS impairment assessment.

A combination of using adjusted estimated current market values and higher discount rates generally results in lower NAMA values. IFRS impairment provisions on held for sale assets should therefore not be considered an indicator of future discounts on transfers of loans to NAMA.

Loans will continue to transfer to NAMA in tranches and there may be wide variations in the discount rates applied to individual tranches. Variations could occur due to factors such as location and the proportion in each tranche of land and development relative to investment and other associated loans. Pending disposal of loans to NAMA, the Bank continues to assess their quality. Where further evidence of impairment exists, provisions for impairment will be recognised.

In August 2010, the Bank transferred assets to NAMA with a gross value of €5.9bn (before provisions for impairment of €2.6bn). In consideration, the Bank received NAMA senior notes and subordinated bonds with an aggregate fair value of €1.7bn. The Bank realised a loss on disposal of €1.6bn which will be recognised in the six months to 31 December 2010.

Notes to the interim financial statements continued

12. Provisions for impairment

	6 months ended 30 June 2010 €m	6 months ended 31 March 2009 €m	15 months ended 31 December 2009 €m
Loans and advances to customers (note 23)			
Specific	**2,492**	3,694	13,861
Collective	**27**	411	583
	2,519	4,105	14,444
Loans classified as held for sale (note 18)			
Specific	**2,280**	-	-
Debt securities - available-for-sale financial assets (note 20)			
Financial institutions	**10**	4	4
Residential mortgage backed securities	**-**	5	31
Other asset backed securities	**-**	132	436
	10	141	471
Investment property - held on own account			
Attributable to owners of the parent	**44**	79	92
Attributable to non-controlling interests	**-**	10	9
	44	89	101
Financial guarantee contracts and other credit provisions	**-**	-	89
Total provisions for impairment	**4,853**	4,335	15,105

The increase in provisions for impairment on loans and advances to customers, including loans classified as held for sale, in the current period reflects extremely difficult economic conditions across all of the Group's core lending markets of Ireland, the UK and North America. The total specific charge comprises €3,755m (31 March 2009: €2,964m; 31 December 2009: €10,815m) in respect of Ireland, €459m (31 March 2009: €612m; 31 December 2009: €2,248m) in respect of the UK and €558m (31 March 2009: €118m; 31 December 2009: €798m) in respect of North America.

The collective provision is applied to portfolios of customer loans for which there is no evidence of specific impairment. It has been calculated with reference to historical loss experience supplemented by observable market evidence and management's judgement regarding current market conditions. The provision amount is also adjusted to reflect the appropriate loss emergence period. The loss emergence period represents the time it takes following a specific loss event on an individual loan for that loan to be identified as impaired. This is determined by taking account of current credit risk management practices together with historical loss experience. The loss emergence period applied for the current period is six months (31 December 2009: six months).

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

Impairment on investment property held on own account reflects continued weakening economic conditions in the markets where the assets are located and a reduction in the recoverable amounts of the assets, based on the estimated future cash flows to be derived from those assets.

Notes to the interim financial statements continued

13. Taxation

	6 months ended 30 June 2010 €m	6 months ended 31 March 2009 €m	15 months ended 31 December 2009 €m
Current taxation charge/(credit)	**12**	(91)	(71)
Deferred taxation credit	**(12)**	(244)	(49)
	-	(335)	(120)

A current tax charge has been recognised in respect of potential additional chargeable profits which may arise.

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

14. Cash and balances with central banks

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Cash and balances with central banks	**79**	302	266

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

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

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

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Debt securities	**61**	76	95
Equity shares	**18**	42	71
	79	118	166

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

Debt securities which contain embedded derivatives were designated at fair value through profit or loss at inception in accordance with IFRS.

Financial assets at fair value through profit or loss have been negatively impacted by fair value movements of €23m (31 December 2009: €53m; 31 March 2009: €68m) (note 6).

Notes to the interim financial statements continued

16. Derivative financial instruments

Derivative financial instruments derive their value from the price of underlying variables such as interest rates, foreign exchange rates, credit spreads or equity or other indices. Such instruments enable users to efficiently reduce or alter exposure to market risks. The Group uses derivatives for two primary purposes: to manage and hedge the market risks that arise naturally in its banking and other activities, and to provide risk management solutions for corporate clients for the purpose of assisting these clients in managing their exposures to changes in interest rates and foreign exchange rates. The Group also transacts derivatives on a limited basis for discretionary trading purposes.

With the exception of designated hedging derivatives, as defined by IAS 39, derivatives are treated as held for trading. The held for trading classification comprises corporate sales derivatives, economic hedges which do not meet the strict qualifying criteria for hedge accounting, derivatives managed in conjunction with financial instruments designated at fair value and the Group's trading book.

The notional amount of a derivative contract does not necessarily represent the Group's real exposure to credit risk, which is limited to the current replacement cost of contracts with a positive fair value to the Group should the counterparty default. To reduce credit risk on interbank derivatives the Group uses a variety of credit enhancement techniques such as master netting agreements and collateral support agreements ('CSAs'), where cash security is provided against the exposure. Derivatives are carried at fair value and shown in the statement of financial position as separate totals of assets and liabilities.

Details of the objectives, policies and strategies arising from the Group's use of financial instruments, including derivative financial instruments, are presented in note 51 to the Group's Annual Report and Accounts 2009.

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

	30 June 2010			31 December 2009		
	Contract notional amount	**Fair values**		Contract notional amount	Fair values	
		Assets	**Liabilities**		Assets	Liabilities
	€m	**€m**	**€m**	€m	€m	€m
Derivatives held for trading						
Interest rate contracts	**155,453**	**2,401**	**(3,068)**	127,702	1,709	(2,392)
Foreign exchange contracts	**15,772**	**84**	**(1,125)**	15,931	240	(133)
Credit derivatives	**-**	**-**	**-**	20	-	(3)
Equity index options - held and written	**419**	**10**	**(7)**	636	14	(11)
Total trading derivatives	**171,644**	**2,495**	**(4,200)**	144,289	1,963	(2,539)
Derivatives held for hedging						
Fair value hedges	**9,168**	**220**	**(65)**	7,054	345	(44)
Cash flow hedges	**2,785**	**27**	**(14)**	14,650	175	-
Total hedging derivatives	**11,953**	**247**	**(79)**	21,704	520	(44)
Derivatives held in respect of liabilities to customers under investment contracts (note 27)	**1,174**	**-**	**(112)**	1,100	-	(86)
Total derivative financial instruments	**184,771**	**2,742**	**(4,391)**	167,093	2,483	(2,669)

Negative movements in the fair value of foreign exchange contracts, categorised as held for trading, are largely due to the appreciation in the period of both GBP and USD against the euro. In the normal course of business the Group utilises forward foreign exchange contracts to manage currency mismatches that may arise.

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

In the period to 30 June 2010 the Group transferred income of €55m (31 March 2009: €54m; 31 December 2009: €221m) from the cash flow hedging reserve to net interest income. There are no forecast transactions for which hedge accounting had previously been used, but that are now no longer expected to occur.

Notes to the interim financial statements continued

17. Loans and advances to banks

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Placements with banks	**4,594**	3,696	4,064
Securities purchased with agreements to resell	**3,438**	3,664	2,634
	8,032	7,360	6,698

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

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
AAA / AA	**2,360**	1,586	1,331
A	**3,492**	3,447	4,899
BBB+ / BBB / BBB-	**2,175**	2,309	421
Sub investment grade	**-**	-	27
Total held on own account	**8,027**	7,342	6,678
Policyholders' assets (note 27)	**5**	18	20
	8,032	7,360	6,698

The ratings above are counterparty ratings and do not reflect the existence of Government guarantees, where applicable, or the credit risk mitigation provided by collateral received under reverse repurchase agreements.

Loans and advances to banks include short term placements of €2.4bn (31 December 2009: €2.8bn; 31 March 2009: €3.2bn) with entities covered under the Irish Government guarantee scheme. €2.4bn (31 December 2009: €2.8bn; 31 March 2009: €1.8bn) of these placements are secured and included within securities purchased with agreements to resell.

Placements with banks include €2.9bn (31 December 2009: €1.5bn; 31 March 2009: €1.7bn) of cash collateral placed with counterparties to offset credit risk arising from derivative contracts and €0.1bn (31 December 2009: €0.1bn; 31 March 2009: €0.1bn) held with central banks which cannot be withdrawn on demand.

Notes to the interim financial statements continued

18. Assets classified as held for sale

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Loans classified as held for sale to NAMA	**25,858**	35,602	-
Less: provisions for impairment	**(9,738)**	(10,120)	-
	16,120	25,482	-
Derivative financial instruments	**320**	410	-
NAMA assets held for sale	**16,440**	25,892	-
Other loans classified as held for sale	**715**	-	-
Less: provisions for impairment	**(269)**	-	-
Other assets held for sale	**446**	-	-
Total assets classified as held for sale	**16,886**	25,892	-

Assets classified as held for sale comprise those loans which have been identified for transfer to NAMA, including related derivatives, and US loans scheduled to be sold to third parties.

The derivative financial instruments balance of €320m (31 December 2009: €410m; 31 March 2009: €nil) represents the fair value of interest rate contracts linked to NAMA eligible assets at 30 June 2010. The total notional amount of these contracts is €7,270m (31 December 2009: €11,195m; 31 March 2009: €nil) and the transactions consist primarily of interest rate swap agreements.

Certain provisions for obligations under financial guarantees, included within other liabilities, relate to loans eligible for transfer to NAMA. These provisions will not be transferred to NAMA.

