

Irish Life & Permanent plc

(Irish Life & Permanent plc is a wholly owned subsidiary of Irish Life & Permanent Group Holdings plc)

Irish Life & Permanent plc today issues its 2010 half year report for the six months to 30 June 2010.

Note:

Irish Life & Permanent plc has no listed equity security but as an issuer of debt securities (with denominations of less than €50,000) on a regulated market it is required under the provisions of the Transparency Directive Regulations to publish its own separate half year report (to that of its parent) within 2 months of the half year period end.

Irish Life & Permanent Group Holdings plc (the listed parent company of Irish Life & Permanent plc) published its half year report for the Group via RNS at 7.00am today

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2010 Half Year Report

Six months to 30 June 2010

Irish Life & Permanent plc

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Presentation of Information

Statutory Basis (EU IFRS)

EU law requires that the consolidated financial statements of the group be prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

The statutory basis applies IFRS to all operations including the application of IFRS 4 'Insurance Contracts' to the group's life assurance operations. IFRS 4 allows insurance contracts to continue to be accounted for under previous GAAP as adjusted for any changes which result in more relevant and reliable information. As a consequence of this the results for the group's insurance contracts continue to be prepared under the embedded value methodology as described below.

The statutory basis half year financial review and accounts are included on pages 6 to 22 and 29 to 96 respectively.

Embedded Value Basis (EV)

The EV basis shows the results of the group's life assurance operations (including both insurance and investment contracts) prepared in accordance with the European Embedded Value (EEV) Principles issued in May 2004 with additional guidance on EEV disclosures issued in October 2005 by the European Chief Financial Officers' Forum.

The results of all other operations are prepared in accordance with IFRS.

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

The EV basis results employ the embedded value methodology for all of the group's insurance and investment business. The statutory basis results use embedded value for insurance contracts only with investment contracts being accounted for under IFRS. Banking and other businesses are accounted for on the same basis in both statutory and EV results.

The EV basis financial review and results are included on pages 23 to 26 and 100 to 116 respectively. A reconciliation of shareholders' equity on an EU IFRS basis to EV basis can be found in note 9 on page 114.

Group Performance Highlights

For the six months to 30 June 2010 (unaudited)

	30 June 2010	30 June 2009	31 December 2009
Statutory Basis (EU IFRS)			
Operating profit / (loss) before impairment provisions	€114m	(€23m)	€68m
Loss after tax (attributable to equityholders)	(€26m)	(€215m)	(€313m)
EV Basis			
Operating loss before tax	(€10m)	(€51m)	(€196m)
Loss after tax (attributable to equityholders)	(€20m)	(€191m)	(€279m)
Banking Business			
New loans issued	€0.3bln	€0.7bln	€1.2bln
Lending book	€38.3bln	€39.9bln	€38.6bln
Residential mortgage loan book (Ireland)	€26.8bln	€27.7bln	€27.3bln
Customer accounts	€14.9bln	€12.9bln	€14.6bln
Stable funding mix ¹	56%	50%	48%
Life and Fund Management New Business			
Life new business			
- APE (Annual Premium Equivalent)	€156m	€167m	€348m
- PVNBP (Present Value of future New Business premiums)	€1,095m	€1,090m	€2,398m
Life and Fund Management new business			
- APE	€276m	€227m	€539m
- PVNBP	€2,294m	€1,695m	€4,306m
Dividends			
Interim dividend per share	Nil	Nil	Nil
Capital Ratios			
Total Tier 1 Capital Ratio	10.7%	11.4%	11.3%
Life Solvency Cover (times)	1.7	1.6	1.6

¹ Stable funding ratio is the end of period retail deposits and long term funding as a percentage of total funding.

Forward Looking Statements

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

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

Group Chief Executive's Review

Background

The first six months of 2010 have represented a less hostile environment for the group's activities than had been the case in recent periods. We have yet to see the end of this period of correction and some significant challenges for our businesses remain but there is growing evidence that the actions taken to address the crisis in our businesses influenced by the wider economic and funding crisis are beginning to bear fruit and we can begin to look to the coming months with more confidence.

In the first six months of the year there were significant developments in both the Irish economy and in financial services. The economy saw retail sales, exports and consumer confidence increase over the period. The financial services market saw banks being recapitalised, restructured and rationalised.

The industry commenced the transfer of mortgage assets into the National Asset Management Agency ("NAMA") during the first six months of 2010. While the group has no qualifying assets and is therefore not participating in NAMA and has not received capital from the State, it is expected that these programmes will facilitate structural and strategic developments in the Irish financial services market over the coming periods.

Group performance

Looking specifically at the group, the financial performance showed significant improvement on the equivalent performance in 2009. We are beginning to see the return from the significant action taken to reduce costs in both the life and banking businesses and, in the life business in particular, to improve product persistency.

The group saw demand for its single premium life assurance and banking deposit products increase during the six months when compared to the same period in 2009. On the banking side, with Irish house prices continuing to fall in the first six months, albeit at a slower pace than in previous periods, and funding costs increasing, the supply and demand for residential mortgage finance continues to be depressed.

Group profitability – IFRS basis

Operating profit for the group, before provisions for impairment, rose to €114m (H1 2009: €23m loss). After provisions for impairment, the operating loss for the group was substantially lower at €36m than had been the case the previous year (H1 2009: €121m loss). The life company's return to profitability had a significant impact on this performance. Other factors influencing performance include higher funding costs and additional charges associated with the government guarantee schemes³.

Total group earnings, albeit still negative, improved significantly for the period on a statutory (IFRS) basis, with a statutory loss after tax attributable to equityholders of €26m (H1 2009: €215m loss). At the end of June 2010 shareholder funds were €1.95bn (2009: €2.0bn).

Group profitability – embedded value basis

The pre-tax operating loss for the year on an embedded value ("EV") basis was €10m (H1 2009: €51m loss). The principal factors influencing the EV operating loss relative to the same period in 2009 were positive investment returns, and more favourable persistency and risk experiences in the life business being offset by higher government guarantee scheme charges.

On an EV basis the loss after tax attributable to equityholders of €20m improved significantly relative to the 2009 loss of €191m principally reflecting short-term investment fluctuations, which were significantly better than those experienced in 2009.

Net interest income

Excluding the cost of the ELG scheme, net interest income for the period was €194m (H1 2009: €185m). The net interest margin ("NIM")⁴ fell in 2010 to 0.81% (2009 full year: 0.83%). The margin was impacted by the increase in mortgage margins resulting from the re-pricing in September 2009 and February 2010. This increase was offset by the impact of higher deposit rates due to competitive pressures and the increase in funding costs following the international unease about peripheral sovereign debt. The excess liquidity included in the Statement of Financial Position to cater for funding requirements later in 2010 also depressed the NIM.

Costs

Cost control continues to be a priority across the group. In the group's banking businesses, the decision was taken to close 11 branches and to reduce staff numbers by 140 full time equivalents. The bank is now well advanced with planning for further efficiency and cost reduction measures with the assistance of an external consultancy firm. The group's life assurance and fund management businesses saw costs fall 10% period on period reflecting the benefit of completing a cost restructuring programme in the second half of 2009.

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

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

Group Chief Executive's Review (continued)

Funding

A priority for the bank is to grow its stable funding base from a historically low level. The bank is on target to meet its objective for the end of 2010 to have 60% of its funding from stable sources (retail deposits and long term funding) and to reduce its loan to deposit ratio to 230%. As at the end of June 2010, 56% of the bank's funding came from stable sources (2009: 48%) and the loan to deposit ratio fell to 240% from 246% at the end of 2009. These movements were supported by the growth in retail deposits of €0.8bn in 2010, the US \$1.75bn and €2bn long-term debt issued in quarter 1 2010 and the €1.25bn long-term debt issued in April 2010. We expect the market for the issuance of unguaranteed debt will evolve over the second half of 2010 and into 2011 after being impacted by the peripheral sovereign debt crisis in quarter 2 this year. In August the group, through a private placement, issued €270m 2 year unguaranteed debt and will continue to participate in this evolving market as part of its long term debt strategy.

Credit quality and impairments

Credit quality and impairments are critical issues for the group's banking businesses. The number of accounts in arrears greater than 90 days at the end of June 2010 in our Irish residential mortgage book increased to 5.2% of the portfolio (2009: 3.9%). The fall in house prices and the high levels of unemployment will continue to be challenges for the mortgage portfolio quality. We welcomed and agree with the forbearance measures included in the Mortgage Expert Group Interim Report published in July. We continue to work constructively with all mortgagees experiencing repayment difficulties who engage with us.

In our UK business, arrears have continued to fall since peaking in quarter 1 2009.

The group's car finance arrears cases have fallen by 8% in 2010 and are being assisted by an increase in used car prices and the short duration of the book.

The charge for impairment provisions for the six months ended 30 June 2010 was down 21% on the same period in 2009 to €150m (H1 2009: €189m) facilitated by a reduction in the UK mortgage and RoI consumer finance charges. The group's overall provision coverage at the end of June 2010 increased to 1.6% from 1.2% at the end of 2009.

Life assurance and fund management

The life assurance and fund management EV operating profit increased by 40% to €118m for the six months ending June 2010. This increase reflects the improved new business margin performance in 2010 resulting from the 2009 cost reductions and a more profitable mix of sales. The retention agenda which progressed successfully in the later half of 2009 resulted in persistency experience improving as expected in the first half of 2010 and this positive trend has continued into quarter 3.

APE sales of €276m were up 22% when compared to the first six months of 2009. Retail Life sales of €65m were 4% behind the same period in 2009 and were particularly impacted by the fall in demand for pension products. The decline in Corporate Life sales to €70m (H1 2009: €91m) was a result of the lack of recruitment activity and salary growth.

Our fund management business, Irish Life Investment Managers Limited ("ILIM"), had a very strong six months with inflows of €1.2bn in the first half of 2010. ILIM continues to be the dominant fund management company in Ireland.

Capital

The bank's capital ratio was 10.7% at 30 June 2010 (31 December 2009: 11.3%). This compares to a minimum requirement of 8%. The bank is currently finalising a prudential capital adequacy review ("PCAR") with the Financial Regulator and expects that this will be completed over the coming weeks.

The minimum statutory solvency capital requirement of Irish Life Assurance plc was covered 1.7 times at the end of June 2010 (2009: 1.6 times).

Corporate activity

Following a due diligence assessment, the group has submitted a proposal to the Irish Government in relation to the Educational Building Society ("EBS"). If successful, the proposal would result in a combination of EBS and the group's banking business, **permanent tsb**. We await confirmation of the next stage of this process.

Outlook

2010 will be a year of change in the Irish financial services market and will continue to be a year of challenge for our businesses. The support we gave to our key businesses as they continued to adapt to the new environment in 2009 and 2010 has developed a platform from where the group's performance will stabilise and continue to recover in the periods ahead. Retention remains a core risk in the life assurance business which the group will continue to address in the second half of 2010. In our banking businesses, we expect debt markets to have recovered sufficiently to support the raising of between €1.3bn and €2.8bn in term debt by the end of 2010 to support our stable funding ratio agenda.

For the second half of 2010 the bank is expected to continue to record losses while the life business should continue its recovery.

Kevin Murphy, Group Chief Executive, 31 August 2010

Group Performance Review

Summarised Group Income Statement and Key Performance Indicators

A summary of the group's income statement on an IFRS basis for the 6 months ended 30 June 2010 and 30 June 2009 is outlined below:

Summarised group income statement	Six months to 30 June 2010	Six months to 30 June 2009
	€m	€m
Net interest income	161	185
Net fees and commission expense	(29)	(41)
Net premiums on insurance contracts	340	355
Investment return	732	163
Fees from investment contracts and fund management	108	111
Change in shareholder value of in-force business	(26)	(89)
Other income / (expense)	(4)	(6)
Total operating income	1,282	678
Net claims on insurance contracts	(155)	(167)
Net change in investment and insurance contract liabilities	(736)	(248)
Investment expenses	(17)	(17)
Administration expenses / depreciation / amortisation / impairment	(260)	(269)
Total operating expenses	(1,168)	(701)
Operating profit / (loss) before provisions	114	(23)
Provisions for impairment	(150)	(189)
Operating loss	(36)	(212)
Associated undertakings	2	4
Loss before taxation	(34)	(208)
Taxation	8	(7)
Loss for the period	(26)	(215)

The above income statement is summarised on a segmental level below:

Summary income statement	Six months to 30 June 2010	Six months to 30 June 2009
	€m	€m
Operating profit / (loss) before impairment provisions:		
Banking:		
- Banking Ireland	25	41
- Banking UK	(6)	16
Total banking	19	57
Life assurance and fund management:		
- Life assurance	83	(56)
- Fund management	9	7
Total life assurance and fund management	92	(49)
Brokerage and third party administration	7	3
Other ⁵	(4)	(34)
Operating profit / (loss) before impairment provisions	114	(23)
Impairment provisions:		
- Banking Ireland	(137)	(172)
- Banking UK	(13)	(17)
Operating loss after impairment provisions	(36)	(212)
Associated undertakings - General Insurance	2	4
Taxation	8	(7)
Loss for the period	(26)	(215)

⁵ 'Other' includes reconciliations, eliminations and consolidation adjustments as detailed in Note 2 to the Financial Statements

Group Performance Review
Summarised Group Income Statement (continued)

Key performance indicators	30 June 2010	30 June 2009
Total tier 1 capital ratio (%)	10.7	11.4
Life solvency cover (times)	1.7	1.6
Operating profit / (loss) before impairment provisions (€m)	114	(23)
Operating loss on continuing operations (€m)	(36)	(212)
Stable funding ratio (%)	56%	50%

The operating loss after impairment provisions of €36m for the period (H1 2009: €212m loss) is driven by the return to profitability of the life assurance business being offset by a €131m operating loss (H1 2009: €132m loss) in the banking businesses.

Banking businesses

Operating performance	Six months to 30 June 2010			Six months to 30 June 2009		
€m	Rol	UK	Total	Rol	UK	Total
Operating profit / (loss) before impairment provisions	25	(6)	19	41	16	57
Impairment provisions	(137)	(13)	(150)	(172)	(17)	(189)
Operating loss	(112)	(19)	(131)	(131)	(1)	(132)

The banking businesses' operating loss of €131m was broadly flat when compared to the same period in 2009 (H1 2009: €132m loss). The €39m reduction in the charge for impairments was offset by a €34m increase in the government guarantee scheme costs.

Life assurance and fund management businesses

Operating performance	Six months to 30 June 2010		Six months to 30 June 2009	
€m	Total	Total	Total	Total
Life assurance	83	(56)	(56)	(56)
Fund management	9	7	7	7
Operating profit / (loss)	92	(49)	(49)	(49)

The operating profit of €92m for the six months ended 30 June 2010 (H1 2009: €49m loss) included the return to profitability of the life assurance business. This performance was influenced by 2010 having significantly reduced adverse market and economic charges while the performance in 2009 included the impact of negative market returns, in particular on property, and the impact of the movement on the risk discount rate.

Associated undertakings

The group's share of the profit in Allianz (a general insurance business in which the group has a 30% interest) was €2m for the six months ended 30 June 2010 (H1 2009: €4m). Improved underwriting results in the first six months of 2010 were off-set by lower investment returns than for the same period in 2009. Allianz made a dividend payment to the group of €5m in the first six months of 2010 (H1 2009: nil).

Please refer to pages 23 to 26 for the group performance review on an embedded value basis.

Group Performance Review Summarised Group Statement of Financial Position (continued)
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Summarised Group Statement of Financial Position

The group's consolidated statements of financial position for the periods ended 30 June 2010 and 31 December 2009 are summarised below:

Summarised group statement of financial position	30 June 2010	31 December 2009
	€m	€m
Assets		
Loans and receivables to customers	38,292	38,592
Other financial assets and investment properties	33,947	32,228
Loans and receivables to banks	3,766	4,925
Reinsurance assets	2,127	1,979
Shareholder value of in-force business	704	730
Other assets	1,655	1,567
Total assets	80,491	80,021
Liabilities and equity		
Deposits by banks	14,612	18,713
Customer accounts	14,939	14,562
Debt securities in issue	16,375	13,262
Investment contract liabilities	24,692	24,032
Insurance contract liabilities	4,403	4,034
Subordinated liabilities	1,736	1,644
Other liabilities	1,781	1,768
Equity	1,953	2,006
Total liabilities and equity	80,491	80,021

Loans and receivables to customers

permanent tsb is focused predominantly on retail lending with 99% of its loan portfolio secured on assets, 89% of which consists of residential mortgages. As a result of adopting a low risk approach to its lending activities, the group is not engaged in business, corporate or property development lending and as a consequence the group is not transferring any loans to the National Asset Management Agency (NAMA).

The bank is focused on residential mortgages for owner occupiers and consumer finance in Ireland, its core customer lending franchises. Due to the uncertainty with regard to residential property prices and the associated lower transaction volumes, total loans and receivables to customers of €38.6bln at the end of 2009 fell by 1% to €38.3bln at the end of June 2010. On a constant currency basis, the loans and receivables balance fell by 2%.

In the six months to 30 June 2010 non performing loans increased by 28% while loans rated "neither past due nor impaired" fell by 2%. This reflects the continuing rise in unemployment which is lagging the recovery in the economy in addition to the reduction in the loan portfolio. Further details are available in Note 24 – Financial Risk Management.

Following an increase in Rol mortgage arrears numbers and falling property values, impairment provision balances increased by €141m in the first six months of 2010 to €618m, with specific provision increases accounting for €126m of this increase. Specific provisions represent 30% of the impaired loan balances at the end of June 2010 (2009: 29%).

The collective / IBNR provision has increased by €15m reflecting the fact that provisions have been provided across all portfolios. The €15m increase in the provision includes a €29m charge, a €5m exceptional recovery in the consumer finance portfolio and €10m provision re-classification during the period.

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

Other financial assets and investment properties

The below table provides further analysis on financial assets for the 30 June 2010 and 31 December 2009:

Other financial assets and investment properties	30 June 2010	31 December 2009
	€m	€m
Debt securities	16,755	15,780
Equity shares and units in unit trusts	13,714	13,510
Derivative assets	1,703	1,169
Investment properties	1,775	1,769
Total	33,947	32,228

Group Performance Review

Summarised Group Statement of Financial Position (continued)

Debt securities

The growth in debt securities of 6% to €16.8bln at the end of June 2010 includes an additional investment in securities of €0.7bln classified as available for sale. Government bonds account for 63% of the end of June 2010 balance (2009: 66%).

The change in value of “available for sale” (“AFS”) financial assets at 30 June 2010 was €36m negative before tax (H1 2009: €32m positive) which, in accordance with the IAS 39 accounting treatment applied to AFS assets, was recorded within other comprehensive income.

Included in debt securities is the bank’s asset portfolio of €8.1bln. This is principally held in sovereign bonds (42%), highly rated bank Floating Rate Notes (50%) and prime (non-US) euro denominated Residential Mortgage Backed Securities (“RMBS”) (8%). There are no sub-prime assets held within the portfolio. The portfolio is rated 27.1% AAA, 60.9% AA, 9.5% A and 2.5% in lower tiers.

The balance of debt securities of €8.7bln is classified as fair value through the profit or loss in the life assurance and fund management businesses. Unit-linked funds account for €6.8bln of this balance and €1.9bln is held in non-linked funds at the end of 2009.

The group has completed an impairment assessment on its debt securities held at the end of June 2010. A transfer of €7m from the collective provision to the specific provision was made in relation to securities which have been specifically identified as impaired. The indication of impairments arose principally due to the postponement of interest coupon payments. Subsequently €5m of this specific provision was utilised in respect of impaired AFS securities and €2m was utilised in respect of impaired debt securities classified as loans and receivables.

Equity shares and units in unit trusts

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

Life asset portfolio

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

The group’s life business is a relatively low risk operation. Its unit-linked portfolio of €25bln represents 92% (net of reinsurance) of the life assurance and fund management businesses’ liabilities. The unit-linked investment risk is primarily borne by policyholders.

In the non-linked insurance and investment portfolio, the group’s policy is to match liability flows with high quality assets, principally sovereign bonds. The average duration of the non-linked liabilities is 11.1 years while the average duration of the assets matching these liabilities is 10.9 years.

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

Credit profile of the fixed-rate securities held in the non-linked portfolio	30 June 2010	31 December 2009
	%	%
Aaa	79	77
Aa	20	22
Other	1	1
	100	100

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

The life company’s shareholder funds of €639m are principally invested in cash and owner occupied property. An analysis of the life shareholder fund investments as at 30 June 2010 is set out in the EV supplementary information in Note 5.

Group Performance Review Summarised Group Statement of Financial Position (continued)
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Loans and receivables to banks

The fall of €1.1bln in the loans and receivables to banks balance during the first six months of 2010 brought the balance to €3.8bln on 30 June 2010 (2009: €4.9bln). This fall reflects the lower level of interbank placements (down €0.8bln on end December 2009) and a fall in the group's balance with the Central Bank (down €0.6bln on end December 2009).

Investment and insurance contract liabilities

The increase in investment contract liabilities during the six months ending 30 June 2010 includes premium receipts of €1.9bln (2009: €3.4bln) and market movements of €0.4bln (2009: €2.5bln negative) being offset partially by €1.6bln (2009: €2.9bln) in claims. Insurance contract liabilities, which are 76% non-linked (net of reinsurance), increased by 9% in the six months ended 30 June 2010 due to premium receipts and market movements of €0.5bln being partly offset by €0.3bln in claims and fees.

Funding profile

Funding conditions improved during the first four months of the year when compared with the second half of 2009. However concerns regarding sovereign debt risk increased towards the end of April and funding markets have been challenging since then. The terms on which funding was secured over the first half of the year remained expensive when compared with the terms available historically. This impacted the profitability of the group's banking operations.

The regulatory protocol, under which the group operates, requires levels of liquidity based on various cash flow stress tests. The key limits applied are that an institution must have sufficient available liquidity to cover 100% of outflows over the next eight days and 90% of outflows over the coming 9 – 30 days. The group operated comfortably within these regulatory limits during the first six months of 2010.

The bank's total funding at the end of June 2010 of €47.1bln (Dec 2009: €48.1bln) was well diversified across segments as shown below:

Funding profile	30 June 2010		31 December 2009	
	€m	%	€m	%
- Retail current accounts	2,140	4%	2,215	5%
- Other retail accounts	8,506	18%	7,635	16%
- Corporate accounts	4,992	11%	5,391	11%
Customer accounts & deposits (RoI)	15,638	33%	15,241	32%
Customer accounts & deposits (UK)	414	1%	471	1%
Total customer accounts & deposits	16,052	34%	15,712	33%
Short term ⁶	15,511	33%	19,473	40%
Long term ⁷	15,488	33%	12,962	27%
Total	47,051	100%	48,147	100%

The group's funding and liquidity strategy is centralised and managed by Group Treasury hence both the Republic of Ireland and UK banking businesses are included in the above analysis.

At 30 June 2010, stable sources of funding were accounted for by 56% of total funding up from 48% at the end of 2009.

The bank is working towards having 60% of funding sourced through retail deposits and long term funding by the end of 2010 and 70% by the end of 2012.

The loan-to-deposit ratio at the end of June 2010 was 240%, an improvement on the end 2009 ratio of 246%. The group continues to work to reduce this ratio through a combination of increasing retail deposit balances and deleveraging the loan book.

⁶ Short term funding includes ECB funding and market repos.

⁷ Long term funding includes term debt and mortgage backed securitisations.

Group Performance Review

Summarised Group Statement of Financial Position (continued)

Short term debt

The group has a pool of collateralised assets that can be used as security with a range of counterparties including the European Central Bank ("ECB"). During 2010, a portion of these assets was used as security for ECB drawings with an average level of drawings for the six months to 30 June 2010 of €8.2bn (2009: €10.9bn). The maximum level of drawings during the six months was €9.8bn (2009: €13.5bn) while drawings at 30 June 2010 were €8.1bn (2009: €9.8bn). The group's success in raising both retail deposits and long term debt facilitated the group in reducing its ECB drawings over the 6 months.

Following the collateral eligibility changes made by the ECB during the first six months, the group continues to have access to a pool of eligible collateral in excess of €8bn.

ECB drawings, reported in the statement of financial position as 'deposits by banks', are included in the short-term debt portfolio.

Customer accounts and deposits

The ROI retail deposit balances at the end of June 2010 increased by 8% in the six months to €10.6bn resulting from the continued focus on developing the retail deposit franchise. Retail deposits proved to be a stable and resilient funding source, despite the intense price competition in the marketplace.

