Bank of Ireland

Interim Report

for the six month period ended 30 June 2010

Forward-Looking Statement

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934 and Section 27A of the US Securities Act of 1933 with respect to certain of the Bank of Ireland Group's (the "Group") plans and its current goals and expectations relating to its future financial condition and performance 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. Generally, but not always, words such as "may," "could," "should," "will," "expect," "intend," "estimate," "anticipate," "assume," "believe," "plan," "seek," "continue," "target," "goal," "would", or their negative variations or similar expressions identify forward looking statements. Examples of forward looking statements include among others, statements regarding the Group's future financial position, income growth, business strategy, projected costs, projected impairment losses, capital ratios, margins, future payments of dividends, the outcome of the current review of the Group's defined benefit pension schemes, estimates of capital expenditure, discussions with the Irish, European and other regulators and plans and objectives for future operations. Forward looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, such performance or results will be achieved. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of the Group and are difficult to predict, that may cause the actual results, performance, achievements or developments of the Group or the businesses in which it operates to differ materially from any future results, performance, achievements or developments expressed or implied from the forward looking statements. A number of material factors could cause actual results to differ materially from those contemplated by the forward looking statements, including, among other factors, the following:

- general economic conditions in Ireland, the United Kingdom and the other markets in which the Group operates;
- declining property values in Ireland and the United Kingdom;
- the potential exposure of the Group to various types of market risks, such as interest rate risk, foreign exchange rate risk, credit risk and commodity price risk;
- financial uncertainties in the EU and in member countries and the potential effects of those uncertainties on the Group;
- the ability of the Group to access sufficient funding to meet its liquidity needs;
- the outcome of the Group's participation in the Credit Institutions (Financial Support) Scheme 2008 ("the CIFS Scheme") and the Credit Institutions (Eligible Liabilities Guarantee) Scheme ("the ELG Scheme");
- the implementation of the European Commission restructuring plan;
- changes in the Group's credit ratings;
- the effects of the Irish Government's stockholding in the Group (through the National Pension Reserve Fund Commission ("NPRFC"));
- the outcome of the Group's participation in National Asset Management Agency ("NAMA");
- changes in the Irish banking system;
- the making of further contributions to the Group's pension schemes;
- changes in applicable laws, regulations and taxes in jurisdictions in which the Group operates;
- the effects of competition and consolidation in the markets in which the Group operates; and
- the success of the Group in managing the risks involved in the foregoing.

See page 66 to 70 for more information on factors that could cause actual results to differ materially from those contemplated by the forward looking statements in this document.

Any forward looking statements speak only as at the date they are made. The Group does not undertake to release publicly any revision to these forward looking statements to reflect events, circumstances or unanticipated events occurring after the date hereof. The reader should however, consult any additional disclosures that the Group may make in documents that it may file or submit to the US Securities and Exchange Commission ("SEC").

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Bank of Ireland will host a results presentation at 8.30am today, 11 August 2010 at Bank of Ireland, 40 Mespil Road, Dublin 4.

This presentation will be simultaneously webcast on our website: www.bankofireland.com/investor

This document constitutes the Interim Management Report required by Regulation 6 of the Transparency (Directive 2004/109/EC) Regulations 2007. It can also be found at our website: www.bankofireland.com/investor.

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Performance Summary

	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m
Group performance on an Underlying * basis		
Operating profit before impairment charges on financial assets and loss on sale to NAMA	**553**	**811**
Impairment charge on loans and advances to customers	(893)	(926)
Impairment charge on loans and advances to banks	-	(2)
Charges arising on assets held for sale to NAMA:		
- Impairment charge on assets held for sale to NAMA	(466)	(551)
- Loss on sale of assets to NAMA	(466)	-
Share of results of associates and joint ventures (after tax)	26	-
Underlying * loss before tax	**(1,246)**	**(668)**
Non-core items:		
- Gain on liability management exercises	699	1,037
- Impact of changes in pension benefits	676	-
- Impact of 'coupon stopper' on subordinated debt	(36)	-
- Gross-up for policyholder tax in the Life business	17	5
- Investment return on treasury stock held for policyholders	6	(8)
- Cost of restructuring programme	-	(83)
- Loss on disposal of business activities	-	(10)
Profit before tax (PBT)	**116**	**273**
Group performance (underlying *)		
Net interest margin	1.41%	1.70%
Cost income ratio	61%	54%
Return on equity	(53.5%)	(28.1%)
Per unit of €0.10 ordinary stock		
Basic earnings per share ** (€ cent)	1.3	21.3
Underlying* loss per share (€ cent)	(51.8)	(37.6)
Divisional performance		
Underlying * operating profit / (loss) before impairment charges on financial assets (€ million)		
Retail Republic of Ireland	204	255
Bank of Ireland Life	30	(5)
UK Financial Services	122	222
UK Financial Services (Stg £ equivalent)	*107*	*200*
Capital Markets	303	447
Group Centre	(106)	(108)
Underlying * operating profit before impairment charges on financial assets	**553**	**811**
Impairment charge – loans & advances to customers (€ million)		
Residential mortgages	132	107
Non-property SME and corporate	356	447
Property and construction	325	241
Consumer	80	131
Impairment charge on loans & advances to customers	**893**	**926**
Impairment charge – assets held for sale to NAMA (€ million)		
Residential mortgages	20	-
Non-property SME and corporate	10	1
Property and construction	436	550
Impairment charge on assets held for sale to NAMA	**466**	**551**

* *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. The Group has treated the following items as non-core: gain on liability management exercises, impact of changes in pension benefits, impact of 'coupon stopper' on subordinated debt, gross-up for policyholder tax in the Life Business, investment return on treasury stock held for policyholders, cost of restructuring programme and loss on disposal of business activities, see page 20 for further information.*

** *Restated to reflect the bonus element of the Rights Issue which took place in June 2010.*

Balance sheet and funding metrics	**30 June 2010**	31 December 2009
Stockholders' equity (€ billion)	7.7	6.4
Total assets (€ billion)	180	181
Total loans and advances to customers (excluding assets held for sale to NAMA) (net of impairment provisions) (€ billion)	121	119
Total customer deposits (€ billion)	84	85
Assets held for sale to NAMA (net of impairment provisions) (€ billion)	7	10
Loans and advances to customers (excl. assets held for sale to NAMA) / customer deposits	143%	141%
Loans and advances to customers (incl. assets held for sale to NAMA) / customer deposits	152%	152%
Wholesale funding (€ billion)	58	61
Wholesale funding > 1 year (€ billion)	24	20
Wholesale funding > 1 year as a % of total Wholesale funding	41%	32%
Term funding > 1 year, subordinated debt and customer deposits / loans and advances to customers (excl. assets held for sale to NAMA)	93%	93%
Term funding > 1 year, subordinated debt and customer deposits / loans and advances to customers (incl. assets held for sale to NAMA)	88%	86%
Capital		
Equity tier 1 ratio (Core tier 1 less preference stock)	8.2%	5.3%
Core tier 1 ratio	10.2%	8.9%
Tier 1 ratio	9.9%	9.8%
Total capital ratio	12.5%	13.4%
Risk weighted assets (€ billion)	93	98

Group Chief Executive's Review

"We are confident that the steps that we have taken in the first half of 2010 to strengthen the Group will enable us to successfully meet the many challenges ahead and position us well to capitalise on the opportunities that arise through a recovery in the economic conditions in our key operating markets in Ireland and the UK."
Richie Boucher, Group Chief Executive

Overview
2010 has been a period of significant progress for Bank of Ireland Group. We have taken decisive steps to stabilise the Group and achieved progress on a range of critical strategic issues which include; the completion of a successful capital raising programme; formal acceptance by the EC of Bank of Ireland's Restructuring Plan; the sale of the first two tranches of loans to NAMA, passing the CEBS stress test; agreement on our Pension Proposals, agreement on continued pay restraint and further reductions in the number of people employed and we have made good progress in our plans to reduce the costs of our infrastructure. We are emerging from this crisis a changed, more focused, and much strengthened bank. Our staff have remained committed to our shared goals and objectives and are integral to our ability to look to the future with confidence. We are directing our capital and resources to our core business portfolios in Ireland, the UK and selected niches internationally where we have clear competitive strengths and capabilities, and strong positions in markets with attractive growth opportunities. Support for our customers in these markets is fundamental to our strategic objectives. We remain committed to our strategy to de-lever our balance sheet and continue to reduce the assets in our non-core portfolios through a process of run-off and / or disposals as market opportunities allow.

However operating conditions remain challenging in what has been a difficult trading environment, we are reporting a significant decline in our underlying profitability for the six month period ended 30 June 2010 compared to the first six months of 2009. Arising from the difficulties in sovereign debt markets the funding environment deteriorated significantly in the closing weeks of the reporting period before stabilising more recently as sovereign concerns diminished. Although our impairment charge on non-NAMA bound customer loans has reduced from the peak levels reported in the second half of 2009, the credit environment remains difficult. Nevertheless, although new business activity in Ireland remains muted, there is evidence that the economic environment in our key operating geographies is stabilising after the substantial fall in economic output from early in 2008.

In Ireland, recent data highlights improving trends across some key economic indicators with retail sales, consumer confidence and exports all indicating signs of recovery. While recovery is being led by the export sector, unemployment levels, though stabilising, remain elevated. The Government has taken decisive action to address the sovereign's fiscal position and has implemented an austerity plan, approved by the European Commission, to reduce the general government deficit to under 3% of GDP by 2014. In the UK, leading economic indicators have been generally positive with the pace of economic recovery marginally higher than that of the Eurozone. While the fiscal tightening measures announced in the UK budget in June 2010 may have a negative impact on immediate growth prospects, they should accelerate the rebalancing of the economy and be supportive of the longer term growth outlook.

Financial performance
Whilst a pre-tax profit of €116 million was recorded for the six month period ended 30 June 2010, the Group is reporting an underlying* loss before tax of €1,246 million compared to an underlying* loss before tax of €668 million in the comparable prior period.

The Group's underlying* operating profit (before impairment charges and loss on sale to NAMA) was €553 million for the six month reporting period ended 30 June 2010, down 32% from the comparable six month period ended 30 June 2009.

Total income (net of insurance claims) was 17% lower driven by a significant reduction in net interest income. As expected, the decline in net interest income was largely attributable to competitive pressures on deposit margins, the higher pricing of wholesale funding and the cost of our participation in the Credit Institutions (Eligible Liabilities Guarantee) Scheme ("the ELG Scheme"). Net other income was significantly higher partially reflecting some one-off items.

Total operating expenses were 3% lower at €916 million due to lower staff numbers and continued rigorous cost management across all cost categories.

In the six month period ended 30 June 2010 we reported an impairment charge of €893 million on those loans and advances to customers which are not expected to transfer to the NAMA together with an impairment charge of €466 million on those loans that are held for sale to NAMA.

In the period €2.2 billion (before impairment charges) of loans were sold to NAMA and we incurred a loss on sale of €466 million on these assets.

The share of results of associates and joint ventures (after tax) of €26 million for the reporting period compared to zero in the comparable prior period.

* *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business - see page 20.*

Progress made to stabilise the Group
We made significant progress in the first six months of 2010 on a range of critical issues necessary to bring further stability to the Group as described below.

Funding
As announced on 11 January 2010, the Group was accepted as a participating institution in the Irish Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme ("the ELG Scheme"). In the six months to 30 June 2010 the Group raised €4.6 billion in term funding, i.e. funding with a maturity greater than one year at date of issue, under this Scheme.

Despite the difficult conditions in wholesale financial markets and continuing intense competition for customer deposits, our customer loan to deposit ratio is 152%, (143% excluding loans held for sale to NAMA) in line with 31 December 2009. Our quantum of wholesale funding is €3 billion lower at €58 billion and we have extended the maturity profile of this funding with 41% of our wholesale funding having a maturity of greater than one year at 30 June 2010 compared to 32% at 31 December 2009. The Group continues to benefit from a robust and diversified contingent liquidity strategy. At 30 June 2010, the Group had a pool of contingent liquidity collateral with a cash value of €41 billion. Drawings from Monetary Authorities at 30 June 2010 were €8 billion (net), broadly unchanged from levels at 31 December 2009.

We remain committed to our strategy to disengage in a safe and prudent manner from the Irish Government's ELG and CIFS Schemes, as market conditions allow. Our recent successful capital raising exercise was a critical step in this regard. We continue to build on this through our focus on gathering customer deposits and extending the maturity profile of our wholesale funding. In June 2010 the Government announced its decision to extend the guarantee period of the ELG Scheme, with some modifications to the terms, to December 2010.

The Group has €9.5 billion of term funding (funding with an original maturity of greater than one year at time of issue) maturing between 30 June 2010 and 31 December 2010. With our strengthened balance sheet, the Group expects to continue to extend the maturity profile of our wholesale funding over the balance of the year. Any funding mismatches which may arise as a result of stress points in the wholesale funding markets can be addressed through use of our significant pool of contingent collateral.

National Asset Management Agency
On 12 January 2010, at the Group's Extraordinary General Court, the stockholders approved Bank of Ireland's application to participate in NAMA and in February 2010 the Minister for Finance confirmed our designation as a participating member.

As previously announced, on 2 April 2010, the Group sold €1.9 billion (before impairment provisions) Tranche 1 Assets to NAMA for which it received nominal consideration of €1.2 billion in Government guaranteed bonds and non-guaranteed subordinated bonds, resulting in a discount to gross loan value of approximately 36%.

On 19 July 2010 the Group completed and submitted to NAMA all of the due diligence material in respect of Tranche 2 loans and associated derivatives amounting to €2.3 billion in nominal value (before impairment provisions) which are expected to be transferred to NAMA on a staged basis. The nominal value of the consideration to be received for these loans is expected to be approximately €1.5 billion resulting in an estimated discount to gross book value (before impairment provision) on those loans of approximately 35%.

As previously advised, the gross loss on disposal of Bank of Ireland Group Eligible Bank Assets to NAMA will be a function of three factors: the quantum of those loans, the mix of those loans, as between land and development and associated loans, and the discount that would apply to those loans. The Group announced on 26 April 2010 that it believed that the discount on the total portfolio of €12.2 billion expected to be sold to NAMA would be within the guidance of €4.8 billion[1] provided at the Extraordinary General Court of the Bank on 12 January 2010. The Group made the announcement on 26 April 2010 on the basis of the discount arising on Tranche 1 coupled with the results of a valuation exercise on a sample of €6.0 billion (approximately 50% of the loans which the Group expects to sell to NAMA). On the basis of the results of Tranche 1 and Tranche 2 outlined above, the Group does not expect any material difference to the position announced on 26 April 2010.

However, as previously advised, significant uncertainties still remain as to the final discount which will be applicable to Bank of Ireland Group. The Group will only be able to accurately quantify the ultimate gross loss on the sale of all the Bank of Ireland Eligible Bank Assets to NAMA on completion of the relevant due diligence and the sale of the final portfolio of Eligible Bank Assets to NAMA.

[1] *Prior to (i) any impairment provisions previously recognised by the Group, (ii) any fair value adjustments in respect of any consideration received, (iii) any provision that may be required under accounting standards due to the ongoing cost of servicing these assets on behalf of NAMA, and (iv) taking account of any transfer costs.*

Stress testing and capital

As announced on 30 March 2010, the Financial Regulator advised of the outcome of the Prudential Capital Assessment Review ("PCAR") for Bank of Ireland. The Regulator determined that the Group was required to raise an additional €2.66 billion of equity capital by 31 December 2010 to meet the base case target of 8% core tier 1 ratio (incorporating a targeted equity tier 1 ratio of 7%).

On 26 April 2010 the Group announced proposals to raise not less than €2.8 billion net equity capital to meet its current and long term capital requirements. These proposals were overwhelmingly accepted by shareholders at an Extraordinary General Court on 19 May 2010 and successfully completed on 14 June 2010 generating €2.9 billion net additional equity capital.

At 30 June 2010, our Equity Tier 1, Core Tier 1, Tier 1 and Total Capital ratios are 8.2%, 10.2%, 9.9% and 12.5% respectively. These ratios compare favourably to our position at 31 December 2009 of Equity Tier 1, Core Tier 1, Tier 1 and Total Capital Ratios of 5.3%, 8.9%, 9.8% and 13.4% respectively.

In July 2010 the Bank was subject to the 2010 EU-wide stress testing exercise co-ordinated by the Committee of European Banking Supervisors (CEBS), in co-operation with the European Central Bank (ECB), and under the supervision of the Central Bank of Ireland and the Irish Financial Regulator. The objective of the CEBS stress test, which was conducted on a bank-by-bank basis, was to assess the overall resilience of the EU banking sector and the banks' ability to absorb further possible shocks on credit and market risks, including sovereign risks. The exercise was conducted using scenarios, methodology and key assumptions provided by CEBS. Bank of Ireland passed the stress test. Under the adverse scenario including the additional sovereign shock, Bank of Ireland's estimated tier 1 capital ratio would be 7.1% at 31 December 2011 which is 1.1% or €933 million in excess of the threshold of 6% Tier 1 capital ratio agreed exclusively for the purposes of the exercise.

Asset Quality

On 31 March 2010, the Group re-affirmed previous market guidance of €4.7 billion impairment charges for the 3 year period to 31 March 2011 on the non-NAMA element of the Group loan book. We also stated that we believed that our impairment charge had peaked in 2009 and that we expected the charge to progressively reduce in each of 2010, 2011 and 2012. Our experience in the first six months of our 2010 financial year and our expectations for the remainder of the year continue to support this view.

Pension Schemes

As announced on 7 April 2010, the Group completed a review of its sponsored defined benefit pension schemes and proposed a number of benefit changes to eliminate approximately 50% of the 31 December 2009 deficit of €1.6 billion. The benefit changes have been accepted by 97% of the staff in the largest of the Group's pension schemes, the Bank Staff Pension Fund, which represents over 80% of the Group's pension deficit. This has resulted in a reduction in the Group pension deficit of €676 million in the period to 30 June 2010 arising from the reduction in pension liabilities and has been recognised in the income statement for the six month period ended 30 June 2010. Our plans to deal with the deficits in the Group's other sponsored defined benefit pensions schemes are going well.

As the proposed benefit changes are delivered and recognised, the Bank plans to increase its cash contributions, above existing cash contributions, to eliminate the remaining 50% balance of the 31 December 2009 IAS 19 deficit over approximately 6 years. These steps will have a positive impact on the profit and loss account going forward.

EU Restructuring Plan / UK incorporation

On 16 April 2010, the Group provided an update on the progress of negotiations with the European Commission in relation to the EU Restructuring Plan submitted to the European Commission on 30 September 2009.

On 15 July 2010 the European Commission gave final approval under the State Aid rules to Bank of Ireland's Restructuring Plan. The commitments required to be given by Bank of Ireland were as previously anticipated and announced by the Group on 16 April 2010. We will update the market as we make progress on the implementation of our commitments.

We are making good progress on our plans to form a UK authorised bank which will hold a number of our UK assets and businesses.

Cost initiatives

The Group has implemented a range of initiatives to further reduce our cost base going forward. Staff costs are being reduced as we deal with the pension issues, through continued wage restraint and through further reductions in the number of people we employ. Over the next two years we plan to reduce staff numbers by a further 750, on a voluntary basis, through a series of focussed right-sizing and efficiency initiatives.

We have also been successfully re-negotiating our major outsourcing contracts where very good progress has been made over the past 3 months. The benefits of this work will come through in future periods.

Focus on net interest margin

Improving our net interest margin continues to be a major priority. We have continued to re-price back books where possible and are seeing improved margins on new lending, albeit that demand for new lending in Ireland is muted. We experienced further downward pressure on deposit margins as competition, in the Irish market in particular, remains intense. In addition to the impact of the terming out of wholesale funding, the cost of funding increased in the months of May and June, prior to the concerted actions by the Governments of the EU and the ECB to increase confidence in the European Banking system.

Financial targets and outlook

On 26 April 2010 we outlined the Group's financial targets which we aim to achieve by 2013 and a range of initiatives are underway across the Group to ensure delivery. The early trend in these targets is as anticipated, with the short term pressure on income resulting from higher cost of wholesale funding, competition for deposits and the cost of the Government guarantees in evidence in the net interest margin and cost income ratio metrics.

Measure	9 months ended 31 December 2009	6 months ended 30 June 2010	2013 Target
Net interest margin	1.59% annualised	1.41% annualised	In excess of 1.75%
Cost / income ratio	56%	61%	Less than 50%
Impairment charge[1]	€1,824m	€893m	Normalised
Equity Tier 1 capital	5.3%	8.2%	Greater than 7%
Group loan / deposit ratio[2]	141%	143%	Less than 125%
Return on equity[3]	Negative	Negative	Low teens to mid teens %

1 *This figure excludes the impairment charge against those assets held for sale to NAMA. During the period ended 30 June 2010 the impairment charge on assets held for sale to NAMA was €466 million; in the nine month period ended 31 December 2009 the impairment charge on assets held for sale to NAMA was €2,231 million.*

2 *Loans exclude assets held for sale to NAMA*

3 *Equity excluding 2009 Preference Stock*

The outlook for the remainder of this 2010 financial year remains challenging, in particular the conditions we face in wholesale funding markets.

We are confident that the steps that we have taken in the first half of 2010, to strengthen the Group, will enable us to successfully meet these challenges and position us to capitalise on the opportunities that a recovery in the economic conditions in our key markets in Ireland and the UK will present for Bank of Ireland as a well capitalised, refocused, efficient Bank, with good strategic positions in well defined core markets.

Richie Boucher
Group Chief Executive
10 August 2010

Operating and Financial Review

1.1 Basis of Presentation

The Group changed its financial year end from 31 March to 31 December with effect from 31 December 2009. This change brings the Group's financial calendar in line with its peer banks. As a consequence, the Group's interim financial statements are reported, in respect of the income statements, for the six month period ended 30 June 2010, compared to the six month period ended 30 June 2009 and in respect of the balance sheet at 30 June 2010 compared to 31 December 2009.

Loans which were expected to be sold to NAMA were transferred from loans and advances to customers to assets held for sale to NAMA on 31 December 2009. As assets held for sale to NAMA did not exist as an accounting classification on 30 June 2009, the Group determined the split of the total impairment charge in the six month period ended 30 June 2009 between loans and advances to customers and assets held for sale to NAMA based on the total loans sold to NAMA and the loans expected to be sold to NAMA as at 30 June 2010. The split for the period to 30 June 2010 was determined on the same basis.

This Operating and Financial Review is presented on an underlying basis. For explanation of underlying see page 11. Percentages presented throughout this document are calculated on the absolute underlying figures and so may differ from the percentage variances calculated on the rounded numbers presented.

A detailed analysis and commentary on the key risks for the Group are detailed on pages 50 to 70 in the Risk Management Report, together with updates on the Group's risk management framework and the Group's principal risks and uncertainties.

1.2 Overview and Market Environment

Trading conditions in our core markets in Ireland and the UK in the first six months of 2010 were challenging although growth has resumed in both economies.

The Irish economy recorded positive growth in GDP in the first quarter of 2010 and the consensus view now projects modest growth in GDP for 2010 of c.1%, driven primarily by the export sector of the economy. Growth in the domestic sector of the economy is lagging the external sector with a small contraction in GNP of 0.5% for the first quarter of 2010 and consensus forecast for 2010 of minus 1%. However, some indicators may be pointing to a broadening of the Irish economic recovery, including growth in retail sales and an increase in consumer confidence. The Irish labour market remains weak, although unemployment levels should stabilise as the pace of job losses has eased compared to 2009. The average rate of unemployment is forecast to increase to an average of 13.5% for 2010 compared to 13.1% at the end of 2009.

Ireland is a very open economy and the recovery in the global economy should continue to support export performance. In addition, favourable demographics and positive attitudes to business underpin longer term growth prospects.

The pace of decline in the Irish residential property market continues to moderate with house prices falling by 1.7% in the second quarter of 2010 compared to a reduction of 4.8% in the first quarter of 2010. Average house prices have fallen by 35% from their peak in the last quarter of 2006 (according to ptsb / ESRI index). Commercial property values fell by 3.5% in the second quarter of 2010 compared to a reduction of 1.8% in the first quarter of 2010; however property yields appear to be stabilising (IPD index).

The UK economy returned to growth in the fourth quarter of 2009. This trend has continued with GDP growth of 1.1% in the second quarter of 2010. Even after revising down its forecast for GDP growth to take account of the expected impact of the UK government's measures to reduce the budget deficit, the Office for Budgetary Responsibility has forecast GDP growth of 1.2% in 2010 and 2.3% in 2011. The unemployment rate also appears to have stabilised with consensus forecasts predicting an unemployment rate of 8.1% for 2010.

UK house prices continue to rise with the annual rate of house price inflation of 6.6% in July 2010 (Nationwide Index), albeit with some signs that growth in house prices for the second half of 2010 are unlikely. Demand from home buyers remains subdued given the uncertainties over the impact on personal finances of government fiscal correction measures. The commercial property market has continued its recovery and capital values have increased by 15.2% over the 11 months to June 2010 according to the IPD index.

The heightened concerns regarding European sovereign debt experienced in May 2010 and June 2010 resulted in renewed instability in financial markets. Measures taken to alleviate market tension include the establishment of the European Financial Stability Fund, and the ECB's Securities Market Programme to facilitate the normal functioning of public and private European debt markets. Fiscal correction measures have also been introduced by most European governments to reduce budget deficits and realign public finances.

In July 2010, the Committee of European Banking Supervisors (CEBS) in co-operation with the European Central Bank, co-ordinated a stress testing exercise across 91 banks with an objective of assessing the overall resilience of the EU banking sector and individual banks' ability to absorb further possible sharp increases in credit and market risks including sovereign risks. In the period since the publication of the stress test results, the wholesale funding markets have started to improve and risk appetite appears to be returning.

1.3 Group Income Statement - on an Underlying * Basis

1.3.1 Summary Consolidated Income Statement

	Section	**6 months ended 30 June 2010 €m**	6 months ended 30 June 2009 €m	Change %
Net interest income		1,110	1,555	(29%)
Net other income		359	205	75%
Total income (net of insurance claims)	1.3.3	**1,469**	**1,760**	**(17%)**
Operating expenses	1.3.4	(916)	(949)	(3%)
Operating profit before impairment charges on financial assets and loss on sale to NAMA		**553**	**811**	**(32%)**
Impairment charge on loans and advances to customers	1.3.5	(893)	(926)	(4%)
Impairment charge on loans and advances to banks		-	(2)	-
Charges arising on assets held for sale to NAMA:				
- Impairment charge on assets held for sale to NAMA	1.3.6	(466)	(551)	(15%)
- Loss on sale of assets to NAMA	1.3.7	(466)	-	-
Share of results of associates and joint ventures (after tax)		26	-	-
Underlying * loss before tax		**(1,246)**	**(668)**	**87%**
Non-core items:	1.3.8			
- Gain on liability management exercises		699	1,037	-
- Impact of changes in pension benefits		676	-	-
- Impact of 'coupon stopper' on subordinated debt [1]		(36)	-	-
- Gross-up for policyholder tax in the Life business [2]		17	5	-
- Investment return on treasury stock held for policyholders [3]		6	(8)	-
- Cost of restructuring programme		-	(83)	-
- Loss on disposal of business activities		-	(10)	-
Profit before tax		**116**	**273**	**(58%)**
Tax credit	1.3.9	27	125	-
Profit for the period		**143**	**398**	**(64%)**
Profit attributable to minority interests		3	(12)	-
Profit attributable to stockholders		140	410	-
Profit for the period		**143**	**398**	**(64%)**
Cost / income ratio		**61%**	**54%**	

* *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. The Group has treated the following items as non-core: gain on liability management exercises, impact of changes in pension benefits, impact of 'coupon stopper' on subordinated debt, gross-up for policyholder tax in the Life Business, investment return on treasury stock held for policyholders, cost of restructuring programme and loss on disposal of business activities, see page 20 for further information.*

1 *Interest expense on subordinated liabilities is recognised using the effective interest rate (EIR) method leading to a charge of €36 million as a result of the change in the Group's expectations of the restrictions expected to be imposed by the European Commission on the Group's ability to make coupon payments on certain subordinated liabilities unless under a binding legal obligation to do so. See Section 1.3.8.*

2 *IFRS requires that the income statement be grossed up based on total tax payable by Bank of Ireland Life, comprising both policyholder and stockholder tax. The tax gross-up relating to policyholder tax is included within non-core items.*

3 *Under IFRS accounting rules, the Group income statement impact of Bank of Ireland stock held by Bank of Ireland Life policyholders is excluded. The amount above reflects the impact of the stock price movement between 31 December 2009 and 30 June 2010. Units of stock held at 30 June 2010 were 35 million (31 December 2009: 11 million) primarliy due to the Rights Issue completed in June 2010.*

1.3.2 Underlying loss before tax for the six month period ended 30 June 2010 (excluding the impact of non-core items)

The Group's underlying loss before tax for the six month period ended 30 June 2010 of €1,246 million compares to an underlying loss before tax of €668 million for the six month period ended 30 June 2009. This increased loss primarily reflects a reduction in total income (net of insurance claims) and the loss on disposal of assets to NAMA partly offset by lower impairment charges and operating expenses.