Specific provisions for impairment on loans classified as held for sale	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
At beginning of period	**10,120**	-	-
Charge against profits - specific (note 12)	**2,280**	-	-
Unwind of discount	**(182)**	-	-
Exchange movements	**256**	-	-
Net transfers (to)/from loans and advances to customers (note 23)	**(6)**	10,120	-
Released on disposal of assets to NAMA (note 11)	**(2,461)**	-	-
At end of period	**10,007**	10,120	-
Impaired loans classified as held for sale	**20,574**	25,070	-

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

Notes to the interim financial statements continued

19. Amount due from Shareholder

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Amount due from Shareholder	**8,580**	8,300	-

On 22 December 2009, the Bank’s sole Shareholder, the Minister for Finance, wrote to the Chairman restating his previous commitments in relation to ensuring that the Bank had sufficient capital to continue to meet its regulatory capital requirements. Specifically, the letter confirmed the Minister's commitment to implement a proposal effective 31 December 2009 which would conform with EU State Aid rules. On 23 December 2009 the Board accepted the Minister's commitment and subsequently on 31 March 2010 the Minister fulfilled his December 2009 commitment by providing the Bank with a promissory note to the value of €8.3bn (note 21).

On 30 June 2010 the Minister for Finance wrote to the Chairman, re-confirming his previous commitments to ensure the Bank had sufficient capital to continue to meet its regulatory requirements, including as at 30 June 2010. The letter outlined the Minister’s intention to increase the principal amount of the promissory note in a manner consistent with applicable EU State Aid rules. On 30 June 2010 the Board accepted the Minister's commitment and subsequently on 23 August 2010 the Minister fulfilled his June 2010 commitment by issuing an adjustment instrument increasing the principal amount of the promissory note from €10.3bn to €18.88bn.

On the basis of advice received and assurances provided, and consistent with the treatment of the previous commitment, the Board determined that the commitment under the Minister's letter was legally binding, and consequently, a receivable which was virtually certain and appropriate to recognise as an amount due from Shareholder at 30 June 2010. The knowledge that the EC had approved earlier emergency recapitalisations totalling €14.3bn, written assurances received from the Department of Finance on 30 June 2010 regarding receipt of the required State Aid approval and the subsequent receipt of EC approval on 10 August 2010 for a recapitalisation of up to €10.054bn were significant factors in the determination.

Accordingly, at 30 June 2010 the Board has recognised a receivable of €8.58bn and a corresponding credit to a capital reserve (note 30). The fair value of the promissory note received on 23 August 2010 has been used in determining the value of the receivable at period end.

20. Available-for-sale financial assets

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Government bonds	**706**	3,211	3,261
Financial institution bonds	**3,015**	3,398	3,267
Residential mortgage backed securities	**583**	821	817
Asset backed securities	**318**	460	416
	4,622	7,890	7,761

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

	6 months ended 30 June 2010 €m	15 months ended 31 December 2009 €m	6 months ended 31 March 2009 €m
At beginning of period	**7,890**	8,158	8,158
Additions	**661**	3,252	2,473
Disposals (sales and maturities)	**(3,950)**	(3,471)	(2,391)
Fair value movements	**(50)**	(29)	(453)
(Decrease)/increase in interest accruals	**(37)**	3	(12)
Exchange and other movements	**108**	(23)	(14)
At end of period	**4,622**	7,890	7,761

Notes to the interim financial statements continued

20. **Available-for-sale financial assets** continued

In the current period €10m (31 December 2009: €471m; 31 March 2009: €141m) has been recycled from the available-for-sale reserve and recognised as an impairment charge in the income statement (note 12).

At 30 June 2010 AFS financial assets of €3,409m (31 December 2009: €6,080m; 31 March 2009: €5,826m) were pledged to third parties in sale and repurchase agreements for periods not exceeding six months.

The net amount removed from equity and recognised in profit or loss as a loss on disposal of AFS financial assets amounted to €30m (31 December 2009: profit of €5m; 31 March 2009: profit of €25m) (note 8).

Asset backed securities includes NAMA Callable Perpetual Subordinated Fixed Rate Bonds. The NAMA subordinated bonds will be redeemed in full at par without undeclared interest subject to the financial performance of NAMA in totality. NAMA may call on the first call date of 1 March 2010 and every interest payment date thereafter. On each interest payment date commencing on 1 March 2011, and annually thereafter, NAMA may declare the interest payable if it deems it appropriate to do so if it is achieving its objectives. Interest not declared in any year will not accumulate.

The AFS portfolio comprises sovereign investments, debt issued by financial institutions, residential mortgage backed securities and other asset backed securities. With the exception of the NAMA subordinated bonds, AFS bonds are marked to market using independent prices obtained from external pricing sources including broker/dealer quotes and other independent third party pricing service providers. NAMA subordinated bonds are valued using standard discounted cash flow techniques. The Bank does not use models to value other AFS securities and does not adjust any external prices obtained.

Additions in the current period include the purchase of €0.5bn of bonds issued by financial institutions, and the receipt of NAMA subordinated bonds with an initial fair value of €0.1bn. Disposals and maturities include €2.4bn of government securities, €1.0bn of financial institution bonds and €0.5bn of other asset backed securities.

The external ratings profile of the Group's available-for-sale financial assets is as follows:

	30 June 2010				
	Sovereign €m	**Financial Institutions €m**	**Residential Mortgage Securities €m**	**Asset Backed Securities €m**	**Total €m**
AAA / AA	**706**	**2,048**	**520**	**133**	**3,407**
A	**-**	**822**	**47**	**52**	**921**
BBB+ / BBB / BBB-	**-**	**141**	**10**	**46**	**197**
Sub investment grade	**-**	**4**	**6**	**40**	**50**
Unrated	**-**	**-**	**-**	**47**	**47**
	706	**3,015**	**583**	**318**	**4,622**

	31 December 2009				
	Sovereign €m	Financial Institutions €m	Residential Mortgage Securities €m	Asset Backed Securities €m	Total €m
AAA / AA	3,205	1,984	781	258	6,228
A	6	1,269	10	61	1,346
BBB+ / BBB / BBB-	-	132	13	61	206
Sub investment grade	-	13	17	75	105
Unrated	-	-	-	5	5
	3,211	3,398	821	460	7,890

Notes to the interim financial statements continued

21. Promissory note

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Promissory note	**10,407**	-	-

On 31 March 2010, in settlement of the Minister for Finance's commitment (note 19), the Shareholder provided the Bank with a promissory note to the value of €8.3bn. Subsequently, on 28 May 2010, the Shareholder provided further support to the Bank by way of a €2.0bn adjustment instrument which increased the principal amount of the promissory note.

The note, which is classified as loans and receivables, is initially recognised at fair value and subsequently carried at amortised cost. IFRS defines loans and receivables as 'financial assets with fixed or determinable payments that are not quoted in an active market'.

10% of the principal amount of the promissory note will redeem each year at the request of the Bank. Each tranche of the note pays a market based fixed rate of interest which is set on the date of issue and is appropriate to the maturity date of the tranche. Interest can be capitalised at the sole discretion of the Minister. The fixed coupon of the instrument creates an interest rate risk for the Group, and in keeping with its risk appetite, and its capital and interest rate risk management policies, the Group has elected to hedge a portion of this exposure. As at 30 June 2010, the Bank had hedged a total of €2.6bn of the nominal amount using interest rate swaps. Subsequent to 30 June 2010 the Group hedged a further €2bn and will continue to assess the level of hedging required in the context of the Group's approved risk appetite and capital management plan.

On 23 August 2010, in settlement of the Minister's 30 June 2010 commitment (note 19), the Shareholder provided the Bank with a further adjustment instrument to the promissory note to the value of €8.58bn.

22. Government debt securities at amortised cost

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
NAMA Government Guaranteed Floating Rate Notes	**4,061**	-	-

95% of the consideration received for assets transferred to NAMA was in the form of Government Guaranteed Floating Rate Notes. The notes are classified as loans and receivables, and are initially recognised at fair value.

The notes, which are unconditionally and irrevocably guaranteed by the Minister for Finance, accrue interest at 6 month euribor, receivable semi annually on 1 March and 1 September. All notes issued prior to 1 March 2011 shall mature on 1 March 2011 and shall redeem in full at par. The notes are extendible annually at maturity at the option of the issuer. Any extension to the maturity may be for a period of up to 364 days.

The Bank has determined the initial fair value of these notes as €4.1bn. As market prices are not currently available for these securities, in order to determine an initial fair value the Bank has used a valuation technique, based on a discounted cash flow methodology, which references observable market data. The valuation approach adopted takes into consideration the coupon attaching to the notes, the yield on comparable Irish sovereign bonds, the extendible feature of the notes at the option of the issuer and the indicative repayment dates contained in the NAMA business plan. It is possible that an alternative valuation approach could give rise to a range of values that are higher than the current approach. The Bank may reassess the approach adopted when preparing the annual report for the year ended 31 December 2010. The difference between the nominal amount of the notes received and their initial fair value is included in the loss on disposal of assets to NAMA (note 11).

Notes to the interim financial statements continued

23. Loans and advances to customers

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Amounts receivable under finance leases and hire purchase contracts	**57**	67	87
Other loans and advances to customers	**36,926**	35,631	71,419
	36,983	35,698	71,506
Provisions for impairment	**(7,505)**	(4,846)	(4,868)
	29,478	30,852	66,638

Loans and advances to customers at 30 June 2010 of €29,478m (31 December 2009: €30,852m; 31 March 2009: €66,638m) exclude loans classified as held for sale of €16,566m (31 December 2009: €25,482m; 31 March 2009: €nil) (note 18).

The Group's loans and advances to customers include loans to equity-accounted joint venture interests of €1,089m (31 December 2009: €1,045m; 31 March 2009 €902m) and loans of €129m (31 December 2009: €122m; 31 March 2009: €86m) to joint venture interests held in respect of liabilities to customers under investment contracts.