Corporate deposit balances at end of June 2010, including deposits held for the benefit of unit-linked policyholders, were down 8% on year end 2009, reflecting a re-positioning strategy and the price sensitive nature of these deposits in a competitive market.

Long term debt

Notwithstanding the group's focus on deposit growth, the duration of the assets in the Statement of Financial Position is such that the appropriate management of duration risk requires that a significant portion of the group's funding should be long term.

The Credit Institutions (Financial Support) Scheme 2008 (the "Scheme") and the Credit Institutions (Eligible Liabilities Guarantee) Scheme (the "ELG Scheme") have been critical in providing Irish financial institutions with access to funding. These schemes have enabled the group to secure longer term funding in a challenging environment. During the first six months of 2010, the group successfully issued three bonds under the ELG Scheme - a US\$1.75bn 3 year bond in January, a €2bn 5 year bond in March and a €1.25bn 3 year bond in April. All three bonds were over-subscribed attracting strong interest from international investors. In August 2010, through a private placement, the group issued €270m in unguaranteed debt maturing in less than 2 years using residential mortgages as collateral. These issuances have resulted in 80% of the group's 2010 financing requirements being achieved to date.

The group will continue to explore alternative term funding opportunities in the secured, securitisation and senior unsecured markets thus facilitating the management of duration risk.

Credit ratings

At 30 June 2010 the group was rated 'BBB+' by Standard & Poor's and 'A3' by Moody's Investor Service.

Group Performance Review Capital Management

Capital management

The group has a flexible capital structure with the capability to improve and strengthen its capital base over the next few years as required. The group's core capital objective is to meet or exceed all relevant regulatory capital requirements and to hold sufficient economic capital to withstand a worst case loss in economic value due to risks arising from business activities. The worst case loss is derived through statistical models influenced by the group's target debt rating.

The group's capital resources, on an IFRS basis, as at 30 June 2010 and 31 December 2009 are as follows:

Capital resources	30 June 2010	31 December 2009
	€m	€m
Shareholders' equity	1,953	2,006
Dated and undated loan capital	1,736	1,644
Total capital resources	3,689	3,650

The fall in shareholders equity of €53m includes the loss after tax of €26m for the first six months of 2010 and a €36m negative change in the fair value of AFS financial assets included in the Statement of Other Comprehensive Income. The €92m increase in dated and undated loan capital includes €62m of favourable exchange rate movements in undated loan capital and a mark to market valuation adjustment of €29m positive.

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

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

Bank capital

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

The group's capital ratios remained strong at 30 June 2010 with a Tier 1 and total capital ratio of 10.7% (2009: 11.3%) compared to a regulatory minimum of 8%. The capital base has no Tier 1 hybrid capital in the structure.

The following table sets out the regulatory capital position of Irish Life & Permanent on a Basel II basis at 30 June 2010 and 31 December 2009:

Bank regulatory capital	30 June 2010	31 December 2009
	€m	€m
Total available capital (Tier 1)	1,769	1,858
Total required capital	1,328	1,313
Excess own funds	441	545
Risk weighted assets	16,603	16,411
Risk asset ratio (all Core Tier 1)	10.7%	11.3%

The group's risk weighted assets predominately are made up of credit risk (€15.7bln) with operational and market risk accounting for €0.8bln and €0.1bln of the risk weighted assets at the end of June 2010 respectively.

Further capital details can be found in Note 23 on page 69.

Risk weighted assets increased by 1.2% from €16.4bln at the end of 2009 to €16.6bln at 30 June 2010. The group's available capital reduced to €1.77bln giving a 30 June 2010 capital ratio of 10.7% (2009: 11.3%).

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

Group Performance Review Capital Management (continued)

Life capital

The solvency cover for Irish Life Assurance plc, the group's main life assurance operation, at 30 June 2010 is 1.7 times (2009: 1.6 times) the minimum requirement of €424m (2009: €416m), the regulatory requirement is 1.5 times the minimum. This is summarised below:

Solvency cover	30 June 2010	31 December 2009
	€m	€m
Minimum capital	424	416
Regulatory capital		
Net worth	605	536
Perpetual debt	212	208
Other assets available	16	20
	833	764
Inadmissible assets	(106)	(108)
	727	656

The table below sets out the movement in life assurance and fund management regulatory capital in the 6 months to the end of June 2010 and for the twelve months ended 31 December 2009:

Life assurance and fund management regulatory capital	30 June 2010	31 December 2009
	€m	€m
At 1 January	685	694
Capital generated from existing business	104	194
New business strain	(35)	(74)
STIFs and economic variances	9	(106)
Dividend to parent	(7)	(13)
Other	2	(10)
At end of period	758	685

For the first six months of 2010, the life regulatory capital increased by €73m to €758m mainly resulting from the surpluses (capital) generated from existing business (€104m) being offset partially by a €35m new business strain arising from the capital requirements for writing new business.

The positive short term investment fluctuations ("STIFs") and economic variances of €9m (full year 2009: €106m negative) includes higher management charges than expected due to positive growth on unit-linked funds.

In line with the group's capital management policy, whereby all surplus capital above targeted minimum levels is remitted to the bank, the group's fund management business paid a dividend of €7m (full year 2009: €13m) to the bank holding company.

Solvency II

The calculation of minimum regulatory capital for the life assurance and fund management businesses is currently based on the EU Solvency I Directive. New requirements will be established under the Solvency II directive which was formally adopted in 2009 and is expected to be implemented in 2013. Solvency II will require the calculation of solvency and reserving requirements on a realistic market consistent basis. The group believes that the adoption of Solvency II will increase available capital resources. As a consequence, the group believes it is reasonable to seek to access a limited part of this capital increase at this stage. The group is in discussion with the Financial Regulator and an international bank with a view to securing a value of in-force facility of €100m.

Dividend

In the context of the capital generation challenges, the introduction of the Government guarantee scheme and the approach being adopted by financial institutions both in Ireland and internationally, the board has proposed that there will be no dividend for the first six months of 2010 (H1 2009: nil). This approach is consistent with the priority to conserve capital in the group in the current economic environment.

Divisional Performance Review Banking Operating Review

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

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

In addition to CHL, the group operates a banking business in the Isle of Man (Irish Permanent (IOM) Limited) which, at the end of June 2010 had a loan and deposit balance of STG£296m and STG£339m respectively. In May 2010 as part of the group's efforts to consolidate and concentrate resources on its core Irish market, the group announced its intention to phase down operations in the Isle of Man and those operations are expected to cease by the end of 2010.

The pre-tax operating performance for the six months ended 30 June 2010 and 2009 and key performance indicators of the group's banking businesses are set out below.

Summary income statement	Six months to 30 June 2010			Six months to 30 June 2009		
	RoI	UK	Total	RoI	UK	Total
Net interest income – before ELG scheme costs	193	(1)	192	174	21	195
ELG scheme costs	(33)	-	(33)	-	-	-
Other income	22	-	22	18	-	18
CIFS Government Guarantee Charge	(12)	-	(12)	(11)	-	(11)
Total operating income	170	(1)	169	181	21	202
Administrative expenses / depreciation / amortisation - recurring	(127)	(5)	(132)	(129)	(5)	(134)
Administrative expenses / depreciation / amortisation – restructuring & non operational	(18)	-	(18)	(11)	-	(11)
Total administrative expenses / depreciation / amortisation	(145)	(5)	(150)	(140)	(5)	(145)
Operating profit / (loss) before impairment provisions	25	(6)	19	41	16	57
Impairment provisions						
Residential lending	(86)	(13)	(99)	(98)	(17)	(115)
Consumer finance	(19)	-	(19)	(44)	-	(44)
Commercial lending	(32)	-	(32)	(30)	-	(30)
	(137)	(13)	(150)	(172)	(17)	(189)
Operating loss before tax	(112)	(19)	(131)	(131)	(1)	(132)

Other key performance indicators	30 June 2010			31 December 2009		
	RoI	UK	Total	RoI	UK	Total
Retail deposits balance (€m)	10,644	414	11,058	9,850	471	10,321
Average Indexed LTV – residential lending	66%	83%	-	63%	85%	-

Other key performance indicators	Six months to 30 June 2010			Six months to 30 June 2009		
	RoI	UK	Total	RoI	UK	Total
New RoI residential lending YTD (€m)	134	-	134	505	-	505

Divisional Performance Review Banking Operating Review (continued)

Against the background of an economic recession, higher funding costs and a weak Irish housing market, the group's banking business delivered a pre-tax loss of €131m (H1 2009: €132m loss). The loss for the first six months of 2010 was principally due to the impairment provision charge of €150m and government guarantee costs.

Net interest income

Net interest income ("NII") for the first six months of 2010 of €192m, which excludes €33m of charges associated with the ELG guarantee scheme, compares to the €195m recognised in the same period in 2009. NII reflects the increase in asset margins being offset by the higher funding costs associated with the rise in the marginal cost of attracting retail and corporate deposits as well as the cost of refinancing maturing wholesale debt. The standard Rol variable rate mortgage interest rate was increased in September 2009 and February 2010 by 50bps each time in response to these higher funding costs. These actions along with the re-pricing of the group's consumer finance portfolios resulted in the NIM at the end of June 2010, on a like for like basis, remaining unchanged at 83bps (2009: 83bps). The standard Rol variable rate mortgage interest rate was increased by a further 50bps in August 2010 and this re-pricing will support the NIM in the second half of the year.

Resulting from the tactical decision to draw €3.5bln in the last of the one year ECB tender offers in December 2009 to mitigate refinancing risk in September this year, the average balance sheet was inflated in the first six months resulting in a 2bps reduction in NIM.

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

The net interest margin of 81 bps is detailed in the following table:

Net interest margin	bps
31 December 2009	83
Retail funding	(12)
Wholesale funding	(6)
Re-pricing	14
Other	4
	83
Balance sheet management	(2)
30 June 2010	81

The higher funding costs experienced by the group in general and a realignment of the funding costs charged to the UK business has resulted in net interest income for the UK banking business falling period on period to €1m negative.

Other income

Other income of €22m for the first six months of 2010 compares to €18m in the same period in 2009. This income principally relates to current account fee income, general insurance commission and bureau de change commission.

Other income excludes the contribution from bancassurance sales generated through the bank, which are reported in the group's life assurance business. Sales of life and pension products through the bank were €12m in the first six months of 2010 (H1 2009: €12m). This includes the strong performance in single premium bond sales which were up 16% on the same period last year at €5.8m. This was offset by a fall in protection sales of 27% to €2.2m period on period due to the reduced level of mortgage lending activity in the bank.

Government guarantee charges

The CIFS Government guarantee charge for the six months ending 30 June 2010 was €12m compared to €11m for the same period in 2009. This cost is calculated as a percentage of the liabilities which are covered by the scheme and is payable on a quarterly basis. The new (ELG) government guarantee which the group participated in from January 2010 resulted in a charge of €33m which was included as a charge against NII. The period on period increase in the guarantee charges reflects the higher rates associated with the new guarantee with long term and short term covered liabilities costing 100bps and 50bps respectively when compared to the cost of the CIFS scheme of 15bps.

Costs

Recurring administrative expenses including depreciation and amortisation for the group's banking businesses for the first six months of 2010 were €132m, a 1% fall on the H1 2009 outturn of €134m. In the first six months of 2010 **permanent tsb** reduced its branch network by 11 branches and reduced headcount by 140 full time equivalents. Cost management continues to receive significant management attention and a cost efficiency project plan is progressing with the objective of delivering further efficiencies in the coming periods.

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

Divisional Performance Review
Banking Operating Review (continued)

Portfolio analysis

Loans and receivables to customers	30 June 2010	31 December 2009
	€m	€m
<u>Lending by class</u>		
Rol residential lending	26,777	27,256
UK residential lending	8,043	7,484
Consumer finance	1,526	1,749
Commercial lending ⁸	2,393	2,386
Intra group commercial loans	(461)	(447)
Other	249	211
	38,527	38,639
Provision for loan impairment	(618)	(477)
Deferred fees, discounts and fair value adjustments	383	430
Total	38,292	38,592
<u>Lending by credit quality</u>		
Neither past due nor impaired	33,782	34,603
Past due but not impaired	3,527	3,208
Impaired	1,218	828
Total	38,527	38,639

The contraction of the Irish housing market, which commenced in 2007, moderated in 2010. Demand for new Rol residential mortgages reduced as buyer confidence fell as a result of a combination of economic uncertainty, house price falls (the **permanent tsb** / ESRI House Price Index reports house prices fell on average 6.4% in the first six months of 2010, having fallen by 18.5% in 2009), and less availability of credit. The average national house prices in Ireland fell 1.7% in quarter 2 2010, the lowest quarterly reduction since the second quarter of 2008.

New Irish residential mortgages issued by the group of €0.1bn in the first six months of 2010 showed a reduction of 74% on the €0.5bn issued in the same period in 2009. Irish residential mortgage balances outstanding fell by 2% to €26.8bn compared to €27.3bn at year-end 2009. A lower level of early redemption activity reflecting market conditions generally continues to be experienced.

As the decline in property prices in Ireland continued in 2010, albeit at a slower pace than previous periods, the loan to values ("LTVs") of the group's Irish mortgage portfolio, indexed against the **permanent tsb** / ESRI House Price Index, have risen. This has resulted in an increase in the number of cases in negative equity. The average indexed LTV of the Irish residential mortgages and residential investment property loans now stands at 66% (2009: 63%) with cases over 100% representing 25% (2009: 22%) of the portfolio.

With CHL and the Isle of Man businesses closed to new business, the UK lending portfolio after provisions fell by 1% to STG£6.5bn at the end of June 2010 from €6.6bn at the end of December 2009.

With average UK property prices now 7.53% above the trough reached in April 2009, as per the Halifax House Price Index, the average index linked LTV of the UK mortgage portfolio is 83% (2009: 85%) with cases in negative equity representing 22% of the total portfolio at the end of June 2010.

New consumer finance loans of €0.2bn (H1 2009: €0.2bn) includes the positive impact of the Government's car scrappage scheme introduced in February 2010. This scheme resulted in an increase in new car purchases period on period. The portfolio fell 13% to €1.5bn (2009: €1.7bn) reflecting the short term nature of this portfolio.

New commercial lending was discontinued in 2008, the portfolio remained stable at €1.9bn (excluding €0.5bn of intra-group loans) at the end of June 2010.

⁸Commercial lending includes loans of €461m (2009: €447m) to the group's life assurance operations including loans held for the benefit of unit-linked policyholders.

Divisional Performance Review Banking Operating Review (continued)

Portfolio quality

€ms	30 June 2010			31 December 2009		
	Rol	UK	Total	Rol	UK	Total
Lending book (before provisions)	30,853	8,057	38,910	31,538	7,531	39,069
Impairment provision balance (€m)						
Residential lending	(279)	(57)	(336)	(194)	(42)	(236)
Consumer finance	(137)	-	(137)	(128)	-	(128)
Commercial lending	(145)	-	(145)	(113)	-	(113)
Total impairment provision balance	(561)	(57)	(618)	(435)	(42)	(477)
Lending book (after provisions)	30,292	8,000	38,292	31,103	7,489	38,592

Portfolio quality information*	30 June 2010			31 December 2009		
	>90 days in arrears	IL	NPL	>90 days in arrears	IL	NPL
	%	%	%	%	%	%
Residential lending	6.9%	2.7%	6.9%	4.9%	1.5%	4.9%
Consumer finance	9.8%	10.5%	12.8%	8.0%	9.5%	11.8%
Commercial lending ⁹	14.2%	9.1%	15.8%	12.3%	7.2%	12.9%
Rol portfolio	-	3.6%	7.9%	-	2.4%	5.9%
UK portfolio (residential lending)	2.1%	1.3%	3.3%	2.6%	1.0%	3.4%
Total portfolio	-	3.2%	7.0%	-	2.1%	5.5%

*based on value

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

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

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

Residential lending - Rol

As a result of the deterioration in economic conditions and in particular, the higher levels of unemployment, arrears continued to increase across the residential portfolio in 2010. Case numbers, over 90 days in arrears, increased to 5.2% at the end of June 2010 from 3.9% at the end of 2009. The value of these arrears at 30 June 2010 as a percentage of the book was 0.38% compared to 0.27% at 31 December 2009. This is reflected in the increase in non performing loans ("NPL") balances from €1,342m at the end of 2009 to €1,857m at the end of June 2010.

Notwithstanding the level of arrears, 92% of all loan accounts are up to date at the end of June 2010 (93% at the end of 2009). Arrears management and customer affordability continues to benefit from the historically low interest rate environment.

An impairment charge of €86m (H1 2009: €98m) was made on this portfolio for the first six months of 2010 reflecting arrears experience. This brings the provision balance to €279m at the end of June 2010 (2009: €194m) and provides 10% cover against the value of mortgages who are in arrears.

The key assumption used in the group's provisioning models and methodology, constructed in conjunction with Oliver Wyman, is house prices. The group's assumption is that house prices fall 40% peak to trough. The latest **permanent tsb / ESRI** house price index states that the peak to trough fall is at 35% indicating that the market would have to fall a further 8% in order for the 40% peak to trough assumption to be met.

⁹ Calculation includes intra-group loans of €461m (2009: €447m)

Divisional Performance Review Banking Operating Review (continued)

Residential lending – UK

CHL's three month arrears peaked at over 1,600 cases in March 2009 and have declined steadily since to less than 1,000 cases at the end of June 2010. This downward trend has continued into the second half of 2010 in line with that reported by other buy-to-let lenders in the UK although CHL's experience has been consistently better than the industry overall. The industry average of three month buy-to-let arrears cases, as defined by the UK Council of Mortgage Lenders, at the end of June 2010 was 2.8% compared to CHL's ratio of 2.1%. This performance has resulted in the impairment provision charge for the UK portfolio falling to €13m for the first half of 2010 (H1 2009: €17m).

Consumer finance

In the consumer finance portfolio, impaired loans as a percentage of the portfolio reduced to 10.5% at 30 June 2010 from 9.5% at year-end 2009. NPLs also fell marginally to 12.8% at the end of June 2010 (2009: 11.8%). Car finance represents the majority of the consumer finance portfolio. In this portfolio, year on year arrears cases in excess of 90 days have fallen by 5%.

The reduction in the period's impairment charge to €19m (H1 2009: €44m) was influenced by the fall in arrears cases and the increase in second-hand car prices in 2010. The 2010 charge includes an exceptional recovery of €5m on the car finance portfolio.

Commercial lending

Commercial mortgage case numbers, over 90 days in arrears, increased by 17% to 538 cases at 30 June 2010 (2009: 458 cases). The value of those arrears at the end of June 2010 as a percentage of the commercial mortgage portfolio was 1.1% compared to 0.9% at the end of 2009. Impaired loans increased from 7.2% in 2009 to 9.1% in 2010 and NPLs increased to 15.8% in 2010 from 12.9% in 2009. In general, prime commercial exposures have continued to perform but where cases do default they are difficult to cure in the short to medium term given the need to acquire tenants with good repayment capacity.

An impairment charge of €32m in the first six months (H1 2009: €30m) reflects the impact of the downturn in economic conditions on rent rolls in the commercial portfolio, particularly in the retail sector. This brings the impairment provision balance for the commercial portfolio to €145m.

The group's total impairment charge on loans and receivables of €150m for the first six months of 2010 brings the group's provision coverage¹⁰, net of write-offs, to 1.6% at the end of June 2010 (2009: 1.2%). Further details of the group's impairment charge can be found in Note 7 on page 49 to 50.

Retail customer account balances

Retail customer account balances for the Irish banking business at 30 June 2010 totalled €10.6bn, up 8% from €9.9bn at the end of 2009. Excluding current accounts, Irish retail deposit balances, principally demand and term deposits, increased by 11% to €8.5bn at the end of June 2010. This increase more than offset the fall in current account balances which fell 3% to €2.1bn in 2010. The growth in these balances contributed to the fall in the group's loan to deposit ratio to 240% and the increase in the stable funding ratio to 56%.

The group has 90 branches fully focussed on the deposit market. In addition, the group is utilising all its life assurance distribution strength to generate deposits. This is a new source for deposits and at this stage it has increased the group's deposit gathering ability by over 50%.

In the first six months of 2010, the bank has opened over 25,000 new current accounts particularly helped by the closure of Halifax.

¹⁰ Provision coverage is the ratio of the year end loans and receivables to customers balance (before impairment provision and deferred fees, discounts and fair value adjustments) and the impairment provision balance.

Divisional Performance Review
Life Assurance and Fund Management Operating Review

Life assurance and fund management operating review

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

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

The operating results and key performance indicators of the group's life assurance and fund management businesses, for the six months ended 30 June 2010 and 2009 are set out below:

Summary income statement	Six months to 30 June 2010			Six months to 30 June 2009		
	Life	Fund Mgt	Total	Life	Fund Mgt	Total
	€m	-	€m	€m	-	€m
Net interest payable	(16)	-	(16)	(19)	-	(19)
Net fees and commissions	(60)	-	(60)	(74)	-	(74)
Premiums on insurance contracts net of reinsurance	340	-	340	355	-	355
Investment return	746	-	746	199	-	199
Fees from investment contracts and fund management	96	21	117	100	19	119
Change in shareholder value of in-force business	(26)	-	(26)	(89)	-	(89)
Operating income	1,080	21	1,101	472	19	491
Claims on insurance contracts net of reinsurance	(155)	-	(155)	(167)	-	(167)
Change in insurance / investment contract liabilities	(736)	-	(736)	(248)	-	(248)
Administrative expenses / depreciation / amortisation	(72)	(12)	(84)	(81)	(12)	(93)
Investment expenses	(34)	-	(34)	(32)	-	(32)
Operating expenses	(997)	(12)	(1,009)	(528)	(12)	(540)
Operating profit / (loss) before tax	83	9	92	(56)	7	(49)

Key performance indicators	30 June 2010			30 June 2009		
	Life	Fund Mgt	Total	Life	Fund Mgt	Total
New business APE (€m)						
Retail Life	65	-	65	68	-	68
Corporate Life	70	-	70	91	-	91
Irish Life International	21	-	21	8	-	8
Irish Life Investment Managers	-	120	120	-	60	60
Total new business APE	156	120	276	167	60	227
New business PVNBP (€m)						
Retail Life	432	-	432	441	-	441
Corporate Life	455	-	455	570	-	570
Irish Life International	208	-	208	79	-	79
Irish Life Investment Managers	-	1,199	1,199	-	605	605
Total new business PVNBP (€m)	1,095	1,199	2,294	1,090	605	1,695
Margin (%) – APE basis	13.0%	6.3%	10.1%	10.5%	8.8%	10.0%
Margin (%) – PVNBP basis	1.8%	0.6%	1.2%	1.6%	0.9%	1.3%

Divisional Performance Review

Life Assurance and Fund Management Operating Review (continued)

The operating profit before tax for the six months ended 30 June 2010 of €92m compared to the €49m loss in the same period in 2009 reflects the lower reduction in the value of in-force business in the period and the property loss experience in 2009. 2010 has seen the demand for single premium guarantee products increase while weak SME cash flows continued to dampen demand for the group's life assurance products.

Life sales (on an APE basis), fell by 7% to €156m from €167m in H1 2009 compared to an estimated 1% fall in the overall life market. The life assurance share of the overall life market is estimated to be 27.8% for the first six months of 2010 compared to 29.9% for the full year 2009.

The pensions market remains a strategic priority for the group and pension sales account for 73% of total group life sales. The pensions business in both Retail and Corporate Life enabled the group to maintain its dominant market share position in the pensions market with an estimated market share of 30%, notwithstanding that this market has been impacted by lower incomes and company closures.

Life margins, in APE terms for the six months ended 30 June 2010 of 13.0% increased relative to the same period in 2009 (H1 2009: 10.5%) due to the product mix favouring higher margin protection products and the cost efficiencies of the 2009 restructuring programmes being experienced in 2010.

Retail Life

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

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

The market for Retail Life and pensions in Ireland has fallen by over 50% since 2007 and Irish Life's sales reflect this. Total APE sales for the first six months of 2010 of €65m were 4% behind 2009. Pension sales in particular remain weak, although there are some signs that the recovery is beginning to reach investment sales. On a PVNBP basis total retail sales declined 2% to €432m which reflects stronger relative performance in single premiums.

Retail Life has reduced its costs by 24% since 2007 to reflect lower market activity. Its strong in-force book is proving resilient and provides a buffer to earnings.

Retail Life has an estimated 24% share of its core market. It is currently promoting a transformational programme with an emphasis on customer satisfaction and embedding a strong retention culture right across the business. As a result of the retention initiatives, the persistency experience has improved in 2010.