Total income (net of insurance claims) of €1,469 million for the six month period ended 30 June 2010 is €291 million or 17% lower than the total income (net of insurance claims) of €1,760 million for the six month period ended 30 June 2009. The increased cost of deposits in highly competitive markets, the higher cost and quantum of term funding, the higher cost of the Government Guarantee Schemes (€151 million for the six month period ended 30 June 2010 as compared to €61 million for the six month period ended 30 June 2009) lower fees and other income as a result of reduced business activities and the impact of asset disposals in the prior period partly offset by improved lending margins and gains arising from the change in fair value of international investment properties are the principal factors underlying the reduction in total income.

Operating expenses of €916 million for the six month period ended 30 June 2010 are €33 million or 3% lower than the operating expenses of €949 million for the six month period ended 30 June 2009 reflecting lower staff numbers and continued tight management of all costs, partly offset by higher pension costs.

The impairment charge on loans and advances to customers of €893 million for the six month period ended 30 June 2010 has reduced by €33 million or 4% compared to the impairment charge of €926 million for the six month period ended 30 June 2009. The impairment charge on assets held for sale to NAMA of €466 million for the six month period ended 30 June 2010 has reduced by €85 million or 15% compared to the impairment charge of €551 million for the six month period ended 30 June 2009. The slowdown in economic activity, high levels of unemployment, lower disposable income, business insolvencies, sharp falls in asset values, over supply of residential housing stock and illiquid property markets are the key drivers of impairment losses for the six month period ended 30 June 2010. The Group believes that the impairment charge on the non-NAMA loans and advances to customers peaked in 2009 and will reduce progressively in each of 2010, 2011 and 2012.

During the six month period ended 30 June 2010 the Group sold €2.2 billion (before impairment provisions) of assets to NAMA for which it received nominal consideration of €1.5 billion in Government guaranteed bonds and non-guaranteed subordinated bonds. The net loss (after impairment provisions of €0.3 million and other charges) on the sale of assets to NAMA for the six month period ended 30 June 2010 was €466 million.

On the 2 April 2010 the Group sold Tranche 1 loans and associated derivatives of €1.9 billion (before impairment provisions) to NAMA comprising in nominal value €0.9 billion of land and development loans and €1.0 billion of associated loans. The nominal consideration received for these assets amounted to €1.2 billion in Government guaranteed bonds and non-guaranteed subordinated bonds resulting in a discount to gross loan value of approximately 36%.

The Group has completed and submitted to NAMA all due diligence material in respect of its Tranche 2 loans and associated derivatives amounting to €2.3 billion in nominal value (before impairment provisions). These loans comprise €1.1 billion of land and development loans and €1.2 billion of associated loans. The nominal value of the consideration to be received for these loans is expected to be approximately €1.5 billion resulting in an estimated discount to gross book value (before impairment provisions) on these loans of approximately 34.9%.

On 25 June 2010, the Group sold €0.3 billion (before impairment provisions) of these Tranche 2 loans to NAMA in return for Government guaranteed senior and non-guaranteed subordinated bonds with a nominal value of €0.3 billion. On 16 July 2010, the Group sold a further €1.5 billion (before impairment provisions of €0.4 billion at 30 June 2010) of Tranche 2 loans to NAMA in return for Government guaranteed senior and non-guaranteed subordinated bonds with a nominal value of €0.8 billion giving rise to a loss on sale (before any fair value adjustments on the consideration or any adjustments for cost) of €0.3 billion. The discount to gross loan value arising on the Tranche 2 assets transferred to date in 2010 amounts to €0.7 billion or 38.5%. The remaining Tranche 2 loans, which predominantly comprise of associated loans, are expected to be sold to NAMA in due course.

The Group's share of results from associates and joint ventures was €26 million for the six month period ended 30 June 2010 primarily attributable to the Group's share of First Rate Exchange Services (FRES), a joint venture with the UK Post Office, reporting a gain of €17 million together with a gain in the value of €6 million in the Group's investment in a property unit trust that holds an investment in a UK retail property. In the six month period ended 30 June 2009 the Group's share of FRES was €10 million offset by a charge of €12 million on the Group's investment in a property unit trust that holds an investment in a UK retail property and a credit of €2 million on other associates due to the fall in values reflecting depressed yields in uncertain markets.

1.3.3 Total income (net of insurance claims)

The period on period changes in 'net interest income' and 'net other income' are affected by IFRS income classifications. Under IFRS, certain assets and liabilities can be designated at 'fair value through profit or loss'. Where assets or liabilities have been designated at 'fair value through profit or loss', the total fair value movements on these items, including interest income / expense, are reported in 'net other income'. However, the cost of funding the assets and the interest income on investment of the related liabilities are reported in 'net interest income'. In addition, debt is raised in a variety of currencies and the resulting foreign exchange and interest rate risk is managed using derivative instruments – the cost of which is reported in 'net other income'. To enable a better understanding of underlying business trends, the impact of these IFRS income classifications is shown in the tables:

Net interest income / net interest margin	**6 months ended 30 June 2010 €m**	6 months ended 30 June 2009 €m	Change %
Net interest income (incl. cost of the ELG Scheme)	1,110	1,555	(29%)
Cost of ELG Scheme	94	-	-
Net interest income (excl. cost of the ELG Scheme)	1,204	1,555	(23%)
IFRS income classifications	(47)	(52)	-
Net interest income after IFRS income classification (excl. cost of the ELG scheme)	**1,157**	**1,503**	**(23%)**
Average interest earning assets (€ billion)	**164**	**177**	**(7%)**
Net interest margin (annualised) (excl. cost of the ELG scheme)	**1.41%**	**1.70%**	**(29 bps)**

Net interest income of €1,110 million for the six month period ended 30 June 2010 is after a charge of €94 million for the cost of the ELG Scheme which the Group joined in January 2010.

As the fees payable under the ELG Scheme are directly attributable to and incremental to the issue of a security or the raising of a deposit, they are included in the calculation of the effective interest rate of that security or deposit and classified, under accounting rules, as part of 'Net interest income'.

The fees payable under the CIFS Scheme relate to the average balances of covered liabilities during the period, including liabilities that may have existed at the date of the introduction of the scheme. Therefore they are not directly attributable to or incremental to the issue of a specific security or the raising of a deposit and, under accounting rules, are classified as part of 'Net other income'.

Excluding the cost of the ELG Scheme, net interest income, after IFRS income classifications, of €1,157 million for the six month period ended 30 June 2010 has reduced by 23% compared to the net interest income, after IFRS income classifications, of €1,503 million for the six month period ended 30 June 2009.

The Group net interest margin (annualised) of 1.41% for the six month period ended 30 June 2010 declined by 29 basis points (40 basis points including the cost of the ELG Scheme) as compared to a net interest margin of 1.70% for the six month period ended 30 June 2009 (the net interest margin for the six month period ended 31 December 2009 was 1.58%). The key drivers of the margin decrease of 29 basis points (annualised) were as follows:

- 30 basis points due to margin attrition on deposits as a result of intense competition and the low interest rate environment;
- 15 basis points due to higher costs of funding in the wholesale markets; and
- 3 basis points due to lower earnings on capital.

Partly offset by:

- 19 basis points due to higher asset pricing, particularly in Corporate Banking, Business Banking UK and the Residential Mortgage Business in both Ireland and the UK.

Net other income

Net other income	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	Change %
Net other income	359	205	75%
IFRS income classifications	47	52	-
Net other income after IFRS income classifications	**406**	**257**	**58%**

The following table gives an analysis of the principal movements in Net other income after IFRS income classifications.

Net other income after IFRS income classifications	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	Change €m
Other income from Banking and Capital Markets businesses	310	348	(38)
Other income from Bank of Ireland Life	83	68	15
Other items:			
Movement in Credit spreads on own debt	74	24	50
Fair value movement on unwind of hedge on subordinated liabilities	(3)	(35)	32
Change in valuation of international investment properties	28	(61)	89
Investment valuation variance - Bank of Ireland Life	2	(21)	23
European property investment provision	(1)	(19)	18
Impact of credit deterioration on the fair value on derivatives held for sale to NAMA	(30)	-	(30)
Government Guarantee charge (CIFS)	(57)	(61)	4
Guggenheim / Iridian (disposed during 2009)	-	14	(14)
Total other items	**13**	**(159)**	**172**
Net other income after IFRS income classifications	**406**	**257**	**149**

Net other income, after adjusting for IFRS income classifications, increased by €149 million for the six month period ended 30 June 2010 compared to the six month period ended 30 June 2009. This increase reflects:

- lower fee and other income of €38 million in the Banking and Capital Markets businesses as a result of lower levels of new business activity, and
- higher other income in Bank of Ireland Life of €15 million primarily due to the net impact of the changes in the discount and other rate assumptions of €8 million, together with higher sales volumes.

The principal other items within Net other income, after IFRS income classifications, which amount to a net gain of €13 million for the six month period ended 30 June 2010 were €172 million higher than the net charge of €159 million for the six month period ended 30 June 2009, due primarily to:

- a positive movement of €50 million arising from the widening of credit spreads on the Group's issued senior debt and subordinated debt designated at 'fair value through profit or loss';
- a charge of €35 million in the prior six month period ended 30 June 2009 arising from a fair value movement on the unwind of a hedge associated with a fixed rate subordinated debt that was repurchased in June 2009;
- a positive movement of €89 million due to the changes in value of investment properties. In the six month period ended 30 June 2009 investment properties held on the Group's balance sheet fell in value by €61 million partially reflecting depressed yields in very uncertain markets. There was some recovery in the value of international investment properties in the six month period ended 30 June 2010 which was the principal driver of the gain of €28 million in this period;
- a positive movement in the investment valuation variance of €23 million in Bank of Ireland Life as world equity and investment markets have shown some recovery from the prior period's sharp falls;
- a provision of €19 million in the prior six month period ended 30 June 2009 relating to a court hearing in connection with a European property investment. The case was subsequently decided in January 2010 and was unfavourable from the Group's perspective requiring a further provision of €74 million in the six month period ended 31 December 2009;
- a charge of €30 million in the six month period ended 30 June 2010 arising from the impact of credit deterioration on the fair value of derivatives held for sale to NAMA;
- a net lower cost of €4 million on the CIFS Government Guarantee Scheme as the Group joined the ELG Scheme in January 2010; and
- reduced fees in the asset management businesses of €14 million arising from the disposal of Guggenheim Alternative Asset Management LLC (Guggenheim) in June 2009 and Iridian Asset Management LLC (Iridian) in August 2009.

1.3.4 Operating expenses

Operating expenses of €916 million for the six month period ended 30 June 2010 were lower by €33 million compared to operating expenses of €949 million for the six month period ended 30 June 2009 primarily due to lower staff numbers and continued tight management of all costs partly offset by higher pension costs.

Operating expenses	**6 months ended 30 June 2010 €m**	6 months ended 30 June 2009 €m	Change %
Staff costs (excl. pension costs)	425	438	(3%)
Pension costs	107	96	11%
Other costs	384	415	(7%)
Total Operating expenses	**916**	**949**	**(3%)**
Staff numbers (full time equivalents)	**14,478**	**15,283**	**(805)**

Staff costs (excluding pension costs) of €425 million for the six month period ended 30 June 2010 were €13 million lower compared to €438 million for the six month period ended 30 June 2009 as a result of the Group's continuing tight management of staff costs. Staff numbers of 14,478 full time equivalents at 30 June 2010 were 5% lower compared to 15,283 full time equivalents at 30 June 2009.

Pension costs of €107 million for the six month period ended 30 June 2010 were €11 million or 11% higher when compared to the pension costs for the six month period ended 30 June 2009. Pension costs have increased as a result of the escalating costs to the Group of providing pension scheme benefits.

In April 2010, the Group completed its review of its defined benefit pension schemes and is making changes to the pension benefits under its sponsored schemes which are expected to eliminate approximately 50% of the €1.6 billion pension deficit at 31 December 2009. The agreed changes will lower the Group's pension costs and therefore have a positive effect on the income statement of the Group going forward (see section 1.3.8). A substantial number of these changes were in place at 30 June 2010.

To support the Group's objective to continue to become more focused and efficient the Group announced in July 2010 that, in addition to continued pay restraints that will be next reviewed in April 2011, it anticipates a reduction of approximately 750 in the overall number of people employed over a two year period primarily in areas affected by business change and lower activity levels across the Group in the Republic of Ireland, Northern Ireland and in Great Britain.

The Group continues to maintain its tight focus on cost management and is implementing a range of initiatives to further reduce costs in the medium term including the renegotiation of key outsourcing contracts together with increasing the levels of consolidation, standardisation and simplification of its operations.

1.3.5 Impairment charge on loans and advances to customers

The slowdown in economic activity, high levels of unemployment, lower disposable incomes, business insolvencies, sharp falls in asset values, over supply of residential housing stock and illiquid property markets were the key drivers of the impairment charges across the Group's loan portfolios.

The impairment charge on loans and advances to customers of €893 million for the six month period ended 30 June 2010 reduced by €33 million or 4% compared to the impairment charge of €926 million for the six month period ended 30 June 2009.

Loans and advances to customers	**6 months ended 30 June 2010 €m**	6 months ended 30 June 2009 €m	Change %
Residential mortgages	132	107	23%
Non-property SME and corporate	356	447	(20%)
Property and construction	325	241	35%
Consumer	80	131	(39%)
Total impairment charge on loans and advances to customers	**893**	**926**	**(4%)**

The impairment charge on Residential mortgages increased by 23% from €107 million for the six month period ended 30 June 2009 to €132 million for the six month period ended 30 June 2010. The current economic downturn including higher levels of unemployment, reduced disposable income and lower house prices adversely impacted the level of mortgage arrears albeit that the low levels of interest rates are helping to partly mitigate the current pressures. The Irish market has been more negatively impacted than the UK by higher unemployment and more severe house price falls which is reflected in the higher impairment charge in the Irish Residential mortgage portfolio as compared to the UK mortgage portfolio. In addition the buy to let element of the Irish residential investment loan book is impacted by a lower demand for rental properties caused in part by net migration out of Ireland which together with the existing levels of over supply in the housing market has put downward pressure on rental income.

The impairment charge on the Non-property SME and corporate loan portfolio was €356 million for the six month period ended 30 June 2010 compared to €447 million for the six month period ended 30 June 2009. While the impairment charge on this portfolio has reduced, the slowdown in economic activity and a heightened level of business insolvencies adversely impacted asset quality. Loans to larger Irish based corporate customers who are focused internationally together with the Group's international corporate lending portfolios are performing relatively better given the improving global economic environment.

The impairment charge of €325 million on the Property and construction portfolio for the six month period ended 30 June 2010 has increased by €84 million or 35% compared to the impairment charge of €241 million for the six month period ended 30 June 2009. The Property and construction portfolio was €24 billion at 30 June 2010 comprising of €21 billion of investment property loans and €3 billion of landbank and development loans.

The impairment charge on the investment property element of the Property and construction portfolio was €204 million for the six month period ended 30 June 2010 compared to €85 million for the six month period ended 30 June 2009. The increase in the impairment charge is primarily due to the current economic downturn, uncertainties as the NAMA process evolves and the low levels of transactions in the Irish commercial property sector due to a lack of demand from investors.

The impairment charge on the landbank and development element of the Property and construction portfolio was €121 million for the six month period ended 30 June 2010 compared to €156 million for the six month period ended 30 June 2009. While the impairment charge has reduced, lower house prices, an over supply of residential housing stock and illiquid property markets adversely impacted asset quality.

The impairment charge of €80 million on the Consumer loan book for the six month period ended 30 June 2010 has reduced by €51 million or 39% compared to the impairment charge of €131 million for the six month period ended 30 June 2009. The impairment on the Consumer loan book is showing signs of stabilisation although the impairment charge on consumer loans remains elevated due to reduced levels of disposable income and high unemployment levels.

The Group believes that the impairment charge on the non-NAMA loans and advances to customers peaked in 2009 and will reduce progressively in each of 2010, 2011 and 2012.

A detailed analysis and commentary on asset quality is set out on pages 50 to 59 of the Risk Management Report.

1.3.6 Impairment charge on assets held for sale to NAMA

Assets held for sale to NAMA continue to be assessed for impairment and may incur further impairment charges up to the date of sale to NAMA on a basis and methodology consistent with loans and advances to customers and in accordance with standard accounting practice.

The impairment charge on assets held for sale to NAMA of €466 million for the six month period ended 30 June 2010 reduced by €85 million or 15% compared to the impairment charge of €551 million for the six month period ended 30 June 2009.

Assets held for sale to NAMA	**6 months ended 30 June 2010 €m**	6 months ended 30 June 2009 €m	Change %
Residential mortgages	20	-	-
Non-property SME and corporate	10	1	-
Property and construction	436	550	(21%)
Total impairment charge on assets held for sale to NAMA	**466**	**551**	**(15%)**

The impairment charge on Residential mortgages of €20 million and the impairment charge on the Non-property SME and corporate loans of €10 million for the six month period ended 30 June 2010 arose on loans that have been deemed to be Eligible Bank Assets.

The impairment charge of €436 million on the Property and construction portfolio of assets held for sale to NAMA for the six month period ended 30 June 2010 has decreased by €114 million or 21% compared to the impairment charge of €550 million for the six month period ended 30 June 2009.

The Property and construction portfolio was €9.7 billion at 30 June 2010 comprising of €7.2 billion of landbank and development loans and €2.5 billion of investment property loans.

The impairment charge on the landbank and development element of the Property and construction portfolio of €371 million for the six month period ended 30 June 2010 compared to €535 million for the six month period ended 30 June 2009. While the impairment charge has reduced in part due to the sale of €0.9 billion of land and development loans to NAMA on 2 April 2010, lower house prices, an over supply of residential housing stock and illiquid property markets adversely impacted asset quality.

The impairment charge on the investment property element of the Property and construction portfolio was €65 million for the six month period ended 30 June 2010 compared to €15 million for the six month period ended 30 June 2009. The increase in the impairment charge is primarily due to the current economic downturn, uncertainties as the NAMA process evolves and the low levels of transactions in the Irish commercial property sector due to a lack of demand from investors.

1.3.7 Loss on sale of assets to NAMA

The loss on sale of assets to NAMA reflects all assets that were sold to NAMA in the six month period ended 30 June 2010 as set out below. The loss on those assets sold to NAMA in July 2010 will be recognised in the six month period ended 31 December 2010.

Loss on sale of assets to NAMA	**€m**	**6 months ended 30 June 2010 €m**
Loans sold to NAMA (nominal value)		2,215
Derivatives sold to NAMA (fair value)		27
		2,242
Nominal value of securities received		
- NAMA senior bonds	(1,472)	
- NAMA subordinated debt	(77)	(1,549)
Discount on gross loan value		693
Impairment provisions		(308)
Other items		
Fair value adjustments on securities received, provision for servicing liability and other associated sale costs		81
Loss on sale of assets to NAMA		**466**

Tranche 1
The Group sold Tranche 1 loans and associated derivatives of €1.9 billion (before impairment provisions) to NAMA on 2 April 2010 comprising in nominal value €0.9 billion of land and development loans and €1.0 billion of associated loans. The nominal value of the consideration received for these assets amounted to €1.2 billion in Government guaranteed senior bonds and non-guaranteed subordinated bonds resulting in a discount of nominal consideration to gross loan value of approximately 36%.

Tranche 2
The Group has completed and submitted to NAMA all due diligence material in respect of its Tranche 2 loans and associated derivatives amounting to €2.3 billion in nominal value. These loans comprise €1.1 billion of land and development loans and €1.2 billion of associated loans. The nominal value of the consideration to be received for these loans is expected to be approximately €1.5 billion resulting in an estimated discount to gross book value (before impairment provisions) on these loans of approximately 34.9%.

On 25 June 2010, the Group sold €0.3 billion (before impairment provisions) of these Tranche 2 loans to NAMA in return for Government guaranteed senior and non-guaranteed subordinated bonds with a nominal value of €0.3 billion. On 16 July 2010, the Group sold a further €1.5 billion (before impairment provisions at 30 June 2010 of €0.4 billion) of Tranche 2 loans to NAMA in return for Government guaranteed senior bonds and non-guaranteed subordinated bonds with a nominal value of €0.8 billion giving rise to a loss on sale (before any fair value adjustments on the consideration or any adjustments for costs) of €0.3 billion. The discount of nominal consideration to gross loan value arising on the Tranche 2 assets transferred to date in 2010 amounts to €0.7 billion or 38.5%. The remaining Tranche 2 loans, which predominantly comprise of associated loans, are expected to be sold to NAMA in due course.

Further details are set out on note 15 on page 95.

1.3.8 Non-core items

Underlying performance excludes non-core items which are those items that the Group believe obscures the underlying performance trends in the business. In addition to the recurring non-core items (principally the Bank of Ireland Life gross up for policyholder tax and investment returns on treasury stock held for policyholders) the Group has treated the following items as non-core in the six month period ended 30 June 2010:

Gain on liability management exercises
Following the successful completion of two liquidity management exercises during the six month period ended 30 June 2010 the Group recognised a gain of €699 million in its income statement as follows;

- a gain of €423 million was recognised following the completion, in February 2010, of an exchange of certain lower tier 2 securities for a new series of longer dated lower tier 2 securities; and
- in April 2010, as part of the Group's capital raising initiative, a gain of €276 million was recognised arising from the Debt for Equity Exchange Offers where existing holders of eligible debt securities were offered the opportunity to exchange those securities for a) cash proceeds raised from the allotment of ordinary stock on behalf of these bond holders in the rights issue or b) allotment instruments of up to €200 million which will automatically convert into ordinary stock in September 2010.

In the six month period ended 30 June 2009 the Group successfully completed a debt repurchase programme of a nominal value of €1.7 billion of euro, sterling and US dollar denominated tier 1 securities. The gain generated from the repurchase of tier 1 debt securities was €1,037 million in the six month period ended 30 June 2009.

Further details are set out on note 9 on page 89 of the interim financial statements.

Impact of changes in pension benefits
At 31 December 2009, the deficit in the Group's sponsored defined benefit pension schemes was €1.6 billion. The most significant defined benefit pension scheme sponsored by the Group is the Bank of Ireland Staff Pensions Fund ("BSPF") which accounts for 80% of the total deficit across all the schemes. The Group completed a review of its sponsored defined benefit pension schemes in April 2010 and a shared solution to address the deficit, in the BSPF involving the members of the schemes and the Group has been developed. Similar shared solutions are being implemented for other defined benefit schemes, where relevant.

Based on the status of implementation of the shared solution at 30 June 2010, the Group has recognised a reduction in the deficit of the pension schemes of €676 million. In accordance with accounting standards, the Group has recognised this amount as a gain in the income statement.

Further details are set out in note 31 on page 106.

Impact of 'coupon stopper' on subordinated debt
In January 2010 the European Commission imposed restrictions on the Group's ability to make coupon payments on certain subordinated liabilities unless under a binding legal obligation to do so (a "coupon stopper" provision). On 31 December 2009 the Group expected that it would be precluded from making coupon payments for two years and therefore, under the effective interest rate method of accounting, the Group recognised a non-core gain of €67 million in its financial statements for the nine month period ended 31 December 2009. As announced by the Group on 16 April 2010 it was expected that the coupon stopper provison should apply for one year and would cease on 31 January 2011. The European Commission confirmed this on 15 July 2010. Consequently the Group has recognised a charge of €36 million in the six month period ended 30 June 2010 to reflect this change.

1.3.9 Taxation

The taxation credit for the Group was €27 million for the six month period ended 30 June 2010 compared to a taxation credit of €125 million for the six month period ended 30 June 2009. The main factors contributing to the tax charge are the jurisdictional mix of profits / (losses) and the impact of the non-core items, see above.

Excluding the impact of non-core items, the effective tax rate for the six month period ended 30 June 2010 is 12.9% (taxation credit). The comparable rate for the six month period ended 30 June 2009 was 19% (taxation credit).

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1.4 Group Balance Sheet

1.4.1 Summary Consolidated Balance Sheet

Summary Consolidated Balance Sheet	30 June 2010 €bn	31 December 2009 €bn	Change %
Loans and advances to customers (net of impairment provisions)	121	119	1%
Assets held for sale to NAMA (net of impairment provisions)	7	10	(22%)
Liquid assets	28	31	(9%)
Other assets	24	21	12%
Total assets	**180**	**181**	**-**
Customer deposits	84	85	-
Wholesale funding	58	61	(4%)
Subordinated liabilities	4	6	(27%)
Other liabilities	26	23	11%
Total liabilities	**172**	**175**	**(1%)**
Stockholders' equity	8	6	21%
Total liabilities and stockholders' equity	**180**	**181**	**-**
Key Balance Sheet metrics			
Loans and advances to customers - excl. assets held for sale to NAMA / customer deposits	143%	141%	
Loans and advances to customers - incl. assets held for sale to NAMA / customer deposits	152%	152%	

1.4.2 Loans and advances to customers

The Group's loans and advances to customers, net of impairment provisions, at 30 June 2010 of €121 billion reflects a marginal increase of 1% when compared to the Group's loans and advances to customers of €119 billion at 31 December 2009. On a constant currency basis the Groups loans and advances to customers, net of impairment provisions, at 30 June 2010 is €117 billion reflecting a fall of €2 billion or 2% when compared to the Group's loans and advances to customers of €119 billion at 31 December 2009.

The composition of the Group's loans and advances to customers by division and by portfolio at 30 June 2010 was broadly consistent with the composition of the loans and advances to customers by division and by portfolio at 31 December 2009 as set out in the tables below.

Composition by division Loans and advances to customers	30 June 2010 €bn	 %	31 December 2009 €bn	 %
Retail Republic of Ireland	51	41%	51	42%
UK Financial Services	52	42%	49	40%
UK Financial Services (Stg£ equivalent)	*43*	-	*44*	-
Capital Markets	22	17%	22	18%
Total loans and advances to customers	**125**	**100%**	**122**	**100%**
Impairment provisions	(4)		(3)	
Total loans and advances to customers	**121**		**119**	

Composition by portfolio **Loans and advances to customers**	**30 June 2010** **€bn**	 **%**	31 December 2009 €bn	 %
Residential Mortgages	62	50%	60	49%
- Retail Republic of Ireland	*28*	-	*28*	-
- UK Financial Services	*34*	-	*32*	-
- UK Financial Services (Stg£ equivalent)	*28*	-	*29*	-
Non-property SME & Corporate	35	28%	34	28%
Property & Construction	24	19%	24	20%
- Investment	*21*	-	*21*	-
- Landbank / Development	*3*	-	*3*	-
Consumer	4	3%	4	3%
Total loans and advances to customers before impairment provisions	**125**	**100%**	**122**	**100%**
Impairment provisions	(4)		(3)	
Total loans and advances to customers after impairment provisions	**121**		**119**	

Residential mortgages of €62 billion before impairment provisions at 30 June 2010 have increased by €2 billion or 3% when compared to 31 December 2009. This is primarily as a result of the impact of foreign exchange movements on the UK Mortgage book. On a constant currency basis, the UK mortgage book reduced by £1 billion or 3% in the six month period ended 30 June 2010, while the Irish Residential mortgage book remained broadly in line with that reported at 31 December 2009.

Non-property SME and corporate loans of €35 billion at 30 June 2010 have marginally increased when compared to the loan book at 31 December 2009. This portfolio is well diversified across industries and geographies.

The total Property and construction portfolio of €24 billion at 30 June 2010 has increased marginally since 31 December 2009 primarily due to the impact of foreign exchange movements. Of the total portfolio, 87% is made up of investment property lending and of this €13.7 billion or 66% is outside the Republic of Ireland. The landbank and development portfolio makes up 13% of the total Property and Construction portfolio and €1.7 billion or 53% is outside the Republic of Ireland.

Consumer loans of €4 billion at 30 June 2010 continue to decline, largely due to repayments as customers seek to reduce their levels of indebtedness and due to a slowdown in demand for new lending.

The stock of impairment provisions on loans and advances to customers of €3.7 billion at 30 June 2010 has increased by €0.7 billion compared to €3.0 billion at 31 December 2009. This reflects the increase in the impairment charge in the six month period ended 30 June 2010 partly offset by write offs and other movements.

1.4.3 Assets held for sale to NAMA

The Group's assets held for sale to NAMA, net of impairment provisions, at 30 June 2010 of €7.2 billion reflects a decrease of 22% from €9.6 billion at 31 December 2009.