Provisions for impairment on loans and advances to customers	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
At beginning of period	**4,846**	914	914
Charge against profits - specific (note 12)	**2,492**	13,861	3,694
- collective (note 12)	**27**	583	411
Write-offs	**(95)**	(83)	(16)
Recoveries	**1**	-	-
Unwind of discount	**(72)**	(236)	(29)
Exchange movements	**300**	(73)	(106)
Net transfers from/(to) assets classified as held for sale (note 18)	**6**	(10,120)	-
At end of period	**7,505**	4,846	4,868
Specific	**6,233**	3,647	3,853
Collective	**1,272**	1,199	1,015
Total	**7,505**	4,846	4,868
Impaired loans (excludes loans classified as held for sale)	**13,957**	9,511	10,706

The collective provision of €1,272m (31 December 2009: €1,199m; 31 March 2009: €1,015m) has been calculated based on total performing customer loan balances, including those classified as held for sale.

Loans assigned as collateral

Loans, including those classified as held for sale, of €16,029m (31 December 2009: €17,201m) have been assigned as collateral under the Bank's various covered securities programmes. Bonds issued externally under the Bank's UK covered bond programme are included within debt securities in issue (note 26). In addition, loans with a carrying value of €2,754m (31 December 2009: €12,490m) have been assigned as collateral under a Master Loan Repurchase Agreement with the Central Bank and Financial Services Authority of Ireland (note 24). All of the loans remain in the Group's statement of financial position as substantially all of the risks and rewards relating to them are retained.

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

Notes to the interim financial statements continued

24. Deposits from banks

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Deposits repayable on demand	**27**	359	389
Sale and repurchase agreements - central banks	**26,259**	23,680	23,467
Sale and repurchase agreements - banks	**5,089**	7,238	4,213
Other deposits by banks with agreed maturity dates	**1,926**	1,694	2,409
	33,301	32,971	30,478

Sale and repurchase agreements with central banks include €14.7bn (31 December 2009: €12.2bn; 31 March 2009: €13.5bn) borrowed under open market operations from central banks. A combined €11.6bn (31 December 2009: €11.5bn; 31 March 2009: €10.0bn) was also borrowed under a Special Master Repurchase Agreement ('SMRA') and a Master Loan Repurchase Agreement ('MLRA') from the Central Bank and Financial Services Authority of Ireland. The majority of the funds were advanced under the SMRA, involving the sale and repurchase of the promissory note (note 21). Collateral assigned under the MLRA is derived from the Bank's customer lending assets (note 23). The interest rate on both facilities is set by the Central Bank and advised at each rollover, and is currently linked to the European Central Bank marginal lending facility rate.

Other deposits by banks with agreed maturity dates in the Group include €284m (31 December 2009: €258m; 31 March 2009: €220m) of funding provided to policyholders by external banks in respect of liabilities to customers under investment contracts (note 27).

25. Customer accounts

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Repayable on demand	**7,337**	7,852	2,356
Other deposits by customers with agreed maturity dates	**15,819**	19,362	31,750
	23,156	27,214	34,106
Customer type			
Retail deposits	**11,656**	14,715	18,005
Non-retail deposits	**11,500**	12,499	16,101
	23,156	27,214	34,106

The movement in balances in the above table includes foreign currency movements. Customer accounts have decreased by €5.5bn on a constant currency basis since 31 December 2009 with retail balances decreasing by €3.8bn and non-retail balances decreasing by €1.7bn.

Retail balances have decreased largely as a result of maturing one year deposit products launched in 2009 and retention difficulties due to intense competition and pricing constraints.

The decrease in non-retail funding was driven by a broad reduction in corporate cash balances, and risk aversion towards banking in general, including Bank specific and Ireland concerns.

The Group's customer accounts include €202m (31 December 2009: €304m; 31 March 2009: €248m) relating to securities sold under agreements to repurchase.

At 30 June 2010 the Group’s largest 20 customer deposits accounted for 13% (31 December 2009: 14%) of total customer deposit balances.

Notes to the interim financial statements continued

26. Debt securities in issue

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Medium term note programme	**14,639**	13,000	10,225
Covered bonds	**170**	670	1,203
Short term programmes:			
Commercial paper	**1,605**	776	2,465
Certificates of deposit	**104**	702	335
	16,518	15,148	14,228

€2.4bn of medium term notes, all of which are Government guaranteed with maturities of up to five years, were issued in the period. Maturities and redemptions during the period were €1.4bn. €7.9bn of Government guaranteed bonds are due to mature by September 2010.

Bonds issued under the Group's covered bond programme are secured on certain loans and advances to customers (note 23).

Notes to the interim financial statements continued

27. Liabilities to customers under investment contracts

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Assets held in respect of liabilities to customers under investment contracts:			
Investment property	**1,228**	1,143	1,107
Financial assets at fair value through profit or loss	**239**	244	277
Loans and advances to banks	**5**	18	20
Subordinated liabilities and other capital instruments - Group	**-**	-	3
Total	**1,472**	1,405	1,407
Less:			
Funding provided by parent Bank	**(785)**	(771)	(745)
Funding provided by external banks	**(284)**	(258)	(220)
Derivative financial instruments	**(112)**	(86)	(96)
Net asset value attributable to external unitholders	**(39)**	(36)	(33)
Add:			
Funds on deposit with parent Bank	**114**	129	156
Liabilities to customers under investment contracts at fair value	**366**	383	469

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

Underlying investments related to certain investment contracts are held through unit trusts or other legal entities which are not wholly-owned subsidiaries of the Group. The inherent risks and rewards borne by external third parties are treated as either amounts attributable to external unitholders or non-controlling interests as appropriate.

In accordance with IFRS, obligations under investment contracts are carried at fair value in the statement of financial position and are classified as liabilities to customers under investment contracts. The above table sets out where the relevant assets and liabilities in respect of the life assurance business investment contracts are included in the Group statement of financial position. On consolidation, Group loans and advances to customers and Group loans classified as held for sale are shown net of funding of €766m (31 December 2009: €771m; 31 March 2009: €745m) and €19m (31 December 2009: €nil; 31 March 2009: €nil) respectively provided by the parent Bank to fund assets held by the life assurance business in respect of liabilities to customers under investment contracts.

Total funding provided by the parent Bank amounts to €991m (31 December 2009: €933m; 31 March 2009: €924m). €785m represents the current market value of assets, net of related derivative liabilities, to which the parent Bank holds recourse. The Group has assessed these lending facilities for impairment, with any resulting charge included within provisions for impairment on loans and advances to customers.

Derivative financial instruments are entered into by the Group's assurance company in order to hedge the interest rate exposure on funding provided to geared policyholder funds. The decrease in liabilities to customers under investment contracts in the current period results primarily from the decline in the market value of these derivatives due to the continuing reduction in long term EUR and GBP rates.

Notes to the interim financial statements continued

28. Subordinated liabilities and other capital instruments

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Dated Loan Capital			
€750m Floating Rate Subordinated Notes 2014	**325**	325	718
US$165m Subordinated Notes Series A 2015	**139**	119	130
US$35m Subordinated Notes Series B 2017	**29**	26	29
€500m Callable Floating Rate Subordinated Notes 2016	**500**	500	499
€750m Callable Floating Rate Subordinated Notes 2017	**749**	749	749
Undated Loan Capital			
Stg£200m Step-up Callable Perpetual Capital Securities	**25**	23	236
Stg£250m Tier One Non-Innovative Capital Securities	**42**	38	319
€600m Perpetual Preferred Securities	**134**	134	475
Stg£300m Non-Cumulative Preference Shares	**372**	342	360
Stg£300m Step-up Perpetual Subordinated Notes	**54**	48	354
€600m Fixed/Floating Perpetual Preferred Securities	**77**	78	650
Stg£350m Fixed/Floating Perpetual Preferred Securities	**1**	1	426
Other subordinated liabilities	**-**	-	-
	2,447	2,383	4,945

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

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

In July 2009, the European Commission, as a condition of its approval of the Government's capitalisation of the Bank, required that no further coupon payments be made on the Group's Tier 1 securities. As a result, the Board resolved that distributions on the €600m Fixed Rate/Floating Rate Guaranteed Non-voting Perpetual Preferred Securities of Anglo Irish Capital UK (2) LP otherwise due in September 2009, would not be paid. The effect of this decision was to trigger provisions which preclude the Group from declaring distributions or dividends on any of its other Tier 1 securities for the following 12 month period.

The Group repurchased certain subordinated liabilities in August 2009 as part of its ongoing capital management activities. €1,805m of Tier 1, €307m of Upper Tier 2 and €388m of Lower Tier 2 securities were bought back, resulting in a net gain of €1,752m for the 15 months ended 31 December 2009 (note 7).

Notes to the interim financial statements continued

29. Share capital

Ordinary share capital	**30 June 2010 €m**	31 December 2009 €m	31 March 2009 €m
Authorised			
26,200,000,000 ordinary shares of €0.16 each (31 December 2009: 26,200,000,000; 31 March 2009: 1,200,000,000)	**4,192**	4,192	192
Allotted, called up and fully paid			
25,769,150,409 ordinary shares of €0.16 each (31 December 2009: 25,769,150,409; 31 March 2009: 769,150,409)	**4,123**	4,123	123

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

30. Capital reserve

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Capital reserve	**18,880**	8,300	-

On 22 December 2009 the Bank's sole Shareholder, the Minister for Finance, wrote to the Bank outlining his commitment, subject to EU State Aid approval, to ensure that the Bank had sufficient capital to continue to meet regulatory capital requirements at 31 December 2009. On 23 December 2009 the Board accepted the Shareholder's binding commitment. The Bank recognised a receivable from the Shareholder on 31 December 2009 on the basis that it was virtually certain to occur (note 19), and a corresponding credit to the capital reserve. On 31 March 2010, the Bank received an initial promissory note to the value of €8.3bn from the Minister. The promissory note provided for the issuance of adjustment instruments which could amend the original principal amount of the note. On 28 May 2010, the Minister issued an adjustment instrument increasing the principal amount of the promissory note by €2.0bn to €10.3bn.