Corporate Life

The Corporate Life division sells pension and risk schemes to employers and affinity groups in Ireland, distributed principally through pension consultants and brokers (including Cornmarket, a specialist affinity broker and a wholly owned subsidiary of the group). The key drivers of sales growth are employment and salary growth in the Irish economy, with the trend away from defined benefit pension provision towards defined contribution also representing a major growth opportunity. The decline in Corporate Life sales in the first six months of 2010 vis a vis the same period in 2009 resulted principally from increasing unemployment, salary freezes and the public sector pension levy. APE sales fell 23% to €70m in the first six months of 2010 when compared to the same period in 2009. On a PVNBP basis sales fell 20% to €455m from €570m in H1 2009. Corporate Life has a leading position in this market with an estimated market share in excess of 40%.

Customer service levels are a key differentiator of providers in the market and the Corporate Life division has achieved competitive advantage through continued and sustained investment in both staff and technology in order to achieve significant improvement in service levels and customer satisfaction. In 2010, Corporate Life achieved a customer service index score of 93.7%, up from 92.6% at the end of 2009. This focus on service level improvements and customer satisfaction will continue to be a feature of the division's agenda into the future.

The increase in unemployment, lower salary levels and company closures, impacts the persistency experience in Corporate Life. This has resulted in a negative persistency experience in 2010.

Fund Management

ILIM is committed to market leadership through recognising the needs of its clients and developing and providing the most appropriate investment solutions to meet those needs. ILIM delivered a strong performance in 2010 on both the active and passive sides of the business despite the economic climate and continued to grow its client base.

Divisional Performance Review Life Assurance and Fund Management Operating Review (continued)
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Gross new fund inflows were €1,199m (H1 2009: €605m). This included new sales of €689m (H1 2009: €195m) and contributions from existing clients of €510m (H1 2009: €410m). The increase in lower margin larger ticket sales relative to the same period in 2009 resulted in the ILIM new business margin, in APE terms, falling to 6.3% (H1 2009: 8.8%).

Outflows for the six months of €1,534m were 35% higher than the same period in 2009. This includes the loss of €846m from various state institutions as part of a wider Irish Government strategic initiative to consolidate various state pension schemes. Despite market conditions, total funds under management for ILIM were €29.8bln (2009: €29.1bln) representing an increase of 2% during the 6 months ended 30 June 2010.

ILIM paid a dividend to the group of €7m in the first six months of 2010 (H1 2009: €6m).

Net premiums on insurance contracts

The premiums credited to the income statement for the six months ended 30 June 2010 on insurance contracts of €340m (H1 2009: €355m) is net of reinsurer's share of €57m (H1 2009: €56m) and reflects the lower size of the in-force book.

Investment return

The significant increase in the investment return to €746m for the first six months of 2010 from €199m for the same period in 2009 mainly reflects an increase in the return on policyholder investments due to improved returns on fixed interest investments in 2010 and the impact negative property returns had on the 2009 investment return.

This increase directly influences and is offset by the €736m charge for the change in insurance and investment contract liabilities (H1 2009: €248m).

Change in shareholders value of in-force business

The following table details the change in shareholder value of in-force business for insurance contracts in the life assurance business in the six month periods ended 30 June 2010 and 30 June 2009:

Change in shareholders value of in-force business	Six months to 30 June 2010	Six months to 30 June 2009
	€m	€m
New business	55	55
Expected return on existing business	(39)	(45)
Experience variances	(3)	(19)
Operating assumption changes	(3)	1
Short term investment fluctuations	(3)	-
Economic assumption changes	(33)	(81)
Total	(26)	(89)

Note 10 details various assumptions used in the calculation of the shareholder value of in-force business including details on the increase in the risk discount rate to 8.1% at the end of June 2010 from 7.5% at the end of 2009.

Net claims on insurance contracts

The claims on insurance contracts net of reinsurer's share fell period on period to €155m (H1 2009: €167m) reflecting the maturity profile of the closed with profits fund and an improvement in persistency experience relative to the same period in 2009.

Net change in investment and insurance contract liabilities

During the six months ending 30 June 2010 the net change in investment and insurance contract liabilities of €736m (H1 2009: €248m) was influenced by economic assumption changes including interest rate (€110m increase) and inflation rate (€14m decrease) assumption changes along with the increase in investment returns. Further details are outlined in Notes 17 and 18.

Divisional Performance Review Life Assurance and Fund Management Operating Review (continued)
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Administration expenses, depreciation, amortisation and impairment

Resulting from various restructuring programmes in the life assurance business in 2009 costs fell period on period by 10% to €84m. This reduction directly influenced the improvement in new business margin in the first six months of 2010.

Operating expenses also includes a gain of €11m (H1 2009: €18m loss) due to a decrease in policyholder liabilities. This decrease occurred because Irish Life & Permanent shares, held for the benefit of policyholders, fell in value. There was a corresponding fall in value of the asset represented by the shareholding but under IFRS, a fall in the value of own shares is not recognised in the income statement.

Embedded Value Business Review

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

A summary of the group's income statement on an EV basis and key performance indicators for the six months ended 30 June 2010 and 2009 is summarised below:

Summary income statement	Six months to 30 June 2010	Six months to 30 June 2009
	€m	€m
Life assurance and fund management business		
New business contribution	28	23
Contribution from in-force business		
Expected return		
In-force	61	55
Net worth	7	6
Experience variances	13	(21)
Assumption changes	9	21
	90	61
Life assurance and fund management business	118	84
Banking	(131)	(132)
Other*	1	(7)
	(12)	(55)
Share of associate	2	4
EV operating loss	(10)	(51)
Short-term investment fluctuations	(11)	(80)
Effect of economic assumption changes	(7)	(89)
Adjustment on inter company segments	(4)	-
Operating loss before tax	(32)	(220)
Taxation	12	29
Loss after tax attributable to owners of the parent	(20)	(191)
Key performance indicators	30 June 2010	30 June 2009
Adjusted operating return on capital employed (%) ¹¹	(0.2)	(1.9)
Operating loss on an EV basis before tax (€m)	(10)	(51)
Shareholder funds per share EV basis (€)	8.9	9.6

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

¹¹ The adjusted operating return on capital employed on an EV basis is calculated by dividing the operating profit after tax, excluding share of associate / joint venture (see Note 4 to the EV basis financial statements) by the average shareholder equity for 2009 and 2010 before own share adjustment, excluding associate / joint venture and consolidation adjustments (see Note 5 to the EV basis financial statements).

Embedded Value Business Review (continued)

The loss after tax, on an embedded value ("EV") basis is €20m for the first six months of 2010 (H1 2009: €191m loss). The operating profit of €118m (H1 2009: €84m) in the life and fund management business has been offset by the operating losses in the bank of €131m (H1 2009: €132m). The increase in the life assurance and fund management profits is principally due to an improvement in the return from the in-force book, which has seen an improvement in persistency and risk variances. The lower impairment charge in the bank has been offset by higher government guarantee scheme charges. The 2009 before tax loss included negative short-term fluctuations of €80m and negative economic assumption changes of €89m.

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

Return on capital employed

Total embedded value for the group for the first six months of 2010 fell 2% to €2.48bln (2009: €2.53bln). The adjusted operating return on capital employed on an EV basis for the group (excluding associate and own share adjustment) was 0.2% negative (H1 2009: 1.9% negative) principally due to losses in the group's banking businesses.

Operating performance

Operating loss before tax for the first six months of 2010 of €10m was better than the same period in 2009 (H1 2009: €51m loss). The key drivers of this outturn were a higher level of new business contribution, which was up 22% to €28m (H1 2009: €23m), and the positive experience variances. The experience variances are driven by the positive income protection experience in Corporate Business being partly offset by negative Corporate Business persistency experience due to scheme closures and premium reductions.

New business contribution and margins

The contribution from new business for the six months ended 30 June 2010 of €28m was up 22% on the same period in 2009. This increase is accounted for by improved new business margins and higher sales volumes.

The increase in Life Assurance's new business margin to 13.0% (H1 2009: 10.5%) results principally from lower acquisition costs and the mix of new business favouring higher margin protection business.

The internal rate of return, excluding ILIM, for the first six months of 2010 was 11.0% (2009: 9.3%). The average undiscounted payback period¹² for the first six months of 2010 across the group's life product portfolio, excluding ILIM, was 7.2 years (2009: 8.3 years).

Short-term investment fluctuations

Short-term investment fluctuations of €11m negative in the first six months of 2010 compare to €80m negative in the corresponding period in 2009. The 2010 charge principally relates to the reserving cost of financial options and guarantees. The returns in 2009 were impacted by negative property returns on shareholder funds.

Economic assumptions

The effect of revised economic assumptions was a negative €7m in the first six months of 2010 (H1 2009: €89m negative). This movement includes the effect of the increase in the risk discount rate from 7.5% to 8.1% as a result of the increase in Irish medium term gilt yields driven by market volatility and the impact of the peripheral sovereign debt crisis. There was a higher increase in the discount rate in the six months to June 2009 (7.0% to 8.2%).

Contribution from In-force business

Total in-force earnings for the first six months of 2010 increased to €90m (H1 2009: €61m).

The expected in-force return which improved by 11% period on period to €68m, represents the un-wind of the risk discount rate on the opening shareholder value of in-force. The expected return on the net worth relates to earnings on shareholder assets. It is calculated by reference to the assumed long-term rate of return on property and equities and the actual return on short-term cash.

Experience and assumption changes in the first half of 2010 resulted in a positive €22m and are detailed in the following table (H1 2009: nil).

¹² Payback period is calculated as the number of years it takes to break even adding up the cash flows.

Embedded Value Business Review (continued)

Experience variances and assumption changes are analysed as follows:

	30 June 2010			30 June 2009		
	Experience	Assumption changes	Total	Experience	Assumption changes	Total
	€m	€m	€m	€m	€m	€m
Persistency	(7)	0	(7)	(34)	0	(34)
Risk	19	0	19	6	0	6
Expenses / Other	1	9	10	7	21	28
Total	13	9	22	(21)	21	0

There was a deterioration in persistency experience in 2009 and a provision for expected additional adverse persistency experience in 2010 was held at 31 December 2009. In the first half of 2010, the Retail Life business performed in line with expectations. However, there was an adverse persistency performance in Corporate Life resulting in a €7m charge for the first six months.

Actual persistency experience against the long term assumption will continue to be monitored closely.

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

The expenses / other experience variance of €10m includes €9m of value being recognised in respect of unit cost reductions achieved across the group's life divisions. This compares to the €21m achieved in the first half of 2009 resulting from the significant structural cost reduction programme implemented in the Retail Life division in 2009.

The group's policy is to review expense assumptions to reflect current experience at the half year. The assumptions for demographic elements, including mortality, morbidity and persistency are reviewed annually.

Management expenses

Management expenses of €259m fell 4% in the six months ended 30 June 2010 relative to the same period in 2009 (H1 2009: €271m). Excluding restructuring costs of €18m and €12m for the six months ended 30 June 2010 and 30 June 2009 respectively, management expenses fell by 7% to €241m. Expenses included in EV operating profit fell 1% period on period to €264m. Expenses included in STIFs were a credit of €5m for the first six months of 2010 compared to a charge of €4m in the same period in 2009.

Cost management continues to be a priority for the group and the banking operations are assessing areas where further efficiencies can be delivered in addition to the 11 branch closures achieved in the first 6 months of 2010.

A reconciliation of shareholders' equity on EU IFRS to EV basis can be found on page 114.

Embedded Value Business Review (continued)

The following table restates the group's IFRS income statement in a format that is comparable to the embedded value income statement shown in the Supplementary Information for the six months ended 30 June 2010 and 30 June 2009:

Summarised group income statement	IFRS		EV	
	Six months to 30 June 2010	Six months to 30 June 2009	Six months to 30 June 2010	Six months to 30 June 2009
	€m	€m	€m	€m
Insurance and fund management business	90	65	118	84
Banking businesses	(131)	(132)	(131)	(132)
Other*	1	(7)	1	(7)
	(40)	(74)	(12)	(55)
Share of associate			2	4
EV operating loss			(10)	(51)
Short-term investment fluctuations	7	(53)	(11)	(80)
Effect of economic assumption changes	(5)	(61)	(7)	(89)
Other IFRS consolidation adjustments	2	(24)	(4)	
Operating loss before tax	(36)	(212)		
Share of associate	2	4		
Loss before tax	(34)	(208)	(32)	(220)
Taxation	8	(7)	12	29
Loss after tax attributable to owners of the parent	(26)	(215)	(20)	(191)

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

Risk Management

The group risk management framework and the principal risk factors that may affect the group are set out on pages 30 to 39 of the 2009 Annual Report and Financial Statements.

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EU IFRS Condensed Financial Statements (Unaudited)

Condensed Consolidated Statement of Financial Position (Unaudited)

As at 30 June 2010

	Notes	Unaudited 30 June 2010 €m	Unaudited 30 June 2009 €m	Audited 31 December 2009 €m
Assets				
Cash and balances with central banks	3	218	274	218
Items in course of collection	3	86	107	108
Debt securities	4, 7	16,755	12,183	15,780
Equity shares and units in unit trusts	5	13,714	11,028	13,510
Derivative assets		1,703	1,184	1,169
Loans and receivables to customers	6, 7	38,292	39,894	38,592
Loans and receivables to banks	8	3,766	4,876	4,925
Investment properties	9	1,775	1,999	1,769
Reinsurance assets	24	2,127	1,977	1,979
Prepayments and accrued income		373	461	294
Interest in associated undertaking		119	143	122
Property and equipment		220	335	238
Shareholder value of in-force business	10	704	698	730
Intangible assets		36	51	42
Goodwill	11	75	75	75
Current tax assets		-	5	-
Other assets		181	218	129
Deferred acquisition costs		243	242	245
Retirement benefit asset	12	100	84	96
Assets classified as held for sale	13	4	-	-
Total assets		80,491	75,834	80,021
Liabilities				
Deposits by banks	14	14,612	20,644	18,713
Customer accounts	15	14,939	12,927	14,562
Debt securities in issue	16	16,375	11,265	13,262
Derivative liabilities		643	674	665
Investment contract liabilities	17	24,692	21,430	24,032
Insurance contract liabilities	18	4,403	3,940	4,034
Outstanding insurance and investment claims		118	115	115
Accruals		232	358	220
Other liabilities		361	242	306
Provisions	19	45	48	63
Current tax liabilities		12	-	9
Deferred front end fees		98	107	102
Deferred tax liabilities		113	139	129
Retirement benefit liability	12	159	159	159
Subordinated liabilities	20	1,736	1,636	1,644
Total liabilities		78,538	73,684	78,015
Equity				
Share capital	21, 22	89	89	89
Share premium	21	135	135	135
Other reserves	21	55	142	87
Retained earnings	21	1,674	1,784	1,695
Total equity		1,953	2,150	2,006
Total liabilities and equity		80,491	75,834	80,021

Condensed Consolidated Income Statement (Unaudited)

For the six months ended 30 June 2010

		Unaudited 6 months to 30 June 2010 €m	Unaudited 6 months to 30 June 2009 €m	Audited 12 months to 31 December 2009 €m
Interest receivable	27	562	794	1,281
Interest payable	27	(401)	(609)	(918)
		161	185	363
Fees and commission income	28	39	37	77
Fees and commission expenses	28	(68)	(78)	(157)
Trading income		(4)	(6)	(4)
Premiums on insurance contracts		397	411	709
Reinsurers' share of premiums on insurance contracts		(57)	(56)	(116)
Investment return	29	732	163	2,585
Fees from investment contracts and fund management		108	111	225
Change in shareholder value of in-force business	10	(26)	(89)	(57)
Total operating income		1,282	678	3,625
Claims on insurance contracts		(241)	(247)	(489)
Reinsurers' share of claims on insurance contracts		86	80	160
Change in insurance contract liabilities	18	(369)	67	(27)
Change in reinsurers' share of insurance contract liabilities	18	176	(146)	(103)
Change in investment contract liabilities	17	(543)	(169)	(2,484)
Investment expenses		(17)	(17)	(35)
Administrative expenses		(234)	(243)	(518)
Depreciation and amortisation				
Property and equipment		(14)	(15)	(30)
Intangible assets		(9)	(11)	(20)
Impairment				
Property and equipment		(2)	-	(9)
Intangible assets		-	-	(2)
Loss on sale of fixed assets		(1)	-	-
Total operating expenses		(1,168)	(701)	(3,557)
Operating profit / (loss) before provisions		114	(23)	68
Provisions for impairment				
Loans and receivables	7	(150)	(189)	(376)
Debt securities	7	-	-	-
		(150)	(189)	(376)
Operating loss		(36)	(212)	(308)
Share of profits / (losses) of associated undertaking		2	4	(2)
Loss before taxation		(34)	(208)	(310)
Taxation	30	8	(7)	(3)
Loss for the period		(26)	(215)	(313)
Attributable to:				
Owners of the parent		(26)	(215)	(313)
		(26)	(215)	(313)

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2010

		Unaudited 6 months to 30 June 2010 €m	Unaudited 6 months to 30 June 2009 €m	Audited 12 months to 31 December 2009 €m
Loss for the period		(26)	(215)	(313)
Other comprehensive income				
Revaluation of owner occupied property	30	(6)	(20)	(97)
Currency translation adjustment reserve				
Gains on hedged investment in foreign operations		3	5	2
Gains on unhedged investment in foreign operations		-	-	1
Losses on hedging of investment in foreign operations		(3)	(5)	(2)
	30	-	-	1
Change in value of available for sale financial assets				
Change in fair value of AFS financial assets		(31)	32	42
Impairment of AFS securities recycled to income statement		(5)	-	-
	30	(36)	32	42
Amortisation of AFS securities reclassified to loans and receivables*	4, 30	7	8	15
Other comprehensive income		(35)	20	(39)
Deferred tax on other comprehensive income	30	5	(2)	1
Other comprehensive income, net of tax		(30)	18	(38)
Total comprehensive income for the period		(56)	(197)	(351)
Attributable to:				
Owners of the parent		(56)	(197)	(351)
Total comprehensive income for the period		(56)	(197)	(351)

* includes recycling of amounts in respect of impaired loans and receivables

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2010

Six months ended 30 June 2010

	Attributable to owners of the parent										Total excluding non controlling interest €m	Non controlling interest €m	Total including non controlling interest €m
	Share capital €m	Share premium €m	Revaluation reserve €m	Available for sale reserve €m	Currency translation adjustment reserve €m	Share based payments reserve €m	Other capital reserves €m	Own share reserve €m	Retained Earning €m				
	€m	€m	€m	€m	€m	€m	€m	€m	€m				
As at 1 January 2010	89	135	68	5	(2)	9	7	(66)	1,761	2,006	-	2,006	
Transactions with owners, recorded directly in equity													
<i>Impact of Scheme of Arrangement</i>													
Cancellation on Share Capital	(89)	-	-	-	-	-	-	-	-	(89)	-	(89)	
Issue of Share Capital to IL&PGH	89	-	-	-	-	-	-	-	-	89	-	89	
As at 15 January 2010	89	135	68	5	(2)	9	7	(66)	1,761	2,006	-	2,006	
Loss for the period	-	-	-	-	-	-	-	-	(26)	(26)	-	(26)	
Other comprehensive income (net of tax)													
Revaluation losses (net of tax)	-	-	(6)	-	-	-	-	-	1	(5)	-	(5)	
Change in value of available for sale financial assets (net of tax)	-	-	-	(27)	-	-	-	-	-	(27)	-	(27)	
Impairment of AFS securities recycled to income statement (net of tax)	-	-	-	(4)	-	-	-	-	-	(4)	-	(4)	
Amortisation of AFS securities reclassified to loans and receivables (net of tax)	-	-	-	6	-	-	-	-	-	6	-	6	
Total other comprehensive income	-	-	(6)	(25)	-	-	-	-	1	(30)	-	(30)	
Total comprehensive income for the period ended 30 June 2010	-	-	(6)	(25)	-	-	-	-	(25)	(56)	-	(56)	
Transactions with owners, recorded directly in equity													
<i>Contributions by and distributions to owners</i>													
Release of share option reserve	-	-	-	-	-	(1)	-	-	1	-	-	-	
Change in own shares at cost	-	-	-	-	-	-	-	3	-	3	-	3	
Transfer between reserves	-	-	-	-	-	-	-	10	(10)	-	-	-	
Balance at 30 June 2010	89	135	62	(20)	(2)	8	7	(53)	1,727	1,953	-	1,953	

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2010

Six months ended 30 June 2009

Attributable to owners of the parent

	Share capital €m	Share premium €m	Revaluation reserve €m	Available for sale reserve €m	Currency translation adjustment reserve €m	Share based payments reserve €m	Other capital reserves €m	Own share reserve €m	Retained Earnings €m	Total excluding non controlling interest €m	Non controlling interest €m	Total including non controlling interest €m
As at 1 January 2009	89	135	157	(45)	(3)	8	7	(86)	2,085	2,347	1	2,348
Loss for the period	-	-	-	-	-	-	-	-	(215)	(215)	-	(215)
Other comprehensive income (net of tax)												
Revaluation losses (net of tax)	-	-	(17)	-	-	-	-	-	-	(17)	-	(17)
Change in value of available for sale financial assets (net of tax)	-	-	-	28	-	-	-	-	-	28	-	28
Amortisation of AFS securities reclassified to loans and receivables (net of tax)	-	-	-	7	-	-	-	-	-	7	-	7
Total other comprehensive income	-	-	(17)	35	-	-	-	-	-	18	-	18
Total comprehensive income for the period ended 30 June 2009	-	-	(17)	35	-	-	-	-	(215)	(197)	-	(197)
Transactions with owners, recorded directly in equity												
<i>Contributions by and distributions to owners</i>												
Transfer between reserves	-	-	-	-	-	-	-	5	(5)	-	-	-
Acquisition of non controlling interest (Note 11: Goodwill)	-	-	-	-	-	-	-	-	-	-	(1)	(1)
Balance at 30 June 2009	89	135	140	(10)	(3)	8	7	(81)	1,865	2,150	-	2,150

Condensed Consolidated Statement of Changes in Equity (Audited)

For the six months ended 30 June 2010

Twelve months ended 31 December 2009

Attributable to owners of the parent

	Share capital	Share premium	Revaluation reserve	Available for sale reserve	Currency translation adjustment reserve	Share based payments reserve	Other capital reserves	Own share reserve	Retained Earnings	Total excluding non controlling interest	Non controlling interest	Total including non controlling interest
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
As at 1 January 2009	89	135	157	(45)	(3)	8	7	(86)	2,085	2,347	1	2,348
Loss for the year	-	-	-	-	-	-	-	-	(313)	(313)	-	(313)
Other comprehensive income (net of tax)												
Revaluation losses (net of tax)	-	-	(89)	-	-	-	-	-	-	(89)	-	(89)
Change in currency translation adjustment reserve (net of tax)	-	-	-	-	1	-	-	-	-	1	-	1
Change in value of available for sale financial assets (net of tax)	-	-	-	37	-	-	-	-	-	37	-	37
Amortisation of AFS securities reclassified to loans and receivables (net of tax)	-	-	-	13	-	-	-	-	-	13	-	13
Total other comprehensive income	-	-	(89)	50	1	-	-	-	-	(38)	-	(38)
Total comprehensive income for the year ended 31 December 2010	-	-	(89)	50	1	-	-	-	(313)	(351)	-	(351)
Transactions with owners, recorded directly in equity												
<i>Contributions by and distributions to owners</i>												
Equity settled transactions	-	-	-	-	-	1	-	-	-	1	-	1
Change in own shares at cost	-	-	-	-	-	-	-	9	-	9	-	9
Transfer between reserves	-	-	-	-	-	-	-	11	(11)	-	-	-
Acquisition of non controlling interest (Note 11: Goodwill)	-	-	-	-	-	-	-	-	-	-	(1)	(1)
Balance at 31 December 2009	89	135	68	5	(2)	9	7	(66)	1,761	2,006	-	2,006

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 30 June 2010

	Unaudited 6 months to 30 June 2010 €m	Unaudited 6 months to 30 June 2009 €m	Audited 12 months to 31 December 2009 €m
Cash flows from operating activities			
Loss before taxation for the period	(34)	(208)	(310)
Adjusted for:			
Adjustments for non-cash movements in net profit for the period	(345)	383	(1,485)
Net change in operating assets and liabilities	(1,144)	(986)	2,470
Net cash flows from operating activities before tax	(1,523)	(811)	675
Tax (paid) / refunded	(1)	(2)	9
Net cash flows from operating activities	(1,524)	(813)	684
Cash flows from investing activities			
Purchase of property and equipment	(7)	(9)	(14)
Sale of property and equipment	2	1	2
Purchase of intangible assets	(6)	(8)	(9)
Purchase of non controlling interest in subsidiary undertaking	-	(5)	(5)
Dividends received from associated undertaking	5	-	15
Net cash flows from investing activities	(6)	(21)	(11)
Cash flows from financing activities			
Interest paid on subordinated liabilities	(34)	(42)	(60)
Cash from redemption of debt securities in issue	-	-	(57)
Net cash flows from financing activities	(34)	(42)	(117)
(Decrease) / increase in cash and cash equivalents	(1,564)	(876)	556
Analysis of changes in cash and cash equivalents			
Cash and cash equivalents as at 1 January	2,836	2,280	2,280
Net cash flow	(1,564)	(876)	556
Cash and cash equivalents as at period end	1,272	1,404	2,836

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

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

Introduction

Irish Life & Permanent plc is a parent company domiciled in Ireland. The condensed consolidated financial statements for the six months ended 30 June 2010 are unaudited but have been reviewed by the auditor whose report is set out on page 98.