The composition of the Group's assets held for sale to NAMA by portfolio and by division at 30 June 2010 is set out in the tables below:

Composition by division	**30 June 2010**		31 December 2009	
Assets held for sale to NAMA	**€bn**	**%**	€bn	%
Retail Republic of Ireland	3.5	35%	3.5	28%
UK Financial Services	3.4	34%	3.6	29%
UK Financial Services (Stg£ equivalent)	2.8	-	3.2	-
Capital Markets	3.2	31%	5.3	43%
Total assets held for sale to NAMA	**10.1**	**100%**	**12.4**	**100%**
Impairment provisions	(2.9)	-	(2.8)	-
Total assets held for sale to NAMA	**7.2**	**-**	**9.6**	**-**

Composition by portfolio	**30 June 2010**		31 December 2009	
Assets held for sale to NAMA	**€bn**	**%**	€bn	%
Residential mortgages	0.1	1%	-	-
Non-property SME & Corporate	0.2	2%	-	-
Landbank / Development	7.2	71%	8.5	69%
Associated (principally investment property)	2.5	25%	3.7	30%
Derivatives	0.1	1%	0.2	1%
Total assets held for sale to NAMA	**10.1**	**100%**	**12.4**	**100%**
Impairment provisions	(2.9)	**-**	(2.8)	-
Total assets held for sale to NAMA	**7.2**	**-**	**9.6**	**-**

Total assets held for sale to NAMA (before impairment provisions) have reduced from €12.4 billion at 31 December 2009 to €10.1 billion at 30 June 2010.

Impairment provisions on assets held for sale to NAMA increased from €2.8 billion at 31 December 2009 to €2.9 billion at 30 June 2010. This primarily reflects new impairment provisions partly offset by the write off of provisions on loans sold to NAMA during the six month period ended 30 June 2010 together with foreign exchange impacts.

Movement in assets held for sale to NAMA	**Total assets €bn**	**Impairment provision €bn**	**Carrying value €bn**
Balance at 31 December 2009	12.4	(2.8)	9.6
Sale of assets to NAMA in the six months to 30 June 2010	(2.2)	0.3	(1.9)
New impairment provisons in the six months to 30 June 2010	-	(0.5)	(0.5)
Other movements	(0.1)	0.1	-
Balance at 30 June 2010	**10.1**	**(2.9)**	**7.2**

The movement in assets held for sale to NAMA during the six month period ended 30 June 2010 is made up as follows:

- The sale of assets to NAMA of €2.2 billion before impairment provisions of €0.3 billion - see section 1.3.7 on page 19;
- New impairment provisions of €0.5 billion - see section 1.3.6 on page 18; and
- Other movements which are estimated to be €0.7 billion of assets that are now deemed eligible to be sold to NAMA, €1.0 billion of assets that are no longer deemed eligible to be sold to NAMA and foreign exchange movements of €0.3 billion.

The Group expects to incur a loss on the sale of the Eligible Bank Assets to NAMA arising from the difference between the fair value of the consideration to be received and the carrying value of the Eligible Bank Assets to be sold together with the costs of sale and any provision that may be required under accounting standards due to the ongoing cost of servicing theses assets on behalf of NAMA. In accordance with accounting standards, the loss on disposal will only be recognised on the actual sale of each tranche of assets to NAMA.

As previously advised, the gross loss on disposal of Bank of Ireland Group Eligible Bank Assets to NAMA will be a function of three factors: the quantum of those loans, the mix of those loans, as between land and development and associated loans, and the discount that would apply to those loans. The Group announced on 26 April 2010 that it believed that the discount on the total portfolio of €12.2 billion expected to be sold to NAMA would be within the guidance of €4.8 billion provided at the Extraordinary General Court of the Bank on 12 January 2010. The Group made the announcement on 26 April 2010 on the basis of the discount arising on Tranche 1 coupled with the results of a valuation exercise on a sample of €6.0 billion (approximately 50% of the loans which the Group expects to sell to NAMA). On the basis of the results of Tranche 1 and Tranche 2 outlined above, the Group does not expect any material difference to the position announced on 26 April 2010.

However, as previously advised, significant uncertainties still remain as to the final discount which will be applicable to Bank of Ireland Group. The Group will only be able to accurately quantify the ultimate gross loss on the sale of all the Bank of Ireland Eligible Bank Assets to NAMA on completion of the relevant due diligence and the sale of the final portfolio of eligible bank assets to NAMA.

A detailed analysis and commentary on asset quality and impairment is set out on pages 50 to 59 of the Risk Management Report.

Further details on assets held for sale to NAMA are set out in note 25 on page 102.

1.4.4 Liquid Assets

Financial assets are considered to be liquid assets if they are traded in active markets or are available to be pledged against borrowings from monetary authorities and include loans to banks and monetary authorities, available for sale financial assets, NAMA senior bonds and trading securities. The Group's holding of liquid assets at 30 June 2010 of €28 billion is €3 billion lower than the Group's holding of liquid assets at 31 December 2009. A reduction in the overall level of wholesale funding together with an extension of its average maturity profile has led to a reduction in the Group's requirement for liquid assets. Throughout the six month period ended 30 June 2010, the Group maintained a buffer materially in excess of its regulatory liquidity requirements.

1.4.5 Customer Deposits

Customer deposits comprise demand, notice and term deposits as well as credit balances on current accounts.

The Group's deposit base was €84 billion at 30 June 2010 compared to €85 billion at 31 December 2009. On a constant currency basis, the Group's deposit base at 30 June 2010 showed a fall of 5% from €85 billion at 31 December 2009 to €81 billion.

The Group experienced pressure on some ratings sensitive international deposits caused by a downgrade by Standard & Poors in January 2010, from A/A-1 (credit watch negative) to A-/A-2 with a stable outlook.

Despite intense competition for deposits in Ireland and the UK core customer deposits have been broadly stable across the Group's franchises with the Post Office Joint Venture in particular experiencing excellent growth in deposits of 12% during the six month period to 30 June 2010.

The Loans to Deposits ratio, excluding assets held for sale to NAMA, was 143% at 30 June 2010, compared to 141% at 31 December 2009. The Loans to Deposits ratio, based on loans and advances to customers, including assets held for sale to NAMA, of 152% at 30 June 2010 remained in line with that reported at 31 December 2009.

A detailed analysis of the Group's funding position and key metrics is set out on pages 60 to 65 in the Risk Management Report.

[1] *Prior to (i) any impairment provisions previously recognised by the Group, (ii) any fair value adjustments in respect of any consideration received, (iii) any provision that may be required under accounting standards due to the ongoing cost of servicing these assets on behalf of NAMA, and (iv) taking account of any transfer costs.*

1.4.6 Wholesale funding

The Group's wholesale funding programmes are well diversified across geographies, investor types and maturities. In addition, the Group has developed a strong technical capability which has allowed it to enhance the funding capacity of its balance sheet in terms of contingent liquidity collateral.

Wholesale funding reduced to €58 billion at 30 June 2010 compared to €61 billion at 31 December 2009. This was principally due to the sale of the first tranche of assets to NAMA, the proceeds of the June 2010 capital raising initiatives together with the need to hold less liquid assets.

During the six month period ended 30 June 2010 the Group issued €4.6 billion of term funding (funding with a maturity of greater than one year) with an average maturity of 3.8 years and an average spread of 1.50% over 3 month Euribor. At 30 June 2010, 41% of wholesale funding had a term to maturity of greater than one year compared to 32% at 31 December 2009.

The Group continues to benefit from a robust and diversified contingent liquidity strategy. At 30 June 2010, the Group had a pool of contingent liquidity collateral with a cash value of €41 billion, comprised of debt securities, NAMA senior bonds and other eligible collateral which is capable of being pledged against borrowings from Monetary Authorities (including the European Central Bank, the Bank of England and the US Federal Reserve). The Group has continued to maintain a disciplined approach to the use of funding from Monetary Authorities and drawings at 30 June 2010 were €8 billion (net) in line with drawings of €8 billion (net) at 31 December 2009.

A detailed analysis of the Group's funding position and key metrics is set out on pages 60 to 65 in the Risk Management Report below.

1.4.7 Subordinated Liabilities

At 30 June 2010, the Group's subordinated liabilities amounted to €4.4 billion compared to €6 billion at 31 December 2009.

On 11 February 2010, the Group successfully completed the exchange of certain lower tier 2 securities for a new series of longer dated lower tier 2 securities. Approximately €1.6 billion in nominal value of lower tier 2 securities were exchanged at an average discount of 26% for €1.2 billion in nominal value of higher coupon lower tier 2 securities. This yielded a gain to equity tier 1 capital of €405 million, while leaving the total capital position unchanged.

In April 2010, as part of the Group's capital raising initiatives, existing holders of eligible debt securities were offered the opportunity to exchange those securities for a) cash proceeds raised from the allotment of ordinary stock on behalf of these bond holders in the rights issue or b) allotment instruments of up to €200 million which will automatically convert into ordinary stock in September 2010. Participation in the offer was 57% resulting in a total gain of €300 million in equity tier 1 capital. See page 30 for more details.

1.4.8 Stockholders' Equity

Movements in Stockholders' Equity	6 months ended 30 June 2010 €m	9 months ended 31 December 2009 €m	Change %
Stockholders' equity at beginning of period	**6,387**	**6,852**	**(7%)**
Movements:			
Profit / (loss) attributable to stockholders	140	(1,460)	
Capital Raising			
- Net new equity capital raised from public markets	957	-	
Foreign exchange movements	399	117	
Cash flow hedge reserve movement	125	82	
Pension fund obligations	(215)	(74)	
Available for sale (AFS) reserve movements	(48)	924	
Reissue of stock / treasury stock	(15)	(7)	
Other movements	6	(47)	
Stockholders' equity at end of period	**7,736**	**6,387**	**21%**

Stockholders equity increased from €6,387 million at 31 December 2009 to €7,736 million at 30 June 2010.

The profit attributable to stockholders of €140 million for the six month period ended 30 June 2010 shows a significant increase compared to the loss attributable to stockholders of €1,460 million in the nine month period ended 31 December 2009 primarily due to the higher level of impairment charges in the nine month period ended 31 December 2009. The profit attributable to stockholders of €140 million in the six month period ended 30 June 2010 includes the impact of changes in pension benefits of €676 million and a gain of €699 million arising from the liability management exercises partly offset by the underlying loss before tax.

During June 2010 the Group successfully completed a capital raising which increased its stockholders equity by €957 million (net). Further details are set out on page 30.

Foreign exchange adjustments relate primarily to the impact on the translation of the Group's net investments in foreign operations arising primarily from the 7.9% weakening of the euro against sterling in the six month period ended 30 June 2010.

The cash flow hedge reserve movement reflects the impact of changes in interest rates on the mark to market value of cash flow hedge accounted derivatives. Over time, the reserve will flow through the income statement in line with the underlying hedged instruments, with no net income statement impact.

The movement in pension fund obligations is primarily as a result of changes in key assumptions, including the inflation rate and the discount rate used in the calculation of the schemes' liabilities, partially offset by the positive impact of the recovery in global investment markets on the valuation of pension fund assets at 30 June 2010.

The AFS reserve movement in the six month period ended 30 June 2010 is driven by wider credit spreads and interest rate changes on the value of the AFS book. The AFS reserve is expected to reverse as the underlying financial assets mature.

1.4.9 Other assets and Other liabilities

Other assets and Other liabilities	**30 June 2010 €bn**	31 December 2009 €bn	Change %
Other assets	24	21	12%
Other liabilities	26	23	11%

Other assets, at 30 June 2010, include Derivative financial instruments with a positive fair value of €8.0 billion compared to a positive fair value of €5.8 billion at 31 December 2010. The increase of €2.2 billion in the fair value of derivative assets is due to the impact of the movement in interest rates and foreign exchange rates on the positive fair value of derivatives during the six month period ended 30 June 2010. It is matched by an equivalent increase in the fair value of the derivative liabilities.

Other liabilities, at 30 June 2010, include Derivative financial instruments with a negative fair value of €8.1 billion compared to a negative fair value of €6.0 billion at 31 December 2010.The increase of €2.1 billion in the fair value of derivative liabilities is due to the impact of the movement in foreign exchange rates and interest rates on the negative fair value of the derivatives during the six month period ended 30 June 2010. It is matched by an equivalent increase in the fair value of derivative assets.

Included within other assets and other liabilities are businesses that are held for sale at 30 June 2010, see note 27 on page 105. These businesses include, Bank of Ireland Asset Management (asset management business included within the Capital Markets Division) and Foreign Currency Exchange Corporation (US foreign exchange business) and the Group's stake in the Irish Credit Bureau Limited (both included within Retail Republic of Ireland).

At 30 June 2010, the Group considered that it was likely that the businesses outlined above would be disposed of within the next twelve months and accordingly, the assets and liabilities of these businesses have been reclassified as assets and liabilities held for sale, further details see page 105.

1.5 Capital

Risk Weighted Assets (RWA) – Basel II	30 June 2010 €m	31 December 2009 €m
Risk weighted assets		
Credit risk	84,390	89,785
Market risk	2,194	2,133
Operational risk	6,235	6,415
Total risk weighted assets	**92,819**	**98,333**

Key Capital Ratios	30 June 2010 €bn	30 June 2010 % of RWA	31 December 2009 €bn	31 December 2009 % of RWA
Equity tier 1 ratio (Core tier 1 less preference stock)	7.6	8.2%	5.3	5.3%
Core tier 1 ratio	9.5	10.2%	8.8	8.9%
Tier 1 ratio	9.2	9.9%	9.7	9.8%
Total capital ratio	11.6	12.5%	13.2	13.4%

Risk Weighted Assets at 30 June 2010 of €93 billion are €5 billion lower than the Risk Weighted Assets of €98 billion at 31 December 2009. This decrease is mainly due to the impact of the higher level of impaired loans, the increased impairment provisions and the impact of the sale of loans to NAMA during the six month period ending 30 June 2010 partly offset by the impact of a stronger sterling exchange rate.

The equity tier 1 ratio at 30 June 2010 of 8.2% compares to a ratio of 5.3% at 31 December 2009. The increase in the ratio is primarily as a result of the capital raising that was completed in June 2010 partly offset by the impact of the impairment charges on loans and advances to customers and assets held for sale to NAMA together with the impact of the sale of assets to NAMA.

The total capital ratio at 30 June 2010 of 12.5% compares to a ratio of 13.4% at 31 December 2009. The reduction in the ratio is primarily due to the impact of the higher level of impaired loans, the increased impairment provisions and the impact of the sale of assets to NAMA together with the movement in the expected loss adjustment for the six month period ended 30 June 2010.

Further details are set out on page 31.

1.5.1 Regulatory Initiatives

Prudential Capital Assessment Review
In March 2010 the Financial Regulator completed the Prudential Capital Assessment Review (“PCAR”) for Bank of Ireland in order to assess its capital requirements. This review took into account both expected base and potential stressed loan losses, together with other financial developments, over a 3 year time horizon to 2012.

The PCAR was undertaken with reference to:

- a target core tier 1 ratio level of 8% in the base case. As a further prudent requirement, the capital to meet the base case target must be principally in the form of equity to meet a targeted equity tier 1 ratio of 7%.
- a target level of 4% core tier 1 capital should be maintained in a stress scenario.

As announced on 30 March 2010, the outcome of this review was that the Financial Regulator determined that the Group needed to raise an additional €2.66 billion of equity capital by 31 December 2010 to comply with the PCAR. This requirement was exceeded in June 2010 following the successful completion of the capital raising initiatives of the Bank - see 1.5.2 below.

CEBS Stress Test

In July 2010 the Group was subject to the 2010 stress testing exercise co-ordinated by the Committee of European Banking Supervisors ("CEBS"), in co-operation with the European Central Bank ("ECB") and under the supervision of the Central Bank of Ireland and the Irish Financial Regulator.

The objective of the stress test, which was conducted on a bank by bank basis across 91 banks, was to assess the overall resilience of the EU banking sector and the banks ability to absorb further possible shocks on credit and market risks including sovereign risks.

Bank of Ireland has passed the stress test. Under the adverse scenario including the additional sovereign shock, Bank of Ireland's estimated tier 1 capital ratio would be 7.1% at 31 December 2011 which is 1.1% or €933 million in excess of the threshold of 6% tier 1 capital ratio agreed exclusively for the purpose of this exercise.

1.5.2 Capital raising initiatives

Payment in Kind Coupon

In January 2010, following indications from the European Commision that the Group should not make coupon payments on its tier 1 and upper tier 2 capital instruments unless under a binding legal obligation to do so, the Group announced that the non-cumulative distribution on certain tier 1 Capital instruments, which would otherwise have been payable on 1 February 2010 and 4 February 2010, would not be paid. The effect of this decision by the Group was to trigger the "dividend stopper" provisions of these instruments. While these "dividend stoppers" remain in force, the Group is precluded, for a period of one calendar year from and including 1 February 2010 from declaring and making any distribution or dividend payments on its Ordinary Stock, non-cumulative euro and sterling Preference Stock, the 2009 Preference Stock and preferred securities.

As a consequence of this, the Group issued 184,394,378 units of Ordinary Stock to the National Pension Reserve Fund Commission ("NPRFC") on 22 February 2010 in lieu of the cash dividend otherwise due under the conditions of the 2009 Preference Stock. Further details are set out in note 37 on page 113 of the Interim financial statements.

Debt for Debt Exchange

As set out in section 1.4.7 the Group completed an exchange offer for lower tier 2 securities in February 2010, the outcome of which added €405 million to the Group's equity capital base.

Recapitalisation of the Bank

On 26 April 2010, the Group announced proposals to further strengthen its capital by raising not less than €2.8 billion of capital through the implementation of an Institutional Placing, a Placing to the NPRFC, a Rights Issue, Warrant Cancellation together with Debt for Equity Offers. These capital proposals were completed successfully in June 2010 and generated net additional equity capital for the Group of €2.9 billion.

Equity capital raising	Private Sources €m	Government Sources[1] €m	Total €m
Placing	500	1,036	1,536
Rights Issue	1,099[2]	627	1,726
Gain on Debt for Equity Offers	300[3]	-	300
	1,899	**1,663**	**3,562**
Less:			
Warrant Cancellation	-	(491)	(491)
Fees and other costs	(78)	(52)	(130)
Net additional equity capital raised	**1,821**	**1,120**	**2,941**

[1] The Government subscribed for the new ordinary equity by converting at par part of its holding of the 2009 Preference Stock.
[2] €557 million of the Rights Issue was paid to bondholders as part of the Debt for Equity Offers.
[3] Of this gain of €300 million, €276 million was recognised in the income statement in the six month period ended 30 June 2010 and €24 million was recognised directly in equity at 30 June 2010.

Further details on the capital raising transactions are set out in note 35 on page 110.

1.5.3 Capital Adequacy Data

	30 June 2010 Basel II €m	31 December 2009 Basel II €m
Capital base		
Share capital and reserves	7,789	6,437
Regulatory retirement benefit obligation adjustments	1,262	1,632
Available for sale reserve and cash flow hedge reserve	1,041	1,118
Goodwill and other intangible assets	(478)	(488)
Preference stock	(1,878)	(3,521)
Other adjustments	(154)	80
Equity tier 1 capital	**7,582**	**5,258**
Preference stock	61	59
2009 preference stock and warrants*	1,817	3,462
Core tier 1 capital	**9,460**	**8,779**
Innovative hybrid debt	303	752
Non-innovative hybrid debt	284	574
Supervisory deductions	(862)	(454)
Total tier 1 capital	**9,185**	**9,651**
Tier 2		
Undated loan capital	193	225
Dated loan capital	3,488	3,716
IBNR provisions	338	772
Revaluation reserves	29	40
Supervisory deductions	(862)	(454)
Other adjustments	9	11
Total tier 2 capital	**3,195**	**4,310**
Total capital before supervisory deductions	**12,380**	13,961
Supervisory deductions		
Life and pension business	(792)	(797)
Total capital	**11,588**	**13,164**

* Impact of the capital raising initiatives announced in April 2010 and completed in June 2010, see note 35 on page 110 for further details.

1.6 Divisional Performance - on an Underlying * Basis

Underlying * (loss) / profit before tax	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	Change %
Retail Republic of Ireland	(548)	(518)	6%
Bank of Ireland Life	30	(5)	700%
UK Financial Services	(202)	(162)	25%
UK Financial Services (Stg£ equivalent)	*(168)*	*(141)*	*19%*
Capital Markets	(401)	125	(421%)
Group Centre	(125)	(108)	16%
Underlying * loss before tax	**(1,246)**	**(668)**	**87%**
Non-core items	1,362	941	45%
Profit before tax	**116**	**273**	**(58%)**

* Underlying excludes the impact of non-core items (see page 11).

1.6.1 Retail Republic of Ireland

Retail Republic of Ireland incorporates the Branch Network, Mortgage Business, Consumer Banking, Business Banking and Private Banking activities in the Republic of Ireland and is built on a broad distribution platform, a comprehensive suite of retail and business products and services, a commitment to service excellence and a strong focus on operating efficiency.

The six month period ended 30 June 2010 remained particularly difficult for the Retail businesses in Ireland which continued to be adversely impacted by the contraction in the Irish economy. The decline in the property and construction sectors led to continued high impairment charges. Intense competition for deposits and the low interest rate environment resulted in a significant reduction in deposit margins. The current economic environment together with lower disposable incomes has resulted in subdued demand for financial services products.

Retail Republic of Ireland: Income statement	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	Change %
Net interest income	491	639	(23%)
Net other income	180	76	137%
Operating income	**671**	**715**	**(6%)**
Operating expenses	(467)	(460)	2%
Operating profit before impairment charges on financial assets and loss on sale to NAMA	**204**	**255**	**(20%)**
Impairment charges on loans and advances to customers	(499)	(480)	4%
Charges arising on assets held for sale to NAMA:			
- Impairment charges on assets held for sale to NAMA	(228)	(283)	(19%)
- Loss on sale of assets to NAMA	(33)	-	-
Share of results of associates and joint ventures (after tax)	8	(10)	180%
Underlying * loss before tax	**(548)**	**(518)**	**6%**
Cost / income ratio	**69%**	**65%**	

* Underlying excludes the impact of non-core items (see page 11).

Retail Republic of Ireland reported an underlying loss before tax of €548 million for the six month period ended 30 June 2010 compared to an underlying loss before tax of €518 million for the six month period ended 30 June 2009.

The operating profit of €204 million (before impairment charges on financial assets and loss on sale to NAMA) for the six month period ended 30 June 2010 reduced by €51 million or 20% compared to the operating profit of €255 million (before impairment charges on financial assets) for the six month period ended 30 June 2009.

Net interest income of €491 million for the six month period ended 30 June 2010 was €148 million or 23% lower than the net interest income of €639 million for the six month period ended 30 June 2009. This reduction is a result of the higher cost of deposits arising from intense competition, the low interest rate environment and the higher cost of wholesale funding partly offset by improved lending margins.

Net other income of €180 million for the six month period ended 30 June 2010 was €104 million higher than Net other income of €76 million for the six month period ended 30 June 2009. This increase arises primarily as a result of the changes in the market values of some international investment properties. In the six month period ended 30 June 2009, the investment properties fell in value by €51 million. There was a partial recovery in the value of international investment properties in the six month period ended 30 June 2010, which was the primary driver of a gain of €33 million. In the six month period ended 30 June 2009, Retail Republic of Ireland recognised a provision of €19 million in relating to a court hearing in connection with a European property investment. The case was subsequently decided in January 2010 and was unfavourable from the Group's perspective requiring a further provision of €74 million in the six month period ended 31 December 2009.

Operating expenses of €467 million for the six month period ended 30 June 2010 have increased by €7 million compared to €460 million for the six month period ended 30 June 2009. This is largely due to higher pension costs partly offset by reduced staff numbers and tight control of other costs.

Share of results of associates and joint ventures of €8 million for the six month period ended 30 June 2010 compares to a loss of €10 million for the six month period ended 30 June 2009. The loss of €10 million for the six month period ended 30 June 2009 was primarily attributable to a fall in value of €12 million relating to the Group's share of a property unit trust that holds an investment in a UK retail property.

The impairment charge on loans and advances to customers of €499 million for the six month period ended 30 June 2010 is higher by €19 million or 4% compared to the impairment charge of €480 million for the six month period ended 30 June 2009. The impairment charge remains elevated due to the economic downturn, high levels of unemployment and low levels of transactions in both the residential and commercial property markets.

Impairment charge - Loans and advances to customers	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	Change %
Residential mortgages	98	57	72%
Non-property SME and corporate	147	234	(37%)
Property and construction	191	96	99%
Consumer	63	93	(32%)
Total impairment charge on loans and advances to customers	**499**	**480**	**4%**

The impairment charge on Residential mortgages has increased by €41 million or 72% from €57 million for the six month period ended 30 June 2009 to €98 million for the six month period ended 30 June 2010. The impairment charge has been negatively impacted by rising levels of arrears as a result of higher unemployment, lower disposable incomes and lower house prices albeit that the continued low level of interest rates is helping to partly mitigate current pressures. In addition the buy to let element of the Residential Investment loan book is impacted by a lower demand for rental properties caused in part by net migration out of Ireland which together with the existing levels of over supply in the housing market has put further downward pressure on rental income. At 30 June 2010 the 3 month arrears in the Residential mortgage portfolio was 4.39% compared to 3.46% at 31 December 2009.

The impairment charge on Non-property SME and corporate loans was €147 million for the six month period ended 30 June 2010 compared to €234 million for the six month period ended 30 June 2009. While the impairment charge on this portfolio has reduced the slowdown in the economic activity and the level of business insolvencies adversely impacted asset quality leading to elevated impairment charges.

The impairment charge of €191 million on the Property and construction portfolio for the six month period ended 30 June 2010 is higher by €95 million or 99% compared to the impairment charge of €96 million for the six month period ended 30 June 2009. The investment element of the Property and construction portfolio is impacted by the current economic downturn, uncertainties as the NAMA process evolves and the low levels of transactions in the Irish commercial property sector due to a lack of demand from investors. In addition the landbank and development element of the Property and construction portfolio is impacted by lower house prices, an over supply of residential housing stock and illiquid property markets adversely impacting asset quality.

The impairment charge of €63 million on the Consumer loan book for the six month period ended 30 June 2010 has reduced by €30 million or 32% compared to the impairment charge of €93 million for the six month period ended 30 June 2009. Impairment on the Consumer loan book is showing signs of stabilisation.

The impairment charge of €228 million on assets held for sale to NAMA for the six month period ended 30 June 2010 is lower by €55 million or 19% compared to the impairment charge of €283 million for the six month period ended 30 June 2009.

Impairment charge - Assets held for sale to NAMA	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	Change %
Residential mortgages	20	-	-
Non-property SME and corporate	10	1	-
Property and construction	198	282	(30%)
Total impairment charge on assets held for sale to NAMA	**228**	**283**	**(19%)**

The impairment charge on Residential mortgages of €20 million and the impairment charge on Non-property SME and corporate loans of €10 million for the six month period ended 30 June 2010 arose on loans that have been deemed to be Eligible Bank Assets.

The impairment charge of €198 million on the Property and construction portfolio of assets held for sale to NAMA for the six month period ended 30 June 2010 has reduced by €84 million or 30% compared to the impairment charge of €282 million for the six month period ended 30 June 2009. The investment element of the Property and construction portfolio is impacted by the current economic downturn, uncertainties as the NAMA process evolves and the low levels of transactions in the Irish commercial property sector due to a lack of demand from investors. In addition the landbank and development element of the Property and construction portfolio continues to be impacted by lower house prices, an over supply of residential housing stock and illiquid property markets.

In the six month period ended 30 June 2010 Retail Republic of Ireland sold loans and associated derivatives to NAMA of €69 million, resulting in a loss on sale of €33 million (see section 1.3.7 for further details).

Resources and Advances Analysis	**30 June 2010 €bn**	31 December 2009 €bn	Change %
Customer Deposits			
Deposits	24	24	2%
Current account credit balances	11	11	(3%)
Total Customer Deposits	**35**	**35**	**0%**
Advances			
Total loans (incl. assets held for sale to NAMA)	53	54	(2%)
Impairment provisions (incl. assets held for sale to NAMA)	(3)	(3)	24%
Total loans	**50**	**51**	**(2%)**
Risk Weighted Assets	**30**	**32**	

The competition for deposits in the Republic of Ireland continues to be intense. While the Group has taken action during the six month period ended 30 June 2010 to lower deposit pricing, the current level of pricing across the market continues to be elevated and unsustainable. The injection of liquidity into the system from NAMA should help to support the necessary deposit re-pricing. The Group has maintained its level of deposits in Retail Republic of Ireland at €35 billion at 30 June 2010 which equates to the level at 31 December 2009. Deposits of €24 billion at 30 June 2010 increased by 2% when compared with 31 December 2009 while customer current account credit balances of €11 billion at 30 June 2010 decreased by 3% compared with 31 December 2009.