On 30 June 2010 the Bank received a similar letter from its Shareholder, re-confirming the Minister's previous commitments to ensure the Bank had sufficient capital to continue to meet its regulatory requirements, including as at 30 June 2010. The letter outlined the Minister's intention to increase the principal amount of the promissory note in a manner consistent with applicable EU State Aid rules. On the same date the Board accepted the Minister's commitment. The Bank recognised a receivable from the Shareholder on 30 June 2010 on the basis that it was virtually certain to occur (note 19), and a corresponding credit to the capital reserve. On 23 August 2010 the Minister fulfilled his commitment by issuing an adjustment instrument increasing the principal amount of the promissory note from €10.3bn to €18.88bn.

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

Notes to the interim financial statements continued

31. Other reserves

Non-distributable capital reserve

This is a non-distributable capital reserve. The balance on the reserve at 30 June 2010 was €1m (31 December 2009: €1m; 31 March 2009: €1m).

Exchange translation reserve

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

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Movement in exchange translation reserve			
At beginning of period	**(56)**	(9)	(9)
Exchange differences on translation of foreign operations	**167**	(212)	(232)
Net (loss)/gain on hedges of net investments in foreign operations	**(130)**	165	235
At end of period	**(19)**	(56)	(6)

Cash flow hedging reserve

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

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Movement in cash flow hedging reserve			
At beginning of period	**110**	(9)	(9)
Release of deferred taxation	**-**	(1)	(1)
Net changes in fair value	**31**	341	251
Transfers to income statement	**(55)**	(221)	(54)
At end of period	**86**	110	187

Available-for-sale reserve

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

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Movement in available-for-sale reserve			
At beginning of period	**(207)**	(563)	(563)
Release of deferred taxation	**-**	(80)	(80)
Net changes in fair value	**(55)**	(42)	(471)
Impairment recognised in income statement	**10**	471	141
Transfers to income statement	**30**	(5)	(25)
Foreign exchange and other movements	**4**	12	(25)
At end of period	**(218)**	(207)	(1,023)

The available-for-sale reserve consists of unrealised losses on asset backed securities of €28m (31 December 2009: €112m; 31 March 2009: €595m), on residential mortgage backed securities of €53m (31 December 2009: €87m; 31 March 2009: €212m), bank securities of €66m (31 December 2009: €79m; 31 March 2009: €286m) and NAMA subordinated bonds of €79m (31 December 2009: €nil; 31 March 2009: €nil), offset by unrealised gains on sovereign securities of €8m (31 December 2009: €71m; 31 March 2009: €70m).

Notes to the interim financial statements continued

32. Income tax effects relating to other comprehensive income

	6 months ended 30 June 2010		
	Before tax amount €m	**Tax benefit/ (expense) €m**	**Net of tax amount €m**
Net actuarial losses in retirement benefit schemes	**(16)**	**-**	**(16)**
Net change in cash flow hedging reserve	**(24)**	**-**	**(24)**
Net change in available-for-sale reserve	**(11)**	**-**	**(11)**
Foreign exchange translation	**37**	**-**	**37**
	(14)	**-**	**(14)**

	6 months ended 31 March 2009		
	Before tax amount €m	Tax benefit/ (expense) * €m	Net of tax amount €m
Net actuarial losses in retirement benefit schemes	(6)	-	(6)
Net change in cash flow hedging reserve	196	-	196
Net change in available-for-sale reserve	(460)	-	(460)
Foreign exchange translation	3	-	3
	(267)	-	(267)

	15 months ended 31 December 2009		
	Before tax amount €m	Tax benefit/ (expense) * €m	Net of tax amount €m
Net actuarial gains in retirement benefit schemes	2	-	2
Net change in cash flow hedging reserve	119	-	119
Net change in available-for-sale reserve	356	-	356
Foreign exchange translation	(47)	-	(47)
	430	-	430

* All deferred tax recognised in respect of cumulative net actuarial gains/(losses) in retirement benefit schemes, the cash flow hedging reserve and the available-for-sale reserve at 30 September 2008 was released during the period ended 31 March 2009.

Notes to the interim financial statements continued

33. Contingent liabilities, commitments and other contingencies

	30 June 2010 €m	31 December 2009 €m	31 March 2009 €m
Contingent liabilities			
Guarantees and irrevocable letters of credit	**201**	270	388
Performance bonds and other transaction related contingencies	**68**	74	106
	269	344	494
Commitments			
Credit lines and other commitments to lend	**1,091**	1,858	3,956

A portion of credit lines and other commitments to lend and certain guarantees provided by the Group relate to customer facilities which are eligible for transfer to NAMA.

Regulatory reviews and enquiries

In the period since December 2008, various authorities and regulatory bodies in Ireland (including the Financial Regulator, the Office of the Director of Corporate Enforcement, the Chartered Accountants Regulatory Board, the Irish Auditing & Accounting Supervisory Authority, the Garda Bureau of Fraud Investigation and the Irish Stock Exchange) have initiated investigations (including criminal investigations in some cases) into certain aspects of the Bank's business including certain loan and other transactions involving former Directors and certain third parties. These investigations are ongoing and it is not possible at this stage to give any indication as to whether they will result in civil, administrative or criminal proceedings against the Bank or any of its current or former Directors or Officers. In addition, certain correspondence has been received by the Bank and by certain former Directors of the Bank alleging an entitlement to compensation in respect of alleged wrongdoing by the Bank and/or by such former Directors. At this stage, only one such proceeding has been served on the Bank, though no statement of claim has as yet been served by the plaintiff.

Legal claims

In the normal course of the Bank's business and operations, litigation arises from time to time. The Bank has a policy of active management and rigorous defence of legal claims and there are procedures in place to ensure the oversight of claims by the Risk and Compliance Committee. At 30 June 2010 there are a number of ongoing legal proceedings.

Other than the regulatory reviews and enquiries referred to above, the only significant additional proceedings, which are ongoing, are the Group's arbitration proceedings in the United States seeking the removal of the General Partner in the New York Hotel Fund. The General Partner has counterclaimed seeking damages plus interest and costs. In proceedings brought in the Commercial Court in Dublin, a number of investors in the fund have sought the return of their investment together with interest and costs. The Bank has raised a full defence in response to both the counterclaim and the investors' claims. No additional information in respect of these disputes is being provided, as to do so could prejudice the position of the Group in relation to the proceedings.

Guarantees

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

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

NAMA

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

Notes to the interim financial statements continued

33. Contingent liabilities, commitments and other contingencies continued

Other contingencies

The Bank is currently undertaking an internal review of historical interest rate setting procedures as applied to certain loan accounts. The review deals with the period prior to July 2004 and will determine whether the setting of interest rates correctly accorded with the terms of the associated customer loan documentation and what related financial liability arises to any customers who may have been adversely affected. However, until further work is completed the Bank does not believe it is in a position to provide a reliable estimate of any such liability. As part of the review the Bank will have to examine a substantial amount of individual customer loan documentation, spanning a number of years, before it can reliably estimate the amount of any liability arising.

34. Statement of cash flows

Other non-cash items	**6 months ended 30 June 2010 €m**	Restated* 6 months ended 31 March 2009 €m	Restated* 15 months ended 31 December 2009 €m
Share of results of associate and joint ventures	**40**	126	167
Loans and advances written-off net of recoveries	**(94)**	(16)	(83)
Interest earned on promissory note	**(94)**	-	-
Interest earned on Government debt securities at amortised cost	**(10)**	-	-
Profit on disposal of businesses	**-**	(49)	(49)
Depreciation and amortisation	**12**	10	35
Share-based payment expense	**-**	28	28
Net (increase)/decrease in prepayments and accrued income	**(5)**	(3)	25
Net increase/(decrease) in accruals and deferred income	**12**	(35)	(39)
Net losses/(gains) on disposal of available-for-sale financial assets	**30**	(25)	(5)
Other	**-**	(4)	(4)
	(109)	32	75

Cash and cash equivalents	**30 June 2010 €m**	31 March 2009 €m	31 December 2009 €m
Cash and balances with central banks	**79**	266	302
Loans and advances to banks (with a maturity of less than three months)	**3,427**	3,956	4,477
At end of period	**3,506**	4,222	4,779

Loans and advances to banks (with a maturity of less than three months) excludes cash collateral placed with counterparties to offset credit risk arising from derivative contracts (note 17).

* The prior periods have been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on pages 33 and 34.

Notes to the interim financial statements continued

35. Risk management

Risk management across the Group is a function of risk appetite which is set by the Board and overseen by the Risk and Compliance Committee. Risk appetite can be defined as the total amount of risk the Bank is prepared to accept in pursuit of its strategic objectives. Risk appetite sets the boundaries that form a dynamic link between the Bank's strategy, restructuring plan, capital management plan and the risk management framework. In accordance with the Subscription Agreement between the Minister for Finance and the Bank, a key objective over the coming years is to reduce the risk profile of the business.

As the Bank's current risk exposure exceeds its risk bearing capacity, risk reduction will remain a priority for the Bank, both in the short and medium term, until risk exposure is in line with the Bank's risk appetite objective. The Board continues to address this disparity through stabilising and de-risking the Bank, while aiming to rebuild confidence and trust with all stakeholders. In addition, the development and implementation of the Bank's restructuring plan, with leadership focused on ensuring timely execution of the plan, will assist the Bank in achieving its risk appetite objective.

In the normal course of its business activities the Group is subject to a variety of risks and uncertainties. A description of the principal risks and uncertainties facing the Group is set out on pages 19 to 22.