The financial information presented herein does not amount to statutory financial statements that are required by Regulation 7(3) of the European Communities (Credit Institutions Accounts) Regulations 1992 to be annexed to the annual return of the company. The statutory financial statements for the financial year ended 31 December 2009 were annexed to the annual return and filed with the Registrar of Companies. The audit report on those statutory financial statements was unqualified and did not contain any matters to which attention was drawn by way of emphasis.

Basis of preparation

The condensed financial statements for the half year ended 30 June 2010 have been prepared in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the EU. The condensed financial statements should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 December 2009, which have been prepared in accordance with IFRSs as adopted by the EU.

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

Accounting policies, estimates and judgements

The approach to accounting policies and the accounting estimates and judgements applied in the condensed consolidated half year financial statements is consistent with the approach disclosed in the Annual Report and Financial Statements for the year ended 31 December 2009. Estimates and assumptions in respect of insurance contract liabilities (Note 18, Life assurance contracts), retirement obligations (Note 12, Retirement benefit obligations) and loan impairments (Note 7, Provision for impairment) have been updated to reflect current economic circumstances.

The financial information has been prepared on the going concern basis. Risk factors including: credit, market, liquidity, insurance and operational risk impact on the group's activities. The current continued global financial crisis and the significantly deteriorated economic environment in which we operate places further pressure on the group as these risk factors are managed. The board of directors has reviewed these risk factors and all relevant information to assess the group's ability to continue as a going concern. This review included consideration of the impact of the current economic and political factors affecting the group and the industry, the capital position of the regulated entities in the group, the liquidity position and the access to funds for the banking entities (including the ability to use assets as collateral to raise funds). The directors have reviewed the group's business plan for 2010 to 2012 which incorporates its funding and capital plan and considered the critical assumptions underpinning this plan and tested them under stressed scenarios. The directors have also taken into account measures introduced by the Irish Government to improve liquidity, including the Government Guarantee, introduced by the Irish Government in September 2008, and the Credit Institutions Eligible Liabilities Guarantee Scheme (the "ELG Scheme") introduced by the Government in December 2009. In concluding on the going concern basis the directors took into account the Government Guarantee, the ELG Scheme, the ability to use assets as collateral to raise funds and the Government's acknowledgment of the group's importance to the economy as a whole. As a result the directors are satisfied that the group's financial information continues to be prepared on a going concern basis as it will have access to sufficient funding and resources to continue in businesses for the foreseeable future.

Income taxes

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

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

The following new standards and amendments to standards are applicable from 1 July 2009 and have been adopted in the condensed financial statements:

Title	Impact on condensed consolidated financial statements
IFRS 3: Business Combinations (Revised)	The revisions to this standard addresses: partial and step-up acquisitions, costs associated with acquisitions, contingent consideration (measurement and recognition) and transactions with non controlling interests. These revisions did not result in a material impact on the condensed consolidated financial statements of the group.
IAS 27: Consolidated and Separate Financial Statements (Amendment)	The amendment deals primarily with the accounting for changes in ownership interests in subsidiaries after control is obtained, the accounting for the loss of control of subsidiaries, and the allocation of profit or loss to controlling and non-controlling interest in a subsidiary. These amendments did not result in a material impact on the condensed consolidated financial statements of the group.

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

Title	Impact on condensed consolidated financial statements
IFRS 2: Share-based Payment (Amendment)	The amendments incorporate 'IFRIC 8: Scope of IFRS 2' and 'IFRIC 11: IFRS-Group and treasury share transactions' and expand on the guidance included in IFRIC 11 to address the classification of group cash-settled group arrangements which were not previously covered by that interpretation. These amendments did not result in a material impact on the condensed consolidated financial statements of the group.
IFRS 5: Non-current assets held for sale and discontinued operations (Amendment)	This amendment clarifies that IFRS 5 specifies the disclosures required in respect of non current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of IAS 1 paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) still apply. This amendment did not result in a material impact on the condensed consolidated financial statements of the group.
IAS 1: Presentation of financial statements (Revised)	This amendment clarifies that the potential settlement of a liability by the issue of equity will not affect its classification as current or non current. This allows a liability to be classified as non current (provided the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months following the accounting period). This amendment did not result in a material impact on the condensed consolidated financial statements of the group.
IAS 7: Statement of cash flows (Amendment)	The amendments specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. This amendment did not result in a material impact on the condensed consolidated financial statements of the group.
IAS 17: Leases (Amendment)	This amendment provides specific guidance on the classification of leases of land to make it consistent with general guidance on leases. In accordance with the general principles of IAS 17, leases should be classified as operating or finance leases. This amendment did not result in a material impact on the condensed consolidated financial statements of the group.
IAS 36: Impairment of assets (Amendment)	This amendment clarifies that the largest cash generating unit (or group of units) to which goodwill should be allocated for impairment testing purposes is an operating segment as defined by IFRS 8, before the aggregation of operating segments with similar economic characteristics allowed by IFRS 8. This amendment did not result in a material impact on the condensed consolidated financial statements of the group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

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

Title	Impact on condensed consolidated financial statements
IAS 39: Financial Instruments: Recognition and Measurement (Amendment)	This amendment relates to the treatment of loan prepayment penalties as closely related embedded derivatives. It clarifies that pre-payment options, the exercise price which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, should be considered to be closely related to the host debt contract. This amendment did not result in a material impact on the condensed consolidated financial statements of the group.
IAS 39: Financial Instruments: Recognition and Measurement (Amendment)	This amendment clarifies when to recognise gains or losses on hedge instruments as a reclassification adjustment in a cash flow hedge of a forced transaction that results subsequently in the recognition of a financial instrument. This amendment did not result in a material impact on the condensed consolidated financial statements of the group.
IAS 39: Financial Instruments: Recognition and Measurement (Amendment)	This is an amendment to clarify the scope exemption for business combination contracts. The scope exemption between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding contracts, not derivative contracts where future actions are still to be taken. This amendment did not result in a material impact on the condensed consolidated financial statements of the group.

The following table provides a brief outline of the likely impact on future financial statements of relevant IFRSs which are issued by the IASB and endorsed by the EU but are not yet effective and have not been early adopted in the condensed financial statements.

Title	Impact on condensed consolidated financial statements
IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments (Effective date 1 July 2010)	IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with IAS 39. This amendment is not expected to have a material impact on the condensed consolidated financial statements of the group.
IFRIC 14: Prepayments of a Minimum Funding Requirement (Amendment) (Effective date 1 January 2011)	IFRIC 14 provides guidance on assessing the recoverable amount of a net pension asset. This amendment is not expected to have a material impact on the condensed consolidated financial statements of the group.

The following table provides a brief outline of the impact on the financial statements of relevant IFRSs which are issued by the IASB, endorsed by the EU and have been early adopted in the condensed financial statements.

Title	Impact on condensed consolidated financial statements
IAS 24: Related Party Disclosures (Effective date 1 January 2011)	The definition of related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control. A partial exemption from the disclosures has been included for the government and government-related entities. For these entities the general disclosures requirements of IAS 24 will not apply. Instead, alternative disclosures will be included. The group have elected to early adopt the partial exemption for the government and government-related entities in these condensed financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

2. Segmental information

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

The segmental information is determined based on internal reporting provided to the Strategy Group, the chief operating decision maker ("CODM") of the group. All the members of the Strategy Group are members of key management personnel as described in Note 32, Related parties. The members include the Group Chief Executive, the Group Finance Director, the Chief Executive of **permanent tsb**, the Chief Executive of Irish Life Investment Managers, the Chief Executive of Irish Life Retail, the Chief Executive of Irish Life Corporate Business, the Group Head of Risk and Compliance and the Group Head of Human Resources and Organisation Development. The Strategy Group is responsible for implementing the strategic management of the group as guided by the board. The Strategy Group reviews key performance indicators and internal management reports on a monthly and on a quarterly basis.

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

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

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

These segments and their respective operations are as follows:

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

2. Segmental information (continued)

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

30 June 2010

	Banking Ireland €m	Banking UK €m	Life assurance €m	Fund management €m	General insurance €m	Brokerage / third party administration and other ¹ €m	Reconciliations / eliminations / consolidation adjustments ² €m	Total €m
Net interest receivable								
- external	78	91	(8)	-	-	-	-	161
- inter segment	82	(92)	(8)	-	-	-	18	-
Other non-interest income / (expenses)								
- external	6	-	(52)	-	-	13	-	(33)
- inter segment	-	-	(8)	-	-	8	-	-
Premiums on insurance contracts, net of reinsurance	-	-	340	-	-	-	-	340
Investment return								
- external	4	-	732	-	-	-	-	736
- inter segment	-	-	14	-	-	-	(18)	(4)
Fees from investment contracts and fund management								
- external	-	-	96	4	-	8	-	108
- inter segment	-	-	-	17	-	-	(17)	-
Change in shareholder value of in force business	-	-	(26)	-	-	-	-	(26)
Total operating income / (expenses)	170	(1)	1,080	21	-	29	(17)	1,282
Claims on insurance contracts, net of reinsurance	-	-	(155)	-	-	-	-	(155)
Change in insurance / investment contract liabilities	-	-	(736)	-	-	-	-	(736)
Investment expenses	-	-	(34)	-	-	-	17	(17)
Administrative expenses	(134)	(5)	(59)	(11)	-	(21)	(4)	(234)
Depreciation and amortisation	(10)	-	(11)	(1)	-	(1)	-	(23)
Impairment	-	-	(2)	-	-	-	-	(2)
Loss on the sale of property and equipment	(1)	-	-	-	-	-	-	(1)
Total operating (expenses) / income	(145)	(5)	(997)	(12)	-	(22)	13	(1,168)
Operating profit / (loss) before provisions	25	(6)	83	9	-	7	(4)	114
Loans and receivables	(137)	(13)	-	-	-	-	-	(150)
Total provisions for impairment	(137)	(13)	-	-	-	-	-	(150)
Operating (loss) / profit	(112)	(19)	83	9	-	7	(4)	(36)
Share of profits of associated undertaking	-	-	-	-	2	-	-	2
Taxation	14	5	(10)	(1)	-	(1)	1	8
(Loss) / profit for the period	(98)	(14)	73	8	2	6	(3)	(26)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

2. Segmental information (continued)

30 June 2009

	Banking Ireland €m	Banking UK €m	Life assurance €m	Fund management €m	General insurance €m	Brokerage / third party administration and other ¹ €m	Reconciliations/ eliminations / consolidation adjustments ² €m	Total €m
Net interest receivable								
- external	54	141	(10)	-	-	-	-	185
- inter segment	120	(120)	(9)	-	-	(1)	10	-
Other non-interest income / (expenses)								
- external	7	-	(65)	-	-	11	-	(47)
- inter segment	-	-	(9)	-	-	9	-	-
Premiums on insurance contracts, net of reinsurance	-	-	355	-	-	-	-	355
Investment return								
- external	-	-	184	-	-	-	-	184
- inter segment	-	-	15	-	-	-	(36)	(21)
Fees from investment contracts and fund management								
- external	-	-	100	4	-	7	-	111
- inter segment	-	-	-	15	-	-	(15)	-
Change in shareholder value of in force business	-	-	(89)	-	-	-	-	(89)
Total operating income / (expenses)	181	21	472	19	-	26	(41)	678
Claims on insurance contracts, net of reinsurance	-	-	(167)	-	-	-	-	(167)
Change in insurance / investment contract liabilities	-	-	(248)	-	-	-	-	(248)
Investment expenses	-	-	(32)	-	-	-	15	(17)
Administrative expenses	(129)	(5)	(69)	(11)	-	(21)	(8)	(243)
Depreciation and amortisation	(11)	-	(12)	(1)	-	(2)	-	(26)
Total operating (expenses) / income	(140)	(5)	(528)	(12)	-	(23)	7	(701)
Operating profit / (loss) before provisions	41	16	(56)	7	-	3	(34)	(23)
Loans and receivables	(172)	(17)	-	-	-	-	-	(189)
Total provisions for impairment	(172)	(17)	-	-	-	-	-	(189)
Operating (loss) / profit before provisions	(131)	(1)	(56)	7	-	3	(34)	(212)
Share of profits of associated undertaking	-	-	-	-	4	-	-	4
Taxation	14	1	(22)	(1)	-	-	1	(7)
(Loss) / profit for the period	(117)	-	(78)	6	4	3	(33)	(215)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

2. Segmental information (continued)

31 December 2009

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

2. Segmental information (continued)

30 June 2010

	Banking Ireland €m	Banking UK €m	Life assurance €m	Fund management €m	General insurance €m	Brokerage / third party administration and other ¹ €m	Reconciliations / eliminations / consolidation adjustments ² €m	Total €m
Assets								
Interest in associate	-	-	-	-	119	-	-	119
Held for sale	4	-	-	-	-	-	-	4
Other assets	48,168	13,866	32,730	20	-	158	(14,574)	80,368
Total assets	48,172	13,866	32,730	20	119	158	(14,574)	80,491
Liabilities								
Other liabilities	47,645	13,829	31,521	10	-	88	(14,555)	78,538
Total liabilities	47,645	13,829	31,521	10	-	88	(14,555)	78,538
Equity attributable to owners	527	37	1,209	10	119	70	(19)	1,953
Capital expenditure	9	-	4	-	-	-	-	13

30 June 2009

	Banking Ireland €m	Banking UK €m	Life assurance €m	Fund management €m	General insurance €m	Brokerage / third party administration and other ¹ €m	Reconciliations / eliminations / consolidation adjustments ² €m	Total €m
Assets								
Interest in associate	-	-	-	-	143	-	-	143
Other assets	45,729	13,947	28,810	17	-	168	(12,980)	75,691
Total assets	45,729	13,947	28,810	17	143	168	(12,980)	75,834
Other liabilities	44,931	13,896	27,697	6	-	101	(12,947)	73,684
Liabilities	44,931	13,896	27,697	6	-	101	(12,947)	73,684
Equity attributable to owners	798	51	1,113	11	143	67	(33)	2,150
Capital expenditure	5	-	6	-	-	6	-	17

31 December 2009

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

2. Segmental information (continued)

¹ Brokerage / third party administration and other

Brokerage and third party administration services include:

	30 June 2010	30 June 2009	31 December 2009
	€m	€m	€m
Profit in respect of insurance brokerage company	6	4	8
Loss in respect of third party administration company	-	(1)	(5)

² Reconciliations / eliminations / consolidation adjustments

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

	30 June 2010	30 June 2009	31 December 2009
	€m	€m	€m
Consolidation of the movement in the value of properties financed by non-recourse inter-group loans	(4)	(21)	(8)
Differing accounting treatment for assets and liabilities by the bank and life company*	6	(3)	(2)
The allocation of corporate costs, net of tax**	(5)	(9)	(27)
	(3)	(33)	(37)

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

** These costs relate to group functions and are included here as they are not directly attributable to any business unit and hence are unallocated amounts. Corporate costs for the period ended 30 June 2009 were reported within the 'Brokerage and third party administration' segment in the 2009 Half-Year Report. They have been reclassified to the 'Reconciliations/eliminations/consolidation adjustments' segment to achieve consistency with the presentation of these costs at the 31 December 2009 as disclosed in the Annual Report and Financial Statements 2009.

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

	30 June 2010	30 June 2009	31 December 2009
	€m	€m	€m
Consolidation of the movement in the value of properties financed by non-recourse inter-group loans	(21)	(30)	(17)
Differing accounting treatment for assets and liabilities by the bank and life company	2	(3)	(4)
	(19)	(33)	(21)

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

	30 June 2010	30 June 2009	31 December 2009
	€ln	€ln	€ln
The elimination of floating rate notes issued by special purpose vehicles between Banking Ireland and Banking UK reporting segments but held within the group	(13)	(12)	(12)
The elimination of inter-group balances between the bank and other group entities.	(2)	(1)	(2)
	(15)	(13)	(14)

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

3. Cash and cash equivalents

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Cash and balances at central banks	218	274	218
Items in the course of collection	86	107	108
Loans and receivables to banks (note 8)	968	1,023	2,510
	1,272	1,404	2,836

4. Debt securities

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Available for sale	6,574	2,576	5,856
Loans and receivables	1,507	1,918	1,570
Designated at FVTPL	8,686	7,811	8,373
Gross debt securities	16,767	12,305	15,799
Less provision (note 7)	(12)	(122)	(19)
Net debt securities	16,755	12,183	15,780

Debt securities exclude €99m (30 June 2009: €32m, 31 December 2009: €90m) issued by Irish Life & Permanent plc and held by Irish Life Assurance plc which have been eliminated on consolidation.

Debt securities, representing a mix of government gilts and high rated corporate bonds, with a carrying value of €4.8bln (30 June 2009: €3.1bln, 31 December 2009: €6.1bln) have been pledged to third parties in sale and repurchase agreements (Note 14, Deposits by banks).

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

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

	Carrying value			Fair value		
	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Available for sale debt securities reclassified to loans and receivables	1,507	1,918	1,570	1,384	1,640	1,542

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

4. Debt securities (continued)

	Income statement			Other comprehensive income		
	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Period before reclassification						
Interest income	-	-	-	-	-	-
Net change in fair value	-	-	-	-	-	-
Period after reclassification						
Interest income	10	30	40	-	-	-
Amortisation	(7)	(8)	(15)	7	8	15
Total for period after reclassification	3	22	25	7	8	15

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

	Income statement			Other comprehensive income		
	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Interest income	10	30	40	-	-	-
Fair value movement	-	-	-	(95)	(64)	186
Cumulative impact	101	81	91	(123)	(278)	(28)

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

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

The impairment provision is analysed in note 7, provision for impairment. The group has carried out an impairment assessment on its debt securities held. A transfer of €7 million from the collective provision to the specific provision has been affected in relation to securities which have been specifically identified as impaired. Subsequently €5m of this specific provision was utilised in respect of impaired AFS securities and €2m was utilised in respect of impaired debt securities classified as loans and receivables.

The carrying value of debt securities is analysed as follows:

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Government bonds	10,528	7,554	10,337
Bonds issued by public boards	88	98	101
Bonds issued by credit institutions	5,170	3,299	4,336
Other bonds	969	1,232	1,006
	16,755	12,183	15,780
Listed	16,435	11,583	15,342
Unlisted	320	600	438
	16,755	12,183	15,780

5. Equity shares and units in unit trusts

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Designated as FVTPL			
- Listed	13,534	10,914	13,381
- Unlisted	180	114	129
	13,714	11,028	13,510

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

6. Loans and receivables to customers

Loans and receivables by category are set out below:

	30 June	30 June	31 December
	2010	2009	2009
	€m	€m	€m
Residential mortgage loans			
Held through special purpose vehicles	25,935	27,020	25,983
Held directly	9,270	8,941	9,189
	35,205	35,961	35,172
Commercial mortgage loans*	1,932	1,962	1,939
Consumer finance			
Finance leases	1,022	1,465	1,211
Term loans / other	502	608	536
Money market funds	249	214	211
Gross loans and receivables to customers	38,910	40,210	39,069
Less allowance for impairment	(618)	(316)	(477)
Net loans and receivables to customers	38,292	39,894	38,592

*Commercial mortgage loans exclude loans of €461m (30 June 2009: €456m; 31 December 2009: €447m) to the group's life assurance operations including loans held for the benefit of unit-linked policyholders.

There is no particular concentration of risk within these categories.

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

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

	30 June	30 June	31 December
	2010	2009	2009
	€bn	€bn	€bn
Residential mortgages held through special purpose vehicles	25.9	27.0	26.0
Notes issued by special purpose vehicles			
- rated	23.0	24.7	23.8
- unrated	2.3	2.3	2.3

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

6. Loans and receivables to customers (continued)

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

	30 June 2010	30 June 2009	31 December 2009
	€bn	€bn	€bn
- Sold to third parties and included within debt securities in issue (non-recourse) on the statement of financial position	2.8	3.0	2.8
- Held by the European Central Bank ("ECB") as collateral in respect of funds raised under the Eurosystem funding programme (note 14) ¹	11.5	17.3	13.7
- Held by other banks as part of collateralised lending or sale and repurchase agreements	0.3	2.1	1.3
- Held by Irish Life Assurance plc as collateral for government securities under a stock lending agreement with the bank operations of the group ²	-	1.9	0.2
- Other			
Available collateral	8.4	0.4	5.8
Unrated notes	2.3	2.3	2.3
	25.3	27.0	26.1

¹ See Note 14, Deposits by banks for amounts placed by the ECB with Irish Life & Permanent plc.

² Government securities held by the bank under a stock lending agreement with Irish Life Assurance plc amount to €nil at 30 June 2010 (30 June 2009: €1.0bn; 31 December 2009: €0.1bn). The stock lending agreement provides for a minimum collateral value of 150% of Aaa rated bonds to be maintained in respect of the government securities borrowed.

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

At 30 June 2009, the group had drawn down €360m against an available facility of €465m under the mortgage backed promissory note programme with the Central Bank and Financial Services Authority of Ireland (CBFSAI) which was secured by way of a first floating charge to the CBFSAI of loans and receivables of €468m. This facility was not available in June 2010 or December 2009.

The carrying amount of the loans and receivables to customers has been reduced by €4m (30 June 2009: €nil, 31 December 2009: €nil) for the effect of a coupon step up incurred as a result of certain callable Securitised Bond Notes not being called, as permitted by their terms.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

7. Provision for impairment

a) Loans and receivables

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

	6 months to 30 June 2009		
	Specific €m	Collective €m	Total €m
As at 1 January	37	102	139
Charge to income statement			
Impairment losses	81	110	191
Amounts recovered during the period	-	(2)	(2)
Amounts written off during the period	(1)	(14)	(15)
Exchange movements	1	2	3
As at 30 June	118	198	316

	12 months to 31 December 2009		
	Specific €m	Collective €m	Total €m
As at 1 January	37	102	139
Charge to income statement			
Impairment losses	213	163	376
Amounts written off during the year	(10)	(30)	(40)
Exchange movements	1	1	2
As at 31 December	241	236	477

Analysis of income statement charge

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

7. Provision for impairment (continued)

Analysis of income statement charge (continued)

	6 months to 30 June 2009		
	Specific	Collective	Total
	€m	€m	€m
ROI residential lending	49	49	98
ROI commercial lending	24	6	30
UK lending	8	9	17
Consumer finance	-	44	44
	81	108	189

	12 months to 31 December 2009		
	Specific	Collective	Total
	€m	€m	€m
ROI residential lending	107	47	154
ROI commercial lending	69	30	99
UK lending	27	6	33
Consumer finance	10	80	90
	213	163	376

Analysis of amounts written off during the period

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

	6 months to 30 June 2009		
	Specific	Collective	Total
	€m	€m	€m
ROI commercial lending	(1)	-	(1)
Consumer finance	-	(14)	(14)
As at 30 June	(1)	(14)	(15)

	12 months to 31 December 2009		
	Specific	Collective	Total
	€m	€m	€m
ROI residential lending	(1)	-	(1)
UK lending	(9)	-	(9)
Consumer finance	-	(30)	(30)
As at 31 December	(10)	(30)	(40)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

7. Provision for impairment (continued)

Analysis of provisions

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

	As at 30 June 2009		Total €m
	Specific €m	Collective €m	
ROI residential lending	67	71	138
ROI commercial lending	33	12	45
UK lending	18	18	36
Consumer finance	-	97	97
As at 30 June	118	198	316

	As at 31 December 2009		Total €m
	Specific €m	Collective €m	
ROI residential lending	125	69	194
ROI commercial lending	78	35	113
UK lending	28	14	42
Consumer finance	10	118	128
As at 31 December	241	236	477

b) Debt securities

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

	As at 30 June 2009		Total €m
	Specific €m	Collective €m	
As at 1 January	-	122	122
Amounts written off during the period	-	-	-
As at 30 June	-	122	122

	As at 31 December 2009		Total €m
	Specific €m	Collective €m	
As at 1 January	-	122	122
Amounts written off during the year	-	(103)	(103)
As at 31 December	-	19	19

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

8. Loans and receivables to banks

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Held at amortised cost			
Repayable on demand	968	1,023	2,510
Other loans and receivables to banks	42	575	94
	1,010	1,598	2,604
Designated as FVTPL			
Life operations deposits with banks	2,756	3,278	2,321
	3,766	4,876	4,925

At 30 June 2010, loans and receivables to banks include €0.65bn deposits placed with one financial institution (30 June 2009: €1.5bn; 31 December 2009: €0.65bn) covered by the Irish Government guarantee scheme. This covered institution placed €0.65bn (30 June 2009: €0.65bn; 31 December 2009: €0.65bn) with Irish Life & Permanent plc on the same terms and the €0.65bn (30 June 2009: €0.65bn; 31 December 2009: €0.65bn) is included in Note 14, Deposits by banks. No right of set-off exists between these deposits by banks and the loans and receivables to banks. They are recorded in loans and receivables to banks in accordance with accounting standards.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

9. Investment properties

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
As at 1 January	1,769	2,280	2,280
Additions from acquisitions	67	11	25
Additions from subsequent expenditure	-	14	14
Disposals	(86)	(19)	(33)
Fair value adjustments	25	(287)	(517)
As at period-end	1,775	1,999	1,769

Investment property is held for capital appreciation and income and is let on a commercial basis to third parties.