The Group remains fully committed to supporting our personal, business and corporate customers through this period of significant challenge. The Group has particularly dedicated its resources and funds in support of mortgages for first time buyers (FTB) and lending to the corporate and small and medium size enterprise (SME) sectors. In particular the Group has agreed a plan with the Government Credit Review Office to make available targeted lending of a minimum of €3 billion for new or increased credit facilities (including funds for working capital) to SME's in each of 2010 and 2011.

As a consequence of the weak economic environment, demand for new loans and other credit facilities in the six month period ended 30 June 2010 was lower than in previous periods. Total loans, before impairment provisions, were €53 billion at 30 June 2010 compared to €54 billion at 31 December 2009, a reduction of 2% (a decline of 2% net of impairment provisions) reflecting the impact of the reduction in personal indebtedness and of businesses devoting cash flow to reducing borrowings and not taking on new or increased financial commitments in the current difficult economic environment.

The Residential mortgage book at 30 June 2010 remained in line with the Residential mortgage book at 31 December 2009 reflecting the low levels of demand in the Irish residential mortgage market. Other retail loan books declined, including in particular the consumer loan book which declined by 10% due to scheduled repayments and redemptions as customers seek to reduce levels of personal indebtness.

1.6.2 Bank of Ireland Life

Bank of Ireland Life is one of Ireland's leading life assurance companies. The company offers protection, investment and pension products to the Irish market through the Group's branch network, independent brokers and its direct sales force.

Bank of Ireland Life: Income Statement (IFRS performance)	**6 months ended 30 June 2010 €m**	6 months ended 30 June 2009 €m	Change %
Operating income	89	87	2%
Operating expenses	(53)	(55)	(4%)
Operating profit	**36**	**32**	**13%**
Investment valuation variance	2	(21)	110%
Discount and other rate changes	(8)	(16)	(50%)
Underlying * profit / (loss) before tax	**30**	**(5)**	**700%**
Cost / income ratio	**60%**	**63%**	

* Underlying performance excludes the impact of non-core items (see page 11).

Underlying profit before tax of €30 million for the six month period ended 30 June 2010 was significantly higher than the underlying loss before tax of €5 million for the six month period ended 30 June 2009. This increase is primarily due to a stronger performance in investment markets.

Annual Premium Equivalent (APE) sales for the six month period ended 30 June 2010 were 12% higher than for the six month period ended 30 June 2009. Profits from the existing book are higher as the book has stabilised albeit that policy lapses remain above long term trends reflecting affordability issues amongst customers.

Bank of Ireland Life has maintained its focus on cost management with operating expenses of €53 million for the six month period ended 30 June 2010, a reduction of 4% against the six month period ended 30 June 2009.

The impact of the changes to the discount and other rate assumptions gave rise to a loss of €8 million for the six month period ended 30 June 2010, compared to a loss of €16 million for the six month period ended 30 June 2009. Consistent with long term sovereign bond yields, the discount rate applied to future cashflows was increased from 8.25% at 31 December 2009 to 8.75% at 30 June 2010. The unit growth assumption was increased from 6.5% at 31 December 2009 to 7.0% at 30 June 2010.

The performance of investment markets has been higher than the unit growth assumption since January 2010 resulting in a positive investment valuation variance of €2 million in the six month period ended 30 June 2010, as compared to a significant negative investment valuation variance of €21 million in the six month period ended 30 June 2009.

Bank of Ireland Life has maintained a strong financial position and continues to be significantly in excess of the statutory solvency margin required by the Financial Regulator.

Embedded Value Performance

Bank of Ireland Life: Income Statement (Embedded value performance)	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	Change %
New business profits	3	-	-
Existing business profits	34	8	-
- Expected return	*39*	*37*	*5%*
- Experience variance	*(10)*	*(27)*	*(63%)*
- Assumption changes	*5*	*(2)*	*350%*
Inter company payments	(6)	(5)	-
Operating profit	**31**	**3**	**-**
Investment variance / discount rate	1	(26)	-
Underlying * profit / (loss) before tax	**32**	**(23)**	**239%**

* Underlying excludes the impact of non-core items. (see page 11).

Embedded Value Performance

The alternative method of presenting the performance of the Life business is on an Embedded Value basis. This method is widely used in the life assurance industry. Under this approach, underlying profit before tax for the six month period ended 30 June 2010 of €32 million is significantly higher than the underlying loss before tax of €23 million in the six month period ended 30 June 2009 due primarily to a stronger performance in investment markets in the current period.

Operating profit increased to €31 million for the six month period ended 30 June 2010 compared to an operating profit of €3 million for the six month period ended 30 June 2009. New business profits were €3 million for the six month period ended 30 June 2010 (€nil for the six month period ended 30 June 2009) due to an increase in sales volumes. Existing business profits were €34 million for the six month period ended 30 June 2010 compared to a profit of €8 million in the six month period ended 30 June 2009. While retention rates were lower in the existing business book than the long term assumptions, the retention rates improved in the six month period ended 30 June 2010.

The key assumptions used in the Embedded Value methodology are consistent with those used under the IFRS methodology, being a discount rate of 8.75% (30 June 2009: 9.0%), future growth rate on unit linked assets of 7.0% (30 June 2009: 7.25%) and the rate of tax to be levied on shareholders profits of 12.5% (30 June 2009: 12.5%).

1.6.3 UK Financial Services (Sterling)

The UK Financial Services (UKFS) Division incorporates Business Banking in Great Britain and Northern Ireland, the branch network in Northern Ireland, the UK Residential mortgage business and the joint ventures with the UK Post Office, namely Post Office Financial and Travel Services (POFTS).

UK Financial Services: Income Statement	**6 months ended 30 June 2010 £m**	6 months ended 30 June 2009 £m	Change %
Net interest income	260	317	(18%)
Net other income	12	64	(81%)
Operating income	272	381	(29%)
Operating expenses	(165)	(181)	(9%)
Operating profit before impairment charges on financial assets	**107**	**200**	**(47%)**
Impairment charges on loans and advances to customers	(221)	(218)	1%
Charges arising on assets held for sale to NAMA:			
- Impairment charge on assets held for sale to NAMA	(68)	(132)	(48%)
Share of results of associates and joint ventures (after tax)	14	9	56%
Underlying * loss before tax	**(168)**	**(141)**	**19%**
Underlying * loss before tax (€m equivalent)	**(202)**	**(162)**	**(25%)**
Cost / income ratio	**58%**	**46%**	

* Underlying performance excludes the impact of non-core items (see page 11).

UK Financial Services reported an underlying loss before tax of £168 million for the six month period ended 30 June 2010 compared to an underlying loss before tax of £141 million for the six month period ended 30 June 2009. The operating profit of £107 million before impairment charges on financial assets for the six month period ended 30 June 2010 was £93 million or 47% lower than the six month period ended 30 June 2009.

Net interest income of £260 million for the six month period ended 30 June 2010 is £57 million lower than the six month period ended 30 June 2009 due primarily to the increased cost of wholesale funding together with the impact on liability spreads of the continuing intense competition for deposits and the low interest rate environment. These negative impacts were partly offset by higher pricing on both the Residential mortgage and Business Banking loan books.

Net other income of £12 million for the six month period ended 30 June 2010 reduced by £52 million or 81% compared to net other income of £64 million for the six month period ended 30 June 2009 reflecting lower levels of new business activity together with the impact of interest rate changes on the fair value of economic hedging instruments.

Operating expenses for the six month period ended 30 June 2010 of £165 million are £16 million or 9% lower than operating expenses of £181 million for the six month period ended 30 June 2009, as a result of continued savings following the restructuring of both the UK Residential mortgage and Business Banking operations nevertheless investment has continued in the joint ventures with the UK Post Office.

The impairment charge on loans and advances to customers of £221 million for the six month period ended 30 June 2010 compares to an impairment charge of £218 million for the six month period ended 30 June 2009.

Impairment charge - Loans and advances to customers	**6 months ended 30 June 2010 £m**	6 months ended 30 June 2009 £m	Change %
Residential mortgages	30	44	(32%)
Non-property SME and corporate	89	17	424%
Property and construction	87	123	(29%)
Consumer	15	34	(56%)
Total impairment charge on loans to customers	**221**	**218**	**1%**

The impairment charge on Residential mortgages decreased by £14 million or 32% from £44 million for the six month period ended 30 June 2009 to £30 million for the six month period ended 30 June 2010. The decrease in the impairment charge reflects stable house prices and unemployment levels together with the continued low interest rate environment.

The impairment charge on the Non-property SME and corporate portfolio was £89 million for the six month period ended 30 June 2010 compared to £17 million for the six month period ended 30 June 2009. The increase of £72 million in the impairment charge is primarily as a result of impairment charges on a small number of large individual cases in Business Banking.

The impairment charge of £87 million on the Property and construction portfolio for the six month period ended 30 June 2010 has reduced by £36 million compared to the impairment charge of £123 million for the six month period ended 30 June 2009. The impairment charge on the investment property element of the Property and construction portfolio is impacted by the low levels of economic activity particularly in Northern Ireland. The impairment charge on the land and development element of the Property and construction portfolio is impacted by the decline in asset values and an over supply of residential housing stock in Northern Ireland.

The impairment charge of £15 million on the Consumer loan book for the six month period ended 30 June 2010 has reduced by £19 million or 56% compared to the impairment charge of £34 million for the six month period ended 30 June 2009. Impairment on the Consumer loan book is showing signs of stabilisation.

The impairment charge on assets held for sale to NAMA of £68 million for the six month period ended 30 June 2010 compares to an impairment charge on assets held for sale to NAMA of £132 million for the six month period ended 30 June 2009.

Impairment charge - Assets held for sale to NAMA	**6 months ended 30 June 2010 £m**	6 months ended 30 June 2009 £m	Change %
Property and construction	68	132	(48%)

The impairment charge on the investment property element of the Property and construction portfolio is impacted by the low levels of economic activity particularly in Northern Ireland. The impairment charge on the land and development element of the Property and construction portfolio is impacted by the decline in asset values and an over supply of residential housing stock in Northern Ireland.

Business Unit : Underlying * (loss) / profit before tax	**6 months ended 30 June 2010 £m**	6 months ended 30 June 2009 £m	Change %
Residential mortgages	58	54	7%
Business Banking	(196)	(189)	4%
Consumer Financial Services	21	26	(19%)
Division Centre	(51)	(32)	59%
Underlying * loss before tax	**(168)**	**(141)**	**19%**

* Underlying performance excludes the impact of non-core items (see page 11).

Residential mortgages

The underlying profit before tax in Residential mortgages for the six month period ended 30 June 2010 of £58 million has increased from a profit of £54 million for the six month period ended 30 June 2009. Operating profit before impairment charges for the six month period ended 30 June 2010 has decreased when compared to the operating profit before impairment charges for the six month period ended 30 June 2009. This decrease is primarily due to a higher cost of wholesale funding partly offset by improved lending margins. The impairment charge in Residential mortgages of £30 million for the six month period ended June 2010 reduced by £14 million compared to the impairment charge of £44 million for the six month period ended 30 June 2009 as a result of stabilising house prices and unemployment levels together with the continued low interest rate environment.

Mortgage arrears (greater than 3 months) are as follows:

Mortgage Arrears – greater than 3 months in arrears (basis points annualised)	**30 June 2010**	31 March 2010	31 December 2009	30 June 2009
Bank of Ireland - Total book	189	178	171	162
CML*		222	238	243
Bank of Ireland - Standard book	121	106	97	88
Bank of Ireland - Self Cert book	520	495	454	404
Bank of Ireland - Buy to Let book	181	181	185	187
CML*		181	200	249

* Council of Mortgage Lenders, UK - June 2010 data not yet available

Business Banking

The Business Banking loss before tax for the six month period ended 30 June 2010 of £196 million has increased by £7 million or 4% when compared to the loss before tax for the six month period ended 30 June 2009 of £189 million. This reflects a decrease of £49 million in the level of impairment charges of £243 million for the six month period ended 30 June 2010 compared to £292 million for the six month period ended 30 June 2009. This decrease in the impairment charge arises substantially in the land and development element of the Property and construction portfolio. While the impairment charge has reduced the low levels of economic activity together with the decline in asset values and an over supply of residential housing stock adversely impacted asset quality. Operating profit before impairment charges of £48 million for the six month period ended 30 June 2010 decreased by £56 million compared to the six month period ended 30 June 2009 of £104 million. This reduction is primarily due to lower net interest margin caused by the impact of the continued competition of deposits on liability spreads together with higher wholesale funding costs partly offset by improved lending margins.

Consumer Financial Services

Consumer Financial Services comprises a number of business activities with the UK Post Office (POFTS, Credit Cards and ATMs) delivered an underlying operating profit before tax of £21 million for the six month period ended 30 June 2010 which was 19% lower than the underlying operating profit of £26 million for the six month period ended 30 June 2009.

Division Centre

The underlying loss before tax in Division Centre of £51 million for the six month period ended 30 June 2010 compares to an underlying loss before tax of £32 million for the six month period ended 30 June 2009 due mainly to the impact of interest rate changes on fair value of economic hedging instruments.

Resources and Advances Analysis	30 June 2010 £bn	31 December 2009 £bn	Change %
Customer Deposits			
POFS	10	9	12%
Business Banking	9	10	(7%)
Total Customer Deposits	**19**	**19**	**3%**
Advances			
Total loans	45	47	(5%)
Impairment provisions	(1)	(1)	-
Total loans	**44**	**46**	**(5%)**
Risk Weighted Assets	**20**	**23**	
Risk Weighted Assets (€bn equivalent)	**24**	**26**	

UKFS deposits at 30 June 2010 increased by 3% when compared to deposits at 31 December 2009. Deposits sourced through the Group's joint venture with the UK Post Office grew by 12% since 31 December 2009. Business Banking deposits declined by 7% in the six month period ended 30 June 2010 reflecting the adverse impact of the downgrade on 26 January 2010 of the Group's long term and short term credit ratings by Standard and Poors to A-/A-2 with a stable outlook. This downgrade led to an outflow of some ratings sensitive deposits.

Loans and advances to customers (before impairment provisions) amounted to £45 billion at 30 June 2010 which reflects a reduction of 5% as compared to £47 billion at 31 December 2009 due to subdued demand for new lending together with the Group's objective to de-lever the balance sheet.

The de-leverage of the UK residential mortgage book has been slower than originally expected as a result of lower re-mortgage activity in the UK market. The intermediary sourced UK mortgage book of £26 billion at 30 June 2010 is 4% lower when compared to 31 December 2009.

The Business Banking loan book at 30 June 2010 is lower by 5% since 31 December 2009 reflecting subdued demand for loans and other credit facilities.

1.6.4 Capital Markets

Capital Markets Division comprises Corporate Banking, Global Markets, Asset Management Services and IBI Corporate Finance.

Capital Markets: Income Statement	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	Change %
Net interest income	400	537	(26%)
Net other income	49	73	(33%)
Operating income	449	610	(26%)
Operating expenses	(146)	(163)	(10%)
Operating profit before impairment charges on financial assets and loss on sale to NAMA	**303**	**447**	**(32%)**
Impairment charges on loans and advances to customers	(135)	(202)	(33%)
Impairment charges on loans and advances to banks	-	(2)	-
Charges arising on assets held for sale to NAMA:			
- Impairment charges on assets held for sale to NAMA	(156)	(118)	32%
- Loss on sale of assets to NAMA	(414)	-	-
Share of results of associates and joint ventures (after tax)	1	-	-
Underlying * (loss) / profit before tax	**(401)**	**125**	**(421%)**
Cost / income ratio	**32%**	**27%**	

* Underlying performance excludes the impact of non-core items (see page 11).

Capital Markets reported an underlying loss before tax of €401 million for the six month period ended 30 June 2010 compared with an underlying profit before tax of €125 million for the six month period ended 30 June 2009.

Operating profit before impairment charges of €303 million for the six month period ended 30 June 2010 has reduced by €144 million or 32% compared to an operating profit of €447 million for the six month period ended 30 June 2009.

The change in 'net interest income' and 'net other income' is impacted by IFRS income classifications between the two income categories (see page 13).

Net interest income	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	Change %
Net interest income	400	537	(26%)
IFRS income classifications	(42)	(41)	-
Net interest income after IFRS income classifications	**358**	**496**	**(28%)**

After the impact of the IFRS income classifications, net interest income of €358 million for the six month period ended 30 June 2010 decreased by €138 million or 28% compared to the net interest income, after IFRS income classifications, of €496 million for the six month period ended 30 June 2009 due primarily to the increased cost of wholesale funding.

Net other income	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	Change %
Net other income	49	73	(33%)
IFRS income classifications	42	41	-
Net other income after IFRS income classifications	**91**	**114**	**(20%)**

After the impact of IFRS classifications, 'net other income' of €91 million for the six month period ended 30 June 2010 decreased by €23 million or 20% compared to 'net other income' after the impact of IFRS classifications of €114 million for the six month period ended 30 June 2009. This decrease primarily reflects:

- lower levels of other income in Global Markets of €32 million primarily as a result of lower trading income;
- a charge of €13 million in the six month period ended 30 June 2010 arising from the impact of credit deterioration on the fair value of derivatives held for sale to NAMA;
- reduced fees of €14 million arising from the disposal of Iridian Asset Management LLC (Iridian) on 30 June 2009 and Guggenheim Alternative Asset Management LLC (Guggenheim) on 31 August 2009;
  partly offset by;
- improved other income of €13 million in the asset management businesses of Bank of Ireland Securities Services and Bank of Ireland Asset Management due to higher assets under management and higher fee income;
- increased other income in Corporate Banking of €16 million, primarily due to gains arising from the disposal of equity investments and equity distributions of €11 million together with a lower charge arising from the valuations on investment properties of €5 million; and
- improved fee income of €7 million in IBI Corporate Finance

Operating expenses of €146 million for the six month period ended 30 June 2010 are lower by €17 million or 10% compared to operating expenses of €163 million for the six month period ended 30 June 2009, primarily due to lower staff numbers, the disposal of Iridian and Guggenheim during 2009 and continued tight management of all costs.

The impairment charge on loans and advances to customers of €135 million for the six month period ended 30 June 2010 was a decrease of €67 million or 33% compared to the impairment charge of €202 million for the six month period ended 30 June 2009.

Impairment charge - Loans and advance to customers	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	Change %
Non-property SME and corporate	103	194	(47%)
Property and construction	32	8	300%
Total impairment charge on loans and advances to customers	**135**	**202**	**(33%)**

The impairment charge on the Non property SME and corporate portfolio was €103 million for the six month period ended 30 June 2010, a reduction of €91 million or 47% compared to €194 million for the six month period ended 30 June 2009, which primarily reflects improving economic conditions in the global economy benefiting impairment charges in all units and particularly in the leveraged acquisition finance portfolio.

The impairment charge on the Property and construction portfolio was €32 million for the six month period ended 30 June 2010 compared to an impairment charge of €8 million for the six month period ended 30 June 2009. The land and development element of the Property and construction portfolio is impacted by lower house prices, an over supply of residential housing stock and illiquid property markets. In addition the investment element of the Property and construction portfolio is impacted by the current economic downturn, uncertainties as the NAMA process evolves and the low level of transactions in the Irish commercial property sector due to a lack of demand from investors.

The impairment charge on assets held for sale to NAMA of €156 million for the six month period ended 30 June 2010 was an increase of €38 million compared to the impairment charge of €118 million for the six month period ended 30 June 2009.

Impairment charges - Assets held for sale to NAMA	**6 months ended 30 June 2010 €m**	6 months ended 30 June 2009 €m	Change %
Property and construction	156	118	32%

The land and development element of the Property and construction portfolio is impacted by lower house prices, an over supply of residential housing stock and illiquid property markets. In addition the investment property element of the Property and construction portfolio is impacted by the current economic downturn, uncertainties as the NAMA process evolves and the low level of transactions in the Irish commercial property sector due to a lack of demand from investors.

In the six month period ended 30 June 2010 Capital Markets sold loans and associated derivatives to NAMA of €2.1 billion, resulting in a loss on sale of €414 million (see section 1.3.7 for further details).

No impairment charge was incurred in the Available for Sale ("AFS") financial assets portfolio in the six month period ended 30 June 2010, compared to a €2 million charge in the six month period ended 30 June 2009.

Business Unit: **Underlying * (loss) / profit before tax**	**6 months ended 30 June 2010 €m**	6 months ended 30 June 2009 €m	Change %
Corporate Banking	(462)	(30)	-
Global Markets	38	146	(74%)
Asset Management Services	17	20	(15%)
Division Centre	6	(11)	-
Underlying * (loss) / profit before tax	**(401)**	**125**	**(421%)**

* Underlying performance excludes the impact of non-core items (see page 11).

The underlying loss before tax of €462 million in **Corporate Banking** for the six month period ended 30 June 2010 compares to an underlying loss before tax of €30 million for the six month period ended 30 June 2009. This sharp deterioration in profit before tax was due to the loss on sale of loans and associated derivatives to NAMA of €414 million in the six month period ended 30 June 2010. Total operating income was down 16% for the six month period ended 30 June 2010, compared with the six month period ended 30 June 2009. This is due to higher cost of wholesale funding and a charge of €13 million from the impact of credit deterioration on the fair value of the derivatives held for sale to NAMA, somewhat offset by equity distributions and the gain from the disposal of equity investments of €11 million, together with a charge arising from the lower valuation on investment properties of €5 million in the six month period ended 30 June 2010 compared to a charge of €10 million in the six month period ended 30 June 2009. Impairment charges (comprising both loans and advances to customers and assets held for sale to NAMA) of €291 million for the six month period ended 30 June 2010 compares to an impairment charge of €320 million for the six month period ended 30 June 2009.

Global Markets underlying profit before tax of €38 million for the six month period ended 30 June 2010 compares to €146 million for the six month period ended 30 June 2009. Total income for the six month period ended 30 June 2010 is lower by €115 million compared with the six month period ended 30 June 2009, primarily due to the gains in the six month period ended 30 June 2009 as a result of good positioning in a falling interest rate environment and the higher cost of wholesale funding in the six month period ended 30 June 2010. The income from the third party customer businesses is stronger in the six month period ended 30 June 2010 compared to the income in the six month period ended 30 June 2009 due to increased customer activity in foreign exchange hedging in a more volatile market environment. Operating expenses in the six month period ended 30 June 2010 are €5 million lower than the level of expenses in the six month period ended 30 June 2009 due to the lower staff numbers and tight control of costs. No impairment charges were incurred in the six month period ended 30 June 2010 as compared to a charge of €2 million in the six month period ended 30 June 2009.

Asset Management Services. The underlying profit before tax of €17 million for the six month period ended 30 June 2010 compared to an underlying profit before tax of €20 million for the six month period ended 30 June 2009 driven by lower fee income as a result of the disposal of the US asset management businesses, Iridian and Guggenheim, in 2009 somewhat offset by higher profit before tax in Bank of Ireland Asset Management due to higher assets under management.

Division Centre includes central management costs and IBI Corporate Finance.

Resources and Advances Analysis	**30 June 2010 €bn**	31 December 2009 €bn	Change %
Customer deposits	**26**	**29**	**(10%)**
Advances			
Loans and advances to customers	22	22	-
Assets held for sale to NAMA	3	5	(42%)
Total loans (before impairment provisions)	25	27	(5%)
Impairment provisions	(1)	(2)	(50%)
Total loans	**24**	**25**	**(5%)**
Risk Weighted Assets	**38**	**40**	

Capital Markets customer deposits at 30 June 2010 were €26 billion, 10% lower than the customer deposits of €29 billion at 31 December 2009. On a constant currency basis customer deposits at 30 June 2010 were €24 billion, 18% lower than the customer deposits of €29 billion at 31 December 2009. This reduction was primarily due to the adverse impact of the downgrade on 26 January 2010 of the Group's long term and short term credit ratings by Standard & Poors to A- / A-2 with a stable outlook which led to an outflow of some ratings sensitive international deposits.

Loans and advances to customers, before impairment provisions, were €25 billion at 30 June 2010 as compared to €27 billion at 31 December 2009, a decline of 5% primarily reflecting the sale of €2 billion of loans to NAMA in the six month period ended 30 June 2010.

1.6.5 Group Centre

Group Centre comprises capital management activities and unallocated support costs.

Group Centre: Income Statement	**6 months ended 30 June 2010 €m**	6 months ended 30 June 2009 €m	Change %
Net interest (expense) / income	(79)	22	(459%)
Net other income / (expense)	33	(61)	154%
Operating loss	(46)	(39)	18%
Operating expenses	(60)	(69)	(13%)
Operating loss before impairment charges before loss on sale to NAMA	**(106)**	**(108)**	**(2%)**
Charges arising on the sale of assets to NAMA	(19)	-	-
Underlying * loss before tax	**(125)**	**(108)**	**16%**

* Underlying performance excludes the impact of non-core items (see page 11).

Group Centre reported an underlying loss before tax of €125 million for the six month period ended 30 June 2010, compared to an underlying loss before tax of €108 million for the six month period ended 30 June 2009.

Net interest expense of €79 million for the six month period ended 30 June 2010 compares to net interest income of €22 million for the six month period ended 30 June 2009 primarily as a result of the cost of the ELG Scheme of €94 million with no corresponding expense for the ELG Scheme in the six month period ended 30 June 2009 together with the higher interest expense following the exchange of debt securities in February 2010.

Net other income of €33 million for the six month period ended 30 June 2010 has increased by €94 million compared to a net other expense of €61 million in the six month period ended 30 June 2009. The Group's credit spreads widened in the six month period ended 30 June 2010 giving rise to a gain of €74 million compared to a gain of €24 million in the six month period ended 30 June 2009. In addition in the six month period ended 30 June 2009 the Group incurred a charge of €35 million arising from a fair value movement on the unwind of a hedge associated with fixed rate subordinated debt that was repurchased in June 2009.

Operating expenses of €60 million for the six month period ended 30 June 2010 compares to operating expenses of €69 million for the six month period ended 30 June 2009 primarily as a result of tight control of all costs.

The charges arising on the sale of assets to NAMA include the ongoing costs to the Group of servicing the assets sold to NAMA during the six month period ended 30 June 2010 together with the costs associated with the sale of those assets (see section 1.3.7 for further details).

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Income Statement – Operating Segments

6 month period ended 30 June 2010	Net interest income €m	Insurance net premium income €m	Other income €m	**Total operating income €m**	Insurance contract liabilities and claims paid €m	**Total operating income net of insurance claims €m**	Operating expenses €m	Impact of changes in pension benefits €m	**Operating profit before impairment charge on financial assets and loss on sale to NAMA €m**	Impairment charge on loans and advances to customers €m	Impairment charge on assets held for sale to NAMA €m	Loss on sale of assets to NAMA €m	Share of results of associates and joint ventures (after tax) €m	**Profit / (loss) before taxation €m**
Retail Republic of Ireland	491	-	180	**671**	-	**671**	(467)	-	**204**	(499)	(228)	(33)	8	**(548)**
Bank of Ireland Life	(2)	411	236	**645**	(562)	**83**	(53)	-	**30**	-	-	-	-	**30**
UK Financial Services	300	-	12	**312**	-	**312**	(190)	-	**122**	(259)	(82)	-	17	**(202)**
Capital Markets	400	-	49	**449**	-	**449**	(146)	-	**303**	(135)	(156)	(414)	1	**(401)**
Group Centre	(79)	12	41	**(26)**	(20)	**(46)**	(60)	-	**(106)**	-	-	(19)	-	**(125)**
Group – underlying*	**1,110**	**423**	**518**	**2,051**	**(582)**	**1,469**	**(916)**	**-**	**553**	**(893)**	**(466)**	**(466)**	**26**	**(1,246)**
- Gain on liability management exercises	15	-	684	**699**	-	**699**	-	-	**699**	-	-	-	-	**699**
- Impact of changes in pension benefits	-	-	-	**-**	-	**-**	-	676	**676**	-	-	-	-	**676**
- Impact of 'coupon stopper' on subordinated debt	(35)	-	(1)	**(36)**	-	**(36)**	-	-	**(36)**	-	-	-	-	**(36)**
- Gross-up of policyholder tax in the Life Business	-	-	17	**17**	-	**17**	-	-	**17**	-	-	-	-	**17**
- Investment return on treasury stock held for policyholders	-	-	6	**6**	-	**6**	-	-	**6**	-	-	-	-	**6**
Group total	**1,090**	**423**	**1,224**	**2,737**	**(582)**	**2,155**	**(916)**	**676**	**1,915**	**(893)**	**(466)**	**(466)**	**26**	**116**

* Underlying performance excludes the impact of non-core items (see page 11).