Pages 114 to 130 of the Group's Annual Report and Accounts 2009 provide details of the risk management and control framework in place in the Bank and sets out the key risks which could impact the Bank's future results and financial position.

This note provides an updated analysis of key risks faced by the Bank.

Credit risk, lending asset quality and impairment

Credit risk is the risk that the Group will suffer a financial loss from a counterparty's failure to pay interest, repay capital or meet a commitment and the collateral pledged as security is insufficient to cover the payments due. The Group's exposure to credit risk arises primarily from its lending activities to customers but also from interbank lending, investment in securities and its use of derivatives. A credit ratings profile of loans and advances to banks is provided in note 17 and an external ratings profile of investment securities classified as available-for-sale is set out in note 20. Details of derivative contracts are provided in note 16.

Maximum exposure to credit risk

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

	The Group	
	30 June 2010 €m	31 December 2009 €m
Exposures in the consolidated statement of financial position		
Cash and balances with central banks	**79**	302
Financial assets at fair value through profit or loss - held on own account *	**61**	76
Derivative financial instruments	**2,742**	2,483
Loans and advances to banks	**8,027**	7,342
Assets classified as held for sale	**16,905**	25,892
Available-for-sale financial assets	**4,622**	7,890
Promissory note	**10,407**	-
Government debt securities at amortised cost	**4,061**	-
Loans and advances to customers	**30,244**	31,623
Exposures not recognised in the consolidated statement of financial position		
Contingent liabilities	**269**	344
Commitments to lend	**1,091**	1,858
Maximum exposure to credit risk	**78,508**	77,810

* Excludes equity shares

Notes to the interim financial statements continued

35. **Risk management** continued

Maximum exposure to credit risk *continued*

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

Loans and advances to customers include €766m (31 December 2009: €771m) lent to fund assets held in respect of liabilities to customers under investment contracts (note 27) as the Group is exposed to credit risk in respect of this lending.

Assets classified as held for sale include €19m (31 December 2009: €nil) lent to fund assets held in respect of liabilities to customers under investment contracts (note 27) as the Group is exposed to credit risk in respect of this lending.

Loans and advances to banks exclude €5m (31 December 2009: €18m) advanced on behalf of policyholders under investment contracts (note 27) as the Group is not exposed to credit risk in respect of these advances.

Contingent liabilities includes €201m (31 December 2009: €270m) in respect of financial guarantees.

Large exposures

At 30 June 2010, the top 20 customer groups (as defined by the Irish Financial Regulator), excluding loans classified as held for sale, represented €9.2bn or 24% (31 December 2009: €8.8bn or 24%) of the Group's total loans and advances to customers before provisions for impairment. Of the top 20 customer groups, one group accounts for 6% of total loans and advances to customers. In addition, a further two groups have borrowings in excess of €500m. In total, there are 21 customer groups which have borrowings in excess of €250m.

Interbank placements with, and investments in debt securities issued by, Irish financial institutions covered under Irish Government guarantee schemes total €4.1bn (31 December 2009: €4.0bn).

Lending asset quality

Credit risk arises primarily on loans and advances to customers and loans classified as held for sale. At 30 June 2010 loans and advances to customers were €36,983m (31 December 2009: €35,698m) before provisions for impairment of €7,505m (31 December 2009: €4,846m) and loans classified as held for sale were €26,573m (31 December 2009: €35,602m) before provisions for impairment of €10,007m (31 December 2009: €10,120m).

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

Good quality

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

Satisfactory quality

This rating applies to exposures that continue to perform satisfactorily, but are subject to closer monitoring.

Lower quality but not past due or impaired

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

Past due but not impaired

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

Impaired loans

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

Notes to the interim financial statements continued

35. Risk management continued

Loans and advances to customers

Asset quality - profile of loans and advances to customers

	30 June 2010				
	Commercial €m	**Residential €m**	**Business Banking €m**	**Other Lending €m**	**Total €m**
Good quality	**10,348**	**534**	**1,065**	**437**	**12,384**
Satisfactory quality	**481**	**53**	**89**	**88**	**711**
Lower quality but not past due or impaired	**4,348**	**476**	**247**	**42**	**5,113**
Total neither past due or impaired	**15,177**	**1,063**	**1,401**	**567**	**18,208**
Past due but not impaired	**3,368**	**445**	**414**	**1,357**	**5,584**
Impaired loans	**9,248**	**1,181**	**2,184**	**1,344**	**13,957**
	27,793	**2,689**	**3,999**	**3,268**	**37,749**
Provisions for impairment	**(4,594)**	**(463)**	**(1,290)**	**(1,158)**	**(7,505)**
	23,199	**2,226**	**2,709**	**2,110**	**30,244**
Less:					
Lending to policyholders in respect of investment contracts (note 27)					**(766)**
Total					**29,478**

	31 December 2009				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
Good quality	12,369	1,113	1,467	1,354	16,303
Satisfactory quality	570	83	77	5	735
Lower quality but not past due or impaired	4,506	71	537	46	5,160
Total neither past due or impaired	17,445	1,267	2,081	1,405	22,198
Past due but not impaired	2,916	668	363	813	4,760
Impaired loans	6,249	574	1,628	1,060	9,511
	26,610	2,509	4,072	3,278	36,469
Provisions for impairment	(2,862)	(315)	(743)	(926)	(4,846)
	23,748	2,194	3,329	2,352	31,623
Less:					
Lending to policyholders in respect of investment contracts (note 27)					(771)
Total					30,852

Internal asset quality reporting by industry sector within the Bank was amended during the period to 30 June 2010. The majority of sectors are unaffected. All comparative industry sector profiles as at 31 December 2009 have been amended accordingly.

Notes to the interim financial statements continued

35. Risk management continued

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

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

	30 June 2010				
	Commercial €m	**Residential €m**	**Business Banking €m**	**Other Lending €m**	**Total €m**
Past due 1 to 30 days	**1,190**	**117**	**291**	**541**	**2,139**
Past due 31 to 60 days	**279**	**19**	**4**	**16**	**318**
Past due 61 to 90 days	**179**	**21**	**13**	**160**	**373**
Past due 91 days and over	**1,720**	**288**	**106**	**640**	**2,754**
Total	**3,368**	**445**	**414**	**1,357**	**5,584**

	31 December 2009				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
Past due 1 to 30 days	962	68	197	193	1,420
Past due 31 to 60 days	665	319	9	57	1,050
Past due 61 to 90 days	346	19	9	57	431
Past due 91 days and over	943	262	148	506	1,859
Total	2,916	668	363	813	4,760

The ageing of past due balances has deteriorated during the period. Key contributing factors include the continued difficult macroeconomic environment and a tightening of the Bank's credit policy in relation to facilities at renewal date, particularly on those facilities where interest was being capitalised on customer loan balances.

Notes to the interim financial statements continued

35. Risk management continued

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

	30 June 2010				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	**2,706**	**2,734**	**1,649**	**7,089**	**19%**
Office	**2,709**	**2,218**	**2,532**	**7,459**	**20%**
Mixed use	**859**	**1,307**	**546**	**2,712**	**7%**
Industrial	**269**	**650**	**598**	**1,517**	**4%**
Residential investment	**418**	**501**	**1,347**	**2,266**	**6%**
Residential development	**202**	**102**	**119**	**423**	**1%**
Business banking	**3,935**	**60**	**4**	**3,999**	**11%**
Personal	**2,628**	**142**	**60**	**2,830**	**7%**
Leisure	**2,244**	**3,694**	**1,185**	**7,123**	**19%**
Commercial development	**303**	**171**	**226**	**700**	**2%**
Other property investment	**939**	**188**	**66**	**1,193**	**3%**
Fund investment	**401**	**4**	**-**	**405**	**1%**
Unzoned land	**31**	**2**	**-**	**33**	**0%**
Total loans and advances to customers	**17,644**	**11,773**	**8,332**	**37,749**	**100%**

	31 December 2009				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	2,422	3,127	1,409	6,958	19%
Office	2,514	2,205	2,242	6,961	19%
Mixed use	861	1,377	492	2,730	7%
Industrial	265	592	525	1,382	4%
Residential investment	430	477	1,165	2,072	6%
Residential development	176	170	91	437	1%
Business banking	3,931	139	2	4,072	11%
Personal	2,757	31	64	2,852	8%
Leisure	2,264	3,464	1,032	6,760	19%
Commercial development	190	167	185	542	1%
Other property investment	929	280	68	1,277	4%
Fund investment	394	7	-	401	1%
Unzoned land	23	2	-	25	0%
Total loans and advances to customers	17,156	12,038	7,275	36,469	100%

Total loans and advances to customers are stated gross of provisions and include €766m (31 December 2009: €771m) lent to fund assets held in respect of liabilities to customers under investment contracts (note 27).