Investment property is carried at fair value as determined by an independent valuer having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values take into account recent occupancy and rental levels and are based on yields which are applied to arrive at the property valuation.

There has been some improvement in sentiment and investor interest in the Irish property investment market since the beginning of 2010 however the market is still suffering from illiquidity. The Investment Property Databank (IPD) provides a benchmark for the institutional commercial property investment market. The total IPD return for the Irish market for the first half of the year is expected to be marginally negative. The UK market has continued to see a good level of investment transactional activity albeit the weight of investor demand has reduced which has led to a stabilisation in yield over recent months following a period of yield compression. The UK IPD total return for the first six months of 2010 was positive 9.6% (June 2009: negative 9.6%, 12 months ended 31 December 2009 : positive 2.2%).

While transactions in Ireland remain scarce this is not reflective of a reasonable and growing level of investor demand, mainly from UK, German and other overseas parties. Their requirements continue to be focused primarily on secure, prime assets. These are in very short supply with potential sellers slow to sell at current pricing or unable to act due to debt and banking issues. This pick-up in sentiment allied to improved investor demand, reasonable visibility on the pricing levels at which they would transact and a small number of deals are giving valuers sufficient comfort to hold prime yields at current levels.

At 30 June 2010 €1,758m (6 months to 30 June 2009: €1,978m; 12 months to 31 December 2009: €1,751m) of investment properties are held by unit-linked funds.

Residential properties are valued on a capital value per square foot rather than on basis of investment yield. Residential properties represent 0.5% (30 June 2009: 0.4%, 31 December 2009: 0.5%) of total investment property.

The acquisition of certain investment properties on behalf of unit-linked policyholders is funded by borrowing. These borrowings (including accrued interest), which have recourse only to the specific property which they were used to acquire, amounted to €625m at 30 June 2010 (30 June 2009: €629m; 31 December 2009: €610m). At 30 June 2010 loans (including accrued interest) of €383m (30 June 2009: €379m; 31 December 2009: €370m) were issued by Irish Life & Permanent plc and were eliminated on consolidation. The remaining balance of borrowings is contained within Note 14, Deposits by banks.

Property held under long leasehold interest at 30 June 2010 was €50m (30 June 2009: €54m; 31 December 2009: €48m). There are no future payments under these leases. There are no contingent rents on these properties.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

10. Shareholder value of in-force business

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

Further details of the EV principles are set out in the supplementary EV basis on pages 103 to 106.

A. Assumptions

The principal assumptions are set out below:

Principal economic assumptions

The assumed future pre-tax returns on fixed interest securities are set by reference to gross redemption yields available in the market at the end of the reporting period. The risk free rate of return used for the risk discount rate is based on the Irish Government yield available for the effective duration of the future cash flows underlying the shareholder value of in-force business. The market risk margin neutralises the effect of assuming future investment returns in excess of the base risk-free rate. The corresponding return on equities and property is equal to the risk free rate assumption plus the appropriate risk premium. An asset mix based on the assets held at the valuation date within policyholder funds has been assumed within the projections.

	30 June 2010	30 June 2009	31 December 2009
Equity risk premium	3.0%	3.0%	3.0%
Property risk premium	2.0%	2.0%	2.0%
Risk free rate	5.4%	5.3%	4.6%
Non market risk margin	2.1%	2.1%	2.1%
Market risk margin	0.6%	0.8%	0.8%
Risk discount rate	8.1%	8.2%	7.5%
Investment return			
- Fixed interest	1.3% - 4.8%	1.2% - 4.6%	1.1% - 4.2%
- Equities	8.4%	8.3%	7.6%
- Property	7.4%	7.3%	6.6%
Expense inflation	3.0%	3.0%	3.0%

Other assumptions

The assumed future mortality and morbidity assumptions are based on published tables of rates, adjusted by analyses of recent operating experience. Persistency assumptions are set by reference to recent operating experience.

Further details of assumptions are included in Note 18, Life insurance contracts including insurance contracts with discretionary participation features (DPF).

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

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

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

B. Analysis of the movement in the period

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

	30 June 2010	30 June 2009	31 December 2009
	€m	€m	€m
As at 1 January	730	787	787
Charge to income statement in the period	(26)	(89)	(57)
As at period-end	704	698	730

The debit to the income statement of €26m negative (30 June 2009: negative of €89m; 31 December 2009: negative of €57m) includes €55m positive (30 June 2009: positive of €55m; 31 December 2009: positive of €99m) in respect of new business; €39m negative (30 June 2009: negative of €45m; 31 December 2009: negative of €88m) expected return on existing business; €3m negative (30 June 2009: negative of €19m; 31 December 2009: negative of €33m) in respect of experience variances; €3m negative (30 June 2009: positive of €1m; 31 December 2009: negative of €7m) in respect of operating assumptions changes; €3m negative (30 June 2009: €nil; 31 December 2009: positive of €8m) in respect of short term investment fluctuations and €33m negative (30 June 2009: negative of €81m; 31 December 2009: negative of €36m) in respect of economic assumption changes.

C. Sensitivity calculations

A number of sensitivities have been produced on alternative assumption sets to reflect the sensitivity of the insurance shareholder value of in-force asset to changes in key assumptions. The details of each sensitivity are set out below. All amounts are after allowing for the associated deferred tax effect:

- 1% decrease in discount rate would increase equity by €60m.
- 1% increase in discount rate would reduce equity by €53m.
- 10% decrease in maintenance expenses would increase equity by €20m.
- 10% improvement in assumed persistency rates would increase equity by €9m.
- 5% decrease in both mortality and morbidity rates would increase equity by €17m.

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11. Goodwill

	30 June 2010	30 June 2009	31 December 2009
	€m	€m	€m
As at 1 January	75	71	71
Additions	-	4	4
As at period-end	75	75	75

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

Goodwill is attributable to two business units as set out below:

	30 June 2010	30 June 2009	31 December 2009
	€m	€m	€m
Life Assurance	5	5	5
Brokerage and third party administration	70	70	70
	75	75	75

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

12. Retirement benefit obligations

Defined benefit schemes

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

The pension costs and provisions are assessed in accordance with the advice of independent qualified actuaries. Valuations are carried out every three years by independent actuarial consultants. The actuarial reports are available for inspection by members of the scheme and are not available for public inspection. All of the group's defined benefit pension schemes have been revalued within the last three years with valuation dates ranging from 30 June 2008 to 5 April 2010. Actuarial gains and losses are accounted for under the corridor approach as set out in Note 1 of the Annual Report and Financial Statements 2009, Basis of preparation and significant accounting policies.

The key financial assumptions used are:

	30 June	30 June	31 December
	2010	2009	2009
	%	%	%
Actuarial assumptions at the statement of financial position date			
Discount rate	4.75	6.00	5.50
Expected rate of return on plan assets	6.60	6.75	6.60
Salary increases ¹	3.50	3.50	3.50
Pension increases	2.00	2.00	2.00
Rate of price inflation	2.00	2.00	2.00

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

The basis by which actuarial assumptions have been determined is unchanged from the basis disclosed in the Annual Report and Financial Statements 2009.

The post retirement mortality assumptions used at 31 December 2009 are still applicable as at 30 June 2010. Details of mortality assumptions are set out on page 126 of the Annual Report and Financial Statements 2009.

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

	6 months to	6 months to	12 months to
	30 June	30 June	31 December
	2010	2009	2009
	€m	€m	€m
Current service cost	18	17	34
Past service cost	1	1	8
Interest cost	34	35	70
Expected return on scheme assets	(37)	(31)	(63)
Amortisation of corridor excess	1	2	4
	17	24	53

This charge has been included in administrative expenses.

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

	30 June	30 June	31 December
	2010	2009	2009
	€m	€m	€m
Benefit obligation as at period-end	(1,466)	(1,152)	(1,225)
Fair value of plan assets as at period-end	1,144	910	1,093
Net obligation	(322)	(242)	(132)
Unrecognised actuarial losses	263	167	69
Net recognised retirement benefit obligation	(59)	(75)	(63)
Net post retirement benefit assets	100	84	96
Net post retirement benefit liabilities	(159)	(159)	(159)
Net post retirement benefit obligations	(59)	(75)	(63)

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For the six months ended 30 June 2010

13. Assets and liabilities classified as held for sale

	30 June 2010	30 June 2009	31 December 2009
	€m	€m	€m
Assets classified as held for sale			
Bank branches	4	-	-
	4	-	-

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

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

14. Deposits by banks

	30 June 2010	30 June 2009	31 December 2009
	€m	€m	€m
Deposits by banks	14,612	20,644	18,713
	14,612	20,644	18,713

Deposits by banks include the following:

	30 June 2010	30 June 2009	31 December 2009
	€bn	€bn	€bn
Placed by the European Central Bank ("ECB") ¹	8.1	12.0	9.8
Placed by other banks ²	0.2	1.4	1.0
Held as a result of repurchase agreements	4.7	3.9	6.1
Collateral held for investments for unit linked funds ("CPPI")	0.5	0.7	0.6
Interbank deposits ³	0.7	0.7	0.7
Groups obligations to the Central Bank and the Financial Services Authority		-	-
Other	0.4	1.9	0.5
	14.6	20.6	18.7

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

Maximum	9.8	13.5	13.5
Average	8.2	12.0	10.9

¹ The deposits made by the ECB are secured on €11.5bn (30 June 2009: €17.3bn, 31 December 2009: €13.7bn) notes issued by special purpose vehicles controlled by the group. The notes are secured by a first fixed charge over residential mortgages held by the special purpose vehicles which are included in Note 6, Loans and receivables to customers.

² These deposits are collateralised on €0.3bn (30 June 2009: €2.1bn, 31 December 2009: €1.3bn) of notes issued by special purpose vehicles controlled by the group. The notes are secured by a first fixed charge over residential mortgages held by the special purpose vehicles, which form part of the group's consolidated financial statements.

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

Notes to the Condensed Consolidated Financial Statements

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15. Customer accounts

	30 June 2010	30 June 2009	31 December 2009
	€m	€m	€m
Repayable on demand	3,466	3,512	3,503
Other	11,473	9,415	11,059
	14,939	12,927	14,562

Customer accounts exclude deposits of €1,220m (30 June 2009: €219m, 31 December 2009: €1,251m) from the group's non banking operations including deposits held for the benefit of unit-linked policyholders.

16. Debt securities in issue

	30 June 2010	30 June 2009	31 December 2009
	€m	€m	€m
At amortised cost:			
Bonds and medium term notes	11,135	7,122	7,855
Other debt securities in issue	2,869	1,599	3,043
Non recourse funding	2,371	2,544	2,364
	16,375	11,265	13,262

Bonds and medium term notes exclude €93m (30 June 2009: €15m, 31 December 2009: €77m) of debt securities issued by the group held in the group's life assurance operations which have been eliminated on consolidation.

Other debt securities in issue

Other debt securities in issue at 30 June 2010 included €425m (30 June 2009: €412m, 31 December 2009: €425m) advances secured on notes issued by special purpose vehicles which are secured on residential property. These loans which have not been derecognised, are shown within loans and receivables to customers and the funding is shown as a separate liability.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

17. Investment contract liabilities

	Gross	30 June 2010 Reinsurance	Net
	€m	€m	€m
Unit-linked liabilities	24,294	(63)	24,231
Non-linked and guaranteed tracker liabilities	364	-	364
Investment financial options and guarantees	34	-	34
	24,692	(63)	24,629

	Gross	30 June 2009 Reinsurance	Net
	€m	€m	€m
Unit-linked liabilities	20,839	(117)	20,722
Non-linked and guaranteed tracker liabilities	402	-	402
Investment financial options and guarantees	46	-	46
Non controlling share of unit trust	143	-	143
	21,430	(117)	21,313

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

The non controlling share of unit trust refers to the portion of unit trusts consolidated in the financial statements which are not attributable to Irish Life Assurance plc policyholders. The trusts are consolidated as Irish Life Assurance plc is deemed by its percentage holdings to have a controlling interest. During the period Irish Life Assurance plc both disposed and acquired of substantial interests in unit trusts. Hence, at 30 June 2010, there is no longer a non-controlling share of unit trusts.

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

17. Investment contract liabilities (continued)

The change in liabilities during the period ended 30 June 2009 is analysed as follows:

	Gross €m	30 June 2009 Reinsurance €m	Net €m
As at 1 January	21,118	(144)	20,974
Premiums	1,488	(1)	1,487
Claims	(1,297)	45	(1,252)
Fees deducted	(83)	-	(83)
Exchange movements	18	-	18
Change in investment contract liabilities	299	(17)	282
Non controlling interest:			
Change in investment contract liabilities	(113)	-	(113)
Investment by non controlling interest in unit trust	-	-	-
As at 30 June	21,430	(117)	21,313

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

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

(a) Analysis of insurance contract liabilities

	Gross	30 June 2010 Reinsurance	Net
	€m	€m	€m
Unit linked liabilities	575	-	575
Non linked liabilities			
- without discretionary participation features	3,782	(2,005)	1,777
- with discretionary participation features	46	-	46
	4,403	(2,005)	2,398

	Gross	30 June 2009 Reinsurance	Net
	€m	€m	€m
Unit linked liabilities	569	(1)	568
Non linked liabilities			
- without discretionary participation features	3,308	(1,785)	1,523
- with discretionary participation features	63	-	63
	3,940	(1,786)	2,154

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

The change in liabilities during 2010 is analysed as follows:

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

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

The change in liabilities during the period ended 30 June 2009 is analysed as follows:

	Gross	Reinsurance	Net
	€m	€m	€m
As at 1 January	4,007	(1,932)	2,075
Premiums	411	(56)	355
Claims	(247)	80	(167)
Expected return on insurance contract liabilities	50	(30)	20
Return credited to policyholders	40	-	40
Fees deducted	(188)	58	(130)
Change in economic assumptions	(151)	95	(56)
Change in operating assumptions	1	(1)	-
Exchange differences	9	-	9
Other	8	-	8
As at 30 June	3,940	(1,786)	2,154

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

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

(b) Assumptions

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

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

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

- Interest rates
- Mortality and morbidity
- Expenses

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

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

The interest rates gross of tax used are as follows:

	30 June 2010	30 June 2009	31 December 2009
Regular premium business			
- No DPF	2.30% to 3.03%	3.72% to 4.30%	2.70% to 3.98%
- With DPF	1.78% to 2.63%	2.04% to 2.71%	2.11% to 2.53%
Single premium business	0.96% to 4.36%	1.16% to 3.90%	1.12% to 5.47%

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

	30 June 2010	30 June 2009	31 December 2009
Lives assured			
- Non-linked	55%-90% AM / AF00 select	70%-75% AM / AF92 ultimate	55%-90% AM / AF00 select
- Linked	100% AM / AF00 ultimate	90% AM / AF92 ultimate	100% AM / AF00 ultimate
Annuities			
- Males	104% PNMA00	100% PMA92	104% PNMA00
- Females	104% PNFA00	100% PFA92	104% PNFA00
- Future mortality rates to improve on medium cohorts basis with minimum improvement of	1.50% p.a.	1.50%p.a.	1.50% p.a.
Disability rates			
- Inception: Males	105%-320% CMIR (12)	105%-320% CMIR (12)	105%-320% CMIR (12)
- Inception: Females	210%-640% CMIR (12)	210%-640% CMIR (12)	210%-640% CMIR (12)
- Termination	25%-160% CIDA rates	25%-160% CIDA rates	25%-160% CIDA rates
Serious illness rates			
- Smokers	163% of IC94 with 3% p.a. future deterioration	163% of IC94 with 3% p.a. future deterioration	163% of IC94 with 3% p.a. future deterioration
- Non-smokers	100% of IC94 with 3% p.a. future deterioration	100% of IC94 with 3% p.a. future deterioration	100% of IC94 with 3% p.a. future deterioration

Expense assumptions are based on the current year expenses and size of book. Expense inflation assumption is 3.0% (30 June 2009: 3.0%, 31 December 2009: 3.0%).

(c) Changes in assumptions

The principal changes in assumptions since 31 December 2009 were:

- Interest rates used were changed to reflect the actual market interest rates at 30 June 2010. This increased liabilities by €110m after allowing for reinsurance. This is offset by returns on matching assets, reflecting the group's policy of matching assets and liabilities where possible.
- The benefit inflation assumption was reduced to reflect a fall in inflation which reduced liabilities by €14m after allowing for reinsurance. This is offset by returns on matching assets, reflecting the group's policy of matching assets and liabilities where possible.
- Expense assumptions were changed to reflect current unit costs which increased liabilities by €8m after allowing for reinsurance.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

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

(d) Sensitivities

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

- 1% decrease in interest rates would increase liabilities by €208m after allowing for reinsurance;
- 1% increase in interest rates would decrease liabilities by €172m after allowing for reinsurance;
- 10% decrease in maintenance expenses would decrease liabilities by €14m after allowing for reinsurance;
- 5% decrease in both mortality and morbidity rates would decrease liabilities by €16m after allowing for reinsurance.

The above are based on a change in one assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in assumptions may be correlated. Changes in interest rates would be linked to equivalent changes in the value of corresponding assets.

19. Provisions

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

Onerous contracts

Irish Life Assurance plc has an onerous contract in respect of an investment property where the market value has reduced. At 31 December 2009 a provision was recognised which resulted in a negative investment return of €33m. The onerous contract is subject to arbitration and the final result has been scheduled within the next twelve months.

All other provisions are expected to be utilised during 2010.

20. Subordinated liabilities

There were no new issues or redemptions of subordinated liabilities during the six month period ending 30 June 2010.

The carrying amount of the subordinated liabilities has been increased by €0.2m (December 2009: €nil) for the effect of a coupon step up incurred as a result of certain subordinated liabilities not being called, as permitted by their terms.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

21. Shareholders' Equity

Share capital

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

Share premium

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

Revaluation reserve

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

Available for sale reserve

The available for sale reserve comprises unrealised gains or losses, net of tax on available for sale financial assets which have been recognised at fair value on the statement of financial position.

Currency translation adjustment reserve

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

Share based payments reserve

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

Other capital reserves

Other capital reserves includes the share premium of €21m at the date of the merger between Irish Life plc and Irish Permanent plc at the date of that merger, €7m capital redemption reserve arising from the repurchase and cancellation of shares. It also includes the merger reserve which is the difference between the shares issued by Irish Permanent plc and the nominal value of the issued share capital of Irish Life plc on the merger of the companies and amounts to a deficit of €2,719m. The share premium arising on the shares (€2,698m) issued in connection with the merger has been classified with the merger reserve rather than with the other share premium in existence in the company.

Own share reserve

Own shares held (excluding shares held for the long term incentive plan) are held within the group's life operations for the benefit of life assurance policyholders. In accordance with IFRS the cost of these shares €53m (30 June 2009: €81m, 31 December 2009: €66m) is deducted from distributable reserves. The liability to policyholder is based on the fair value of the shares and the change in liability due to the marked-to-market movement on the shares is transferred from retained earnings to non-distributable reserves.

Retained earnings

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

22. Authorised and issued share capital

Authorised share capital as at:

		30 June 2010	30 June 2009	31 December 2009
	Number of Shares	Share Capital €m	Share Capital €m	Share Capital €m
Ordinary shares of 32 cent each	400,000,000	128	128	128
€ preference shares	300,000,000	300	300	300
US\$ preference shares	200,000,000	163	127	139
Stg£ preference shares	100,000,000	122	126	113

The company has only one class of issued shares and as at 30 June 2010, it had 276,782,351 (30 June 2009: 276,782,351, 31 December 2009: 276,782,351) ordinary shares in issue. Each ordinary share carries one vote except for shares held for the benefit of life assurance policyholders, which pursuant to section 9(1) of the Insurance Act 1990, do not have voting rights.

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

	30 June 2010	30 June 2009	31 December 2009
As at 1 January	276,782,351	276,782,351	276,782,351
Cancelled under scheme of arrangement	(276,782,344)	-	-
Issued under scheme of arrangement	276,782,344	-	-
As at period end	276,782,351	276,782,351	276,782,351
Own shares held for the benefit of life assurance policyholders	-	8,709,128	7,108,182
Shares held under employee benefit trust	-	457,914	457,914

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

Shares in the group holding company held for the benefit of life assurance policyholders are held by Irish Life Assurance plc ("ILA"). Under the Scheme of Arrangement on the 15 January the shares held by ILA in the company were replaced by equivalent shares in IL&PGH. Accordingly at 30 June 2010 there are no shares in the company held for the benefit of life assurance policyholders. At 31 December 2009 such shares represent 2.6% of the issued share capital of the company.

Similarly, on 15 January the existing shares in the company held in anticipation of share awards under the long term incentive plan for senior management were replaced by equivalent shares in IL&PGH. Accordingly at 30 June 2010 there are no treasury shares in the company held under the employee benefit trust. There were no acquisitions of treasury shares during the period 30 June 2009 and during the year 31 December 2009 in anticipation of share awards that may have vested under the long term incentive plan for senior management.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

23. Analysis of equity and capital

A. Shareholders' equity

The group's equity is analysed as follows:

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Banking- Ireland			
Net assets	527	798	646
	527	798	646
Banking- UK			
Net assets	37	51	48
	37	51	48
Life assurance			
Net assets	1,213	1,140	1,154
Goodwill	5	5	5
Deduction in respect of liability relating to own shares held for the benefit of life assurance policyholders	(9)	(32)	(23)
	1,209	1,113	1,136
Fund Management			
Net assets	10	11	8
	10	11	8
Brokerage and third party administration			
Net assets	-	(3)	(3)
Goodwill	70	70	70
	70	67	67
Associated undertaking	119	143	122
Consolidation adjustments (note 2)	(19)	(33)	(21)
Total Equity	1,953	2,150	2,006

B. Capital management

The group is regulated by the Irish Financial Services Regulatory Authority ("Financial Regulator" or "FR") which sets and monitors regulatory capital requirements in respect of the group's operations. While there are a number of regulated entities within the group which have individual regulatory capital requirements the two principal regulated entities are Irish Life & Permanent plc ("IL&P"), the group's holding company at 30 June 2010 which is also the group's banking operation (trading as **permanent tsb**), and Irish Life Assurance plc ("ILA") the group's principal life assurance operation.

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

23. Analysis of equity and capital (continued)

The banking segments minimum capital requirement is managed by the group's banking operations, which is overseen by the bank Chief Executive and is calculated in accordance with the provisions of Basel II as implemented by the European Capital Adequacy Directive and the Financial Regulator.

The capital management policies and processes adopted by the group in respect of both life and banking operations are disclosed in the Annual Report and Financial Statements 2009, Note 33, Analysis of equity and capital and remain unchanged from the 31 December 2009.

Banking operations

The following table summarises the composition of regulatory capital and the ratios of the group for the periods ended 30 June 2010, 30 June 2009 and 31 December 2009. They are calculated in accordance with Basel II regulatory capital requirements.