Income Statement – Operating Segments

6 month period ended 30 June 2009	Net interest income €m	Insurance net premium income €m	Other income €m	**Total operating income €m**	Insurance contract liabilities and claims paid €m	**Total operating income net of insurance claims €m**	Operating expenses €m	**Operating profit before impairment charge on financial assets €m**	Impairment charge on loans and advances to customers €m	Impairment charge on assets held for sale to NAMA €m	Impairment charge on loans and advances to banks €m	Share of results of associates and joint ventures (after tax) €m	Disposal of business activities €m	**Profit / (loss) before taxation €m**
Retail Republic of Ireland	639	-	86	**725**	(10)	**715**	(460)	**255**	(480)	(283)	-	(10)	-	**(518)**
Bank of Ireland Life	3	354	20	**377**	(327)	**50**	(55)	**(5)**	-	-	-	-	-	**(5)**
UK Financial Services	354	-	70	**424**	-	**424**	(202)	**222**	(244)	(150)	-	10	-	**(162)**
Capital Markets	537	-	73	**610**	-	**610**	(163)	**447**	(202)	(118)	(2)	-	-	**125**
Group Centre	22	1	(44)	**(21)**	(18)	**(39)**	(69)	**(108)**	-	-	-	-	-	**(108)**
Group – underlying*	**1,555**	**355**	**205**	**2,115**	**(355)**	**1,760**	**(949)**	**811**	**(926)**	**(551)**	**(2)**	**-**	**-**	**(668)**
- Gain on liability management exercises	-	-	1,037	**1,037**	-	**1,037**	-	**1,037**	-	-	-	-	-	**1,037**
- Gross-up of policyholder tax in the Life Business	-	-	5	**5**	-	**5**	-	**5**	-	-	-	-	-	**5**
- Investment return on treasury stock held for policyholders	-	-	(8)	**(8)**	-	**(8)**	-	**(8)**	-	-	-	-	-	**(8)**
- Cost of restructuring programme	-	-	-	**-**	-	**-**	(83)	**(83)**	-	-	-	-	-	**(83)**
- Loss on disposal of business activities	-	-	-	**-**	-	**-**	-	**-**	-	-	-	-	(10)	**(10)**
Group total	**1,555**	**355**	**1,239**	**3,149**	**(355)**	**2,794**	**(1,032)**	**1,762**	**(926)**	**(551)**	**(2)**	**-**	**(10)**	**273**

* Underlying performance excludes the impact of non-core items (see page 11).

Risk Management

2.1 Update on Risk Management and Governance

The Group follows an integrated approach to risk management to ensure that all material classes of risk are taken into account and that its risk management and capital management strategies are aligned with its overall business strategy. Risks are managed in accordance with the Group's Risk Management Framework, detailed in pages 60 to 108 of the Group's Annual Report for the nine month period ended 31 December 2009.

There has been no significant change to the Risk Management Framework or the Risk Governance Structure since 31 December 2009. Updates are provided below regarding the current status of credit risks including asset quality and impairment, as well as liquidity and funding risks. Other material risks are listed on pages 92 to 105 of the Group's Annual Report for the nine month period ended 31 December 2009.

The information below forms an integral part of the interim financial statements as described in the Basis of preparation on page 78.

2.2 Asset Quality and Impairment

The Group's approach to management of credit risk is focused on detailed analysis at origination, followed by early intervention and active management of accounts whose creditworthiness has deteriorated. The Group's framework for management of credit risk is set out in pages 71 to 91 of the Group's Annual Report for the nine month period ended 31 December 2009.

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

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

Other financial assets are assigned an internal rating supported by external ratings of the major rating agencies.

Loans and advances to customers and assets held for sale to NAMA are assigned an internal credit grade by the Group based on an assessment of the credit quality of the borrower.

'Neither past due nor impaired' ratings are summarised as set out below:

- high quality ratings apply to highly rated financial obligors, strong corporate and business counterparties and consumer banking borrowers (including residential mortgages) with whom the Group has an excellent repayment experience. High quality ratings are derived from grades 1 to 4 on the thirteen point grade scale, grades 1 and 2 on the seven point grade scale and ratings equivalent to AAA, AA+, AA, AA-, A+, A, A-, BBB+ and BBB for the external major rating agencies,
- satisfactory quality ratings apply to good quality financial assets that are performing as expected, including loans and advances to small and medium sized enterprises, leveraged entities and more recently established businesses. Satisfactory quality ratings also include some element of the Group's retail portfolios. Satisfactory quality ratings are derived from grades 5 to 7 on the thirteen point grade scale, grade 3 on the seven point grade scale and external ratings equivalent to BBB-, BB+, BB and BB-,
- acceptable quality ratings apply to customers with increased risk profiles that are subject to closer monitoring and scrutiny by lenders with the objective of managing risk and moving accounts to an improved rating category. Acceptable quality ratings are derived from grades 8 and 9 on the thirteen point grade scale, grade 4 outstandings within the seven point scale and external ratings equivalent to B+, and
- the lower quality but not past due nor impaired rating applies to those financial assets that are neither in arrears nor impaired but where the Group requires a work down or work out of the relationship unless an early reduction in risk is achievable. Lower quality ratings are derived from outstandings within rating grades 10 and 11 on the thirteen point grade scale and grade 5 on the seven point grade scale and external ratings equivalent to B or below.

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

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

'Impaired loans' are defined as follows:

- loans with a specific impairment provision attaching to them together with loans (excluding residential mortgages) which are more than 90 days in arrears.
- all assets in grades 12 and 13 on the thirteen point grade scale and grades 6 and 7 on the seven point grade scale are impaired.

2.2.1 Loans and advances to customers

The Group's loans and advances to customers at 30 June 2010 were €125 billion before impairment provisions compared to €122 billion before impairment provisions at 31 December 2009.

Loans and advances to customers **Book composition (pre-impairment provisions)**	**30 June 2010** **€m**	**%**	31 December 2009 €m	%
Residential mortgages	62,262	50%	60,402	49%
Non-property SME and corporate	34,403	28%	34,140	28%
Property and construction	24,084	19%	23,554	19%
Consumer	4,130	3%	4,340	4%
Total loans and advances to customers	**124,879**	**100%**	**122,436**	**100%**

30 June 2010 **Risk profile of loans and advances to customers (pre-impairment provisions)**	**Residential mortgages €m**	**Non-Property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total loans & advances to customers €m**	**Total loans & advances to customers %**
High quality	57,830*	8,403	1,799	2,498	70,530	56%
Satisfactory quality	-	14,414	8,117	868	23,399	19%
Acceptable quality	-	5,435	5,518	76	11,029	9%
Lower quality but not past due nor impaired	-	2,374	3,032	-	5,406	4%
Neither past due nor impaired	**57,830**	**30,626**	**18,466**	**3,442**	**110,364**	**88%**
Past due but not impaired	**3,685**	**500**	**1,226**	**246**	**5,657**	**5%**
Impaired	**747**	**3,277**	**4,392**	**442**	**8,858**	**7%**
Total	**62,262**	**34,403**	**24,084**	**4,130**	**124,879**	**100%**

31 December 2009 **Risk profile of loans and advances to customers (pre-impairment provisions)**	**Residential mortgages €m**	**Non-Property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total loans & advances to customers €m**	**Total loans & advances to customers %**
High quality	56,600*	8,298	1,073	2,683	68,654	56%
Satisfactory quality	-	15,712	11,060	893	27,665	23%
Acceptable quality	-	5,098	6,197	85	11,380	9%
Lower quality but not past due nor impaired	-	1,713	1,060	-	2,773	2%
Neither past due nor impaired	**56,600**	**30,821**	**19,390**	**3,661**	**110,472**	**90%**
Past due but not impaired	**3,331**	**625**	**968**	**253**	**5,177**	**4%**
Impaired	**471**	**2,694**	**3,196**	**426**	**6,787**	**6%**
Total	**60,402**	**34,140**	**23,554**	**4,340**	**122,436**	**100%**

* *As set out on page 50 'high quality' ratings are applied to residential mortgage customers with whom the Group has an excellent repayment experience. Where residential mortgage customers repayment terms have been modified and they are fully up to date with those modified terms, the Group continues to classify them as 'high quality'. Balances with customers in this modified category amount to €578 million at 30 June 2010 (31 December 2009: €691 million). Where residential mortgage customers are in arrears on their repayment terms (regardless of whether they have been modified or not) they are classified either as 'past due but not impaired' or 'impaired'.*

2.2.1 Loans and advances to customers (continued)

Asset quality deteriorated across all portfolios albeit the pace of deterioration eased. Loans and advances to customers classified as 'neither past due nor impaired' were €110 billion at 30 June 2010 representing 88% of the loan book compared to €110 billion at 31 December 2009 representing 90% of the loan book at that time.

Loans and advances to customers that are 'past due but not impaired', amounted to €5.7 billion or 5% at 30 June 2010 compared to €5.2 billion or 4% at 31 December 2009.

Loans and advances to customers that are 'impaired' increased from €6.8 billion at 31 December 2009 to €8.9 billion at 30 June 2010, an increase of 31%. This increase in 'impaired loans' is across all portfolios with the most significant increase in the Property and construction portfolio which has increased by €1.2 billion from €3.2 billion at 31 December 2009 to €4.4 billion at 30 June 2010. The 'impaired loans' in the Non-property SME and corporate portfolios have also increased by €0.6 billion from €2.7 billion at 31 December 2009 to €3.3 billion at 30 June 2010 reflecting the impact of the current economic conditions, both in Ireland and the UK. The Property and construction portfolio accounts for 50% of 'impaired loans' while the Non-property SME and corporate portfolio accounts for 37% of 'impaired loans' with Residential mortgages being 8% and the Consumer book being 5% at 30 June 2010.

Impairment provisions and coverage ratios

30 June 2010 **Loans and advances to customers** **Composition and impairment**	**Advances** **€m**	**Impaired loans** **€m**	**Impaired loans as % of advances** **%**	**Impairment provisions** **€m**	**Impairment provisions as % of impaired loans** **%**
Residential mortgages	62,262	747	1.2%	489	65%
Non-property SME and corporate	34,403	3,277	9.5%	1,375	42%
Property and construction	24,084	4,392	18.2%	1,474	34%
Consumer	4,130	442	10.7%	397	90%
Total loans and advances to customers	**124,879**	**8,858**	**7.1%**	**3,735**	**42%**

31 December 2009 **Loans and advances to customers** **Composition and Impairment**	**Advances** **€m**	**Impaired loans** **€m**	**Impaired loans as % of advances** **%**	**Impairment provisions** **€m**	**Impairment provisions as % of impaired loans** **%**
Residential mortgages	60,402	471	0.8%	359	76%
Non-property SME and corporate	34,140	2,694	7.9%	1,134	42%
Property and construction	23,554	3,196	13.6%	1,124	35%
Consumer	4,340	426	9.8%	380	89%
Total loans and advances to customers	**122,436**	**6,787**	**5.5%**	**2,997**	**44%**

Impaired loans increased from €6.8 billion or 5.5% of loans and advances to customers at 31 December 2009 to €8.9 billion or 7.1% of loans and advances to customers at 30 June 2010. Of the €8.9 billion of impaired loans, €6.3 billion have been assessed for impairment on an individual basis with the remaining €2.6 billion assessed collectively. Specific provisions on loans assessed on an individual basis amount to €2.5 billion. The increase in impaired loans primarily reflects the impact of the sharp deterioration in the Property and construction sector, particularly in Ireland over the past two years, together with the deterioration in general economic conditions.

2.2.1 Loans and advances to customers (continued)

The ratio of impaired loans to total loans and advances to customers in the Residential mortgage portfolio is 1.2%, Non-property SME and corporate is 9.5%, Property and construction is 18.2% and Consumer is 10% at 30 June 2010. This ratio has increased for all portfolios since 31 December 2009 with the most significant increase being in the Property and construction portfolio.

Total balance sheet provisions against loans and advances to customers were €3.7 billion at 30 June 2010, an increase of €0.7 billion compared to €3.0 billion at 31 December 2009. The Property and construction portfolio accounts for 47% of the increase in provisions during the period, with the Non-property SME and corporate portfolio accounting for 33%, the Residential mortgage portfolio accounting for 18% and the Consumer portfolio accounting for 2%. The land and development element of the Property and construction portfolio remains the most heavily impacted with lower house prices, an over supply of residential housing stock and illiquid property markets remaining the key drivers. In addition there are a low level of transactions in the Irish commercial property sector, due to a lack of demand from investors given the current economic downturn and uncertainties as the NAMA process evolves.

The increase in impairment provisions reflects the impact of the current economic environment, consequent loan grade degradation and difficult conditions in the Property and construction sectors, in the Republic of Ireland and to a lesser extent in the UK.

Coverage ratios, which vary considerably by portfolio, are influenced by the nature of the loan assets and the extent and quality of underlying collateral held by the Group in support of the loan. Impairment provisions as a percentage of impaired loans reduced from 44% at 31 December 2009 to 42% at 30 June 2010.

The coverage ratio on Residential mortgages decreased from 76% at 31 December 2009 to 65% at 30 June 2010. In line with existing market practice, coverage ratios for Residential mortgages are computed on a different basis to other portfolios (i.e. Residential mortgages that are ‘90 days past due’, where no loss is expected to be incurred, are excluded from impaired loans). If Residential mortgages that are ‘90 days past due’ were included in impaired loans, the coverage ratio for Residential mortgages would be 22% at 30 June 2010 up from 20% at 31 December 2009.

At 30 June 2010 the Non-property SME and corporate coverage ratio remained broadly in line with that reported at 31 December 2009.

The Property and construction portfolio with a coverage ratio of 34% at 30 June 2010 has decreased from the coverage ratio of 35% reported at 31 December 2009 primarily due to an increase in ‘past due but not impaired’ loans where facilities are currently being renegotiated and where a loss is not anticipated. Consumer loans have 90% coverage at 30 June 2010, up from 89% at 31 December 2009.

2.2.2 Assets held for sale to NAMA

The Group's assets held for sale to NAMA at 30 June 2010 were €10 billion, before impairment provisions, compared to €12.2 billion, before impairment provisions, at 31 December 2009. The net reduction of €2.2 billion is primarily due to assets sold to NAMA during the six month period ended 30 June 2010.

Assets held for sale to NAMA Book composition (pre-impairment provisions)	30 June 2010 €m	30 June 2010 %	31 December 2009 €m	31 December 2009 %
Residential mortgages	135	1%	68	1%
Non-property SME and corporate	162	2%	211	2%
Property and construction	9,734	97%	11,956	97%
Total assets held for sale to NAMA	**10,031**	**100%**	**12,235**	**100%**

30 June 2010 **Risk profile of assets held for sale to NAMA (pre-impairment provisions)**	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Total loans & advances to customers €m	Total loans & advances to customers %
High quality	59	-	87	146	1%
Satisfactory quality	-	5	974	979	10%
Acceptable quality	-	7	998	1,005	10%
Lower quality but not past due nor impaired	-	27	624	651	6%
Neither past due nor impaired	**59**	**39**	**2,683**	**2,781**	**28%**
Past due but not impaired	**7**	**1**	**290**	**298**	**3%**
Impaired	**69**	**122**	**6,761**	**6,952**	**69%**
Total	**135**	**162**	**9,734**	**10,031**	**100%**

31 December 2009 **Risk profile of assets held for sale to NAMA (pre-impairment provisions)**	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Total loans & advances to customers €m	Total loans & advances to customers %
High quality	30	5	526	561	5%
Satisfactory quality	-	40	1,974	2,014	16%
Acceptable quality	-	32	2,234	2,266	18%
Lower quality but not past due nor impaired	-	20	555	575	5%
Neither past due nor impaired	**30**	**97**	**5,289**	**5,416**	**44%**
Past due but not impaired	**38**	**2**	**215**	**255**	**2%**
Impaired	**-**	**112**	**6,452**	**6,564**	**54%**
Total	**68**	**211**	**11,956**	**12,235**	**100%**

Asset quality has deteriorated during the six period ended 30 June 2010. The percentage of assets held for sale to NAMA classified as 'neither past due nor impaired' has reduced from 44% at 31 December 2009 to 28% at 30 June 2010.

The percentage of 'impaired loans' to total loans was 69% at 30 June 2010 compared to 54% at 31 December 2009 reflecting the further deterioration in borrowers ability to continue to service their debts against a background of a weak economic environment, illiquid residential and commercial property markets, an over supply of residential housing stock and falls in asset values.

2.2.2 Assets held for sale to NAMA (continued)

Impairment provisions and coverage ratios

30 June 2010 Assets held for sale to NAMA Composition and impairment	Advances €m	Impaired loans €m	Impaired loans as % of advances %	Impairment provisions €m	Impairment provisions as % of advances %	Impairment provisions as % of impaired loans %
Residential mortgages	135	69	51%	20	15%	29%
Non-property SME and corporate	162	122	75%	28	17%	23%
Property and construction	9,734	6,761	70%	2,855	29%	42%
Assets held for sale to NAMA	**10,031**	**6,952**	**69%**	**2,903**	**29%**	**42%**

31 December 2009 Assets held for sale to NAMA Composition and impairment	Advances €m	Impaired loans €m	Impaired loans as % of advances %	Impairment provisions €m	Impairment provisions as % of advances %	Impairment provisions as % of impaired loans %
Residential mortgages	68	-	-	-	-	-
Non-property SME and corporate	211	112	53%	18	9%	16%
Property and construction	11,956	6,452	54%	2,760	23%	43%
Assets held for sale to NAMA	**12,235**	**6,564**	**54%**	**2,778**	**23%**	**42%**

Impairment provisions on assets held for sale to NAMA increased from €2.8 billion at 31 December 2009 to €2.9 billion at 30 June 2010. This increase is primarily as a result of new impairment provisions of €0.5 billion during the six month period ended 30 June 2010 partly offset by the write off of €0.3 billion of impairment provisions on loans sold to NAMA.

The ratio of impairment provisions to total assets held for sale to NAMA at 30 June 2010 is 29% up from 23% at 31 December 2009. The coverage ratio of impairment provisions as a percentage of impaired loans is 42% at 30 June 2010 compared to 42% at 31 December 2009.

2.2.3 Other financial assets

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

Other financial instruments	30 June 2010 €m	30 June 2010 %	31 December 2009 €m	31 December 2009 %
High quality	35,412	94%	33,633	93%
Satisfactory quality	1,860	5%	2,097	6%
Acceptable quality	411	1%	286	1%
Lower quality but not past due nor impaired	156	-	113	-
Neither past due nor impaired	**37,839**	**100%**	**36,129**	**100%**
Impaired	18	-	12	-
Total	**37,857**	**100%**	**36,141**	**100%**

The total volume of other financial instruments at 30 June 2010 of €37.9 billion reflects an increase of €1.7 billion from the volume of other financial instruments of €36.1 billion at 31 December 2009. This increase primarily reflects the higher levels of available for sale financial assets, derivative financial instruments and loans and advances to banks together with NAMA senior bonds received as consideration for the assets which were sold to NAMA in the six month period ended 30 June 2010. Virtually all of the Group's exposure to other financial instruments were classified as 'neither past due nor impaired'.

The information below is additional disclosure and it does not form an integral part of the interim financial statements as described in the Basis of preparation on page 78.

2.2.4 Challenged Loans

The Group's 'challenged' loans including both loans and advances to customers and assets held for sale to NAMA is €29 billion at 30 June 2010 compared to €26 billion at 31 December 2009. These 'challenged' loans include 'impaired loans', together with elements of 'past due but not impaired loans', 'lower quality but not past due nor impaired' and loans at the lower end of 'acceptable quality' which are subject to increased credit scrutiny.

The change since 31 December 2009 of €3 billion is due to the continued impact of the weaker economic conditions on arrears and continued downward grade migration particularly in Property and construction loans. Analysed by portfolio at 30 June 2010, Property and construction exposures continued to dominate and represent 57% of all challenged loans (31 December 2009: 58%). The Non-property SME and corporate loan book accounts for 29% of challenged loans (31 December 2009: 29%), Residential mortgages account for 9% (31 December 2009: 8%) and Consumer loans account for 5% of challenged loans at 30 June 2010 (31 December 2009: 5%).

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2.2.5 Available for Sale Financial Assets and NAMA senior bonds

The following table quantifies the Group's Available for Sale financial assets ('AFS') portfolio and NAMA senior bonds and sets out the Group's exposure to each asset class together with the valuations at 30 June 2010 with comparisons at 31 December 2009.

Portfolio	Carrying Value	Asset Type	Profile	Key Movements	Fair Value expressed as % of Underlying Nominal
Liquid Asset Portfolio	€18.4 billion (31 December 2009, €19.5 billion)	€15.1 billion senior bank debt and covered bonds (31 December 2009, €18.3 billion)	FRN / CPS / CDs / covered bonds - average rating AA- (31 December 2009 average rating AA-)	Total negative mark to market adjustment to reserves of €325 million (31 December 2009, €251 million negative) No impairments were recognised in the current or prior period	100.4% (31 December 2009, 100.4%)
		€1.8 billion Government bonds (31 December 2009, €1.1 billion)	99.3% AA rated, 0.7% AAA rated (31 December 2009 AA rated)	Total negative mark to market adjustment to reserves of €54 million (31 December 2009, €21 million) No impairments were recognised in the current or prior period	98.9% (31 December 2009, 104.2%)
		€1.5 billion NAMA senior bonds (Irish Government guaranteed) (31 December 2009, €nil)	100% AA- rated		
Asset Backed Securities Portfolio	€1.3 billion (31 December 2009, €1.5 billion)	€0.4 billion RMBS (31 December 2009, €0.5 billion)	92% rated AAA/AA, all prime (31 December 2009 79%)	Total negative mark to market adjustment to reserves of €114 million (31 December 2009, €188 million negative) No impairments were recognised in the current period (31 December 2009, €1.6 million)	89% (31 December 2009 87%)
		€0.4 billion CMBS (31 December 2009, €0.4 billion)	75% rated AAA/AA, all prime (31 December 2009 75%)		
		€0.1 billion student loans / SME loans / whole business securitisations (31 December 2009, €0.1 billion)	44% rated AAA/AA, all prime (31 December 2009 82%)		
		€0.4 billion other categories (including loans in syndication, CDO's, NAMA subordinated debt and financials) (31 December 2009, €0.5 billion)			

2.2.5 Available for Sale Financial Assets and NAMA senior bonds (continued)

The following table sets out, by country of issuer, the Group's exposures to Government bonds, senior bank debt and covered bonds together with asset backed securities and AFS equity securities as at 30 June 2010.

Country of Issuer	Government bonds* (net of impairment) €m	Senior bank debt and covered bonds (net of impairment) €m	Total liquid asset portfolio (net of impairment) €m	Asset backed securities portfolio (net of impairment) €m
Australia	-	1,013	1,013	85
Austria	-	157	157	-
Belgium	-	347	347	-
Bulgaria	-	-	-	-
Bermuda	-	-	-	1
Canada	-	580	580	17
Cayman Islands	-	-	-	2
Cyprus	-	-	-	-
Czech Republic	-	-	-	-
Denmark	-	462	462	-
Estonia	-	-	-	-
Finland	-	134	134	-
France	21	2,227	2,249	4
Germany	-	441	441	9
Guernsey	-	-	-	1
Greece	-	-	-	-
Hungary	-	-	-	-
Iceland	-	-	-	-
Ireland	3,220	1,651	4,871	204
Italy	34	840	874	20
Jersey	-	167	167	26
Latvia	-	-	-	-
Liechtenstein	-	-	-	-
Lithuania	-	-	-	-
Luxembourg	-	-	-	4
Malta	-	-	-	-
Netherlands	-	1,021	1,021	69
Norway	-	637	637	-
Poland	-	-	-	-
Portugal	-	239	239	-
Romania	-	-	-	-
Singapore	-	-	-	19
Slovakia	-	-	-	-
Slovenia	-	-	-	-
Spain	-	1,655	1,655	94
Sweden	-	504	504	-
United Kingdom	-	2,151	2,151	529
United States	-	717	717	235
Other	-	196	196	-
Total	**3,275**	**15,139**	**18,414**	**1,319**

* *includes €1.5 billion of NAMA senior bonds which are guaranteed by the Irish Government*

Exposure values shown are the current carrying value of the assets, as shown on the balance sheet.

2.3 Liquidity and Funding

General

The Group's approach to the management of Liquidity Risk is set out in more detail on pages 92 to 96 of the Group's Annual Report for the nine month period ended 31 December 2009. Growth in assets and the capacity to expand lending, net of redemptions, is subject to the Group's ability to increase customer deposits, to maintain a prudent wholesale funding profile and to maintain appropriate liquidity buffers.

The Group's focus on asset and liability management, as well as its diversified funding structures and strategies, have ensured that it has been able to manage its balance sheet effectively during the six month period ended 30 June 2010.

The Group funds its operations through a combination of customer deposits and wholesale funding sourced from the deposit and debt markets as set out below. Bank of Ireland Life policyholder assets and liabilities have been excluded from the table as policyholder assets are directly funded by matching policyholder liabilities.

Summary Consolidated Balance Sheet	30 June 2010 €bn	31 December 2009 €bn	Change %
Loans and advances to customers (net of impairment provisions)	121	119	1%
Assets held for sale to NAMA (net of impairment provisions)	7	10	(22%)
Liquid assets	28	31	(9%)
Other assets	24	21	12%
Total assets	**180**	**181**	**-**
Customer deposits	84	85	-
Wholesale funding	58	61	(4%)
Subordinated liabilities	4	6	(27%)
Other liabilities	26	23	11%
Total liabilities	**172**	**175**	**(1%)**
Stockholders' equity	8	6	21%
Total liabilities and stockholders' equity	**180**	**181**	**-**
Loans and advances to customers (excl. assets held for sale to NAMA) / customer deposits	143%	141%	
Loans and advances to customers (incl. assets held for sale to NAMA) / customer deposits	152%	152%	

The quantum of customer lending remains broadly unchanged at 30 June 2010 when compared to 31 December 2009. The demand for new loans remains muted.

2.3.1 Core loan portfolio

As part of stabilising the Group's liquidity and funding position, the Group has defined its core loan portfolios as those where it has competitive strengths and capabilities and where it has strong positions in markets with attractive growth opportunities. The funding of these core portfolios is expected to be largely provided by customer deposits and future growth in these portfolios will be largely supported by the Group's ability to attract customer deposits.

2.3 Liquidity and Funding (continued)

Core loan portfolios (before impairment provisions)	30 June 2010 €bn	30 June 2010 %	31 December 2009 €bn	31 December 2009 %
Residential mortgages	23	28%	23	28%
Non property corporate and SME	31	37%	30	37%
Property and construction	24	29%	24	30%
Consumer	4	6%	4	5%
Total Core loan portfolios	**82**	**100%**	**81**	**100%**
Customer deposits (excluding ICS Building Society deposits)	79		81	

Demand for new lending has been muted in the six month period ended 30 June 2010 and the size and composition of the loan book is broadly unchanged from 31 December 2009.

Customer deposits (excluding ICS Building Society deposits) at 30 June 2010 amounted to €79 billion and provided 97% of the funding for the core loan portfolio (31 December 2009: 99%).

2.3.2 Run-off loan portfolio

The Run-off loan portfolio consists of the intermediary sourced mortgage book in the UK, a series of non-core international lending portfolios in Capital Markets, the assets held for sale to NAMA and the mortgage book in ICS Building Society.

Run-off loan portfolio (before impairment provisions)	30 June 2010 €bn	31 December 2009 €bn	Change €bn	Change %
Intermediary sourced UK mortgages	32	30	2	9%
Intermediary sourced UK mortgages - Stg£	*26*	*27*	*(1)*	*(2%)*
Assets held for sale to NAMA	10	12	(2)	(17%)
ICS Building Society mortgages	7	7	-	-
Non core international lending portfolios	4	4	-	-
Total Run-off loan portfolio	**53**	**53**	**-**	**1%**
ICS Building Society customer deposits	4	4		

The Run-off loan portfolios amounted to €53 billion at 30 June 2010 and have remained in line with 31 December 2009. In constant currency terms, the Run-off loan portfolios at 30 June 2010 have reduced by €3 billion or 6% since 31 December 2009.

The de-leveraging of the UK residential mortgage portfolio is progressing at a slower pace than originally expected, due to lower levels of re-mortgage activity in the UK market.

The reduction in the assets held for sale to NAMA since 31 December 2009 reflects the sale of the assets to NAMA during the six month period ended 30 June 2010.

Over time these de-leveraging initiatives will reduce the size of the Group's balance sheet which will reduce the Group's wholesale funding requirements.

2.3.3 Customer deposits

Deposit gathering remains a key priority and the Group is continuing to focus on maximising the growth of customer deposits by leveraging the potential of its extensive retail distribution platforms both in the Republic of Ireland and internationally particularly through its joint venture with the UK Post Office.

The emphasis on growth in customer deposits is part of the strategy of reducing the Group's dependence on wholesale funding and reducing the Group's customer loan to deposit ratio (including both the core and run-off loan portfolios) to below 125% by 31 December 2013.