Notes to the interim financial statements continued

35. **Risk management** continued

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

	30 June 2010				
	Ireland €m	**United Kingdom €m**	**USA €m**	**Total €m**	**%**
Retail	**491**	**259**	**38**	**788**	**13%**
Office	**335**	**121**	**142**	**598**	**10%**
Mixed use	**127**	**82**	**18**	**227**	**4%**
Industrial	**53**	**70**	**-**	**123**	**2%**
Residential investment	**73**	**10**	**137**	**220**	**3%**
Residential development	**62**	**41**	**2**	**105**	**2%**
Business banking	**1,177**	**1**	**-**	**1,178**	**19%**
Personal	**871**	**2**	**7**	**880**	**14%**
Leisure	**659**	**303**	**282**	**1,244**	**20%**
Commercial development	**149**	**32**	**13**	**194**	**3%**
Other property investment	**586**	**1**	**1**	**588**	**9%**
Fund investment	**72**	**1**	**-**	**73**	**1%**
Unzoned land	**14**	**1**	**-**	**15**	**0%**
Total specific provisions on loans and advances to customers	**4,669**	**924**	**640**	**6,233**	**100%**

	31 December 2009				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	230	195	21	446	12%
Office	178	84	71	333	9%
Mixed use	48	66	16	130	3%
Industrial	34	69	6	109	3%
Residential investment	42	2	57	101	3%
Residential development	36	23	-	59	2%
Business banking	648	2	-	650	18%
Personal	682	1	4	687	19%
Leisure	362	232	143	737	20%
Commercial development	52	28	5	85	2%
Other property investment	241	-	-	241	7%
Fund investment	63	1	-	64	2%
Unzoned land	4	1	-	5	0%
Total specific provisions on loans and advances to customers	2,620	704	323	3,647	100%

Notes to the interim financial statements continued

35. **Risk management** continued

Loans classified as held for sale

Asset quality - profile of loans classified as held for sale

	30 June 2010				
	Commercial €m	**Residential €m**	**Business Banking €m**	**Other Lending €m**	**Total €m**
Good quality	**1,102**	**129**	**2**	**20**	**1,253**
Satisfactory quality	**54**	**60**	**-**	**-**	**114**
Lower quality but not past due or impaired	**1,306**	**141**	**5**	**3**	**1,455**
Total neither past due or impaired	**2,462**	**330**	**7**	**23**	**2,822**
Past due but not impaired	**2,588**	**408**	**20**	**180**	**3,196**
Impaired loans	**12,398**	**6,067**	**237**	**1,872**	**20,574**
	17,448	**6,805**	**264**	**2,075**	**26,592**
Provisions for impairment	**(5,670)**	**(3,003)**	**(161)**	**(1,173)**	**(10,007)**
	11,778	**3,802**	**103**	**902**	**16,585**
Less:					
Lending to policyholders in respect of investment contracts (note 27)					**(19)**
Total					**16,566**

	31 December 2009				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
Good quality	4,160	830	11	159	5,160
Satisfactory quality	145	201	1	22	369
Lower quality but not past due or impaired	813	198	-	28	1,039
Total neither past due or impaired	5,118	1,229	12	209	6,568
Past due but not impaired	3,030	513	20	401	3,964
Impaired loans	15,754	6,728	275	2,313	25,070
	23,902	8,470	307	2,923	35,602
Provisions for impairment	(5,841)	(2,813)	(180)	(1,286)	(10,120)
Total	18,061	5,657	127	1,637	25,482

The Bank’s impairment charge is calculated in accordance with IFRS and reflects losses incurred in the period based on conditions existing at 30 June 2010. Losses expected as a result of future events, no matter how likely, are not recognised under IFRS. In accordance with IFRS, specific impairment on individual loans is calculated based on the difference between the current loan balance and the discounted value of estimated future cash flows on the loan. IFRS impairment provisions on held for sale assets should not be considered an indicator of future discounts on transfers of loans to NAMA.

Internal asset quality reporting by industry sector within the Bank was amended during the period to 30 June 2010. The majority of sectors are unaffected. All comparative industry sector profiles as at 31 December 2009 have been amended accordingly.

Notes to the interim financial statements continued

35. Risk management continued

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

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

	30 June 2010				
	Commercial €m	**Residential €m**	**Business Banking €m**	**Other Lending €m**	**Total €m**
Past due 1 to 30 days	**486**	**108**	**5**	**15**	**614**
Past due 31 to 60 days	**50**	**8**	**-**	**11**	**69**
Past due 61 to 90 days	**126**	**21**	**1**	**7**	**155**
Past due 91 days and over	**1,926**	**271**	**14**	**147**	**2,358**
Total	**2,588**	**408**	**20**	**180**	**3,196**

	31 December 2009				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
Past due 1 to 30 days	675	215	3	168	1,061
Past due 31 to 60 days	284	11	1	1	297
Past due 61 to 90 days	593	46	-	21	660
Past due 91 days and over	1,478	241	16	211	1,946
Total	3,030	513	20	401	3,964

The ageing of past due balances has deteriorated during the period. Key contributing factors include the continued difficult macroeconomic environment and a tightening of the Bank's credit policy in relation to facilities at renewal date, particularly on those facilities where interest was being capitalised on customer loan balances.

Notes to the interim financial statements continued

35. **Risk management** continued

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

	30 June 2010				
	Ireland €m	**United Kingdom €m**	**USA €m**	**Total €m**	**%**
Retail	**2,721**	**1,225**	**137**	**4,083**	**15%**
Office	**2,268**	**302**	**253**	**2,823**	**11%**
Mixed use	**908**	**512**	**274**	**1,694**	**6%**
Industrial	**156**	**352**	**54**	**562**	**2%**
Residential investment	**621**	**164**	**201**	**986**	**4%**
Residential development	**4,031**	**1,567**	**221**	**5,819**	**22%**
Business banking	**257**	**-**	**7**	**264**	**1%**
Personal	**1,101**	**5**	**13**	**1,119**	**4%**
Leisure	**1,806**	**282**	**443**	**2,531**	**10%**
Commercial development	**3,195**	**1,329**	**813**	**5,337**	**20%**
Other property investment	**367**	**51**	**-**	**418**	**2%**
Fund investment	**30**	**5**	**7**	**42**	**0%**
Unzoned land	**910**	**4**	**-**	**914**	**3%**
Total loans classified as held for sale	**18,371**	**5,798**	**2,423**	**26,592**	**100%**

	31 December 2009				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	4,076	985	142	5,203	15%
Office	2,718	548	157	3,423	10%
Mixed use	1,898	469	233	2,600	7%
Industrial	192	353	34	579	2%
Residential investment	718	407	155	1,280	4%
Residential development	5,120	1,857	213	7,190	20%
Business banking	292	9	6	307	1%
Personal	1,799	11	23	1,833	5%
Leisure	2,718	296	362	3,376	9%
Commercial development	5,746	1,747	678	8,171	23%
Other property investment	482	68	-	550	1%
Fund investment	88	8	6	102	0%
Unzoned land	984	4	-	988	3%
Total loans classified as held for sale	26,831	6,762	2,009	35,602	100%

Total loans classified as held for sale are stated gross of provisions and include €19m (31 December 2009: €nil) lent to fund assets held in respect of liabilities to customers under investment contracts (note 27).

Notes to the interim financial statements continued

35. **Risk management** continued

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

	30 June 2010				
	Ireland €m	**United Kingdom €m**	**USA €m**	**Total €m**	**%**
Retail	**757**	**184**	**10**	**951**	**9%**
Office	**380**	**65**	**35**	**480**	**5%**
Mixed use	**284**	**75**	**108**	**467**	**5%**
Industrial	**47**	**22**	**12**	**81**	**1%**
Residential investment	**170**	**12**	**63**	**245**	**2%**
Residential development	**2,055**	**589**	**114**	**2,758**	**27%**
Business banking	**161**	**-**	**-**	**161**	**2%**
Personal	**646**	**2**	**5**	**653**	**7%**
Leisure	**805**	**70**	**130**	**1,005**	**10%**
Commercial development	**1,669**	**534**	**329**	**2,532**	**25%**
Other property investment	**144**	**10**	**-**	**154**	**2%**
Fund investment	**11**	**-**	**7**	**18**	**0%**
Unzoned land	**499**	**3**	**-**	**502**	**5%**
Total specific provisions on loans classified as held for sale	**7,628**	**1,566**	**813**	**10,007**	**100%**

	31 December 2009				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	874	74	-	948	9%
Office	260	49	28	337	3%
Mixed use	523	63	33	619	6%
Industrial	42	6	-	48	0%
Residential investment	159	7	32	198	2%
Residential development	1,945	567	103	2,615	26%
Business banking	171	9	-	180	2%
Personal	900	1	5	906	9%
Leisure	678	58	76	812	8%
Commercial development	2,024	683	169	2,876	29%
Other property investment	167	34	-	201	2%
Fund investment	29	1	3	33	0%
Unzoned land	345	2	-	347	4%
Total specific provisions on loans classified as held for sale	8,117	1,554	449	10,120	100%

Notes to the interim financial statements continued

35. **Risk management** continued

Liquidity and funding risk

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

Funding markets, both retail and wholesale, have remained challenging for the Group. The market for customer deposits remains extremely competitive, particularly the retail deposit market where pricing pressure makes deposit retention difficult. Since 31 December 2009 the quantity and quality of the Bank's funding has continued to deteriorate resulting in an increased reliance on support from central banks, including access to special funding facilities. The Group currently borrows from central banks through both open market operations with monetary authorities and through secured funding facilities with the Central Bank and Financial Services Authority of Ireland (note 24). The Group has total borrowings from central banks at 30 June 2010 of €26.3bn (31 December 2009: €23.7bn), including €11.6bn (31 December 2009: €11.5bn) borrowed through these secured funding facilities.

Continued participation in NAMA will improve the Bank's liquidity as the senior NAMA floating rate notes are eligible for sale and repurchase agreements with the European Central Bank. At 30 June 2010 the Group held senior NAMA floating rate notes with a nominal value of €4.5bn and has received €1.9bn of additional senior notes in consideration for loans transferred in August. Furthermore, participation in the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the 'ELG scheme') has aided the Bank in issuing term debt with a maturity of up to five years. In April 2010 the Bank successfully issued €2.4bn of Government guaranteed medium term notes ('MTNs') with maturities of 2 to 5 years. However, at present the Group will have a significant funding requirement by the end of September 2010 with €7.9bn of MTNs maturing by the time the current Credit Institutions (Financial Support) ('CIFS') Government guarantee scheme expires. Recent amendments to the ELG scheme, which apply from 29 September 2010 restrict the guarantee with regard to certain deposits and other debt securities with a maturity of less than three months. Additionally, all interbank deposits are excluded though retail deposits of any duration up to five years up to €100,000 continue to be covered by the Deposit Guarantee Scheme.