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Tier 1 capital			
Share capital & share premium	2,922	2,922	2,922
Reserves	893	1,011	951
Prudential filters	86	96	65
Total qualifying Tier 1 capital	3,901	4,029	3,938
Tier 2 capital			
Subordinated liabilities	1,205	1,187	1,167
Revaluation reserve	6	57	8
Other	3	13	25
Total qualifying Tier 2 capital	1,214	1,257	1,200
Total qualifying Tier 1 and Tier 2 capital	5,115	5,286	5,138
Deductions			
Investment in life operations	(3,257)	(3,141)	(3,187)
Other	(89)	(139)	(93)
Total deductions	(3,346)	(3,280)	(3,280)
Total own funds	1,769	2,006	1,858
Required capital	1,328	1,406	1,313
Excess of total own funds over total required capital	441	600	545

The following information is not subject to review (for periods ended 30 June 2010 or 30 June 2009) or audit (for year ended 31 December 2009) by the independent auditor:

Risk weighted assets

Total risk-weighted assets	16,603	17,576	16,411
Risk asset ratio (all Core Tier 1)	10.7%	11.4%	11.3%

The above ratio is calculated and reported to the Financial Regulator on a quarterly basis. The percentage of capital is in excess of the regulatory minimum of 8%.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

23. Analysis of equity and capital (continued)

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

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
As at 1 January	1,858	2,059	2,059
Bank earnings after tax and corporate costs	(114)	(122)	(262)
Dividends received	10	21	42
Other	15	48	19
As at period end	1,769	2,006	1,858

Life operations

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

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Total shareholders' funds attributable to life business	1,219	1,124	1,144
Less: Shareholder value of in-force business			
Gross	(704)	(698)	(730)
Related deferred tax	120	118	121
Shareholders' funds excluding VIF	635	544	535
Adjustments to valuation of assets and liabilities to regulatory basis	(105)	(82)	(78)
Subordinated liabilities	212	207	208
Other assets available to cover solvency margin	16	18	20
Regulatory capital on continuing activities	758	687	685
Held within the long term business fund	318	280	248
Held outside the long term business fund	440	407	437
	758	687	685

The solvency cover for Irish Life Assurance plc, the group's main life assurance operation, is 1.7 times (30 June 2009: 1.6 times, 31 December 2009: 1.6 times) the minimum requirement of €424m at 30 June 2010 (30 June 2009: €413m, 31 December 2009: €413m).

In November 2008 a stop loss reinsurance treaty in relation to new business was signed with Swiss Re. The effect on regulatory assets for 6 months to 30 June 2010 was negative €4m (6 months to 30 June 2009: €3m negative, 12 months to 31 December 2009: €22m positive) and is shown in the analysis below as a reduction in new business strain of €24m (30 June 2009: €24m, 31 December 2009: €44m), expected return of negative €23m (30 June 2009: €20m negative, 31 December 2009: €34m negative) and an experience variance of negative €5m (30 June 2009: €7m negative, 31 December 2009: €12m positive). The accounting treatment in the IFRS accounts of this stop loss reinsurance treaty is not to show either the contingent asset or contingent liability on the statement of financial position as they offset each other but the reinsurance fee €1.5m, (30 June 2009: €1.2m, 31 December 2009: €2.6m) for this treaty is accounted for in the IFRS consolidated income statement.

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For the six months ended 30 June 2010

23. Analysis of equity and capital (continued)

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

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Regulatory capital as at 1 January	685	694	694
Capital generated from existing business			
- Expected return	78	81	161
- Experience variances	22	5	12
- Operating assumption changes	(2)	3	9
New business strain	(35)	(39)	(74)
Expected investment return	6	5	12
Short term investment fluctuations			
- Direct shareholder property short term investment fluctuations	1	(33)	(56)
- Property commitment cost	-	-	(29)
- Other short term investment fluctuations	7	(19)	(24)
Effect of economic assumption changes	1	(7)	3
Other	(1)	(3)	(9)
Change in inadmissible assets	(1)	4	(4)
Dividends	(7)	(6)	(13)
Subordinated liabilities	4	2	3
Regulatory capital as at period end	758	687	685

The assumptions used to analyse the various components of the capital movements are unchanged from 31 December 2009 and are detailed in the Annual Report and Financial Statements 2009, Note 33, Analysis of equity and capital.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

24. Financial risk management

The group risk identification and assessment process disclosed in the Annual Report and Financial Statements 2009 identified the risks to which the group is exposed, and the risk management framework in place within the organisation to mitigate those risks. There have been no changes to this framework during the period ended 30 June 2010.

Credit quality

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

The internal gradings below incorporate the IRB rating:

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

Credit risk - Group

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

	30 June 2010		
	Total €m	Unit-Linked Funds* €m	Group Exposure €m
Assets			
Cash and balances with central banks (note 3)	218	(21)	197
Items in course of collection (note 3)	86	-	86
Debt securities (note 4)	16,755	(6,523)	10,232
Derivative assets	1,703	(882)	821
Loans and receivables to customers (note 6)	38,292	-	38,292
Loans and receivables to banks (note 8)	3,766	(1,846)	1,920
Reinsurance assets	2,127	(63)	2,064
	62,947	(9,335)	53,612
Contingent liabilities and commitments	531	-	531
	63,478	(9,335)	54,143

	30 June 2009		
	Total €m	Unit-Linked Funds* €m	Group Exposure €m
Assets			
Cash and balances with central banks (note 3)	274	(48)	226
Items in course of collection (note 3)	107	-	107
Debt securities (note 4)	12,183	(5,950)	6,233
Derivative assets	1,184	(841)	343
Loans and receivables to customers (note 6)	39,894	-	39,894
Loans and receivables to banks (note 8)	4,876	(2,194)	2,682
Reinsurance assets	1,977	(117)	1,860
	60,495	(9,150)	51,345
Contingent liabilities and commitments	675	-	675
	61,170	(9,150)	52,020

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

24. Financial risk management (continued)

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

* excludes unit linked Tracker funds where an investment guarantee is given by the shareholder.

Debt securities

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

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

Debt securities

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Neither past due nor impaired			
Aaa	3,706	2,364	3,719
Aa	5,476	2,606	4,628
A	843	1,103	881
Baa	174	149	178
Below Ba	33	11	45
Total	10,232	6,233	9,451

Derivative assets

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Rating			
Aaa	-	5	-
Aa	86	130	43
A	450	4	112
Baa	109	-	1
Covered by netting agreements	176	204	155
Total	821	343	311

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For the six months ended 30 June 2010

24. Financial risk management (continued)

Loans and receivables to customers

Loans and receivables are summarised as follows:

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
ROI residential mortgages	26,777	27,664	27,256
UK residential mortgages	8,043	7,907	7,484
Commercial	1,932	1,962	1,939
Consumer finance			
Finance leases	1,024	1,469	1,213
Term loans/other	502	608	536
Money market funds	249	214	211
	38,527	39,824	38,639
Provision for loan impairment (Note 7)	(618)	(316)	(477)
Deferred fees, discounts and fair value adjustments	383	386	430
	38,292	39,894	38,592

	30 June 2010					Money market funds €m
	Total €m	ROI	UK	Commercial €m	Consumer finance €m	
		Residential mortgages €m	Residential mortgages €m			
Neither past due nor impaired	33,782	23,124	7,726	1,440	1,243	249
Past due but not impaired	3,527	2,917	212	275	123	-
Impaired	1,218	736	105	217	160	-
Total	38,527	26,777	8,043	1,932	1,526	249

	30 June 2009					Money market funds €m
	Total €m	ROI	UK	Commercial €m	Consumer finance €m	
		Residential mortgages €m	Residential mortgages €m			
Neither past due nor impaired	36,624	25,419	7,549	1,607	1,835	214
Past due but not impaired	2,758	2,018	283	288	169	-
Impaired	442	227	75	67	73	-
Total	39,824	27,664	7,907	1,962	2,077	214

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

Collateral of €770m (30 June 2009: €289m, 31 December 2009: €739m) is held against loans and receivables classified as impaired. At 30 June 2010, the group had repossessed collateral of €38m (30 June 2009: €39m, 31 December 2009: €46m) on balances of €58m (30 June 2009: €47m, 31 December 2009: €57m). Repossessed assets are sold as soon as practicable, with proceeds offset against any outstanding indebtednesses. Repossessed assets are included within other assets in the statement of financial position.

The carrying amount of loans and receivables that would otherwise have been past due or impaired whose terms have been renegotiated is €1,954m (30 June 2009: €1,291m, 31 December 2009: €1,701m).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

24. Financial risk management (continued)

Loans and receivables to customers neither past due nor impaired balances

	30 June 2010					
	Total €m	ROI	UK	Commercial €m	Consumer finance €m	Money market funds €m
		Residential mortgages €m	Residential mortgages €m			
Excellent risk profile	23,408	17,832	4,490	306	531	249
Satisfactory risk profile	8,071	3,563	2,998	966	544	-
Fair risk profile	2,303	1,729	238	168	168	-
Total	33,782	23,124	7,726	1,440	1,243	249

	30 June 2009					
	Total €m	ROI	UK	Commercial €m	Consumer finance €m	Money market funds €m
		Residential mortgages €m	Residential mortgages €m			
Excellent risk profile	26,848	20,025	5,400	304	905	214
Satisfactory risk profile	7,231	3,627	1,878	984	742	-
Fair risk profile	2,545	1,767	271	319	188	-
Total	36,624	25,419	7,549	1,607	1,835	214

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

Loans and receivables to customers past due but not impaired balances

	30 June 2010					
	Total €m	ROI	UK	Commercial €m	Consumer finance €m	Money market funds €m
		Residential mortgages €m	Residential mortgages €m			
Past due up to 30 days	1,098	976	18	50	54	-
Past due 30 - 60 days	557	501	3	31	22	-
Past due 60 - 90 days	394	319	31	32	12	-
Past due more than 90 days	1,478	1,121	160	162	35	-
Total	3,527	2,917	212	275	123	-

	30 June 2009					
	Total €m	ROI	UK	Commercial €m	Consumer finance €m	Money market funds €m
		Residential mortgages €m	Residential mortgages €m			
Past due up to 30 days	739	609	23	39	68	-
Past due 30 - 60 days	370	290	2	50	28	-
Past due 60 - 90 days	289	181	36	50	22	-
Past due more than 90 days	1,360	938	222	149	51	-
Total	2,758	2,018	283	288	169	-

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For the six months ended 30 June 2010

24. Financial risk management (continued)

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

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

Loans and receivables to banks

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

Rating	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
	Aaa	26	629
Aa	948	937	1,921
A	946	1,105	1,301
Baa	-	11	19
Total	1,920	2,682	3,348

Reinsurance assets

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

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Assets held in a charged account	1,411	1,284	1,342
Assets where credit risk is borne by the policyholder	63	117	91
Other assets where credit risk is borne by the shareholder	653	576	546
Total	2,127	1,977	1,979

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

24. Financial risk management (continued)

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

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Rating			
Aa	220	140	153
A	433	436	393
Total	653	576	546

Liquidity risk

The groups' liquidity risk framework is disclosed in the Annual Report and Financial Statements 2009. There have been no changes to this framework during the period ended 30 June 2010.

The group's funding profile at period-end was:

	30 June 2010 %	30 June 2009 %	31 December 2009 %
Customer Accounts	34	29	33
Long-term Debt	33	30	27
Short-term Debt	33	41	40
Total	100	100	100

The table below presents the cash flows payable by the group by remaining contractual maturities at the statement of financial position date for non-derivative assets and liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. The group manages the inherent liquidity risk based on expected cash inflows and cash outflows accordingly expected gap excluding derivatives is also presented below. This maturity mismatch approach takes into account the inherent stability of particular funding sources. The focus on an ongoing basis is to ensure that the bank can meet all its obligations as they fall due while continuing to provide for all other funding requirements of the bank. Regulatory limits are imposed in line with this approach and with the exception of the inadvertent regulatory breach disclosed in page 163 of the Annual Report and Financial Statements 2009, are adhered to.

The bank's forward looking approach to liquidity management also incorporates running stressed scenarios for the purposes of contingency funding.

The inclusion of information on non-derivative financial assets is necessary in order to understand the group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	30 June 2010						Total €m
	Group banking operations						
	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	Over 2 years €m	
Assets							
Cash and balances with central banks	-	-	-	-	-	-	-
Debt securities	8,883	-	-	-	-	21	8,904
Loans and receivables to banks	709	-	8	-	-	-	717
Loans and receivables to customers	2,643	2,626	8,225	345	1,232	21,050	36,121
Total assets	12,235	2,626	8,233	345	1,232	21,071	45,742
Liabilities							
Deposits by banks	3,005	2,939	8,000	26	7	-	13,977
Customer accounts	6,194	5,580	918	2,452	498	502	16,144
Debt securities in issue & subordinated liabilities	1,758	4,298	568	1,970	609	7,477	16,680
Total liabilities	10,957	12,817	9,486	4,448	1,114	7,979	46,801
Gap	1,278	(10,191)	(1,253)	(4,103)	118	13,092	(1,059)
Expected Gap (excluding derivatives)	6,025	(5,732)	(602)	(2,090)	408	2	(1,989)

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For the six months ended 30 June 2010

24. Financial risk management (continued)

	30 June 2009						Total €m
	Group banking operations						
	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	Over 2 years €m	
Assets							
Cash and balances with central banks	-	-	-	-	-	-	-
Debt securities	1,157	-	-	-	-	-	1,157
Loans and receivables to banks	1,970	-	21	-	6	-	1,997
Loans and receivables to customers	9,974	3,156	3,115	3,567	1,671	24,224	45,707
Total assets	13,101	3,156	3,136	3,567	1,677	24,224	48,861
Liabilities							
Deposits by banks	11,337	2,666	2,398	1,924	618	504	19,447
Customer accounts	7,569	3,361	987	2,057	55	458	14,487
Debt securities in issue & subordinated liabilities	1,446	538	1,005	3,221	4,389	2,863	13,462
Total liabilities	20,352	6,565	4,390	7,202	5,062	3,825	47,396
Gap	(7,251)	(3,409)	(1,254)	(3,635)	(3,385)	20,399	1,465
Expected Gap (excluding derivatives)	(898)	(1,431)	(663)	(1,877)	(3,388)	9,240	983
31 December 2009							
Group banking operations							
	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	Over 2 years €m	Total €m
Assets							
Debt securities	5,886	13	21	51	99	4,577	10,647
Loans and receivables to banks	2,134	-	-	8	-	-	2,142
Loans and receivables to customers	2,188	6,544	1,989	8,494	1,379	17,324	37,918
Total assets	10,208	6,557	2,010	8,553	1,478	21,901	50,707
Liabilities							
Deposits by banks	2,878	6,587	1,888	8,658	40	1,482	21,533
Customer accounts	6,406	4,566	1,327	2,019	296	454	15,068
Debt securities in issue & subordinated liabilities	1,793	2,017	1,082	4,227	1,717	2,390	13,226
Total liabilities	11,077	13,170	4,297	14,904	2,053	4,326	49,827
Gap	(869)	(6,613)	(2,287)	(6,351)	(575)	17,575	880
Expected Gap (excluding derivatives)	3,623	(2,969)	(1,296)	(5,060)	(381)	5,345	(738)

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For the six months ended 30 June 2010

24. Financial risk management (continued)

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

	30 June 2010							Total €m
	Group banking operations						Over 2 years €m	
	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m			
Net settled:								
Interest rate swaps	(109)	52	(64)	48	(26)	(124)	(223)	
Gross settled:								
Currency swaps	13	12	8	2	10	333	378	
	(96)	64	(56)	50	(16)	209	155	

	30 June 2009							Total €m
	Group banking operations						Over 2 years €m	
	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m			
Net settled:								
Interest rate swaps	(95)	(46)	(77)	(137)	(76)	(181)	(612)	
Gross settled:								
Currency swaps	-	7	-	(21)	(10)	119	95	
	(95)	(39)	(77)	(158)	(86)	(62)	(517)	

	31 December 2009							Total €m
	Group banking operations						Over 2 years €m	
	Up to 1 month €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m			
Net settled:								
Interest rate swaps	(20)	(58)	(75)	(24)	(96)	(261)	(534)	
Gross settled:								
Currency swaps	(19)	(21)	1	(10)	6	141	98	
	(39)	(79)	(74)	(34)	(90)	(120)	(436)	

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For the six months ended 30 June 2010

24. Financial risk management (continued)

Liquidity risk - Life operations

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

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

	30 June 2010						
	Not more than 1 year	Over 1 year but less than 5 years	Over 5 years but less than 10 years	Over 10 years but less than 20 years	Over 20 years	No fixed term	Total
	€m	€m	€m	€m	€m	€m	€m
Assets							
Debt securities	222	449	498	653	1,281	-	3,103
Equities	-	-	-	-	-	8	8
Investment properties	-	-	-	-	-	1	1
Reinsurance assets	86	334	439	900	1,373	-	3,132
Total assets	308	783	937	1,553	2,654	9	6,244
Liabilities							
Insurance contracts	300	741	906	1,809	2,167	-	5,923
Gap	8	42	31	(256)	487	9	321

	30 June 2009						
	Not more than 1 year	Over 1 year but less than 5 years	Over 5 years but less than 10 years	Over 10 years but less than 20 years	Over 20 years	No fixed term	Total
	€m	€m	€m	€m	€m	€m	€m
Assets							
Debt securities	379	403	445	471	1,091	-	2,789
Equities	-	-	-	-	-	12	12
Investment properties	-	-	-	-	-	1	1
Reinsurance assets	87	327	415	835	1,492	-	3,156
Total assets	466	730	860	1,306	2,583	13	5,958
Liabilities							
Insurance contracts	297	699	831	1,678	2,313	-	5,818
Gap	169	31	29	(372)	270	13	140

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24. Financial risk management (continued)

Liquidity risk - Life operations (continued)

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

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

	30 June 2010			Total €m
	Not more than 1 year €m	Over 1 year but less than 5 years €m	No fixed term €m	
Assets				
Debt securities	130	236	-	366
Derivatives	4	17	-	21
Total assets	134	253	-	387
Liabilities				
Investment contracts	123	247	-	370
Gap	11	6	-	17
Financial options and guarantees*	-	-	34	34

*The calculation of financial options and guarantees is derived using stochastic modelling.

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24. Financial risk management (continued)

Liquidity risk - Life operations (continued)

	30 June 2009			Total €m
	Not more than 1 year €m	Over 1 year but less than 5 years €m	No fixed term €m	
Assets				
Debt securities	-	6	-	6
Derivatives	251	188	-	439
Total assets	251	194	-	445
Liabilities				
Investment contracts	218	187	-	405
Gap	33	7	-	40
Financial options and guarantees*			46	46

*The calculation of financial options and guarantees is derived using stochastic modelling.

	31 December 2009			Total €m
	Not more than 1 year €m	Over 1 year but less than 5 years €m	No fixed term €m	
Assets				
Debt securities	131	266	-	397
Derivatives	3	22	-	25
Total assets	134	288	-	422
Liabilities				
Investment contracts	119	268	-	387
Gap	15	20	-	35
Financial options and guarantees*			43	43

*The calculation of financial options and guarantees is derived using stochastic modelling.

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

Currency exposure

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

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25. Fair value of financial instruments

In accordance with IFRS 7 Financial Instruments: Disclosures, the group has adopted the fair value hierarchy classification of financial instruments and has availed of the exemption to exclude prior period comparative information for 30 June 2009. This requires the group to classify its financial instruments held at fair value according to a hierarchy based on the significance of the inputs used to arrive at the overall fair value of these instruments. The three levels of the fair value hierarchy as defined by the accounting standard are outlined below:

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

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

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

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

Financial instruments measured at fair value	30 June 2010			Total €m
	Quoted market prices	Valuation techniques using observable market data	Valuation techniques using unobservable market data	
	Level 1 €m	Level 2 €m	Level 3 €m	
Financial assets				
Debt securities				
Available for sale (note 4)	4,072	2,490	-	6,562
At fair value through profit and loss (FVTPL) (note 4)	7,069	1,129	488	8,686
Equity shares and units in unit trusts (note 5)	12,593	997	124	13,714
Derivative assets	70	1,591	42	1,703
Financial liabilities				
Derivative liabilities	52	591	-	643
Investment contract liabilities * (note 17)	-	24,692	-	24,692

Financial instruments measured at fair value	31 December 2009			Total €m
	Quoted market prices	Valuation techniques using observable market data	Valuation techniques using unobservable market data	
	Level 1 €m	Level 2 €m	Level 3 €m	
Financial assets				
Debt securities				
Available for sale (note 4)	5,576	261	-	5,837
At fair value through profit and loss (FVTPL) (note 4)	6,745	1,100	528	8,373
Equity shares and units in unit trusts (note 5)	13,140	100	270	13,510
Derivative assets	39	1,092	38	1,169
Financial liabilities				
Derivative liabilities	25	640	-	665
Investment contract liabilities * (note 17)	-	24,032	-	24,032

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

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25. Fair value of financial instruments (continued)

Reconciliation of level 3 fair value measurements of financial assets

30 June 2010

	Debt securities at FVTPL €m	Equity shares and units in unit trusts €m	Derivative assets €m	Total €m
Opening balance	528	270	38	836
Total gains or losses - in profit or loss				
- Investment return	28	81	(7)	102
Transfers out of level 3	-	(284)	-	(284)
Sales	(139)	(2)	(5)	(146)
Purchases	71	59	16	146
	488	124	42	654

Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period.

- Investment return	22	86	(10)	98
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31 December 2009

	Debt securities at FVTPL €m	Equity shares and units in unit trusts €m	Derivative assets €m	Total €m
Opening balance	-	-	-	-
Total gains or losses - in profit or loss				
- Investment return	20	(350)	7	(323)
Transfers into level 3	508	607	24	1,139
Sales	-	(1)	(17)	(18)
Purchases	-	14	24	38
	528	270	38	836

Total gains or losses for the year included in profit or loss for assets held at the end of the reporting year.

- Investment return	21	(340)	9	(310)
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Following a review and an in-depth analysis of valuation techniques adopted by the group as at 31 December 2009, certain instruments have been transferred into level 3 per the fair value hierarchy classification. Transfers into level 3 occurred for these instruments due to inputs of the underlying valuation techniques becoming unobservable. The majority of such instruments are classified as level 3.