Customer deposits	30 June 2010 €bn	31 December 2009 €bn	Change %
Retail Republic of Ireland	35	35	-
- Deposits	24	24	2%
- Current account credit balances	11	11	(3%)
UK Financial Services (€bn equivalent)	**23**	**21**	**12%**
UK Financial Services (Stg£bn)	19	19	3%
- POFS	10	9	12%
- Business Banking	9	10	(7%)
Capital Markets	**26**	**29**	**(10%)**
Total customer deposits	**84**	**85**	**(1%)**

The Group's deposits at 30 June 2010 were €84 billion compared to €85 billion at 31 December 2009. On a constant currency basis, the Group's deposits were lower by 5% from €85 billion to €81 billion.

The Group's loan to deposit ratio (excluding loans held for sale to NAMA) increased marginally from 141% at 31 December 2009 to 143% at 30 June 2010.

Standard & Poors downgraded the Group's long term and short term credit ratings to A- / A-2 stable outlook respectively in January 2010 and this led to an outflow of some ratings sensitive international deposits in Business Banking in the UK and in Capital Markets.

The competition for deposits in the Republic of Ireland continues to be intense. While the Group has taken action during the six month period ended 30 June 2010 to lower deposit pricing, the current level of pricing across the market continues to be elevated and unsustainable. The injection of liquidity into the system from NAMA should support the necessary deposit re-pricing. The Group has maintained its level of deposits in Retail Republic of Ireland at €35 billion at 30 June 2010 which equates to the level at 31 December 2009.

The strength of our joint venture with the UK Post Office continues to be evidenced by the significant growth in deposits achieved by the Group through this channel. Deposits from the joint venture have reached £10 billion which represents 12% growth over the level of deposits at 31 December 2009. Over the past two years, this book has grown from £4 billion at 30 June 2008 to £10 billion at 30 June 2010 and the Group continues to invest in new products that are attractive to our customers.

Currently all Group deposits are covered by the Irish Government guarantees - CIFS, ELG and the Deposit Protection Scheme (which provides a guarantee to depositors for balances of up to €100,000 and which, at 30 June 2010, accounted for €34 billion or 40% of the Group's deposits).

2.3.4 Wholesale Funding

Market overview

The early months of 2010 saw conditions in the international funding markets improve significantly from those experienced in 2008 and 2009 and the markets remained supportive with improved sentiment towards Ireland and Irish Government guaranteed, financial institutions. This was evidenced by the reduction in the market cost of credit default protection in respect of such institutions, enhanced access to funding markets which facilitated debt issuance at lower prices and for longer maturities.

However, in the period May 2010 to June 2010 volatility in international funding markets adversely impacted market sentiment as significant concerns emerged over some Eurozone sovereign debt exposures resulting in an increase in the market cost of credit default protection. European sovereigns continue to take steps designed to support funding markets including bringing forward additional austerity plans while the EU introduced a common European fund to be used in stress conditions for sovereign funders.

In July 2010 the Committee of European Banking Supervisors (CEBS), in co-operation with the European Central Bank (ECB), conducted an EU wide stress test exercise on 91 financial institutions. On 26 July 2010 CEBS released the results of the stress test exercise with 84 out of the 91 financial institutions (including Bank of Ireland) passing the stress test. Yields on Irish Government bonds have fallen and have maintained a positive trend since the publication of the results with market sentiment improving towards the Eurozone area evidenced by the narrowing of the cost of credit default protection for both Ireland and Bank of Ireland.

The Group's profile in the funding markets has been strengthened during the six month period ended 30 June 2010 by:

- the completion in June 2010 of the recapitalisation of the Group which raised additional ordinary equity capital of €2.9 billion net (compared to the requirement of €2.66 billion set out in the Prudential Capital Assessment Review ("PCAR")). The Group's equity tier 1 ratio at 30 June 2010 was 8.2%, see page 29;
- the additional certainty and guidance that the Group has been able to provide in relation to its expected level of non-NAMA impairments, the capital impact of the NAMA transfers together with the expected impact of the EU Re-structuring Plan; and
- the additional confidence in the Group that followed the publication of PCAR in March 2010 and the results of the CEBS stress tests in July 2010.

Wholesale funding at 30 June 2010

The Group's wholesale funding programmes are diversified across geographies, investor types and maturities as set out below:

Wholesale funding sources	30 June 2010 €bn	30 June 2010 %	31 December 2009 €bn	31 December 2009 %
Senior Debt / Asset Covered Securities	31	54%	27	44%
Deposits from banks	17	29%	18	30%
Commercial Paper / Certificates of deposits	4	7%	10	16%
Securitisations	6	10%	6	10%
Total wholesale funding	**58**	**100%**	**61**	**100%**
Wholesale funding > 1 year to maturity	**24**	**41%**	**20**	**32%**
Wholesale funding < 1 year to maturity	**34**	**59%**	**41**	**68%**
Contingent liquidity collateral pool (cash value)	41		42	
Drawings from Monetary Authorities (net)	8		8	

The Group's quantum of wholesale funding has fallen from €61 billion at 31 December 2009 to €58 billion at 30 June 2010 following the completion of the capital raising in June 2010, the sale of the first tranche of loans to NAMA in April 2010 together with a need to hold less liquid assets.

As further Government guaranteed senior bonds are received as consideration for the loans transferring to NAMA, the Group expects to use them to replace existing liquid assets.

2.3.4 Wholesale Funding (continued)

In the six month period ended 30 June 2010, the Group issued €4.6 billion of term funding (funding with a maturity of greater than one year at time of issue). The average maturity of this funding was 3.8 years with an average spread of 1.50% over 3 month Euribor.

The Group continues to benefit from a robust and diversified contingent liquidity strategy. At 30 June 2010, the Group had a pool of contingent liquidity collateral with a cash value of €41 billion, comprised of debt securities, NAMA senior bonds and other eligible collateral which is capable of being pledged against borrowings from Monetary Authorities (including the European Central Bank, the Bank of England and the US Federal Reserve).

The Group has continued to maintain its disciplined approach to the use of funding from Monetary Authorities and drawings at 30 June 2010 were €8 billion (net), in line with drawings of €8 billion (net) at 31 December 2009.

2.3.5 Profile of wholesale funding

The maturity profile of the Group's stock of wholesale funding is set out below:

	30 June 2010		31 December 2009	
Wholesale funding residual maturity analysis	**€bn**	**%**	€bn	%
Less than one year	34	59%	41	68%
One to five years	23	39%	10	16%
More than five years	1	2%	10	16%
Total wholesale funding	**58**	**100%**	**61**	**100%**

Of the Group's total quantum of wholesale funding of €58 billion at 30 June 2010, €24 billion or 41% has a residual maturity of greater than one year.

The maturity profile over the six months to 31 December 2010 of wholesale funding with an original maturity of greater than 1 year is set out below:

Wholesale term funding (original maturity greater than 1 year) Maturity profile	**€bn**
July 2010	1.5
August 2010	-
September 2010	7.5
October 2010	0.3
November 2010	0.1
December 2010	0.1
Wholesale term funding maturing by 31 December 2010	**9.5**

The Group has prudently avoided other wholesale term funding maturities around the expiry of the CIFS scheme on 29 September 2010. The Group expects to issue additional wholesale funds during the remainder of 2010 supported by its strengthened capital position, its enhanced profile in the funding markets together with the extension of the ELG Scheme to 31 December 2010. The pool of contingent liquidity collateral which amounted to a cash value of €41 billion at 30 June 2010 gives the Group significant flexibility to cover any short-term funding mismatches should they arise.

2.3.5 Profile of wholesale funding (continued)

On 11 January 2010, the relevant deposit taking entities within the Group (namely the Governor and Company of the Bank of Ireland, Bank of Ireland Mortgage Bank, ICS Building Society and Bank of Ireland (IOM) Limited) were accepted as participating institutions in the Irish Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme ("the ELG Scheme"). This scheme provides a guarantee for relevant customer deposits and provides flexibility to issue certain debt securities in both un-guaranteed and guaranteed form (up to a maximum maturity of 5 years). The issuance window under the ELG Scheme was scheduled to be reviewed in June 2010 and on 28 June 2010 the European Commission approved an extension with modifications of the ELG Scheme for a further issuance period of six months to 31 December 2010.

The terms of the prolongation and modification of the ELG Scheme on 28 June 2010 provides that issuance under the scheme can continue with similar conditions, albeit at a higher cost, to 29 September 2010. Beyond this date, the European Commission has approved a modification to the scheme to provide for a prolongation of the issuance window from 29 September 2010 to 31 December 2010 in respect of the following liabilities:

- retail deposits of any duration of up to five years (deposits under €100,000 are covered by the Deposits Guarantee Scheme); and
- corporate deposits and certain debt securities with a maturity between three months and five years.

Interbank deposits are excluded from the prolongation of the issuance window beyond 29 September 2010.

The Group remains committed to disengaging, in a prudent and safe manner, from the Government guarantees over time as market conditions allow. In particular the Group expects to strengthen its liquidity position ahead of the expiry of the guarantees by:

- issuing additional term wholesale funding during the remainder of 2010. On a pro-forma basis (at 30 June 2010), an additional €5 billion of term wholesale funding would increase the Group's wholesale term funding ratio to 50%.
- issuing additional Government guaranteed wholesale funding of up to one year prior to the maturity of the ELG Scheme on 31 December 2010.

The market sentiment among debt investors has improved following the publication of the CEBS stress test in July 2010. While the volume of term issuance by banks remains low, the Group is in a strong position to take advantage of any increase in risk appetite among debt investors that occurs over the remainder of 2010 due to:

- the completion in June 2010 of the recapitalisation of the Group which raised additional ordinary equity capital of €2.9 billion net such that the Group's equity tier 1 ratio at 30 June 2010 is 8.2%;
- the additional certainty and guidance that the Group has been able to provide in relation to its expected level of non-NAMA impairments, the capital impact of the NAMA transfers together with the expected impact of the EU Re-structuring Plan; and
- the additional confidence in the Group that followed the publication of PCAR in March 2010 and the results of the CEBS stress tests in July 2010.

2.4 Principal Risks and Uncertainties

As a result of challenging conditions in global financial markets and continuing weakness in the economies in which it operates, the precise nature of all the risks and uncertainties the Group faces cannot be predicted and many of these risks are outside the Group's control.

The overall risks and uncertainties which could impact the Group's future results and financial position are set out on pages 60 to 66 of the Group's Annual Report for the nine month period ended 31 December 2009. The Group regards the following financial risks and uncertainties to be particularly important in the second half of 2010.

Challenging Economic Environment

The Group's businesses are subject to inherent risks arising from macroeconomic conditions in the Group's main markets, particularly conditions in Ireland, the UK and the US. Adverse developments, such as the deterioration in general economic conditions and in the global financial markets, have affected the Group's earnings and are likely to continue to affect its results, financial condition and prospects.

Macroeconomic conditions have caused a decline in demand for business products and services, weak business and consumer confidence, lower personal expenditure and consumption, increases in debt service burden on both consumers and businesses, and limitations on the general availability of credit. These factors have significantly affected, and will continue to affect, the behaviour of the Group's customers and, by extension, the demand for, price of and supply of the Group's products and services which in turn may affect the Group's financial condition. In addition, higher unemployment, reduced corporate profitability, increased corporate and personal insolvency rates and higher borrowing costs have and will continue to reduce borrowers' ability to repay loans and may cause prices of residential or commercial property or other asset prices to fall further, thereby reducing the value of collateral on many of the Group's loans and increasing write downs and impairment losses.

Liquidity & Funding

Constraints on liquidity, lack of availability of funding and increased cost of funding (including both deposit pricing and the cost of wholesale funding) could materially adversely affect the Group's business.

The Group participates in the Guarantee Schemes for deposits and specified liabilities implemented by the Irish Government pursuant to the Credit Institutions (Financial Support) Act 2008 ("CIFS") and the Credit Institutions (Eligible Liabilities Guarantee) Scheme ("the ELG Scheme") approved by the European Commission under State aid rules on 20 November 2009 and by the Houses of the Oireachtas (parliament of Ireland) on 3 December 2009 and commenced on 9 December 2009.

The deposits and certain liabilities of four of the Group's entities (Governor and Company of the Bank of Ireland, Bank of Ireland Mortgage Bank, ICS Building Society and Bank of Ireland (IOM) Limited ("the Participating Entities")) are guaranteed until 29 September 2010 under the Credit Institutions (Financial Support) Scheme 2008 ("CIFS").

On 11 January 2010, the Participating Entities were accepted as participating institutions in the Irish Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme ("the ELG Scheme"). This scheme provides a guarantee for relevant customer deposits and provides flexibility to issue certain debt securities in both un-guaranteed and guaranteed form (up to a maximum maturity of 5 years). The issuance window under the ELG Scheme was scheduled to be reviewed in June 2010 and on 28 June 2010 the European Commission approved an extension with modifications of the ELG Scheme for a further issuance period of six months to 31 December 2010.

The terms of the prolongation and modification of the ELG Scheme on 28 June 2010 provides that issuance under the scheme can continue with similar conditions, albeit at a higher cost, to 29 September 2010. Beyond this date, the European Commission has approved a modification to the scheme to provide for a prolongation of the issuance window from 29 September 2010 to 31 December 2010 in respect of the following liabilities:

- retail deposits of any duration of up to five years (deposits under €100,000 are covered by the Deposits Guarantee Scheme); and
- corporate deposits and certain debt securities with a maturity between three months and five years.

Interbank deposits are excluded from the prolongation of the issuance window beyond 29 September 2010.

The scheduled expiry in September 2010 of ELG coverage for previously covered liabilities of less than three months duration (including interbank deposits and corporate deposits) may adversely impact the availability and / or cost of funding.

The cancellation or further material amendment of the ELG Scheme, prior to the scheduled expiry date of the Issuance Window on 31 December 2010, could introduce systemic weakness to the Irish banking sector and remove an important element of liquidity support for the sector as a whole. As such, the cancellation or material amendment of the ELG Scheme, or the removal of the Group from the ELG Scheme prior to its planned expiry could adversely affect the terms on which the Group would be able to access funding. The Group's financial position may also be impacted by material changes to the costs of participating in the CIFS Guarantee Scheme and / or the ELG Scheme, which may be changed at the discretion of Minister for Finance and the European Commission.

2.4 Principal Risks and Uncertainties (continued)

A key focus for the Group is to reduce its reliance on the Government Guarantee Schemes in a prudent and safe manner as market conditions allow. However, should systemic risks remain elevated or should competitor banks continue to participate in the ELG Scheme, the Group's disengagement from the Scheme could be delayed. As such the on-going cost of the ELG Scheme could adversely affect the Group's financial performance and delay it from achieving its financial targets. Furthermore, should the expiry of the CIFS Guarantee Scheme on 29 September 2010 and the ELG on 31 December 2010 lead to unanticipated adverse impacts on the Group's funding markets, the Group may suffer constraints on liquidity that could materially adversely affect the Group's business.

The Group's borrowing costs and its access to wholesale funding markets depend significantly on its own credit rating and on the credit rating of Ireland. Any further downgrades to the Group's or the Irish sovereign ratings or outlook could impair the Group's access to funding, trigger additional collateral requirements and weaken its competitive position.

The Group qualifies for access to the liquidity operations offered by Monetary Authorities for so long as it meets certain eligibility criteria relating to collateral which it can provide to Monetary Authorities. The Group holds a significant pool of contingent liquidity collateral, comprised of debt securities and other eligible collateral which is capable of being pledged against borrowings from Monetary Authorities. If the quality of the Group's collateral fundamentally deteriorates, or if Monetary Authorities materially change eligibility criteria, the Group's ability to access Monetary Authorities' liquidity operations may become less flexible which could adversely affect the Group. The quality of the Group's collateral may also be influenced by the sovereign rating of Ireland.

NAMA

The discount on disposal of Bank of Ireland Eligible Bank Assets to NAMA may exceed the Group's estimates adversely impacting the Group's capital and results of operations.

A number of uncertainties remain as to the specific quantum and mix of subsequent Bank of Ireland Eligible Bank Assets which may be sold to NAMA, the timing of those transfers, the price that NAMA will pay for those loans, the fees that the Group will be paid for any work undertaken in relation to such loans and the "fair value" of the consideration to be received. Therefore, a number of uncertainties remain as to the final loss on sale on the total portfolio of Bank of Ireland Eligible Bank Assets due to be sold to NAMA and there can be no assurance that the actual discount applied to Bank of Ireland Eligible Bank Assets transferring to NAMA will not be greater than that estimated by the Group.

If the incremental loss which the Group is required to recognise as a result of the sale of assets to NAMA is significantly greater than the Group expects, this may result in a diminution of the capital base of the Group and may result in the need for additional capital.

In addition, the application of a discount to the Bank of Ireland Eligible Bank Assets that is significantly greater than currently anticipated could result in the Group being subject to downgrades in its credit ratings.

By virtue of the Group's participation in NAMA, the Group could be subject to additional directions from the Financial Regulator and / or the Minister for Finance as to the conduct of its business.

In addition, as a condition of the Group's participation in NAMA, the Group will not have control over which of the Group's loans are transferred to NAMA. The NAMA Act provides that the Group shall not, without the prior written approval of NAMA, deal with Bank of Ireland Eligible Bank Assets other than in the ordinary course of its business, in any way which may impair NAMA's interests, compromise any claim or vary any contract. These restrictions apply to assets before they are sold to NAMA, and also apply in respect of assets eligible for sale which may not actually transfer.

The Financial Regulator may direct the Group to provide any report that the Financial Regulator considers necessary to monitor the Group's compliance with the obligations under or by virtue of the NAMA Act. The Financial Regulator could also exercise its power under the NAMA Act to require the consolidation or merger of Participating Institutions, including Bank of Ireland. Under the NAMA Act, the Group may also be required to provide such services as NAMA may direct and to comply with such monitoring of lending and balance sheet management as the Minister for Finance or the Financial Regulator may direct. A Participating Institution may also be directed by the Minister for Finance to draw up, or amend, a restructuring or business plan, and, if the Minister for Finance approves such plan, the Participating Institution is obliged to take all reasonable steps to implement it. The European Commission will assess the compatibility (and, in particular, the actual transfer price) of the transferred assets when they are notified by the Government and this includes a claw-back mechanism in the case of excess payments. Such an assessment could have an adverse effect on the Group.

These directions could restrict the Group's balance sheet growth, limit the Group's ability to make acquisitions or require the Group to dispose of assets, including its loan portfolios. Any such directions may adversely affect the Group's profitability, financial condition and prospects.

2.4 Principal Risks and Uncertainties (continued)

Credit Risk
Risks arising from changes in credit quality and the recoverability of both secured and unsecured loans and amounts due from counterparties are inherent in a wide range of the Group's businesses. The outlook for the global economy remains uncertain. In particular, Ireland's recent significant reliance on the construction and property industry has exacerbated the impact of Ireland's economic recession. The consensus expectation is that any recovery in the Irish economy will take longer than that of the European Union as a whole. Adverse changes in the credit quality or behaviour of the Group's borrowers, counterparties and their guarantors, including sovereign counterparties, or adverse changes arising from a general deterioration in global economic conditions or systemic risks in the financial systems, have reduced, and are expected to continue to reduce, the recoverability and value of the Group's assets. These circumstances have caused a significant increase in, and could cause further significant increases in, impaired loans and impairment charges.

If the early stages of economic recovery in Ireland is not sustained and if there are further falls in house prices and increases in unemployment, the Group's commercial property and residential mortgage lending portfolios may be exposed to further substantial increases in impairment charges, which could materially affect the Group's results, financial condition and prospects. The effects of declining property values and any increases to interest rates payable by borrowers in the wider economy may also contribute to higher default rates and impairment losses on non-property commercial and consumer loans, which could materially adversely affect the Group's results, financial condition and prospects.

Following the publication of its interim report on 6 July 2010, the Expert Group on Mortgage Arrears and Personal Debt is now considering broader structural changes such as loan modification and the options for borrowers with unsustainable mortgages. The final report is expected to be completed by the end of September 2010. Depending on the nature, extent and timing of recommendations from this Expert Group, the implementation of the recommendations could have an adverse impact on the Group's results, financial condition and prospects.

Capital
While the Group has exceeded the requirements of the Prudential Capital Assessment Review ("PCAR"), market expectations could require the Group to hold higher levels of capital and this could have a material adverse impact on the Group's results, financial condition and prospects. Credit institutions, including the Group, are required to hold adequate capital at levels determined by regulatory requirements and market expectations. Due to the ongoing uncertainty in financial markets, market expectations may require international banks to hold Equity Tier 1 Capital, Core Tier 1 Capital, and Tier 1 Capital at levels higher than currently expected or the definitions of these capital tiers may be subject to change. As a consequence, this could require the Group to hold higher levels of capital than the minimum set by the Financial Regulator in its Prudential Capital Assessment Review announced on 30 March 2010. These higher expectations in turn could adversely impact the Group's operational flexibility and reduce earnings growth.

Irish Government
A change in Government policy could have a material adverse effect on the Group's results, financial condition, liquidity and prospects. Irish Government policy in respect of the banking sector, including its supervision, regulation, recapitalisation and structure, has and will continue to have a major impact on the Group. The Irish Government can implement its policy by utilising its extensive powers under existing legislation, the introduction of new or amended legislation or, in the Group's case, the exercise of its stockholder and other rights pursuant to the NPRFC's stockholding in the Bank. There can be no guarantee that the current policies of the Irish Government will be continued. The introduction of new Government policies or the amendment of existing policies could have a significant impact on the Group's results, financial condition, liquidity and prospects. Such policies could be introduced by either the current Government or a new Government constituted by different members or parties from the currently elected Oireachtas (Irish Parliament) or appointed following a general election, which may be called by the current Government at any time before the end of the term of the Oireachtas in July 2012.

EU Restructuring Plan
The Group could be subject to a variety of risks as a result of implementing the EU Restructuring Plan in the form prepared by the Group in consultation with the Department of Finance in relation to the divestment and wind-down measures. There is no assurance that the price that the Group receives for any assets sold pursuant to the EU Restructuring Plan will be at a level that the Group considers adequate or which it could obtain in circumstances in which the Group was not required to sell the assets in order to implement the EU Restructuring Plan or if the sale of these assets were not subject to the restrictions contained in the terms of the plan.

2.4 Principal Risks and Uncertainties (continued)

In implementing the final EU Restructuring Plan, the Group will lose existing customers, deposits and other assets through the sale of businesses and potentially suffer damage to the rest of the Group's business arising from implementing the final EU Restructuring Plan regarding the divestment measures, and the potential for realising additional associated revenues and margins that it otherwise might have achieved in the absence of such disposals may be inhibited. Such implementation may also result in disruption to the retained business impacting on customers, and could result in separation costs which could potentially be substantial.

A monitoring trustee(s) will be appointed in respect of the EU Restructuring Plan and the actions of the monitoring trustee(s) may further adversely impact on the Group and its performance.

Investigation into the banking system
On 19 January 2010, the Minister for Finance announced a framework for an investigation into the factors which contributed to the Irish banking crisis within the context of the international economic and financial environment at that time.

As part of the first stage of the investigation into the banking system, the Government commissioned and recently published two preliminary investigatory reports. A report on the functions of the CBFSAI over the period from the establishment of the Financial Regulator in May 2003 to the end of September 2008 has been prepared by the recently appointed Governor of the CBFSAI. A second report, dealing with an investigation into the specific factors within the Irish banking sector which exacerbated the impact of the international financial crisis for Ireland, has been prepared by independent experts appointed by the Minister.

The Government anticipates that the Statutory Commission of Investigation will complete its work by the end of 2010, at which point its findings will be laid before the Finance and Public Service Oireachtas Committee for its consideration. Further inquiry may result from the findings of the Statutory Commission of Investigation, including the possibility of public hearings.

At the second stage of the investigation into the banking system, it is expected that the Statutory Commission of Investigation will examine the performance of individual banks and bank directors, the performance of regulatory authorities, the response of Government and Government agencies and the structure of the banking system in Ireland generally.

Further information, including the preliminary reports, is available on www. bankinginquiry.gov.ie.

Bank of Ireland may incur significant costs, including legal and financial adviser costs, in facilitating and / or engaging with these investigations, and any ancillary investigations that may arise following the initial investigations. The results of these investigations could also result in ancillary investigations that may result in sanctions or other actions being taken against the Group. In addition, the reports or findings (including preliminary findings) or submissions given in public or otherwise released in respect of these investigations could have an adverse effect on the Group's reputation.

The Government (through the NPRFC) shareholding in the Group
The NPRFC could exercise its voting rights in a manner which is not aligned with the interests of the Group or its other stockholders. The Government (through the NPRFC) is currently the largest holder of Ordinary Stock, holding approximately 36%. The NPRFC also holds all of the 2009 Preference Stock. Under the terms of the 2009 Preference Stock, if the Bank does not pay the cash dividend otherwise due on the 2009 Preference Stock, payable annually on 20 February, it may issue units of Ordinary Stock to the NPRFC in lieu of the relevant cash dividend. This could arise if the Bank was precluded from paying dividends or by having inadequate distributable reserves at the relevant dividend declaration date.

2.4 Principal Risks and Uncertainties (continued)

Through the NPRFC’s stockholding in the Bank and other relationships with the Group, the Government is in a position to exert significant influence over the Group and its business. As the holder of the 2009 Preference Stock the NPRFC has the right to directly appoint 25% of the directors of the Group (such 25% to include any directors nominated by the Minister for Finance pursuant to the CIFS Guarantee Scheme). The tabling of any resolution at a General Court of the Bank to alter the capital structure of the Group requires the prior approval in writing of the Minister for Finance. These rights apply in full for so long as the NPRFC holds any units of 2009 Preference Stock and they are not reduced in line with any reduction in the number of units of 2009 Preference Stock held. In addition, as the holder of the NPRFC Coupon Ordinary Stock, the NPRFC is entitled to exercise the voting rights attaching to these units of Ordinary Stock.

As a result, the Government, through the NPRFC, is in a position to exert an influence over the Group’s business and there is a risk that the Government could exercise its voting rights in a manner which may not be aligned with the interests of the Group’s other Stockholders.

Market Risk
The Group can be exposed to market risks such as changes in interest rates, foreign exchange rates and bond and equity prices. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing rates, the effect of which may be heightened during periods of liquidity stress, such as those experienced in the past two years. Changes in currency rates, particularly the euro-sterling exchange rate, impact the value of assets, liabilities, income and expenses denominated in foreign currencies and the reported earnings of the Group's overseas operations and may affect income from foreign exchange dealing. The performance of financial markets may affect the value of the Group's investment and trading portfolios. While the Group has no direct exposure to equity markets, changes in equity prices may affect the present value of the fee income that is linked to the value of equity assets under management. While the Group has implemented risk management methods to mitigate and control these and other market risks to which it is exposed, it is difficult, particularly in the current environment, to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Group's financial performance and prospects.

Valuation Risk
The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time or may ultimately not turn out to be accurate.

In establishing the value of certain financial instruments that are recorded at fair value, the Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to changes in market conditions. In such circumstances, the Group's internal valuation models require the Group to make assumptions, judgements and estimates to establish fair value. In common with other financial institutions, these internal valuation models are complex, and the assumptions, judgements and estimates the Group is required to make often relate to matters that are inherently uncertain, such as expected cash flows, the ability of borrowers to service debt, residential and commercial property price appreciation and depreciation, and relative levels of defaults. Such assumptions, judgements and estimates may need to be updated to reflect changing facts, trends and market conditions. The resulting change in the fair values of the financial instruments could have a material adverse effect on the Group's earnings and financial condition. As recently experienced, market volatility and illiquidity has challenged the factual bases of certain underlying assumptions and made it difficult to value certain of the Group's financial instruments. Valuations in future periods, reflecting prevailing market conditions, may result in changes in the fair values of these instruments, which could have a negative effect on the Group's results or financial condition. Incorrect valuation of financial instruments could overstate earnings from market risk taken in the Trading Book. It could also understate counterparty credit risk in derivative instruments or overstate the value of marketable loan collateral. Finally the incorrect valuation of liquid assets could overstate the Group’s liquidity position.

Pensions
Notwithstanding the implementation of the proposals to reduce the current pension scheme deficits, the pension funds are subject to market fluctuations and changes in the value of underlying securities, as well as interest rate risk and changes to actuarial assumptions. These fluctuations could impact on the value of the schemes’ asset portfolios and result in returns on the pension funds being less than expected and / or result in there being a greater than expected increase in the estimated value of the schemes’ liabilities. As a result, new or additional deficits in the schemes may arise which could result in the Group choosing or being obliged to make additional contributions to the schemes in the event those schemes became unable to meet their liabilities. Such contributions could be significant and may have a materially negative impact on the Group’s financial condition and trading performance.