The table below analyses the Group's financial liabilities into current or non-current maturity groupings, based on the remaining period to the contractual maturity date as at 30 June 2010 and 31 December 2009. Financial liabilities are classified as current if they have a contractual maturity within 12 months of the reporting date. The table is prepared on the basis of remaining contractual maturity and does not incorporate behavioural assumptions regarding expected cash flows.

	30 June 2010		31 December 2009	
	Current €m	**Non-Current €m**	Current €m	Non-Current €m
Financial liabilities				
Deposits from banks	**33,014**	**287**	32,710	261
Customer accounts	**22,754**	**402**	26,842	372
Debt securities in issue	**11,087**	**5,431**	11,190	3,958
Subordinated liabilities and other capital instruments *	**-**	**2,447**	-	2,383
	66,855	**8,567**	70,742	6,974

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

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

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

The Group's credit lines and other commitments to lend of €1,091 (31 December 2009: €1,858m) (note 33) include €587m (31 December 2009: €1,153m) falling due within one year.

Notes to the interim financial statements continued

36. Fair value hierarchy

The following table details the valuation methods used for the Group's financial assets and liabilities carried at fair value as at 30 June 2010, other than financial assets and liabilities at fair value through profit or loss held in respect of liabilities to customers under investment contracts.

	30 June 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	€m	**€m**	**€m**	**€m**
Financial assets				
Financial assets at fair value through profit or loss - held on own account	**-**	**54**	**25**	**79**
Available-for-sale financial assets	**1,856**	**2,555**	**211**	**4,622**
Derivative financial instruments	**-**	**2,046**	**696**	**2,742**
Derivative financial instruments held for sale	**-**	**46**	**274**	**320**
	1,856	**4,701**	**1,206**	**7,763**
Financial liabilities				
Derivative financial instruments	**-**	**4,384**	**7**	**4,391**
Other financial liabilities	**-**	**3**	**27**	**30**
	-	**4,387**	**34**	**4,421**

	31 December 2009			
	Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m
Financial assets				
Financial assets at fair value through profit or loss - held on own account	-	70	48	118
Available-for-sale financial assets	5,150	2,582	158	7,890
Derivative financial instruments	-	2,095	388	2,483
Derivative financial instruments held for sale	-	179	231	410
	5,150	4,926	825	10,901
Financial liabilities				
Derivative financial instruments	-	2,658	11	2,669
Other financial liabilities	-	2	27	29
	-	2,660	38	2,698

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

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

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

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

The reduction in available-for-sale financial assets in the six months to 30 June 2010 is primarily attributable to disposals of debt securities and fair value movements. Derivative transactions with corporate clients which have a significant, but unobservable, counterparty credit input are classified in level 3. The Bank has observed a credit deterioration in relation to certain corporate clients during the financial period. NAMA subordinated bonds are included in level 3.

Notes to the interim financial statements continued

37. Capital resources

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

The Group's regulatory capital position has remained under considerable stress due to the losses incurred during the period. The Minister for Finance, as the Bank's sole shareholder, has committed that the Bank will remain adequately capitalised. As evidence of this commitment, the Minister for Finance provided an additional capital contribution of €2.0bn on 28 May 2010 by way of an adjustment instrument to the €8.3bn promissory note issued on 31 March 2010. A further capital contribution of €8.58bn, relating to the amount due from Shareholder at 30 June 2010, brings the total amount of capital contributed by the Shareholder to date to €22.88bn, all of which qualifies as Core Tier 1 regulatory capital. The inclusion of the capital contribution of 30 June 2010 restored the Group's regulatory capital position, resulting in a Tier 1 Capital ratio of 11.6% and a Total Capital ratio of 16.4%.

The Group reported a Total Capital ratio of 7.7% as at 31 May 2010, a breach of the minimum requirement, in revised regulatory returns which were submitted to the Financial Regulator on 31 August 2010. These returns were revised following the final determination of the appropriate fair value of the senior NAMA floating rate notes, of which a nominal amount of €3.9bn was received in May. This breach was temporary as the €8.58bn capital contribution of 30 June 2010 restored the Bank's capital ratio above the minimum required.

Regulatory capital - with derogations		**30 June 2010 €m**	31 December 2009 €m
Tier 1 capital			
Equity	(a)	**6,526**	4,170
Prudential filters and regulatory adjustments		**106**	65
Non-cumulative preference shares		**364**	334
Core Tier 1 capital		**6,996**	4,569
Perpetual preferred securities		**278**	271
Total Tier 1 capital		**7,274**	4,840
Tier 2 capital			
Collective provisions		**1,326**	1,277
Subordinated perpetual debt		**52**	47
Subordinated term debt		**1,609**	1,649
Total Tier 2 capital		**2,987**	2,973
Tier 1 and Tier 2 capital		**10,261**	7,813
Capital deductions		**(12)**	(12)
Total capital		**10,249**	7,801
Risk weighted assets	(b)	**62,620**	73,055
Tier 1 capital ratio		**11.6%**	6.6%
Total capital ratio		**16.4%**	10.7%

(a) Core Tier 1 capital has been significantly impacted by the loss for the period ended 30 June 2010 which includes €4.9bn of impairment charges and a loss on disposal of assets to NAMA of €3.5bn. Core Tier 1 capital also includes €10.58bn of capital contributions received in the period.

Notes to the interim financial statements continued

37. Capital resources continued

(b) Risk weighted assets are calculated in line with the Standardised Approach to Basel II. The level of risk weighted assets has reduced primarily due to the disposal of assets to NAMA during the period. Further specific impairment charges incurred in the period to 30 June 2010 have also reduced the level of risk weighted assets. These reductions have been offset somewhat by an increase in the amount of exposures that are greater than 90 days past due and risk weighted at 150% and also the impact of exchange rate fluctuations on the Bank's asset base.

Derogations from regulatory capital requirements

The Bank's regulatory capital position throughout the period to 30 June 2010 has continued to benefit from derogations from certain regulatory capital requirements granted, following requests from the Bank, on a temporary basis by the Financial Regulator. The following derogations, in effect at 30 June 2010, were granted by the Financial Regulator on 31 May 2010, and are consistent with those applicable at 31 December 2009.

- that the Bank's minimum Total capital ratio be reduced from 9.5% to 8.0%;
- that Tier 1 capital comprises at least 50% of the Bank's regulatory capital;
- that lower Tier 2 capital cannot exceed 50% of Tier 1 capital;
- that Core Tier 1 capital must be, at a minimum, 4% of risk weighted assets;
- that collective provisions included in Tier 2 capital cannot exceed 1.25% of risk weighted assets;
- to apply a risk weight of 150% to certain Irish commercial property loans advanced prior to 31 October 2009; and
- to deduct €169m from Total capital.

Full details of the Financial Regulator's derogations applicable as at 30 June 2010 are as follows:

The Financial Regulator granted, effective from 31 December 2009, the following derogations on a temporary basis and in exceptional circumstances:

(1) The minimum total capital requirement for credit institutions is 8% as set down by Regulation 19 of the European Communities (Capital Adequacy of Credit Institutions) Regulations 2006 (SI No. 661 of 2006) (the 'CRD Regulations'). The Financial Regulator has imposed a higher minimum total capital ratio requirement of 9.5% on the Bank. This requirement shall be reduced from 9.5% to 8%.

(2) Under Regulation 11(6) of the CRD Regulations the Bank is authorised to exceed the limits set out in Regulation 11(1).

(3) The Financial Regulator's requirements in relation to Own Funds as set out in paragraph 3.2.1 (i) and (ii) of BSD S 1/04, Notice to Credit Institutions (Alternative Capital Instruments: Eligibility as Tier 1 Capital) shall not apply to the Bank.

(4) In accordance with the national discretion provisions afforded to member states under Annex VI of the Capital Requirements Directive 2006/48/EC the Financial Regulator imposed a risk weighting of 150% to speculative commercial real estate with effect from 1 January 2007. This is as set out in paragraph 2.2, Type A Discretions (ref 20) of the Financial Regulator's notice on Implementation of the CRD (28 December 2006) (the 'Implementation Notice'). This shall be amended in the case of the Bank to 100% in respect of the value of all exposures as at 31 October 2009 meeting the definition of speculative commercial real estate as defined in the Implementation Notice. Any increase in such exposures after that date or any new exposures arising after that date meeting the definition of speculative commercial real estate shall continue to have a risk weighting of 150%.

(5) The Financial Regulator has in place a restriction on the level of general provisions that may be included in Tier 2 of 1.25% of risk weighted assets, as set forth in Paragraph 2.2 (iv) of the Financial Regulator's notice BSD S 1/00. This limit of 1.25% shall not apply to the Bank.

(6) The Financial Regulator grants a waiver from the requirement, set out in its letter of 25 July 2008, to make a deduction of €169m from Total Own Funds.

The Financial Regulator has extended the application of the above derogations until 31 August 2010 or such shorter period if the Bank's capital ratios were restored to a level compliant with capital ratio requirements in place prior to the granting of these derogations.

Notes to the interim financial statements continued

37. Capital resources continued

The following table provides details of the regulatory capital position of the Bank without the benefit of temporary derogations from certain regulatory capital requirements that were applicable at 30 June 2010.