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For the six months ended 30 June 2010

26. Measurement basis of financial assets and liabilities

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

30 June 2010

	At fair value through profit or loss			At fair value through equity				Total €m
	Derivatives designated as fair value hedges	Held for trading	Designated upon initial recognition	Available- for-sale	Loans and receivables / Amortised cost	Fair value adjustment on hedged assets and liabilities**	Investment contract liabilities ***	
	€m	€m	€m	€m	€m	€m	€m	
Financial assets:								
Cash and balances with central banks (note 3)	-	-	-	-	218	-	-	218
Items in course of collection (note 3)	-	-	-	-	86	-	-	86
Debt securities (note 4)	-	-	8,686	6,562	1,418	89	-	16,755
Equity shares and units in unit trusts (note 5)	-	-	13,714	-	-	-	-	13,714
Derivative assets*	779	924	-	-	-	-	-	1,703
Loans and receivables to customers (note 6)	-	-	-	-	38,128	164	-	38,292
Loans and receivables to banks (note 8)	-	-	2,756	-	1,010	-	-	3,766
Total financial assets	779	924	25,156	6,562	40,860	253	-	74,534
Financial liabilities:								
Deposits by banks (note 14)	-	-	-	-	14,612	-	-	14,612
Customer accounts (note 15)	-	-	-	-	14,939	-	-	14,939
Debt securities in issue (note 16)	-	-	-	-	15,911	464	-	16,375
Derivative liabilities	323	320	-	-	-	-	-	643
Investment contract liabilities*** (note 17)	-	-	-	-	-	-	24,692	24,692
Subordinated liabilities (note 20)	-	-	-	-	1,675	61	-	1,736
Total financial liabilities	323	320	-	-	47,137	525	24,692	72,997

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

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

30 June 2009

	At Fair value through profit or loss			At fair value	Loans and receivables/ Amortised cost €m	Fair value adjustment on hedged assets and liabilities** €m	Investment contract liabilities *** €m	Total €m
	Derivatives designated as fair value hedges €m	Held for trading €m	Designated upon initial recognition €m	through equity				
				Available- for-sale €m				
Financial assets:								
Cash and balances with central banks (note 3)	-	-	-	-	274	-	-	274
Items in course of collection (note 3)	-	-	-	-	107	-	-	107
Debt securities (note 4)	-	-	7,811	2,454	1,898	20	-	12,183
Equity shares and units in unit trusts (note 5)	-	-	11,028	-	-	-	-	11,028
Derivative assets*	262	922	-	-	-	-	-	1,184
Investment contract liabilities*** (note 17)	-	-	-	-	39,722	172	-	39,894
Loans and receivables to banks (note 8)	-	-	3,278	-	1,598	-	-	4,876
Total financial assets	262	922	22,117	2,454	43,599	192	-	69,546
Financial liabilities:								
Deposits by banks (note 14)	-	-	-	-	20,644	-	-	20,644
Customer accounts (note 15)	-	-	-	-	12,927	-	-	12,927
Debt securities in issue (note 16)	-	-	-	-	11,175	90	-	11,265
Derivative liabilities	474	200	-	-	-	-	-	674
Investment contract liabilities*** (note 17)	-	-	-	-	-	-	21,430	21,430
Subordinated liabilities (note 20)	-	-	-	-	1,589	47	-	1,636
Total financial liabilities	474	200	-	-	46,335	137	21,430	68,576

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

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

31 December 2009

	At fair value through profit or loss			At fair value through equity		Fair value adjustment on hedged assets and liabilities**	Investment contract liabilities***	Total
	Derivatives designated as fair value hedges	Held for trading	Designated upon initial recognition	Available-for-sale	Loans and receivables / Amortised cost			
	€m	€m	€m	€m	€m			
Financial assets:								
Cash and balances with central banks (note 3)	-	-	-	-	218	-	-	218
Items in course of collection (note 3)	-	-	-	-	108	-	-	108
Debt securities (note 4)	-	-	8,373	5,837	1,542	28	-	15,780
Equity shares and units in unit trusts (note 5)	-	-	13,510	-	-	-	-	13,510
Derivative assets*	247	922	-	-	-	-	-	1,169
Loans and receivables to customers (note 6)	-	-	-	-	38,389	203	-	38,592
Loans and receivables to banks (note 8)	-	-	2,321	-	2,604	-	-	4,925
Total financial assets	247	922	24,204	5,837	42,861	231	-	74,302
Financial liabilities:								
Deposits by banks (note 14)	-	-	-	-	18,713	-	-	18,713
Customer accounts (note 15)	-	-	-	-	14,562	-	-	14,562
Debt securities in issue (note 16)	-	-	-	-	13,172	90	-	13,262
Derivative liabilities	376	289	-	-	-	-	-	665
Investment contract liabilities*** (note 17)	-	-	-	-	-	-	24,032	24,032
Subordinated liabilities (note 20)	-	-	-	-	1,598	46	-	1,644
Total financial liabilities	376	289	-	-	48,045	136	24,032	72,878

*Included in held-for-trading category of €924m (30 June 2009: €922m, 31 December 2009: €922m) is €906m (30 June 2009: €858m, 31 December 2009: €886m) held for the benefit of policyholders and to match tracker bond liabilities.

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

27. Net interest income

	6 months to 30 June 2010 €m	6 months to 30 June 2009 €m	12 months to 31 December 2009 €m
Interest receivable			
Loans and receivables to customers	451	631	1,051
Loans and receivables to banks	7	42	59
Debt securities and other fixed income securities			
- Available for sale	68	31	67
- Loans and receivables	10	30	40
- Amortisation of AFS securities reclassified to loans and receivables (note 4)	(7)	(8)	(15)
Lease and instalment finance	37	52	94
(Losses) / gains on interest rate hedges on assets	(4)	16	(15)
	562	794	1,281
Interest payable			
Deposits from banks	(64)	(188)	(313)
Due to customers	(165)	(258)	(335)
Interest on debt securities in issue	(112)	(121)	(205)
Interest on subordinated debt	(23)	(32)	(57)
Interest on other borrowed funds	(5)	(6)	(11)
Fees payable on ELG Scheme	(33)	-	-
Gains / (losses) on interest rate hedges on liabilities	1	(4)	3
	(401)	(609)	(918)
Net interest income	161	185	363

Interest income accrued on impaired loans was €76m (30 June 2009: €50m, 31 December 2009: €56m).

Gains / (losses) on interest rate hedges include gains / (losses) on hedging instruments of €590m (June 2009: €175m, 31 December 2009: €111m) and gains/ (losses) on hedged items attributable to hedged risk of (€593m) (June 2009: (€163m), 31 December 2009: (€123m)).

Reclassifications have been made to net interest income for the period ended 30 June 2009 to achieve conformity with the presentation of net interest income as disclosed in the Annual Report and Financial Statements 2009.

Net interest income includes the movement in deferred acquisition costs of €9m (30 June 2009: €1m, 31 December 2009: €7m) credit due to the lower redemption rate on the mortgage portfolio. The net interest income for the year ended 31 December 2009 includes the circa €30m negative impact of mismatches which arose between the fees charged on fixed rate mortgage switches and the cost of closing fixed rate positions.

Net Interest Income includes a charge of €4m (30 June 2009: €nil, 31 December 2009: €nil) in relation to the effect of an interest rate step up as a result of callable Securitised Bond Notes and subordinated liabilities not being called.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

28. Net fees and commission expenses

	6 months to 30 June 2010 €m	6 months to 30 June 2009 €m	12 months to 31 December 2009 €m
Fees and commission income			
Fees and commission earned on banking services	26	27	55
Commission earned on insurance and investment contracts	13	10	22
	39	37	77
Fees and commission expenses			
Fees and commission payable on banking services	(5)	(3)	(10)
Fees in respect of Government Guarantee scheme	(12)	(11)	(29)
Commission payable on life and investment contracts	(49)	(50)	(107)
Deferral of acquisition costs on investment contracts	20	18	45
Amortisation of deferred acquisition costs on investment contracts	(22)	(32)	(56)
	(68)	(78)	(157)
Net fees and commission expenses	(29)	(41)	(80)

29. Investment return

The positive investment return of €732m (30 June 2009: €163m positive, €31 December 2009: €2,585m positive) mainly reflects the return on policyholder investments.

The market investment returns are as follows:

	6 months to 30 June 2010 %	6 months to 30 June 2009 %	12 months to 31 December 2009 %
Region			
Irish equities	(2.1)	17.5	29.9
European equities	(3.4)	4.7	30.7
Japanese equities	14.3	1.9	2.5
North American equities	9.4	4.2	25.0
Pacific equities	6.1	28.8	67.4
United Kingdom equities	0.3	12.1	39.2
Worldwide equities	5.8	7.8	30.2
Irish property	(1.4)	(14.5)	(22.5)
5 year / 10 year fixed interest	4.0	(1.9)	2.8

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

30. Taxation

(a) Analysis of taxation (credit) / charge

Taxation (credited) / charged to income statement

	6 months to 30 June 2010 €m	6 months to 30 June 2009 €m	12 months to 31 December 2009 €m
Current taxation			
Charge for current period	6	3	4
Adjustments for prior periods	(2)	-	(1)
	<u>4</u>	<u>3</u>	<u>3</u>
Deferred taxation			
Origination and reversal of timing differences	(12)	4	-
Taxation (credited) / charged to income statement	<u>(8)</u>	<u>7</u>	<u>3</u>

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

	30 June 2010		
	Gross €m	Tax €m	Net €m
Revaluation of property	(6)	1	(5)
Change in available-for-sale financial assets	(31)	4	(27)
Impairment of AFS securities recycled to income statement	(5)	1	(4)
Amortisation of AFS securities reclassified to loans and receivables	7	(1)	6
	<u>(35)</u>	<u>5</u>	<u>(30)</u>

	30 June 2009		
	Gross €m	Tax €m	Net €m
Revaluation of property	(20)	3	(17)
Change in available-for-sale financial assets	32	(4)	28
Amortisation of AFS securities reclassified to loans and receivables	8	(1)	7
	<u>20</u>	<u>(2)</u>	<u>18</u>

	31 December 2009		
	Gross €m	Tax €m	Net €m
Revaluation of property	(97)	8	(89)
Change in currency translation adjustment reserve	1	-	1
Change in available-for-sale financial assets	42	(5)	37
Amortisation of AFS securities reclassified to loans and receivables	15	(2)	13
	<u>(39)</u>	<u>1</u>	<u>(76)</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

31. Commitments and contingencies

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

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

The group has entered into commitments to purchase investment properties totalling €224m (30 June 2009: €246m, 31 December 2009: €224m). As a result of a reduction in the market value of investment properties included in the capital commitments, an onerous contract has been recognised per Note 19 Provisions of €33m (30 June 2009: €nil, 31 December 2009: €33m). The group has also entered into commitments to purchase units in external property funds of €13m (30 June 2009: €25m, 31 December 2009: €21m) for the inclusion in unit-linked policyholder funds.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

32. Related parties

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

Transactions with key management personnel

Key management personnel are as listed in the Annual Report and Financial Statements 2009 on page 203 except for the appointment of Bernard Collins in March 2010 and Sandy Kinney in August 2010 as non-executive directors and the retirements of Liam O'Reilly and Eamonn Heffernan in May 2010 as non-executive directors. Key management personnel include non-executive directors, executive directors and group senior management.

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

Total compensation to key management personnel is as follows:

	30 June 2010 €000	30 June 2009 €000	31 December 2009 €000
Fees	372	491	812
Salary and other benefits	1,784	2,397	4,107
Costs associated with departing executives			
- payment in lieu of notice	-	1,789	1,789
- pension*	-	-	2,876
Pension benefits - defined benefit	453	295	1,432
- defined contributions	15	15	30
Equity settled benefits	(67)	(59)	83
	2,557	4,928	11,129

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

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

	30 June 2010	30 June 2009	31 December 2009
Non-executive directors	8	9	9
Executive directors and senior management	10	10	10
	18	19	19

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

32. Related parties (continued)

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

	30 June 2010 €000	30 June 2009 €000	31 December 2009 €000
Loans	375	842	612
	30 June 2010 €000	30 June 2009 €000	31 December 2009 €000
Transactions during the period			
Loan advances	-	-	-
Loan repayments	213	27	270
Interest on loans	9	13	24

The loans are granted on normal commercial terms and conditions with the exception of certain house loans where executive directors and senior management may avail of subsidised loans on the same terms as other eligible management of the group. All of the loans are secured. All interest and principal due at the statement of financial position date on loans has been repaid on schedule and no provision for loan impairment is required.

30 June 2010

	Balance 1 Jan €000	Principal Repaid €000	Balance at period end €000	Interest Paid €000	Maximum Balance €000
David McCarthy ²	146	(5)	141	1	146
	146	(5)	141	1	146

30 June 2009

	Balance 1 Jan €000	Principal Repaid €000	Balance at period end €000	Interest Paid €000	Maximum Balance €000
Denis Casey ¹	228	(15)	213	3	228
Peter Fitzpatrick ¹	31	(2)	29	-	31
David McCarthy ²	155	(5)	150	2	155
	414	(22)	392	5	414

31 December 2009

	Balance 1 Jan €000	Principal Repaid €000	Balance at period end €000	Interest Paid €000	Maximum Balance €000
Denis Casey ¹	228	(228)	-	(5)	228
Peter Fitzpatrick ¹	31	(8)	23	(1)	31
David McCarthy ²	155	(9)	146	(3)	155
	414	(245)	169	(9)	414

¹ Loans to Denis Casey and Peter Fitzpatrick were secured on their principal private residence. Both of these directors resigned in 2009.

² The loan to David McCarthy is secured on a residential investment property.

As at 30 June 2010, the total interest outstanding and the total provisions on loans by the directors / former directors was €nil (30 June 2009: €nil, 31 December 2009: €nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

32. Related parties (continued)

Associate

Irish Life & Permanent plc has a commission agreement with its associated company, Allianz – Irish Life Holdings Limited ("Allianz"). Under this agreement, Irish Life & Permanent Group plc is paid commission for general insurance business written with Allianz through Irish Life & Permanent plc. Commission earned was €3m (30 June 2009: €4m, 31 December 2009: €8m).

In addition, a subsidiary of the group, Irish Life Investment Managers Limited has an investment agreement with Allianz. Fees earned under this agreement were €0.2m (30 June 2009: €0.3m, 31 December 2009: €0.5m). Included within the group accounts is a net balance due to Allianz of €1m (30 June 2009: €0.9m, 31 December 2009: €0.8m). All transactions with Allianz are priced on an arms length basis.

Other

In the normal course of business the group provides investment management to the group's pension schemes. Fees earned under these agreements were €1.6m (30 June 2009: €1.2m, 31 December 2009: €2.6m).

Irish Government

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

The total amount of guaranteed deposits, senior unsecured debt, covered bonds and dated subordinated debt raised by Irish Life & Permanent plc and Irish Permanent (IOM) Limited as covered institutions of the scheme as at 30 June 2010 amounted to €23,610m (30 June 2009: €18,496m, 31 December 2009: €21,274m). The charge to the income statement in respect of the scheme for the period ended 30 June 2010 was €12m (30 June 2009: €11m, 31 December 2009: €29m).

Irish Life & Permanent plc and Irish Permanent (IOM) Limited are also a participating covered institution under the Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the "ELG scheme") which guarantees certain eligible liabilities (including deposits) of up to five years in maturity. The group issued a three-year \$1.75bln bond in January 2010, a five-year €2bln bond in March 2010 and a three-year €1.25bln in April 2010, all of which are guaranteed by the ELG Scheme. The charge to the income statement in respect of the ELG scheme for the period ended 30 June 2010 was €33m (30 June 2009: €nil, 31 December 2009: €nil).

As a result of the group's participation in the schemes described above, the Government is recognised as a related party as the government is deemed to have significant influence over the group as defined by the accounting standards. The group early applied the partial exemption in IAS 24, that exempts an entity from the related party disclosure requirements in respect of the government and government related entities. Transactions that the group has entered into with the Government include deposits, senior debt, commercial paper and dated subordinated debt.

In the normal course of business the group holds securities issued by the Government of €2,495m (30 June 2009: €1,827m, 31 December 2009: €2,586m).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

32. Related parties (continued)

Deposits by banks include deposits of €200m (30 June 2009: €450m, 31 December 2009: €450m) placed by the National Treasury Management Agency (NTMA). These deposits are collateralised on notes issued by special purpose vehicles controlled by the group. The notes are secured by a first fixed charge over residential mortgages held by the special purpose vehicles, which form part of the group's consolidated financial statements.

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

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

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

As at 30 June 2010, the group's 17 million B shares in NAMAIL were valued at €17 million.

During 2009 the Government held a 100% shareholding in Anglo Irish Bank Corporation Limited ("Anglo Irish Bank"). Due to the group's participation in the Government's scheme outlined above, balances between Anglo Irish Bank and the group are considered related party transactions in accordance with the accounting standards.

As at 30 June 2010, deposits with Anglo Irish Bank amounted to €1m (30 June 2009: €34m, 31 December 2009: €2m). As at 30 June 2010, debt securities includes €886m (30 June 2009: €328m, 31 December 2009: €701m) of securities issued by Anglo Irish Bank and loans and receivables to bank includes loans amounting to €282m (30 June 2009: €nil, 31 December 2009: €375m) issued to Anglo Irish Bank. As at 30 June 2010, deposits by banks include deposits of €1,677m (30 June 2009: €2,113m, 31 December 2009: €1,901m) from Anglo Irish Bank, including deposits in respect of a repurchase agreement with Anglo Irish Bank. As at 30 June 2010, derivative liabilities includes €0.5m (30 June 2009: €3.5m, 31 December 2009: €2m) being the fair value of derivative instruments where the counterparty is Anglo Irish Bank.

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2010

33. Reporting currency and exchange rates

The consolidated financial statements are presented in millions of euro.

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

	30 June 2010	30 June 2009	31 December 2009
Closing exchange rate € / Stg£	0.8174	0.8521	0.8881
Average exchange rate € / Stg£	0.8640	0.8902	0.8899
<hr/>			
Closing exchange rate € / US\$	1.2271	1.4134	1.4406
Average exchange rate € / US\$	1.3148	1.3388	1.3971

34. Events after the reporting period

No material events have occurred subsequent to 30 June 2010 which require disclosure in the half year financial statements.

Responsibility Statement

Statement of the directors in respect of the half year report

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

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

- (b) the half year management report includes a fair review of the information required by:
 - i. *Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - ii. *Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007*, being related party transactions that have taken place in the first six months of the current financial year and that have materiality affected the financial position or performance of the entity during the period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the board:*

Kevin Murphy
Group Chief Executive

David McCarthy
Group Finance Director

*The following changes to the composition of the board (as disclosed in the Annual Report and Financial Statements 2009) occurred during 2010. Eamonn Heffernan and Liam O'Reilly retired on the 14 May 2010 and Alexandra Kinney was appointed on 17 August 2010.

Independent Review Report to Irish Life & Permanent plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half year financial report for the six months ended 30 June 2010 which comprises Condensed Consolidated Statement of Financial Position, Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half year report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Transparency Rules of the Republic of Ireland's Financial Regulator.

KPMG

Chartered Accountants
1 Harboursmaster Place
IFSC
Dublin 1

30 August 2010

Embedded Value Basis Supplementary Information

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

As at 30 June 2010

	Notes	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Assets				
Cash and other receivables		304	381	326
Investments		33,947	26,394	32,228
Loans and receivables to customers	7	38,292	39,894	38,592
Loans and receivables to banks		3,766	4,876	4,925
Reinsurance assets		2,270	2,098	2,126
Interest in associated undertaking		119	143	122
Property and equipment		220	335	238
Shareholder value of in-force business		1,091	1,012	1,076
Intangible assets		36	70	42
Goodwill		70	51	70
Current tax assets		-	5	-
Deferred tax assets		45	13	29
Other debtors and prepayments		552	712	427
Retirement benefit asset		100	84	96
Assets classified as held for sale		4	-	-
Total assets		80,816	76,068	80,297
Liabilities				
Deposits by banks		14,612	20,644	18,713
Customer accounts		14,939	12,927	14,562
Debt securities in issue		16,375	11,265	13,262
Derivative liabilities		643	674	665
Investment contract liabilities		24,728	21,459	24,060
Insurance contract liabilities		4,403	3,940	4,034
Outstanding insurance and investment claims		118	115	115
Other liabilities and accruals		650	648	598
Retirement benefit liability		159	159	159
Subordinated liabilities		1,736	1,636	1,644
Total liabilities		78,363	73,467	77,812
Equity				
Share capital		89	89	89
Share premium		135	135	135
Other reserves		55	142	87
Retained earnings		2,174	2,235	2,174
Total Equity	5,9	2,453	2,601	2,485
Total liabilities and equity		80,816	76,068	80,297

Consolidated Income Statement - Embedded Value Basis (Unaudited)

For the six months ended 30 June 2010

	Notes	6 months to 30 June 2010 €m	6 months to 30 June 2009 €m	12 months to 31 December 2009 €m
Operating profit				
Life assurance and fund management business		118	84	102
Banking		(131)	(132)	(270)
Other		1	(7)	(26)
		(12)	(55)	(194)
Share of associate		2	4	(2)
Operating loss before tax	1	(10)	(51)	(196)
Short-term investment fluctuations	4	(11)	(80)	(68)
Effect of economic assumption changes	4	(7)	(89)	(38)
Adjustment on inter operating segments	4	(4)	-	(17)
Loss before tax		(32)	(220)	(319)
Taxation	3	12	29	40
Loss for the period		(20)	(191)	(279)
Attributable to:				
Owners of the parent		(20)	(191)	(279)
		(20)	(191)	(279)

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

For the six months ended 30 June 2010

	Notes	6 months to 30 June 2010 €m	6 months to 30 June 2009 €m	12 months to 31 December 2009 €m
Loss for the period	4	(20)	(191)	(279)
Other comprehensive income				
Revaluation of owner occupied property		(1)	-	(57)
Currency translation adjustment reserve				
Gains on hedged investment in foreign operations		3	5	2
Gains on unhedged investment in foreign operations		-	-	1
Losses on hedging of investment in foreign operations		(3)	(5)	(2)
		-	-	1
Change in value of available for sale financial assets				
Change in fair value of AFS financial assets		(31)	32	42
Impairment of AFS securities recycled to income statement		(5)	-	-
		(36)	32	42
Amortisation of AFS securities to loans and receivables*		7	8	15
Other comprehensive income		(30)	40	1
Deferred tax on other comprehensive income		4	(5)	(4)
Other comprehensive income, net of tax		(26)	35	(3)
Total comprehensive income for the period		(46)	(156)	(282)
Attributable to:				
Owners of the parent		(46)	(156)	(282)
Total comprehensive income for the period		(46)	(156)	(282)

* includes recycling of amounts in respect of impaired loans and receivables

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

For the six months ended 30 June 2010

	30 June 2010 €m	30 June 2009 €m	31 December 2009 €m
Shareholders' equity (excluding non controlling interest) as at 1 January	2,485	2,775	2,775
Income and expenses attributable to owners of the parent	(46)	(156)	(282)
Marked-to-market movement of policyholder liabilities in respect of own shares	11	(18)	(18)
Change in own shares at cost	3	-	9
Change in share based payment reserves	-	-	1
Shareholders' equity as at the end of the period	2,453	2,601	2,485

Notes to the EV Basis Supplementary Information

For the six months ended 30 June 2010

Basis of Preparation

Earnings generated by the group's life assurance operations are prepared in accordance with the European Embedded Value (EEV) Principles issued in May 2004 (with additional guidance on EEV disclosures issued in October 2005) by the European Chief Financial Officers' (CFO) Forum. For businesses other than life assurance the results have been prepared based on the recognition and measurement principles of IFRS issued by the International Accounting Standards Board (IASB) and adopted by the EU which were effective at 30 June 2010.

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

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

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

The methodology applied to produce the EV information for the period ended 30 June 2010 is consistent with the methodology used to produce the EV information for the year ended 31 December 2009, other than as described in note 10: EV assumptions relating to the equity volatility rates used in the calculation of the costs of financial options and guarantees.

Covered Business

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

Embedded Value

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

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

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

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

Notes to the EV Basis Supplementary Information

For the six months ended 30 June 2010

Free Surplus and Required Capital

Free surplus is defined as the market value of assets in the covered business less supervisory liabilities less required capital. It is the market value of any capital and surplus allocated to, but not required to support, the in-force covered business at the valuation date. The free surplus is shown net of the accounting value of the subordinated debt. The free surplus also allows for the regulatory stop loss reinsurance treaty liability offset but a corresponding reduction equal to the regulatory stop loss reinsurance treaty liability offset is taken from the PVIF.

The level of required capital reflects the amount of assets attributed to the covered business in excess of that required to back regulatory liabilities whose distribution to shareholders is restricted. The EEV Principles require this level to be at least the level of solvency capital at which the local supervisory authority is empowered to take action and any further amount that may be encumbered by local supervisory restrictions.

In light of this the directors have set the level of required capital to be 150% of the regulatory minimum solvency margin requirement at the valuation date, including the additional margin required under the Solvency I rules. The directors consider this to be a conservative level of capital to manage the covered business, allowing for the supervisory basis for calculating liabilities, the insurance and operational risks inherent in the underlying products and the methods used to value financial options and guarantees included in those products.

New Business

New business premiums reflect income arising from the sale of new contracts during the reporting period. Increases to premiums that are generated by policyholders at their discretion are included in new business as they occur. Increases to renewal premiums on group pension contracts are treated as new business premiums.

The new business contribution is the present value of future shareholder cash flows arising from the new business premiums written in the period less a deduction if relevant for the time value of financial options and guarantees. The contribution makes full allowance for the associated amount of required capital and includes the value of expected renewals on new contracts.

The EEV Principles require a measure of the present value of future new business premiums (PVNBP) to be calculated and expressed at the point of sale. The PVNBP is equivalent to the total single premiums plus the discounted value of regular premiums expected to be received over the term of the contracts using the same economic and operating assumptions used for calculating the new business contribution. The new business margin reported under EEV is defined as the ratio of the new business contribution to PVNBP.

Projection Assumptions

Projections of future shareholder cash flows expected to emerge from covered business are determined using realistic assumptions for each component of cash flow and for each policy group. Future economic and investment return assumptions are based on conditions at 30 June 2010. The assumed discount and inflation rates are consistent with the investment return assumptions.

The assumptions for demographic elements, including mortality, morbidity, persistency and expense experiences, reflect recent operating experiences and are reviewed annually. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favourable changes in operating experience are not anticipated until the improvement in experience has been observed. Further comments on the assumptions are given in note 10: EV assumptions, below.

All costs relating to the covered business are allocated to that business. The expense assumptions used for the projections therefore include the full cost of servicing the business. The costs include future depreciation charges in respect of certain property and equipment included in the free surplus. The PVIF makes no allowance for future planned development expenses where such expenses are expected to give rise to future improvements in efficiency. Certain group costs allocated to the life company are not included within the cash flow projections and are accounted for on an annual basis in the other group results.