Responsibility Statement

for the six months ended 30 June 2010

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

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

- important events that have occurred during the first six months of the year;
- the impact of those events on the condensed financial statements;
- a description of the principal risks and uncertainties for the remaining six months of the financial year (see pages 66 to 70); and
- details of any related party transactions that have materially affected the Group's financial position or performance in the six months ended 30 June 2010 (see note 41 to the financial statements).

Signed on behalf of the Court by

Patrick J Molloy	***Dennis Holt***	***Richie Boucher***
Governor	*Deputy Governor*	*Group Chief Executive*

10 August 2010

Consolidated income statement (unaudited)

for the six months ended 30 June 2010

	Notes	**6 months ended 30 June 2010 €m**	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Interest income	3	2,592	3,400	4,188
Interest expense	4	(1,517)	(1,845)	(2,009)
Net interest income		1,075	1,555	2,179
Net insurance premium income	5	423	355	665
Fee and commission income	6	329	335	474
Fee and commission expense	6	(144)	(150)	(255)
Net trading income / (expense)	7	93	27	(28)
Life assurance investment income and gains	8	189	56	958
Gain on subordinated liability management	9	699	1,037	1,037
Other operating income	10	73	(66)	31
Total operating income		**2,737**	**3,149**	**5,061**
Insurance contract liabilities and claims paid	11	(582)	(355)	(1,462)
Total operating income, net of insurance claims		**2,155**	**2,794**	**3,599**
Operating expenses	12	(916)	(1,032)	(1,387)
Impact of amendments to defined benefit pension schemes	31	676	-	-
Operating profit before impairment charges on financial assets and loss on NAMA		1,915	1,762	2,212
Impairment charges on financial assets (excluding assets held for sale to NAMA)	13	(893)	(928)	(1,826)
Impairment charges on assets held for sale to NAMA	14	(466)	(551)	(2,231)
Loss on sale of assets to NAMA including associated costs	15	(466)	-	-
Operating profit / (loss)		**90**	**283**	**(1,845)**
Share of results of associates and joint ventures (after tax)	16	26	-	35
Loss on disposal of business activities	17	-	(10)	(3)
Profit / (loss) before taxation		**116**	**273**	**(1,813)**
Taxation credit	18	27	125	344
Profit / (loss) for the period		**143**	**398**	**(1,469)**
Attributable to minority interests		3	(12)	(9)
Attributable to stockholders		140	410	(1,460)
Profit / (loss) for the period		**143**	**398**	**(1,469)**
Earnings per unit of €0.10 ordinary stock (cent) (2009: €0.64 cent)	19	1.3	21.3	*(106.3)
Diluted earnings per unit of €0.10 ordinary stock (cent) (2009: €0.64 cent)	19	1.2	19.8	*(106.3)

* *Restated to reflect the bonus element of the Rights Issue which took place in June 2010 (see note 19)*

Consolidated statement of other comprehensive income (unaudited)

for the six months ended 30 June 2010

	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Profit / (loss) for the period	143	398	(1,469)
Other comprehensive income, net of tax:			
Net change in available for sale reserve	(48)	(10)	924
Net actuarial loss on defined benefit pension schemes	(215)	(30)	(74)
Foreign exchange translation gains	399	412	117
Net change in cash flow hedge reserve	125	(24)	82
Net change in revaluation reserve	-	(85)	(53)
Other comprehensive income for the period, net of tax	261	263	996
Total comprehensive income	404	661	(473)
Total comprehensive income attributable to equity stockholders	401	673	(464)
Total comprehensive income attributable to minority interests	3	(12)	(9)
Total comprehensive income	404	661	(473)

The effect of tax on these items is shown in note 18.

Consolidated balance sheet (unaudited)

as at 30 June 2010

	Notes	As at 30 June 2010 €m	As at 31 December 2009 €m
ASSETS			
Cash and balances at central banks		1,977	4,241
Items in the course of collection from other banks		450	400
Trading securities		152	403
Derivative financial instruments		8,001	5,824
Other financial assets at fair value through profit or loss	20	9,688	9,679
Loans and advances to banks	21	6,223	5,031
Available for sale financial assets	22	18,286	20,940
NAMA senior bonds	23	1,447	-
Loans and advances to customers	24	121,144	119,439
Assets held for sale to NAMA	25	7,206	9,581
Interest in associates		24	23
Interest in joint ventures		237	194
Intangible assets - goodwill		46	48
Intangible assets - other		450	459
Investment properties		1,363	1,265
Property, plant & equipment		408	404
Deferred tax assets	33	1,030	865
Other assets		2,234	2,304
Retirement benefit asset		5	6
Other assets classified as held for sale	27	78	-
Total assets		**180,449**	**181,106**
EQUITY AND LIABILITIES			
Deposits from banks	28	17,228	17,903
Customer accounts	29	84,410	84,812
Items in the course of transmission to other banks		201	198
Derivative financial instruments		8,134	6,037
Debt securities in issue		41,302	43,144
Liabilities to customers under investment contracts		5,141	5,050
Insurance contract liabilities		6,928	6,658
Other liabilities		3,417	2,899
Provisions	30	52	142
Deferred tax liabilities		140	134
Retirement benefit obligations	31	1,267	1,638
Subordinated liabilities	32	4,404	6,053
Liabilities held for sale to NAMA		-	1
Other liabilities classified as held for sale	27	36	-
Total liabilities		**172,660**	**174,669**
Equity			
Capital stock	35	1,204	699
Stock premium account		5,064	4,092
Retained earnings		2,808	3,263
Other reserves		(1,252)	(1,580)
Own stock held for the benefit of life assurance policyholders		(88)	(87)
Stockholders' equity		7,736	6,387
Minority interests		53	50
Total equity		7,789	6,437
Total equity and liabilities		**180,449**	**181,106**

Consolidated condensed statement of changes in equity

(unaudited)

for the six months ended 30 June 2010

	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Capital stock			
Balance at the beginning of the period	699	664	699
Issue of 2009 preference stock	-	35	-
Dividend on 2009 preference stock paid in ordinary stock (note 36)	118	-	-
Issue of ordinary stock (note 36)	232	-	-
Conversion of 2009 preference stock (note 36)	155	-	-
Balance at the end of the period	**1,204**	**699**	**699**
Stock premium account			
Balance at the beginning of the period	4,092	775	4,092
Premium on issue of 2009 preference stock	-	3,317	-
Dividend on 2009 preference stock paid in ordinary stock (note 36)	(118)	-	-
Premium on issue of ordinary stock (note 36)	1,366	-	-
Transaction costs, net of tax	(121)	-	-
Reduction in stock premium on conversion of preference stock (note 36)	(155)	-	-
Balance at the end of the period	**5,064**	**4,092**	**4,092**
Retained earnings			
Balance at the beginning of the period	3,263	5,068	4,761
Profit / (loss) for period attributable to stockholders	140	410	(1,460)
Dividends on other equity interests	-	(5)	(4)
Transfer (to) / from capital reserve	(12)	25	29
Profit / (loss) retained	128	430	(1,435)
Cancellation of warrants (note 36)	(381)	-	-
Repurchase of capital note (note 36)	24	-	-
Reissue of treasury stock	(15)	(39)	(7)
Transfer from revaluation reserve	-	5	-
Transfer from share based payments reserve	-	4	11
Net actuarial loss on defined benefit pension schemes	(215)	(30)	(74)
Other movements	4	-	7
Balance at the end of the period	**2,808**	**5,438**	**3,263**
Other Reserves:			
Available for sale reserve			
Balance at the beginning of the period	(608)	(1,260)	(1,532)
Net changes in fair value	(54)	29	1,110
Deferred tax on fair value changes	5	(1)	(131)
Transfer to income statement on asset disposal	1	(38)	(55)
Balance at the end of the period	**(656)**	**(1,270)**	**(608)**
Cash flow hedge reserve			
Balance at the beginning of the period	(510)	(536)	(592)
Changes in fair value net of transfers to income statement	136	35	121
Deferred tax on reserve movements	(11)	(59)	(39)
Balance at the end of the period	**(385)**	**(560)**	**(510)**
Foreign exchange reserve			
Balance at the beginning of the period	(1,199)	(1,436)	(1,316)
Exchange adjustments during the period	399	412	117
Balance at the end of the period	**(800)**	**(1,024)**	**(1,199)**

Consolidated condensed statement of changes in equity

(continued) (unaudited)

for the six months ended 30 June 2010

	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Capital reserve			
Balance at the beginning of the period	462	540	491
Transfer from / (to) retained earnings	12	(25)	(29)
Balance at the end of the period	**474**	**515**	**462**
Share based payments reserve			
Balance at the beginning of the period	22	34	33
Charge to the income statement	3	5	-
Transfer to retained earnings	-	(4)	(11)
Balance at the end of the period	**25**	**35**	**22**
Revaluation reserve			
Balance at the beginning of the period	29	172	82
Transfer to retained earnings on sale of property	-	(5)	-
Revaluation of property	-	(102)	(60)
Deferred tax on revaluation of property	-	17	7
Balance at the end of the period	**29**	**82**	**29**
Other equity reserves			
US$150 million capital note			
Balance at the beginning of the period	114	114	114
Repurchase of capital note (note 36)	(53)	-	-
Balance at the end of the period	**61**	**114**	**114**
Core and secondary tranche warrants			
Balance at the beginning of the period	110	-	110
Issue of warrants	-	110	-
Cancellation of warrants (note 36)	(110)	-	-
Balance at the end of the period	**-**	**110**	**110**
Total other reserves	**(1,252)**	**(1,998)**	**(1,580)**
Own stock held for the benefit of life assurance policyholders			
Balance at the beginning of the period	(87)	(124)	(90)
Changes in value and number of stock	(1)	36	3
Balance at the end of the period	**(88)**	**(88)**	**(87)**
Total stockholders' equity excluding minority interests	**7,736**	**8,143**	**6,387**
Minority interests			
Balance at the beginning of the period	50	63	61
Revaluation	-	2	(2)
Share of net profit / (loss)	3	(12)	(9)
Balance at the end of the period	53	53	50
Total equity	**7,789**	**8,196**	**6,437**

Consolidated condensed cash flow statement (unaudited)

for the six months ended 30 June 2010

	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Cash flows from operating activities			
Profit / (loss) before taxation	116	273	(1,813)
Share of results of associates and joint ventures	(26)	-	(35)
Loss on disposal of business activity	-	10	3
Depreciation and amortisation	70	109	107
Impairment charges on financial assets (excluding assets held for sale to NAMA)	893	928	1,826
Impairment charges on assets held for sale to NAMA	466	551	2,231
Loss on sale of assets to NAMA including associated costs	466	-	-
Interest expense on subordinated liabilities	171	187	163
Charge for share based payments	3	5	-
Gain on subordinated liability management	(699)	(1,037)	(1,037)
Impact of amendments to defined benefit pension scheme	(676)	-	-
Other non cash items	168	630	167
Cash flows from operating activities before changes in operating assets and liabilities	952	1,656	1,612
Net cash flow from operating assets and liabilities	(6,859)	(9,262)	(5,487)
Net cash flow from operating activities before tax and dividends	(5,907)	(7,606)	(3,875)
Taxation refunded / (paid)	8	(82)	45
Net cash flow from operating activities	**(5,899)**	**(7,688)**	**(3,830)**
Investing activities:			
Net change in available for sale financial assets	2,974	4,847	6,802
Purchase of property, plant and equipment, investment property and intangible assets	(35)	(71)	(58)
Proceeds from disposals of property, plant and equipment, investment property and intangible assets	-	4	37
Net change in interest in associates	-	(1)	(3)
Cash flows from investing activities	**2,939**	**4,779**	**6,778**
Financing activities:			
Reissue of treasury stock	(15)	(39)	(7)
Reduction in subordinated liabilities	(750)	(683)	(683)
Issue of 2009 preference stock and warrants	-	3,462	-
Interest paid on subordinated liabilities	(137)	(232)	(144)
Dividends on other equity interests	-	(4)	(4)
Net proceeds from institutional placing and rights issue	908	-	-
Cancellation of warrants	(491)	-	-
Cash flows from financing activities	**(485)**	**2,504**	**(838)**
Net change in cash and cash equivalents	(3,445)	(405)	2,110
Opening cash and cash equivalents	9,187	10,242	7,259
Effect of exchange translation movements	703	185	(182)
Closing cash and cash equivalents	**6,445**	**10,022**	**9,187**

Interim statements

The interim financial statements for the six months ended 30 June 2010 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as published by the International Accounting Standards Board ('IASB') and adopted by the European Union ('EU'). They should be read in conjunction with the Group's financial statements for the nine months ended 31 December 2009, which are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) and with those parts of the Companies Act, 1963 to 2009 applicable to companies reporting under IFRS, with the European Communities (Credit Institutions: Accounts) Regulations, 1992 and with the Asset Covered Securities Acts, 2001 to 2007. The EU adopted version of IAS 39 currently relaxes some of the hedge accounting rules in IAS 39 'Financial Instruments – Recognition and Measurement'. The Group has not availed of this, hence the financial statements for the nine months ended 31 December 2009 comply with both IFRS as adopted by the EU and IFRS as issued by the IASB.

Basis of preparation

The interim financial statements comprise the Consolidated income statement, Consolidated statement of other comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated condensed cash flow statement, the notes to the interim financial statements together with the information in section 2.2 of the Risk Management Report section that is described as being an integral part of the interim financial statements.

Going concern

The information in the financial statements has been prepared on the going concern basis. A number of risk factors including credit, liquidity, market, insurance, pension, operational, legal and regulatory risk impact on the Group's activities. The continuing global financial difficulties including the European sovereign debt concerns and the significantly deteriorated economic environments in which we operate have increased the pressure on the Group as to how these risk factors are managed. In preparing these financial statements the Directors have 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 environment affecting the Group and the industry, the liquidity position, the ability to access funds in the wholesale money markets (including the ability to use assets as collateral to raise funds) and the Group's participation in NAMA. The Directors have reviewed the Group's business plan for the remainder of 2010 and 2011 which incorporates its funding plan and considered the critical assumptions underpinning this plan and tested them under stressed conditions. Following the completion of the capital raising in June 2010 which raised additional equity capital of €2.9 billion, the Group has exceeded the capital raising requirements set out by the Financial Regulator in the Prudential Capital Assessment Review. In July 2010, the Group passed the stress testing exercise co-ordinated by the Committee of European Banking Supervisors ("CEBS").

The Directors have also taken into account measures introduced by the Irish Government to improve liquidity, including the enhanced customer deposit protection scheme, the Credit Institutions (Financial Support) scheme ("CIFS"), introduced by the Irish Government in September 2008 and scheduled to mature on 29 September 2010, and the Credit Institutions Eligible Liabilities Guarantee Scheme (the "ELG Scheme") introduced by the Government in December 2009 and extended, in June 2010, in modified form to 31 December 2010. In concluding on the going concern basis the Directors took into account the CIFS scheme and the ELG Scheme (and their expiry dates), the Irish Government's investments in Bank of Ireland's Ordinary and Preference Stock, the Group's ability to use assets as collateral to access Monetary Authority Liquidity Support Schemes, the impact of the Group's participation in NAMA and the Government's acknowledgment of the Group's systemic importance to the economy as a whole and its continued support.

Based on the factors above the Directors are satisfied that the Group will have access to adequate resources, both capital and funding, to continue in business for the foreseeable future. Accordingly, the Directors consider it appropriate to adopt the going concern basis in preparing the financial statements as at 30 June 2010.

Accounting policies

The accounting policies and methods of computation and presentation applied by the Group in the preparation of these interim financial statements are consistent with those set out in the Annual Report for the nine months ended 31 December 2009.

Employee benefits - pension obligations

Curtailments arise where the Group makes a material reduction in the number of employees covered by a pension scheme or amends a defined benefit pension scheme's terms such that a material element of future service by current employees will qualify for no or significantly reduced benefits. The gain or loss arising on a curtailment comprises the resulting change in the net pension asset or liability, and such gain or loss is recognised in the income statement when the curtailment occurs.

A plan amendment which reduces benefits for past service is a negative past service cost. A negative past service cost is recognised on a straight-line basis over the average period until the benefit becomes vested. To the extent that the benefits are already vested the Group recognises the past service cost immediately. As set out in note 31, the Group made a gain arising from changes in pension benefits resulting from the amendments to the Bank of Ireland Staff Pensions Fund ("BSPF") effective before 30 June 2010.

Due to the materiality of this gain it has been disclosed as a separate line item within the Group's consolidated income statement.

Comparatives
As outlined in note 1 the consolidated comparative period for the consolidated income statement, the statement of other comprehensive income, the consolidated statement of changes in equity and the condensed cash flow statement and related notes is the six month period to 30 June 2009.

Loans which were expected to be sold to NAMA were transferred from Loans and advances to customers to Assets held for sale to NAMA on 31 December 2009. As Assets held for sale to NAMA did not exist as an accounting classification on 30 June 2009, the Group determined the split of the total impairment charge in the six months to 30 June 2009 between Loans and advances to customers and Assets held for sale to NAMA based on the total loans sold to NAMA and the loans expected to be sold to NAMA as at 30 June 2010. The split for the period to 30 June 2010 was determined on the same basis.

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

Adoption of new accounting standards
The following amendments to and interpretations of standards have been adopted by the Group during the 6 months ended 30 June 2010;

- 'Eligible Hedged items' – amendments to IAS 39 'Financial Instruments - Recognition and measurement'
- IAS 27 (Revised) – 'Consolidated and separate financial statements'
- IAS 27 (Amendment) – 'Cost of an investment in a subsidiary, jointly controlled entity or associate'
- IFRS 3 (Revised) – 'Business combinations'
- IFRS 2 (Amendment) – 'Group cash-settled share-based payment'
- IFRIC 17 – 'Distribution of non-cash assets to owners'
- Improvements to IFRSs 2009

None of the above amendments or interpretations has had a significant impact on the Group. For details of new standards, interpretations and amendments to standards which will be effective for periods after 31 December 2010 see page 176 of the 31 December 2009 Annual Report.

Critical accounting estimates and judgements
The preparation of interim financial statements requires the Group to make estimates and judgements that impact the reported amounts of assets and liabilities, income and expense. There have been no significant changes to the Group's approach to and methods of making critical accounting estimates and judgements compared to those applied at 31 December 2009, as set out on pages 177 to 179 of the 31 December 2009 Annual Report with the exception of the following addition:

Employee benefits - pension obligations
In January 2010, the Group launched a pension review to address its pension deficit. The over-riding objective of the review was to find a shared solution which would enable the Bank to continue to offer sustainable and competitive pension benefits. Arising from this review the Group has implemented a number of amendments to the Bank of Ireland Staff Pensions Fund ('BSPF') (see note 31).

The most significant accounting judgement relating to these amendments is the Group's assessment of whether its legal and constructive obligations have been amended. The Group wrote to all members of the BSPF prior to 30 June 2010 to inform them of the change to pension benefits and where necessary changed the legal obligations in relation to those pension benefits before 30 June 2010.

The Group has recognised a reduction in its retirement benefit liabilities at 30 June 2010 to the extent that it has formed the judgement that it has amended its constructive and legal obligations at that date.

Statutory accounts
These interim financial statements do not comprise statutory accounts within the meaning of Section 19 of the Companies (Amendment) Act 1986. The statutory accounts for the nine months ended 31 December 2009 were approved by the Court of Directors on 30 March 2010, contained an unqualified audit report and are due to be filed with the Companies Registration Office by 15 August 2010.

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

1 Comparative period

On 17 February 2010, the Bank announced that it was changing its fiscal year end from 31 March to 31 December with effect from 31 December 2009, to align its financial calendar with that of its peer banks. As a result, in accordance with IAS 34, the comparative income statement, statement of other comprehensive income, statement of changes in equity, condensed cash flow statement and related notes are presented for the six months ended 30 June 2009. The comparative date for balance sheet purposes is 31 December 2009.

2 Operating segments

The Group has five reportable operating segments detailed in the table below. These segments reflect the internal financial and management reporting structure and are organised as follows:

Retail Republic of Ireland
Retail Republic of Ireland includes all the Group’s branch operations in the Republic of Ireland. The branches offer a wide range of financial products and services in addition to the deposit, lending, current account and other money transmission services traditionally offered by banks. It also includes Bank of Ireland Mortgage Bank, ICS Building Society, Private Banking, an instalment credit and leasing business, credit card operations, commercial finance / factoring businesses, the domestic and US foreign exchange operations of First Rate Enterprises and direct telephone and online banking services.

Bank of Ireland Life (BoI Life)
BoI Life offers life assurance, protection, pensions and investment products to customers in Ireland through the extensive branch banking network of Retail Republic of Ireland. The company also operates in the independent intermediary market and through a direct sales force.

UK Financial Services
UK Financial Services (UKFS) comprises Business Banking in Great Britain and Northern Ireland, the branch network in Northern Ireland, the UK residential mortgage business and the joint ventures with the UK Post Office. The business banking unit provides loan facilities to medium and large corporate clients in addition to international banking, working capital financing, leasing and electronic banking services. Offshore deposit taking services are offered in the Isle of Man. The business activities with the UK Post Office, Post Office Financial and Travel Services, provide a range of retail financial services.

Capital Markets
The principal constituents of this division are Corporate Banking and Global Markets in addition to Asset Management Services and IBI Corporate Finance.

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

Global Markets is responsible for managing the Group’s interest rate and foreign exchange risks, while also executing the Group’s liquidity and funding requirements. Global Markets trades in a range of market instruments on behalf of the Group itself and the Group’s customers. The trading activities include dealing in inter-bank deposits and loans, foreign exchange spot and forward contracts, options, financial futures, bonds, swaps, forward rate agreements and equity tracker products. Global Markets has offices located in the UK and the US, as well as in the Republic of Ireland.

Group Centre
Group Centre mainly includes capital management activities, unallocated support costs and the cost of the Government Guarantee Schemes.

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

2 Operating segments (continued)

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

The Group's management reporting and controlling systems use accounting policies that are the same as those referenced in 'Accounting policies and basis of preparation' on pages 157 to 176 of the 31 December 2009 Annual Report. The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as "Underlying profit" in its internal management reporting systems. Underlying profit or loss excludes:

- gross up of policyholder tax in the Life business;
- gain / loss on disposal of business activities;
- impact of amendments to defined benefit pension schemes;
- gain on subordinated liability management;
- investment return on treasury stock held for policyholders;
- Effective Interest Rate (EIR) adjustment on subordinated liabilities[1]; and
- the cost of restructuring programmes;

Capital expenditure comprises additions to property, plant and equipment and intangible assets including additions resulting from acquisitions through business combinations.

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

[1] *In January 2010 the European Commission imposed restrictions on the Group's ability to make coupon payments on certain subordinated liabilities unless under a binding legal obligation to do so (a "coupon stopper" provision). On 31 December 2009 the Group expected that it would be precluded from making coupon payments for two years and therefore, under the effective interest rate method of accounting, the Group recognised a gain of €67 million in its financial statements for the nine months ended 31 December 2009. As announced by the Group on 16 April 2010, it was expected that the coupon stopper provison should apply for one year and will cease on 31 January 2011. The European Commission confirmed this on 15 July 2010. Consequently the Group has recognised a charge of €36 million in the six month period ended 30 June 2010 to reflect this change. Of this amount €35 million (nine months ended 31 December 2009: €58 million) has been reported in interest expense (note 4) while €1 million (nine months ended 31 December 2009: €9 million) was reported in net trading income / (expense) (note 7).*

2 Operating segments (continued)

6 months ended 30 June 2010	Retail Republic of Ireland €m	BoI Life €m	UK Financial Services €m	Capital Markets €m	Group Centre €m	Other reconciling items €m	Group €m
Interest income	1,894	8	1,385	2,004	(189)	(2,510)	2,592
Interest expense	(1,403)	(10)	(1,085)	(1,604)	110	2,510	(1,482)
Net interest income	491	(2)	300	400	(79)	-	1,110
Other income, net of insurance claims	180	85	12	49	33	-	359
Total operating income, net of insurance claims	671	83	312	449	(46)	-	1,469
Operating expenses	(439)	(51)	(174)	(140)	(42)	-	(846)
Depreciation and amortisation	(28)	(2)	(16)	(6)	(18)	-	(70)
Operating expenses	(467)	(53)	(190)	(146)	(60)	-	(916)
Underlying operating profit before impairment charges on financial assets and loss on NAMA	204	30	122	303	(106)	-	553
Impairment charges on loans and advances to customers	(499)	-	(259)	(135)	-	-	(893)
Impairment charges on assets held for sale to NAMA	(228)	-	(82)	(156)	-	-	(466)
Loss on sale of assets to NAMA inclusive of associated costs	(33)	-	-	(414)	(19)	-	(466)
Share of results of associates and joint ventures	8	-	17	1	-	-	26
Underlying (loss) / profit before tax	**(548)**	**30**	**(202)**	**(401)**	**(125)**	**-**	**(1,246)**
Capital expenditure	13	1	5	1	14	-	34
Investment in associates and joint ventures	151	-	98	12	-	-	261
External assets	51,408	11,944	56,320	58,000	2,777	-	180,449
Inter segment assets	72,268	1,915	27,677	149,598	47,627	(299,085)	-
Total assets	**123,676**	**13,859**	**83,997**	**207,598**	**50,404**	**(299,085)**	**180,449**
External liabilities	50,541	12,456	19,648	75,972	14,043	-	172,660
Inter segment liabilities	71,929	523	64,507	132,540	29,586	(299,085)	-
Total liabilities	**122,470**	**12,979**	**84,155**	**208,512**	**43,629**	**(299,085)**	**172,660**

Reconciliation of underlying loss before tax to profit before taxation	Group €m
Underlying loss before tax	(1,246)
Effective Interest Rate adjustment on subordinated liabilities	(36)
Gain on subordinated liability management	699
Gross-up of policyholder tax in the Life business	17
Investment return on treasury stock held for policyholders	6
Impact of amendments to defined pension schemes	676
Profit before tax	**116**

2 Operating segments (continued)

6 months ended 30 June 2009	Retail Republic of Ireland €m	BoI Life €m	UK Financial Services €m	Capital Markets €m	Group Centre €m	Other reconciling items €m	Group €m
Interest income	2,825	16	1,698	2,927	(568)	(3,498)	3,400
Interest expense	(2,186)	(13)	(1,344)	(2,390)	590	3,498	(1,845)
Net interest income	639	3	354	537	22	-	1,555
Other income, net of insurance claims	76	47	70	73	(61)	-	205
Total operating income, net of insurance claims	**715**	**50**	**424**	**610**	**(39)**	**-**	**1,760**
Operating expenses	(431)	(51)	(178)	(157)	(23)	-	(840)
Depreciation and amortisation	(29)	(4)	(24)	(6)	(46)	-	(109)
Operating expenses	**(460)**	**(55)**	**(202)**	**(163)**	**(69)**	**-**	**(949)**
Underlying operating profit before impairment charges on financial assets	255	(5)	222	447	(108)	-	811
Impairment charges on loans and advances to customers	(480)	-	(244)	(202)	-	-	(926)
Impairment charges on loans and advances to banks	-	-	-	(2)	-	-	(2)
Impairment charges on assets held for sale to NAMA	(283)	-	(150)	(118)	-	-	(551)
Share of results of associates and joint ventures	(10)	-	10	-	-	-	-
Underlying (loss) / profit before tax	**(518)**	**(5)**	**(162)**	**125**	**(108)**	**-**	**(668)**

Reconciliation of underlying loss before tax to profit before taxation	Group €m
Underlying loss before tax	(668)
Gain on subordinated liability management	1,037
Gross-up of policyholder tax in the Life business	5
Investment return on treasury stock held for policyholders	(8)
Loss on disposal of business activities	(10)
Cost of restructuring programme	(83)
Profit before tax	**273**

