

Slowing economic growth in our main markets together with global market dislocation, both highlighted in the outlook statement of our Preliminary Announcement on 21st May 2008, continue to adversely impact our earnings.

The slowdown in the overall level of activity and volume growth is most pronounced in our Retail businesses in Ireland. Growth in lending in our UK and international Corporate Banking businesses in the second half of our prior financial year has continued in the first quarter of this financial year, though we expect this to moderate in the second half of the year. While we expect to increase our customer lending in the current year, we are taking a prudent and selective approach to this growth in the current environment.

Our focus on containing costs is rigorous and cost growth in the first quarter has been minimal.

Our residential mortgage portfolios are proving resilient in a weakening housing market. There has been some credit grade slippage over the past quarter, in particular in our Business Banking portfolios. However this is in line with management expectations of an increase in impairment charge from the unsustainably low charge in our prior financial year in an environment of slowing economic growth and a softening in the property market. We remain highly vigilant given the external environment.

We continue to actively manage our funding position. In addition to customer deposit growth, we have raised over €3bn of term funding from wholesale markets across 40 transactions since 31st March 2008. This includes a public benchmark size deal of €1.25 billion 2-year euro denominated senior unsecured Floating Rate Note issue. This successful public issuance, along with our ongoing capacity to raise term funding through private placement, continues to support our business through this period of market dislocation.

Our capital position continues to fully support our business in this challenging environment.

Pricing in wholesale money-markets remains at historically high levels. The ECB has raised interest rates (25bps increase to 4.25% on 3 July 2008) on inflationary concerns. Further house price declines in 2008 are expected. In addition, the euro remains strong against both the UK pound sterling and the US dollar. Business and consumer sentiment are being impacted by these factors leading to our anticipation of lower levels of economic and overall business activity.

Within this environment, the Group's focus continues to be on managing our capital and funding positions, managing our credit risk in a supportive and prudent manner and rigorous cost control.

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Forward Looking Statement

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934 and Section 27A of the US Securities Act of 1933 with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition and performance and the markets in which it operates. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', or other words of similar meaning. Examples of forward-looking statements include among others, statements regarding the Group's future financial position, income growth, business

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