Risk Discount Rate

The risk discount rate is a combination of a base risk-free rate and a risk margin, which reflects the residual risks inherent in the covered business, after taking account of prudential margins in the supervisory liabilities, the required capital and the specific allowance for financial options and guarantees.

The group has adopted a bottom-up approach to the determination of the risk discount rate. Each element of risk is assessed in turn and a cost is reflected as an addition to the base risk-free discount rate. The risk discount rate derived in this way reflects the risk of volatility associated with the cash flows in the embedded value model.

Notes to the EV Basis Supplementary Information

For the six months ended 30 June 2010

The key assumptions are set out in note 10: EV assumptions.

The market risk margin neutralises the effect of assuming future investment returns in excess of the base risk-free rate.

The non-market risk margin is based on an estimate of the impact of each of the following risks - mismatch risk, credit risk, demographic risks including mortality, morbidity, persistency and expense risks, operational risk and liquidity risk.

An allowance is made for the diversification effect in that each of the risks is not expected to occur simultaneously. Financial options and guarantees are explicitly valued using a stochastic model approach and no further risk allowance is included for these in the risk discount rate. The non-market risk margin was determined by the directors following a review of the estimates emerging from the above exercise.

Financial Options and Guarantees

Under the EEV Principles an allowance for the time value of financial options and guarantees ("FOG") is required where a financial option exists which is exercisable at the discretion of the policyholder. The time value of an option reflects the additional value inherent in the option due to the potential for the option to increase in value prior to its expiry date, usually due to movements in the market value of assets. The value of an option based on market conditions at the date of the valuation is referred to as the intrinsic value.

The supervisory liabilities allow on a prudent basis for both the intrinsic and time value of FOGs and the PVIF allows for the run-off of these liabilities. An explicit deduction is made to the PVIF to allow for the impact of future variability of investment returns on the cost of FOGs (time value) and the current in the money cost of the FOG (intrinsic value). The cost of FOGs is calculated using stochastic models. The main financial options and guarantees and the assumptions used to value them are described in the Annual Report and Financial Statements 2009 in Note 13, Sensitivity analysis.

Service Companies

All services relating to the covered business are charged on a cost recovery basis.

Tax

The projections include on a discounted basis all tax that is expected to be paid under covered business under current legislation, including tax that would arise if surplus assets within the covered business were eventually to be distributed.

Analysis of Profit

The profit from the covered business is analysed into three main components:

- New business contribution

The contribution from new business written during the reporting period is calculated as at the point of sale using assumptions applicable at the start of the year. This is then rolled forward to the end of the financial period using the risk discount rate applicable at the start of the reporting year.

- Profit from existing in-force business

The profit from existing business is calculated using opening assumptions and comprises:

- Interest at the risk discount rate on the value of in-force business allowing for the timing of cash flows ("expected return");
- Experience variances: when calculating embedded values it is necessary to make assumptions regarding future experiences including persistency (how long policies will stay in force), risk (mortality and morbidity), future expenses and taxation. Actual experience may differ from these assumptions. The impact of the difference between actual and assumed experience for the reporting period is reported as experience variances;
- Operating assumption changes: the assumptions on which embedded values are calculated are reviewed regularly. Where it is considered appropriate in the light of current or expected experience to change any assumptions regarding expected future experience, the impact on total value of in-force business of any such change is reported as an "operating assumption change".

- Expected investment return

The expected investment earnings on the net assets attributable to shareholders are calculated using the future investment return assumed at the start of the year. The expected investment earnings allows for interest payable on subordinated debt and the fee payable in relation to the stop loss reinsurance treaty.

Notes to the EV Basis Supplementary Information

For the six months ended 30 June 2010

Two further items make up the total profit arising from the covered business:

- **Short term investment fluctuations**

This is the impact on the EV of differences between the actual investment return and the expected investment return assumptions assumed at the start of the year.

- **Effect of economic assumption changes**

This is the impact on the EV of changes in external economic conditions including the effect changes in interest rates have on risk discount rates and future investment return assumptions.

Notes to the EV Basis Supplementary Information

For the six months ended 30 June 2010

1. Operating (loss) / profit before tax

	6 months to 30 June 2010 €m	6 months to 30 June 2009 €m	12 months to 31 December 2009 €m
Life assurance and fund management business			
New business contribution	28	23	51
Profit from existing business			
- Expected return	61	55	108
- Experience variances	13	(21)	(70)
- Operating assumption changes	9	21	(1)
Expected investment return	7	6	14
Operating profit before tax	118	84	102
Banking			
Net interest income (net of ELG guarantee charge) *	159	195	375
Non-interest income	22	24	44
Government guarantee	(12)	(11)	(29)
Trading income	(4)	(6)	(3)
	165	202	387
Administrative expenses including depreciation	(149)	(145)	(287)
Impairment losses on loans and receivables and debt securities	(150)	(189)	(376)
Loss on sale of property	(1)	-	-
Impairment of other assets	-	-	(2)
	(135)	(132)	(278)
Investment return	4	-	8
Operating loss profit before tax	(131)	(132)	(270)
Other activities			
Non-interest income	29	26	55
Administrative expenses including depreciation	(28)	(33)	(77)
Impairment of other assets	-	-	(4)
Operating profit / (loss) before tax	1	(7)	(26)
Share of associate	2	4	(2)
Total operating loss before tax	(10)	(51)	(196)

* Net interest income for 6 months to June 2010 includes a charge in respect of the ELG scheme of €33m.

Notes to the EV Basis Supplementary Information

For the six months ended 30 June 2010

2. Life assurance and fund management new business

	6 months to 30 June 2010 €m	6 months to 30 June 2009 €m	12 months to 31 December 2009 €m
Life business			
Present value of new business premiums (PVNBP)			
Single premium	719	555	1,459
Regular premium	84	111	202
Regular premium capitalisation factor	4.5	4.8	4.6
PVNBP	1,095	1,090	2,398
Annual premium equivalent (APE)	156	167	348
New business contribution	20	18	40
New business margin PVNBP	1.8%	1.6%	1.6%
APE	13.0%	10.5%	11.4%
ILIM	6 months to 30 June 2010 €m	6 months to 30 June 2009 €m	12 months to 31 December 2009 €m
Present value of new business premiums (PVNBP)	1,199	605	1,908
Annual premium equivalent (APE)	120	60	191
New business contribution	8	5	11
New business margin PVNBP	0.6%	0.9%	0.6%
APE	6.3%	8.8%	5.9%
Total new business	6 months to 30 June 2010 €m	6 months to 30 June 2009 €m	12 months to 31 December 2009 €m
Present value of new business premiums (PVNBP)	2,294	1,695	4,306
Annual premium equivalent (APE)	276	227	539
New business contribution	28	23	51
New business margin PVNBP	1.2%	1.3%	1.2%
APE	10.1%	10.0%	9.4%

Notes to the EV Basis Supplementary Information

For the six months ended 30 June 2010

3. Taxation

	6 months to 30 June 2010 €m	6 months to 30 June 2009 €m	12 months to 31 December 2009 €m
Life assurance and fund management			
Operating profit	(12)	(9)	(12)
Short term investment fluctuations	(1)	11	15
Effect of economic assumption changes	6	11	11
	(7)	13	14
Banking Operations	19	15	24
Other operations	-	1	2
	12	29	40

4. Analysis of loss after tax

	30 June 2010		
	Gross €m	Tax €m	Net €m
Operating loss			
Life assurance and fund management business	118	(12)	106
Banking	(131)	19	(112)
Other	1	-	1
Share of associate	2	-	2
Operating loss	(10)	7	(3)
Short term investment fluctuations	(11)	(1)	(12)
Effect of economic assumption changes	(7)	6	(1)
Adjustment on inter operating segments	(4)	-	(4)
	(32)	12	(20)

	30 June 2009		
	Gross €m	Tax €m	Net €m
Operating loss			
Life assurance and fund management business	84	(9)	75
Banking	(132)	15	(117)
Other	(7)	1	(6)
Share of associate / joint venture	4	-	4
Operating loss	(51)	7	(44)
Short term investment fluctuations	(80)	11	(69)
Effect of economic assumption changes	(89)	11	(78)
	(220)	29	(191)

Notes to the EV Basis Supplementary Information

For the six months ended 30 June 2010

4. Analysis of loss after tax (continued)

	31 December 2009		
	Gross €m	Tax €m	Net €m
Operating loss			
Life assurance and fund management business	102	(12)	90
Banking	(270)	24	(246)
Other	(26)	2	(24)
Share of associate / joint venture	(2)	-	(2)
Operating loss	(196)	14	(182)
Short term investment fluctuations	(68)	15	(53)
Effect of economic assumption changes	(38)	11	(27)
Adjustment on inter operating segments	(17)	-	(17)
	(319)	40	(279)

5. Shareholders' equity

	6 months to 30 June 2010 €m	6 months to 30 June 2009 €m	12 months to 31 December 2009 €m
Life assurance and fund management business	1,730	1,574	1,642
Banking	564	849	694
Other activities (including Goodwill) *	70	67	67
Associate undertaking	119	143	122
	2,483	2,633	2,525
Adjustment on inter operating segments	(21)	-	(17)
Deduction in respect of own shares held for the benefit of life assurance policyholders	(9)	(32)	(23)
Shareholders' equity	2,453	2,601	2,485

* 2009 other activity has been restated to include loans held to finance the purchase of the underlying subsidiary companies. This balance was previously consolidated as part of the banking entity. The banking equity is analysed in Note 23, Analysis of equity and capital in the IFRS financial statements.

Life assurance and fund management net assets are analysed as follows:

	6 months to 30 June 2010 €m	6 months to 30 June 2009 €m	12 months to 31 December 2009 €m
Property	104	157	163
Equities	29	9	13
Debt securities	45	61	69
Deposits	550	406	449
Other assets and liabilities	132	140	84
Subordinated debt	(221)	(211)	(212)
	639	562	566
Shareholder value of in-force business	1,091	1,012	1,076
	1,730	1,574	1,642

Notes to the EV Basis Supplementary Information

For the six months ended 30 June 2010

5. Shareholders' equity (continued)

In addition to the property exposure detailed above, the group has entered into commitments to purchase investment properties totalling €224m (30 June 2009: €246m, 31 December 2009: €224m). As a result of a reduction in the market value of investment properties included in the capital commitments, an onerous contract was recognised in other liabilities at 31 December 2009, which resulted in a negative investment return of €33m. This negative investment return was included in short term investment fluctuations at 31 December 2009. Equities exposure at 30 June 2010 includes the €17m investment in NAMAIL (refer IFRS related parties note 34).

Analysis of movement in shareholders' equity attributable to life assurance and fund management business

	30 June 2010		Total €m
	Net Worth €m	VIF €m	
Shareholders' equity as at 1 January	566	1,076	1,642
Operating profit after tax	69	37	106
Short term investment fluctuations	8	(20)	(12)
Effect of economic assumption changes	1	(2)	(1)
Capital movements	(5)	-	(5)
Shareholders' equity as at 30 June	639	1,091	1,730

	30 June 2009		Total €m
	Net Worth €m	VIF €m	
Shareholders' equity as at 1 January	569	1,080	1,649
Operating profit after tax	55	20	75
Short term investment fluctuations	(52)	(17)	(69)
Effect of economic assumption changes	(7)	(71)	(78)
Capital movements	(3)	-	(3)
Shareholders' equity as at 30 June	562	1,012	1,574

	31 December 2009		Total €m
	Net Worth €m	VIF €m	
Shareholders' equity as at 1 January	569	1,080	1,649
Operating profit after tax	120	(30)	90
Short term investment fluctuations	(109)	56	(53)
Effect of economic assumption changes	3	(30)	(27)
Capital movements	(17)	-	(17)
Shareholders' equity as at 31 December	566	1,076	1,642

The required capital at 30 June 2010 is €645m (30 June 2009: €629m, 31 December 2009: €634m). €212m (30 June 2009: €207m, 31 December 2009: €208m) of the required capital is covered by the subordinated debt and the remainder is covered by the net worth. The shareholder value of in-force is net of a deduction of €157m (30 June 2009: €158m, 31 December 2009: €140m) in respect of the cost of maintaining the required capital and net of a deduction of €34m (30 June 2009: €43m, 31 December 2009: €46m) in respect of the time value of financial option and guarantee costs.

Analysis of life assurance and fund management operating profit after tax

	30 June 2010		Total €m
	Net Worth €m	VIF €m	
New business contribution*	(35)	57	22
Profit from existing business			
Expected return*	78	(23)	55
Experience variances*	22	(7)	15
Operating assumption changes	(2)	10	8
Expected investment return	6	-	6
Operating profit after tax	69	37	106

Notes to the EV Basis Supplementary Information

For the six months ended 30 June 2010

5. Shareholders' equity (continued)

Analysis of life assurance and fund management operating profit after tax

	30 June 2009		Total €m
	Net Worth €m	VIF €m	
New business contribution*	(39)	56	17
Profit from existing business			
Expected return*	81	(30)	51
Experience variances*	5	(21)	(16)
Operating assumption changes	3	15	18
Expected investment return	5	-	5
Operating profit after tax	55	20	75

Analysis of life assurance and fund management operating profit after tax

	31 December 2009		Total €m
	Net Worth €m	VIF €m	
New business contribution*	(74)	112	38
Profit from existing business			
Expected return*	161	(63)	98
Experience variances*	12	(70)	(58)
Operating assumption changes	9	(9)	-
Expected investment return	12	-	12
Operating profit after tax	120	(30)	90

* New business contribution includes €24m (30 June 2009: €24m, 31 December 2009: €44m) net worth effect and negative €24m (30 June 2009: €24m, 31 December 2009: €44m) VIF effect due to stop loss reinsurance treaty. Expected return includes negative €23m (30 June 2009: €20m, 31 December 2009: €34m) net worth effect and positive €23m (30 June 2009: €20m, 31 December 2009: €34m) VIF effect due to treaty. Experience variance includes negative €5m (30 June 2009: €7m negative, 31 December 2009: €12m) net worth effect due to treaty and positive €5m (30 June 2009: €7m positive, 31 December 2009: €12m positive) VIF effect due to treaty.

6. Management expenses

	6 months to 30 June 2010 €m	6 months to 30 June 2009 €m	12 months to 31 December 2009 €m
Administrative expenses	236	245	522
Depreciation	14	15	30
Amortisation of intangible assets	9	11	20
	259	271	572

Analysed as follows:

Banking operations			
Operational	131	134	274
Restructuring / non operational costs	18	11	13
Life assurance and fund management operations			
Operational	82	93	191
Restructuring / non operational costs	-	-	17
Other operations (includes corporate costs)			
Operational	28	32	62
Restructuring / non operational costs	-	1	15
	259	271	572

Administration expenses include €2m (30 June 2009: €2m, 31 December 2009: €4m) for rent paid by the bank to the life company in respect of the bank headquarters. These expenses are eliminated on consolidation in the EU IFRS result.

Notes to the EV Basis Supplementary Information

For the six months ended 30 June 2010

7. Loans and receivables to customers

	6 months to 30 June 2010 €m	6 months to 30 June 2009 €m	12 months to 31 December 2009 €m
Residential mortgage loans	34,820	35,571	34,740
Commercial mortgage loans	2,393	2,418	2,386
Finance lease, instalment finance and term loans	1,526	2,077	1,749
	38,739	40,066	38,875
Money market funds / repurchase agreements	249	214	211
Deferred fees, discounts and fair value adjustments	383	386	430
	39,371	40,666	39,516
Provision for impairment of loans and receivables	(618)	(316)	(477)
Inter-group loans and receivables	(461)	(456)	(447)
	38,292	39,894	38,592

8. Funds under management

	6 months to 30 June 2010 €m	6 months to 30 June 2009 €m	12 months to 31 December 2009 €m
Funds managed on behalf of unit-linked policyholders	25,387	21,760	24,536
Funds managed on behalf of non-linked policyholders	2,506	2,255	2,296
	27,893	24,015	26,832
Off-balance sheet funds	3,748	3,447	3,945
	31,641	27,462	30,777

Notes to the EV Basis Supplementary Information

For the six months ended 30 June 2010

9. Reconciliation of shareholders' equity on EU IFRS basis to EV basis

	30 June 2010		
	Net worth €m	VIF €m	Total €m
Statutory shareholders' equity as at 30 June 2010	1,249	704	1,953
Change insurance shareholder value of in-force to post tax basis	120	(120)	-
Shareholder value of in-force on investment contracts	-	690	690
Changes in presentation of cost of FOGs	34	(34)	-
Deferred front end fees on investment contracts	98	-	98
Deferred acquisition costs on investment contracts	(243)	-	(243)
Restatement of investment liabilities to regulatory basis	(70)	-	(70)
Goodwill reclassification on acquisition of non controlling interest	(5)	5	-
Change in the basis of deferred tax provisioning	38	(11)	27
Impact of stop loss reinsurance treaty	143	(143)	-
Other	(2)	-	(2)
EV basis shareholders' equity as at 30 June 2010	1,362	1,091	2,453

	30 June 2009		
	Net worth €m	VIF €m	Total €m
Statutory shareholders' equity as at 30 June 2009	1,452	698	2,150
Change insurance shareholder value of in-force to post tax basis	118	(118)	-
Shareholder value of in-force on investment contracts	-	603	603
Changes in presentation of cost of FOGs	46	(46)	-
Deferred front end fees on investment contracts	107	-	107
Deferred acquisition costs on investment contracts	(242)	-	(242)
Restatement of investment liabilities to regulatory basis	(76)	-	(76)
Goodwill reclassification on acquisition of non controlling interest	(5)	5	-
Change in the basis of deferred tax provisioning	34	(8)	26
Impact of stop loss reinsurance treaty	122	(122)	-
Other	33	-	33
EV basis shareholders' equity as at 30 June 2009	1,589	1,012	2,601

	31 December 2009		
	Net worth €m	VIF €m	Total €m
Statutory shareholders' equity as at 31 December 2009	1,276	730	2,006
Change insurance shareholder value of in-force to post tax basis	121	(121)	-
Shareholder value of in-force on investment contracts	-	663	663
Changes in presentation of cost of FOGs	44	(44)	-
Deferred front end fees on investment contracts	102	-	102
Deferred acquisition costs on investment contracts	(245)	-	(245)
Restatement of investment liabilities to regulatory basis	(72)	-	(72)
Goodwill reclassification on acquisition of non controlling interest	(5)	5	-
Change in the basis of deferred tax provisioning	37	(10)	27
Impact of stop loss reinsurance treaty	147	(147)	-
Other	4	-	4
EV basis shareholders' equity as at 31 December 2009	1,409	1,076	2,485

All of the above adjustments relate to the application of IFRS 4 including the tax implications.

The stop loss reinsurance adjustment reflects that under EU IFRS no net worth offset is accounted for whereas under EV a regulatory offset is accounted for and is reflected in EV net worth but a corresponding opposite adjustment is reflected in EV VIF.

Notes to the EV Basis Supplementary Information

For the six months ended 30 June 2010

10. EV Assumptions

The assumed future pre-tax returns on fixed interest securities are set by reference to gross redemption yields available in the market at the end of the reporting period. The risk free rate of return used for the risk discount rate is based on the Irish Government yield available for the effective duration of the future cash-flows underlying the PVIF. The corresponding return on equities and property is equal to the risk free rate assumption plus the appropriate risk premium. An asset mix based on the assets held at the valuation date within policyholder funds has been assumed within the projections.

	30 June 2010	30 June 2009	31 December 2009
Equity risk premium	3.0%	3.0%	3.0%
Property risk premium	2.0%	2.0%	2.0%
Risk free rate	5.4%	5.3%	4.6%
Non market risk margin	2.1%	2.1%	2.1%
Market risk margin	0.6%	0.8%	0.8%
Risk discount rate	8.1%	8.2%	7.5%
Investment return			
- Fixed interest	1.0% - 4.4%	1.2% - 4.6%	1.1% - 4.2%
- Equities	8.4%	8.3%	7.6%
- Property	7.4%	7.3%	6.6%
Expense inflation	3.0%	3.0%	3.0%

Other assumptions

The assumed future mortality and morbidity assumptions are based on published tables of rates, adjusted by analyses of recent operating experience. Persistency assumptions are set by reference to recent operating experience. There was a deterioration in persistency experience in 2009, and a provision for additional adverse persistency experience in 2010 was held at 31 December 2009. The persistency experience is gradually improving through 2010. Actual persistency experience against the long term assumption will continue to be monitored closely.

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

Projected tax has been determined assuming current tax legislation and rates. Deferred tax on the release of the retained surplus in the Life Business is allowed for in the PVIF calculations.

EEV results are computed on a before and after tax basis.

Treatment of financial options and guarantees (FOGs)

The main options and guarantees for which FOG costs have been determined are:

- Investment guarantees on certain unit-linked funds, where the unit returns to policyholders are smoothed subject to a minimum guaranteed return (in the majority of cases the minimum guaranteed change in unit price is 0%, usually representing a minimum return of the original premium). An additional management charge is levied on policyholders investing in these funds, compared to similar unit-linked funds without this investment guarantee. This extra charge is allowed for in calculating the FOG cost;
- Guaranteed annuity rates on a small number of products;
- Return of premium death guarantees on certain unit-linked single premium products;
- Guaranteed benefits for policies in the closed with-profit fund.

Notes to the EV Basis Supplementary Information

For the six months ended 30 June 2010

10. EV Assumptions (continued)

The main asset classes relating to products with options and guarantees are European and International equities, property, and government bonds of various durations.

The Deloitte's TSM Streamline model is used to derive the cost of FOGs. The model is calibrated to the Irish government yield curve and extrapolated at longer durations where no Irish government bonds exist. The equity volatility rate used in the model is calibrated to the market implied equity volatility rate at 30 June 2010. Ten years of historical weekly data are used to derive the correlation between the returns on different asset classes.

The model uses the difference between two inverse Gaussian distributions to model the returns on each asset class. This allows the model to produce fat-tailed distributions, and provides a good fit to historical asset return distributions.

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

As at 30 June 2010	10-Year Return		20-Year Return	
	Mean ¹	StDev ²	Mean ¹	StDev ²
European Assets (Euro)				
Bonds	5.7%	4.6%	6.9%	10.3%
Equities, Property	5.7%	27.9%	6.9%	31.6%
UK Assets (Sterling)				
Bonds	3.6%	2.5%	4.5%	5.6%
Equities	3.6%	26.1%	4.5%	27.9%
As at 30 June 2009				
European Assets (Euro)				
Bonds	5.8%	3.8%	6.7%	8.4%
Equities, Property	5.8%	25.6%	6.7%	29.2%
UK Assets (Sterling)				
Bonds	3.8%	2.7%	4.8%	5.9%
Equities	3.8%	25.1%	4.8%	27.0%
As at 31 December 2009				
European Assets (Euro)				
Bonds	4.7%	3.3%	5.6%	7.3%
Equities, Property	4.7%	25.7%	5.6%	28.4%
UK Assets (Sterling)				
Bonds	4.3%	2.8%	4.8%	6.1%
Equities	4.3%	23.9%	4.8%	25.9%

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

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

Independent Review Report to Irish Life & Permanent plc

Introduction

We have been engaged by the company to review the Embedded Value ("EV") basis supplementary half year financial information for the six months ended 30 June 2010 set out on pages 100 to 116. The EV basis supplementary half year financial information has been prepared in accordance with the European Embedded Value ("EEV") Principles issued in May 2004 by the CFO Forum using the methodology and assumptions set out on pages 103 to 106. The EV basis supplementary half year financial information should be read in conjunction with the Company's half year IFRS financial information which is set out on pages 29 to 96.

We have read the other information contained in the Half Year Report and considered whether it contains any apparent misstatements or material inconsistencies with the EV basis supplementary half year financial information.

This report is made solely to the company in accordance with the terms of our engagement and in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half year financial report, including the EV supplementary basis half year financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors have accepted responsibility for preparing the EV basis supplementary half year financial information in accordance with the EEV Principles and for determining the assumptions used in the application of those principles.

Our responsibility

Our responsibility is to express to the company a conclusion on the EV basis supplementary half year financial information in the half year report based on our review

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board. A review of EV basis supplementary half year 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 on the EV basis supplementary half year financial information

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the EV basis supplementary half year financial information as presented for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with EEV Principles issued in May 2004 by the CFO Forum using the methodology and assumptions set out on pages 103 to 106.

KPMG

Chartered Accountants

1 Harbourmaster Place

IFSC

Dublin 1

30 August 2010