Regulatory capital - without derogations	30 June 2010 €m	31 December 2009 €m
Total Tier 1 capital	**7,274**	4,840
Tier 2 capital		
Collective provisions	**795**	939
Subordinated perpetual debt	**52**	47
Subordinated term debt	**1,609**	1,649
Total Tier 2 capital	**2,456**	2,635
Tier 1 and Tier 2 capital	**9,730**	7,475
Capital deductions	**(181)**	(181)
Total capital	**9,549**	7,294
Risk weighted assets	**63,554**	75,112
Tier 1 capital ratio	**11.4%**	6.4%
Total capital ratio	**15.0%**	9.7%

Notes to the interim financial statements continued

38. Related party transactions

Irish Government

Parties are considered to be related if one party has the ability to control, or exercise significant influence over, another party's financial or operational decision making, or when both parties are under common control. During the period ended 31 December 2009 the Group was taken into State ownership and, as a result, the Irish Government is considered a related party. On 30 September 2008 the Irish Government introduced the Credit Institutions (Financial Support) Scheme 2008 (the 'CIFS scheme') under which the Minister for Finance guaranteed certain liabilities of covered institutions, including the Bank, until 29 September 2010. On 9 December 2009 the Government introduced the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the 'ELG scheme') which provides a guarantee for relevant customer deposits and provides flexibility to issue certain debt securities in both unguaranteed and guaranteed form (up to a maximum maturity of 5 years). The Bank became a participating institution in the ELG scheme on 28 January 2010. Fees payable under the ELG and the CIFS schemes are set out in notes 3 and 4 respectively.

On 9 February 2010 the Bank applied to be designated as a participating institution in NAMA. This application was accepted by the Minister for Finance on 12 February 2010. During the current period the Bank transferred loans and related derivatives with a carrying value of €7.6bn to NAMA. In return, the Bank received NAMA senior floating rate notes and subordinated bonds with initial fair values of €4.1bn and €0.1bn respectively (note 11).

On 31 March 2010 an €8.3bn capital contribution from the Bank's Shareholder, which was a receivable at 31 December 2009, was settled via receipt of a promissory note. The Bank received a further €2.0bn capital contribution on 28 May 2010 in the form of an adjustment instrument to the original promissory note. On 23 August 2010 a capital contribution of €8.58bn, which was a receivable at 30 June 2010, was settled through receipt of a further adjustment instrument to the original promissory note.

The financial support provided by the Government to the Group referred to above is subject to review by the European Commission ('EC') under EU State Aid rules. The Group submitted a revised restructuring plan to the EC in May 2010 and the review of that plan by the EC is ongoing. The EC will consider whether the plan demonstrates the Group’s long term viability, that the Group (and its capital holders) makes an appropriate contribution to the restructuring costs from its own resources and that measures are taken to limit distortions to competition arising from the financial support provided by the Government to the Group. The Irish Government and the EC may therefore exert significant influence which could impact the Group's future results and financial condition.

Placings with and deposits from the Central Bank and Financial Services Authority of Ireland are detailed in notes 14 and 24 respectively. In addition, in the normal course of business and on arm's length terms, the Group has entered into transactions with Government-related entities, which include financial institutions in which the State has a majority interest. The principal banking transactions include taking deposits, investing in Government bonds and debt securities issued by financial institutions, and providing loans. At 30 June 2010 normal banking transactions outstanding between the Group and such entities amounted to: deposits of €645m (31 December 2009: €436m), Government bonds of €295m (31 December 2009: €1,118m), debt securities issued by State-owned financial institutions of €277m (31 December 2009: €232m) and loans of €nil (31 December 2009: €173m). The loans at 31 December 2009, which represented amounts advanced to Becbay Limited (a joint venture entity involving the Dublin Docklands Development Authority) on arm's length terms, were transferred to NAMA during the period.

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

Pension funds

The Group provides normal investment fund management and banking services to pension funds operated by the Group for the benefit of its employees. These services are provided on similar terms to third party transactions and are not material to the Group.

Subsidiary undertakings and joint ventures

Anglo Irish Bank Corporation Limited (the 'Bank') is the ultimate parent of the Group. Banking transactions are entered into by the Bank with its subsidiaries in the normal course of business. The Group provides certain banking and financial services to its joint ventures.

Key management personnel

Key management personnel comprise persons who, at any time during the six months ended 30 June 2010, were members of the Board of Directors (the 'Board') together with the Group Secretary and any other persons having authority and responsibility for planning, directing and controlling the activities of the Bank.

Notes to the interim financial statements continued

38. Related party transactions continued

Key management personnel continued

Changes to the Board since 31 December 2009

On 24 May 2010 Dr. Noel Cawley, Aidan Eames and Gary Kennedy were appointed to the Board. On 14 June 2010 Alan Dukes was appointed as Chairman of the Board to replace Donal O'Connor who resigned on that date as Chairman and as a Director of the Bank. On 5 July 2010 Natasha Mercer resigned as Group Secretary and was replaced by Dr. Max Barrett.

Remuneration for the new Non-executive Directors is in accordance with the Group's remuneration policy as agreed with the Minister for Finance in consultation with the Chairman of the Remuneration Committee in 2009. Furthermore the Chairman of the Board has voluntarily offered to receive an annual fee of €150,000 which is €100,000 lower than the agreed contractual fee of €250,000.

Loans to key management personnel

All of the loans to Directors outstanding at 31 December 2009 of €155m relate to former Directors of the Bank. None of the current Directors has, or has had at any time during the period, any loans from the Bank. No other transactions, arrangements or agreements of the type referred to in section 31 of the Companies Act, 1990 (as amended) existed at any time during the period in respect of any current Director of the Bank.

Loans and advances at 31 December 2009 include €10m to three former key managers who are no longer employed by the Bank. Loans and advances at 30 June 2010 include €1m (31 December 2009: €1m) to two individuals who are currently key management personnel.

Loans to connected persons

During the period there was no transaction, arrangement or agreement of the type referred to in section 31 of the Companies Act, 1990 (as amended) between the Bank and any person who was connected with a Director of the Bank during the period which was (a) not entered into by the Bank in the ordinary course of its business, or (b) its value was greater, or its terms more favourable, in respect of the person for whom it is made, than that or those which (i) the Bank ordinarily offers, or (ii) it is reasonable to expect the Bank to have offered, to or in respect of a person of the same financial standing but unconnected with the Bank.

Transactions with former key management personnel

As previously disclosed in note 54 to the Annual Report and Accounts 2009, a former Director, who left the Bank on 15 March 2010, received a voluntary redundancy payment inclusive of pay in lieu of notice and legal/actuarial fees of €784,095, a payment in lieu of outstanding holidays of €65,417 and an actuarially calculated gross payment of €1,980,000 before tax in lieu of pension related benefits during the period. An after tax sum of €915,625 from this payment was set-off against outstanding loan balances with the Bank. A further after tax sum of €440,000 was placed on deposit with the Bank and used to service the remaining loans outstanding. The former Director also received €219,800 on 12 December 2008 and €262,223 in March 2010 for deferred performance bonuses, to which he had a contractual entitlement. These awards were in respect of the financial years to 30 September 2005 and 30 September 2006 and were expensed, and disclosed where appropriate, in the years in which they were awarded.

Also, as previously disclosed in note 55 to the Annual Report and Accounts 2009, loans advanced to other key management at 31 December 2009 included a loan of €4m advanced to a former key manager on preferential terms in lieu of entitlements associated with a foreign assignment which commenced in 2005. The loan balance comprised lending to provide accommodation for the duration of the foreign assignment. The Bank assumed legal ownership of this property during the period in full repayment of the related loan balance at a total cost of €1.9m. This cost is deemed to be an employment benefit attributable to the key manager.

Notes to the interim financial statements continued

39. Events after the reporting period

Promissory note

On 23 August 2010 the Minister for Finance fulfilled his 30 June 2010 commitment and settled the amount due from Shareholder (note 19) by providing the Bank with an adjustment instrument to the original promissory note increasing the principal amount from €10.3bn to €18.88bn. The corresponding increase to the capital reserve is eligible as regulatory Core Tier 1 capital.

NAMA

In August 2010, the Bank transferred assets to NAMA with a gross value of €5.9bn (before provisions for impairment of €2.6bn). In consideration, the Bank received NAMA senior notes and subordinated bonds with an aggregate fair value of €1.7bn. The Bank realised a loss on disposal of €1.6bn which will be recognised in the six months to 31 December 2010.

NAMA has complete discretion as to which assets will be acquired and has not confirmed to the Bank the total value of loans that it expects to purchase. Since the period end NAMA has confirmed that it will not now be acquiring €1.2bn of the €25.9bn of loans classified as held for sale to NAMA at 30 June 2010. The European Commission has set a deadline of February 2011 for all transfers to NAMA.

Due to the factors above and uncertainty over discounts on transfer, the Bank is currently not in a position to accurately quantify the actual total loss that will arise on the transfer of all eligible assets to NAMA.

Customer restructurings

On 9 August 2010 the European Commission ('EC') cleared under the EU Merger Regulation the proposed restructuring of a large retail customer's debts in return for a transfer of joint control to the Bank and another financial institution. The Bank is currently restructuring other customers' facilities which could involve a rescheduling of repayments or in certain cases the Bank acquiring an ownership interest, where this is considered appropriate and maximises the recovery of the outstanding debt.

40. Approval

The interim financial statements were authorised for issue by the Board of Directors on 31 August 2010.

Independent review report to Anglo Irish Bank Corporation Limited

Introduction
We have been engaged by Anglo Irish Bank Corporation Limited ('the Bank') to review the condensed set of financial statements in the Interim Report for the six months ended 30 June 2010 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and the related notes 1 to 40 (the 'condensed financial statements'). We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed financial statements.

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

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

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

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

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed financial statements in the Interim Report for the six months ended 30 June 2010 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union, the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Irish Financial Services Regulatory Authority.

Deloitte & Touche
Chartered Accountants

31 August 2010

Caring for the environment

At Anglo Irish Bank, we take a responsible approach to environmental issues and have worked with our print partner to minimise the environmental impact of our Interim Report publication. The paper selected for this report comes from certified well managed forests, accredited by the PEFC to a standard known as Chain of Custody. These certified forests are managed to ensure long term timber supplies while protecting the environment and the livelihood of the forest dependent people.

Anglo Irish Bank