2 Operating segments (continued)

9 months ended 31 December 2009	Retail Republic of Ireland €m	BoI Life €m	UK Financial Services €m	Capital Markets €m	Group Centre €m	Other reconciling items €m	Group €m
Interest income	3,304	14	2,339	3,438	(513)	(4,394)	4,188
Interest expense	(2,416)	(16)	(1,874)	(2,733)	578	4,394	(2,067)
Net interest income	888	(2)	465	705	65	-	2,121
Other income, net of insurance claims	112	153	70	83	(102)	-	316
Total operating income, net of insurance claims	**1,000**	**151**	**535**	**788**	**(37)**	**-**	**2,437**
Operating expenses	(638)	(78)	(277)	(222)	(59)	-	(1,274)
Depreciation and amortisation	(42)	(4)	(27)	(8)	(26)	-	(107)
Operating expenses	**(680)**	**(82)**	**(304)**	**(230)**	**(85)**	**-**	**(1,381)**
Impairment of goodwill and other intangible assets	(6)	-	-	-	-	-	(6)
Underlying operating profit before impairment charges on financial assets	314	69	231	558	(122)	-	1,050
Impairment charges on loans and advances to customers	(978)	-	(457)	(389)	-	-	(1,824)
Impairment charges on assets held for sale to NAMA	(858)	-	(605)	(768)	-	-	(2,231)
Impairment charges on available for sale financial assets	-	-	-	(2)	-	-	(2)
Share of results of associates and joint ventures	8	-	26	1	-	-	35
Underlying (loss) / profit before tax	**(1,514)**	**69**	**(805)**	**(600)**	**(122)**	**-**	**(2,972)**
Capital expenditure	-	2	32	6	20	-	60
Investment in associates and joint ventures	134	-	74	9	-	-	217
External assets	52,999	11,744	53,804	60,101	2,458	-	181,106
Inter segment assets	68,946	1,714	22,202	135,270	47,020	(275,152)	-
Total assets	**121,945**	**13,458**	**76,006**	**195,371**	**49,478**	**(275,152)**	**181,106**
External liabilities	49,109	12,081	18,400	78,562	16,517	-	174,669
Inter segment liabilities	72,401	515	58,298	117,743	26,195	(275,152)	-
Total liabilities	**121,510**	**12,596**	**76,698**	**196,305**	**42,712**	**(275,152)**	**174,669**

Reconciliation of underlying loss before tax to profit before taxation	Group €m
Underlying loss before tax	(2,972)
Gain on subordinated liability management	1,037
Effective Interest Rate adjustment on subordinated liabilities	67
Gross-up of policyholder tax in the Life business	64
Investment return on treasury stock held for policyholders	(6)
Loss on disposal of business activities	(3)
Loss before tax	**(1,813)**

2 Operating segments (continued)

Gross revenue by operating segments

6 months ended 30 June 2010	**Retail Republic of Ireland €m**	**BoI Life €m**	**UK Financial Services €m**	**Capital Markets €m**	**Group Centre €m**	**Other reconciling items €m**	**Group €m**
External customers	823	70	1,157	1,048	727	-	3,825
Inter-segment revenue	1,275	63	314	1,032	(131)	(2,553)	-
Total gross revenue	**2,098**	**133**	**1,471**	**2,080**	**596**	**(2,553)**	**3,825**

6 months ended 30 June 2009	Retail Republic of Ireland €m	BoI Life €m	UK Financial Services €m	Capital Markets €m	Group Centre €m	Other reconciling items €m	Group €m
External customers	1,003	72	1,290	1,134	1,242	-	4,741
Inter-segment revenue	1,887	4	526	1,903	(792)	(3,528)	-
Total gross revenue	**2,890**	**76**	**1,816**	**3,037**	**450**	**(3,528)**	**4,741**

9 months ended 31 December 2009	Retail Republic of Ireland €m	BoI Life €m	UK Financial Services €m	Capital Markets €m	Group Centre €m	Other reconciling items €m	Group €m
External customers	1,458	247	1,814	1,107	1,264	-	5,890
Inter-segment revenue	1,996	15	693	2,474	(734)	(4,444)	-
Total gross revenue	**3,454**	**262**	**2,507**	**3,581**	**530**	**(4,444)**	**5,890**

3 Interest Income

	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Loans and advances to customers (including loans held for sale to NAMA)	2,201	2,769	3,503
Available for sale financial assets	279	465	498
Finance leases	80	100	139
Loans and advances to banks	32	66	48
Interest income	**2,592**	**3,400**	**4,188**

4 Interest expense

	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Customer accounts	786	843	995
Debt securities in issue	464	611	653
Subordinated liabilities	171	187	163
Deposits from banks	96	204	198
Interest expense	**1,517**	**1,845**	**2,009**

In January 2010 the European Commission imposed restrictions on the Group's ability to make coupon payments on certain subordinated liabilities unless under a binding legal obligation to do so (a "coupon stopper" provision). On 31 December 2009 the Group expected that it would be precluded from making coupon payments for two years and therefore, under the effective interest rate method of accounting, the Group recognised a gain of €67 million in its financial statements for the nine months ended 31 December 2009. As announced by the Group on 16 April 2010, it was expected that the coupon stopper provison would cease on 31 January 2011. The European Commission confirmed this on 15 July 2010. Consequently the Group has recognised a charge of €36 million in the six month period ended 30 June 2010 to reflect this change. Of this amount €35 million (nine months ended 31 December 2009: €58 million) has been reported in interest expense (note 4) while €1 million (nine months ended 31 December 2009: €9 million) was reported in net trading income / (expense) (note 7).

Included within interest expense for the six months ended 30 June 2010 is an amount of €94 million (June 2009: €Nil; December 2009: €Nil) relating to the cost of the Credit Institutions (Eligible Liabilities Guarantee) Scheme. The cost of this scheme is classified as interest expense as it is directly attributable and incremental to the issue of specific financial liabilities. Further information on this scheme is outlined in note 37. The cost of the CIFS scheme is shown in Fee and Commission expense (note 6).

5 Net insurance premium income

	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Gross premiums written	478	410	751
Ceded reinsurance premiums	(59)	(49)	(91)
Net premiums written	419	361	660
Change in provision for unearned premiums	4	(6)	5
Net insurance premium income	**423**	**355**	**665**

6 Fee and commission income and expense

Income	**6 months ended 30 June 2010 €m**	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Retail banking customer fees	179	214	268
Asset management fees	46	52	66
Insurance commissions	45	28	60
Credit related fees	25	27	41
Brokerage fees	5	6	8
Other	29	8	31
Fee and commission income	**329**	**335**	**474**

Expense	**6 months ended 30 June 2010 €m**	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Government Guarantee fee (note 37)	57	61	105
Other	87	89	150
Fee and commission expense	**144**	**150**	**255**

The Government Guarantee fee relates to fees paid under the Credit Institutions (Financial Support) Scheme and is included as a fee and commission expense as it is not both directly attributable and incremental to the issue of specific financial liabilities.

7 Net trading income / (expense)

	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Financial assets designated at fair value	8	6	31
Financial liabilities designated at fair value	55	1	(137)
Related derivatives held for trading	23	(20)	86
	86	(13)	(20)
Other financial instruments held for trading	(3)	41	(13)
Net fair value hedge ineffectiveness	10	-	7
Cash flow hedge ineffectiveness	-	(1)	(2)
Net trading income / (expense)	**93**	**27**	**(28)**

Net trading income of €93 million (30 June 2009: €27 million, 31 December 2009: expense €28 million) includes the gains and losses on financial instruments held for trading and those designated at fair value through profit or loss (other than unit linked life assurance assets and investment contract liabilities). It includes the gains and losses arising on the purchase and sale of these instruments, the interest income receivable and expense payable and the fair value movement on these instruments, together with the funding cost of the trading instruments. It also includes €57 million in relation to net gains arising from foreign exchange (30 June 2009: net losses of €8 million, 31 December 2009: net gains of €20 million).

7 Net trading income / (expense) (continued)

Net trading income / expense includes the total fair value movement (including interest receivable and payable) on liabilities that have been designated at fair value through profit or loss. The interest receivable on amortised cost assets which are funded by those liabilities is reported in net interest income. Net trading income / expense also includes the total fair value movements on derivatives that are economic hedges of assets and liabilities which are measured at amortised cost, the net interest receivable or payable on which is also reported within net interest income. The net amount reported within net interest income relating to these amortised cost instruments was €47 million (30 June 2009: €52 million, 31 December 2009: €71 million).

Net fair value hedge ineffectiveness of €10 million (30 June 2009: nil; 31 December 2009: €7 million) comprises a net gain from hedging instruments of €248 million (30 June 2009: net loss of €117 million, 31 December 2009: net loss of €97 million) offsetting a net loss from hedged items of €238 million (30 June 2009: net gain of €117 million, 31 December 2009: net gain of €104 million).

The net gain from the change in credit spreads relating to the Group's issued notes designated at fair value through profit or loss was €79 million (30 June 2009: net gain of €36 million, 31 December 2009: net loss of €6 million). This is before the impact of the reduction from interest rare movements of €5 million (30 June 2009: €12 million). The cumulative impact from the change in credit spreads at 30 June 2010 is a net gain of €169 million (30 June 2009: €69 million, 31 December 2009 €90 million).

Included within net trading income / expense above is a debit of €1 million (30 June 2009: nil; 31 December 2009: credit of €9 million) in relation to the revised estimates of future cashflows on certain subordinated liabilities. See note 4 for further details.

8 Life assurance investment income and gains

	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Gross life assurance investment income and gains	187	60	961
Elimination of investment return on treasury stock held for the benefit of policyholders	2	(4)	(3)
Life assurance investment income and gains	**189**	**56**	**958**

Life assurance investment income and gains comprise the investment return, realised gains and losses, and unrealised gains and losses which accrue to the Group, on all investment assets held by BoI Life, other than those held for the benefit of policyholders whose contracts are considered to be investment contracts.

IFRS requires that Bank of Ireland stock held by the Group, including those held by BoI Life for the benefit of policyholders, are reclassified as treasury stock and accounted for as a deduction from equity. Changes in the value of any treasury stock held are recognised in equity at the time of disposal and dividends are not recognised as income or distributions.

The impact on the Group income statement in the 6 months to 30 June 2010 of applying this accounting treatment is that life assurance investment income and gains of €187 million have been increased by €2 million, which is the loss on Bank of Ireland stock held under insurance contracts. Other operating income (see note 10) has been increased by €4 million which is the loss on stock held under investment contracts. The combined adjustment is €6 million.

9 Gain on subordinated liability management

As part of its ongoing capital management activities, including the recapitalisation of the Bank (as detailed in note 36), the Group has repurchased and / or exchanged certain subordinated liabilities. This involved a number of transactions including:

6 months ended 30 June 2010

- a Debt for Debt exchange relating to five subordinated notes, in February 2010;
- a Debt for Equity offer in June 2010, under which holders of certain securities / capital notes exchanged these securities for (a) cash proceeds from the allotment of ordinary stock on behalf of such holders in the rights issue or (b) allotment instruments (total value of €61 million), which automatically convert into ordinary stock on 10 September 2010, or (c) a combination thereof;

9 Gain on subordinated liability management (continued)

6 months ended 30 June 2009 / 9 months ended 31 December 2009

- the repurchase of euro, US dollar and sterling subordinated liabilities in June 2009.

The gains arising on these transactions are summarised below:

	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Debt for debt exchange	423	-	-
Debt for equity offer	276	-	-
Repurchase of subordinated liabilities for cash	-	1,037	1,037
	699	**1,037**	**1,037**

The following tables summarise the results of the debt for debt exchange, debt for equity offer and the repurchase of subordinated liabilities for cash.

Debt for debt exchange (Lower Tier 2 Securities) during 6 months to 30 June 2010

Description	**Principal Amount prior to debt for debt exchange**	**Principal Amount exchanged**	**Residual Principal Amount**	**Price (% of Principal Amount exchanged)**	**Nominal and fair value of new note Issued**
€650 million *Fixed / Floating Rate Subordinated Notes 2019*	€650m	€230m	€420m	78%	€179m
€600 million *Subordinated Floating Rate Notes 2017*	€600m	€442m	€158m	72%	€320m
€750 million *Floating Rate Subordinated Notes 2017*	€750m	€502m	€248m	73%	€366m
US$600 million *Subordinated Floating Rate Notes due 2018*[1]	$600m	$227m	$373m	70%	€113m and £3m
Stg£400 million *Fixed / Floating Rate Subordinated Notes 2018*	£400m	£245m	£155m	79%	£194m

[1] *The US $600 million subordinated floating rate note due 2018, was exchanged for two notes, denominated in both € and £.*

The net gain after transaction costs amounted to €423 million (€405 million after taxation) being the fair value of the new notes issued of €1,202 million, less the carrying value of the notes exchanged of €1,633 million and transaction costs of €8 million.

The new subordinated liabilities issued were:

€978 million, 10% coupon with a maturity of 12 February 2020; and

£197 million, 10% coupon with a maturity of 12 February 2020

9 Gain on subordinated liability management (continued)

Debt for equity offer (Tier 1 Securities) during 6 months to 30 June 2010 Description	Principal Amount prior to debt for equity offer	Principal Amount exchanged	Price (% of Principal Amount exchanged)	Residual Principal Amount
Recognised in the income statement				
€600 million *7.40% Guaranteed Step-up Callable Perpetual Preferred Securities*	€476m	€223m	86%	€253m
Stg£350 million *6.25% Guaranteed Callable Perpetual Preferred Securities*	£46m	£6m	63%	£40m
€600 million *Fixed Rate/Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities*	€350m	€134m	60%	€216m
US$800 million *Fixed Rate/Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities*	$400m	$339m	73%	$61m
US$400 million *Fixed Rate/Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities*	$200m	$180m	72%	$20m
Stg£500 million *Fixed Rate/Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities*	£37m	£32m	58%	£5m

See also note 36 for further information on the debt for equity offer.

The net gain after transaction costs on the debt for equity offer on subordinated liabilities amounted to a net gain of €276 million (€276 million after taxation) being the net of the fair value of the consideration of €588 million and the carrying value of the securities of €871 million less transaction costs of €7 million.

Recognised in retained earnings				
US$150 million FRN (accounted for as preference equity)	$150m	$70m	58%	$80m

The net gain after transaction costs on the debt for equity offer on equity instruments amounted to €24 million after taxation being the fair value of the consideration of €29 million less the carrying value of the notes of €53 million. This amount is shown in other reserves and is included in the Statement of Changes in Equity.

9 Gain on subordinated liability management (continued)

Repurchase of subordinated liabilities (Tier 1 Securites) for cash during 6 months ended 30 June 2009 / 9 months ended 31 December 2009

Description	Original Principal Amount	Principal Amount Repurchased	Price paid (% of Principal Amount Repurchased)	Residual Principal Amount
€600 million *7.40% Guaranteed Step-up Callable Perpetual Preferred Securities*	€600m	€124m	50%	€476m
Stg£350 million *6.25% Guaranteed Callable Perpetual Preferred Securities*	£350m	£304m	42%	£46m
€600 million *Fixed Rate/Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities*	€600m	€250m	38%	€350m
US$800 million *Fixed Rate/Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities*	$800m	$400m	40%	$400m
US$400 million *Fixed Rate/Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities*	$400m	$200m	40%	$200m
Stg£500 million *Fixed Rate/Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities*	£500m	£463m	40%	£37m

The net gain after transaction costs on the repurchase of the subordinated liabilities amounted to €1,037 million (€1,029 million after taxation) being the net of the consideration paid of €683 million and the carrying value of the securities of €1,720 million.

10 Other operating income

	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Movement of value in force asset	(2)	(50)	29
Other insurance income	35	45	54
Elimination of investment return on treasury stock held for the benefit of policyholders (see note 8)	4	(5)	(3)
Transfer from available for sale reserve on asset disposal	(1)	38	55
Other income	37	(94)	(104)
Other operating income	**73**	**(66)**	**31**

Included in other income of €37 million above for the six months ended 30 June 2010 is a net gain of €16 million for fair value movements on predominantly international investment properties and related activities (30 June 2009: charge of €75 million included within other income of (€94) million; 31 December 2009: charge of €62 million included within other income of (€104) million). In addition, other income for the nine months ended 31 December 2009 of (€104) million included a charge of €74 million arising from an unfavourable court ruling in connection with a European property investment.

11 Insurance contract liabilities and claims paid

	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Surrenders	(249)	(287)	(480)
Death and critical illness	(60)	(60)	(105)
Annuities	(23)	(15)	(34)
Maturities	(1)	(2)	(3)
Other	(25)	(30)	(34)
Gross claims	(358)	(394)	(656)
Reinsurance	23	20	38
	(335)	(374)	(618)
Change in liabilities:			
Gross	(270)	38	(1,023)
Reinsurance	23	(19)	179
	(247)	19	(844)
Insurance contract liabilities and claims paid	**(582)**	**(355)**	**(1,462)**

12 Operating expenses

	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Administrative expenses			
- Staff costs	533	582	789
- Other administrative expenses	313	341	479
Depreciation			
- Intangible assets	51	81	75
- Property, plant and equipment	19	24	32
- Impairment of goodwill and other intangibles	-	4	6
Revaluation of property	-	-	6
Total operating expenses	**916**	**1,032**	**1,387**
Staff costs are analysed as follows:			
Wages and salaries	374	395	569
Social security costs	39	45	61
Retirement benefit costs – defined benefit plans (note 31)	106	95	147
Retirement benefit costs – defined contribution plans	-	3	2
Share based payment schemes	3	5	-
Other	11	39	10
Staff costs	**533**	**582**	**789**

The amount included within staff costs for retirement benefit costs - defined benefit plans excludes a gain of €676 million in relation to the impact of amendments to the Bank Staff Pensions Fund (“BSPF”) which is included separately in the income statement. See note 31 for further information.

Staff numbers

Full time equivalent staff numbers (including contract and agency staff) at 30 June 2010 were 14,478, down from 14,646 at 31 December 2009 and 15,241 at 30 June 2009.

Included in operating expenses for the nine months ended 31 December 2009 is an intangible impairment charge of €6 million which was previously shown separately in the income statement.

13 Impairment charges on financial assets (excluding assets held for sale to NAMA)

Impairment charge	**6 months ended 30 June 2010 €m**	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Loans and advances to customers (note 24)	893	926	1,824
Available for sale financial assets	-	-	2
Loans and advances to banks	-	2	-
	893	**928**	**1,826**

14 Impairment charges on assets held for sale to NAMA

Impairment charge	**6 months ended 30 June 2010 €m**	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Assets held for sale to NAMA (note 25)	466	551	2,231

15 Loss on sale of assets to NAMA including associated costs

The participation of Bank of Ireland in NAMA was approved by the stockholders at an Extraordinary General Court on 12 January 2010. Bank of Ireland's application as a participating institution was approved by the Minister for Finance on 12 February 2010.

During the the six months ended 30 June 2010 the Bank transferred loans totalling €2.2 billion (before impairment provisions) to NAMA. This comprised land and development loans of €0.9 billion and associated loans of €1.3 billion. In addition, associated derivatives with a fair value of €27 million were transferred.

The loss on sale of assets to NAMA reflects all assets that were sold to NAMA in the six month period ended 30 June 2010 as set out below. The loss on sale of those assets sold to NAMA in July 2010 will be recognised in the six month period ended 31 December 2010.

Loss on sale of assets to NAMA	6 months ended 30 June 2010 €m	 €m
Loans sold to NAMA (nominal value)		**2,215**
Derivatives sold to NAMA (fair value)		**27**
		2,242
Nominal value of securities received		
- NAMA senior bonds	(1,472)	
- NAMA subordinated debt	(77)	(1,549)
Discount on gross loan value		693
Impairment provisions		(308)
Other items		
Fair value adjustments on securities received, provision for servicing liability and other associated sale costs		81
Loss on sale of assets to NAMA		**466**

Tranche 1

The Group sold Tranche 1 loans and associated derivatives of €1.9 billion (before impairment provisions) to NAMA on 2 April 2010 comprising in nominal value €0.9 billion of land and development loans and €1.0 billion of associated loans. The nominal value of consideration received for these assets amounted to €1.2 billion in Government guaranteed bonds and non-guaranteed subordinated bonds resulting in a discount of nominal consideration to gross loan value of approximately 36%.

Tranche 2

The Group has completed and submitted to NAMA all due diligence material in respect of its Tranche 2 loans and associated derivatives amounting to €2.3 billion in nominal value. These loans comprise €1.1 billion of land and development loans and €1.2 billion of associated loans.

On 25 June 2010, the Group sold €0.3 billion (before impairment provisions) of these Tranche 2 loans to NAMA in return for Government guaranteed senior and non-guaranteed subordinated bonds with a nominal value of €0.3 billion. On 16 July 2010, the Group sold a further €1.5 billion (before impairment provisions of €0.4 billion at 30 June 2010) of Tranche 2 loans to NAMA in return for Government guaranteed senior and non-guaranteed subordinated bonds with a nominal value of €0.8 billion giving rise to a loss on sale (before any fair value adjustments on the consideration or any adjustments for costs) of €0.3 billion. The discount of nominal consideration to gross loan value arising on the Tranche 2 assets transferred to date in 2010 amounts to €0.7 billion or 38.5%. The remaining Tranche 2 loans, which predominantly comprise of associated loans, are expected to be sold to NAMA in due course.

For further detail on NAMA see note 25.

16 Share of results of associates and joint ventures (after tax)

	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
First Rate Exchange Services	17	10	27
Property unit trust	6	(12)	10
Paul Capital Investments	1	(1)	1
Other joint ventures	-	-	(1)
Associates	2	3	(2)
	26	**-**	**35**

17 Loss on disposal of business activities

There were no disposals of business activities during the six months ended 30 June 2010. During the six months ended 30 June 2009 the Group disposed of its interest in Iridian Asset Management LLC (Iridian), resulting in a loss on disposal of €10 million.

During the nine months ended 31 December 2009, in addition to the disposal of Iridian, the Group also disposed of its interest in Guggenheim Alternative Asset Management LLC (Guggenheim), resulting in a gain on disposal of €7 million.

18 Taxation

	6 months ended 30 June 2010 €m	6 months ended 30 June 2009 €m	9 months ended 31 December 2009 €m
Current tax (charge) / credit			
Irish Corporation Tax			
- Current year	(30)	(37)	(19)
- Prior year	(1)	4	5
Double taxation relief	-	-	1
Foreign tax			
- Current year	(37)	(16)	2
- Prior year	(13)	(3)	(1)
	(81)	(52)	(12)
Deferred Tax (charge) / credit			
Origination and reversal of temporary differences	108	177	356
Taxation credit	**27**	**125**	**344**

18 Taxation (continued)

The taxation credit for the Group was €27 million for the six months ended 30 June 2010 compared to a taxation credit of €125 million for the six months ended 30 June 2009 and a credit of €344 million for the nine months ended 31 December 2009. The main factors contributing to the tax credit are the jurisdictional mix of profits / (losses) and the gain on the amendments to the defined benefit pension scheme. It also takes account of the gain on subordinated liability management and the gross up of policyholder tax in the life business.

The effective tax rate for the six months ended 30 June 2010 is 23% (tax rate credit). The comparable rate for the six months ended 30 June 2009 was 45.9% (tax credit) and 19% (tax credit) for the nine months ended 31 December 2009.

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

	6 months ended 30 June 2010			6 months ended 30 June 2009			9 months ended 31 December 2009		
	Pre tax €m	Tax €m	Net of tax €m	Pre tax €m	Tax €m	Net of tax €m	Pre tax €m	Tax €m	Net of tax €m
Changes in revaluation reserve	**-**	**-**	**-**	**(102)**	**17**	**(85)**	**(60)**	**7**	**(53)**
Cash flow hedge									
Changes in fair value	(102)	52	(50)	(920)	201	(719)	(555)	136	(419)
Transfer to income statement	238	(63)	175	955	(260)	695	676	(175)	501
Net change in reserve	**136**	**(11)**	**125**	**35**	**(59)**	**(24)**	**121**	**(39)**	**82**
Available for sale									
Changes in fair value	(54)	4	(50)	29	(6)	23	1,110	(137)	973
Transfer to income statement on asset disposal	1	1	2	(38)	5	(33)	(55)	6	(49)
Net change in reserve	**(53)**	**5**	**(48)**	**(9)**	**(1)**	**(10)**	**1,055**	**(131)**	**924**
Changes in defined benefit pension schemes	**(254)**	**39**	**(215)**	**(36)**	**6**	**(30)**	**(99)**	**25**	**(74)**
Changes in foreign exchange reserve	**399**	**-**	**399**	**412**	**-**	**412**	**117**	**-**	**117**
Other comprehensive income for the period	**228**	**33**	**261**	**300**	**(37)**	**263**	**1,134**	**(138)**	**996**

19 Earnings per share

The calculation of basic earnings per unit of €0.10 (2009: €0.64) ordinary stock is based on the profit attributable to ordinary stockholders divided by the weighted average number of units of ordinary stock in issue excluding treasury stock and own shares held for the benefit of life assurance policyholders.

	6 months ended 30 June 2010 €m	Restated* 6 months ended 30 June 2009 €m	Restated* 9 months ended 31 December 2009 €m
Basic			
Profit / (loss) attributable to stockholders	140	410	(1,460)
Dividends to other equity interests	-	(4)	(4)
Dividend on 2009 preference stock	(134)	(70)	(210)
Repurchase of capital note (note 36)	24	-	-
Profit attributable to ordinary stockholders	**30**	**336**	**(1,674)**
Weighted average number of shares in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders*	2,291	1,576	1,575
Basic earnings per share (cent) *	**1.3**	**21.3**	**(106.3)**

* *Restated to reflect the bonus element of the Rights Issue which took place in June 2010.*

As set out in note 36, there were 3,136 million new units of €0.10 ordinary stock issued in June 2010 at €0.55 per share on the basis of three new units of ordinary stock for every two units held under the terms of the rights issue. The actual cum rights price on 19 May 2010, the last day of quotation cum rights, was €1.432 per unit of ordinary stock, and the theoretical ex-rights price per unit of €0.10 ordinary stock was therefore €0.9028 per share. The comparative earnings per share figures have been calculated by applying a factor of 1.586 to the average number of units of ordinary stock in issue for the nine months ended 31 December 2009 and the six months ended 30 June 2009 in order to adjust for the bonus element of the rights issue.

Diluted

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

	6 months ended 30 June 2010 €m	Restated* 6 months ended 30 June 2009 €m	Restated* 9 months ended 31 December 2009 €m
Diluted			
Profit / (loss) attributable to stockholders	140	410	(1,460)
Dividends on other equity interests	-	(4)	(4)
Dividend on 2009 preference stock	(134)	(70)	(210)
Repurchase of capital note (note 36)	24	-	-
Profit attributable to ordinary stockholders	**30**	**336**	**(1,674)**
Weighted average number of units of stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders*	2,291	1,576	1,575
Effect of all dilutive potential ordinary stock	191	121	-
	2,482	**1,697**	**1,575**
Diluted earnings per share (cent) *	**1.2**	**19.8**	**(106.3)**

* *Restated to reflect the bonus element of the Rights Issue which took place in June 2010.*

19 Earnings per share (continued)

The calculation of diluted earnings per share excludes a weighted average of 11 million units of potential ordinary stock (30 June 2009: 18 million units, 31 December 2009: 12 million units of potential ordinary stock and warrants issued to the NPRFC over 335 million units of stock) which are anti-dilutive.

Dividend on 2009 preference stock
Where a dividend on the 2009 preference stock is not paid in either cash or units of ordinary stock, that dividend must subsequently be paid in the form of units of ordinary stock before a subsequent dividend on the 2009 preference stock or dividend on ordinary stock can be paid. The dividend required for the six month period to 30 June 2010 has been deducted in the calculation of basic and diluted earnings per share.

20 Other financial assets at fair value through profit or loss

	30 June 2010 €m	31 December 2009 €m
Equity securities	6,614	6,404
Government bonds	1,808	1,605
Unit trusts	923	1,013
Debt securities	263	587
Loans and advances	80	70
Other financial assets at fair value through profit or loss	**9,688**	**9,679**

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying investment is held by the Group, but the inherent risks and rewards in the investments are borne by the investors. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal and opposite change in the value of the amounts due to policyholders. The associated liabilities are included in liabilities to customers under investment contracts and insurance contract liabilities on the balance sheet.

At 30 June 2010, such assets amounted to €9,393 million (31 December 2009: €9,224 million) while the remaining €295 million (31 December 2009: €455 million) relates to other Group businesses.

21 Loans and advances to banks

	30 June 2010 €m	31 December 2009 €m
Placements with other banks	4,008	2,683
Mandatory deposits with central banks	1,945	2,107
Funds placed with central banks	224	223
Securities purchased with agreement to resell	47	20
	6,224	5,033
Less allowance for impairment on loans and advances to banks	(1)	(2)
Loans and advances to banks	**6,223**	**5,031**

Placements with other banks includes cash collateral of €2.9 billion (31 December 2009: €1.9 billion) placed with derivative counterparties in relation to net derivative liability positions.

The Group has entered into transactions to purchase securities with agreement to resell, and has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The fair value of this collateral at 30 June 2010 was €50 million (31 December 2009: €21 million).

The Group is required to maintain some mandatory deposits with the Central Bank of Ireland and the Bank of England which amounted to €1,945 million at 30 June 2010 (31 December 2009: €2,107 million). Such mandatory deposits are included within loans and advances to banks.

Analysis of the asset quality of loans and advances to banks is set out on page 56.

22 Available for sale financial assets

	30 June 2010 €m	31 December 2009 €m
Government bonds	1,828	1,055
Other debt securities		
- listed	15,283	18,438
- unlisted	1,123	1,391
Equity securities		
- listed	1	16
- unlisted	51	40
Available for sale financial assets	**18,286**	**20,940**

At 30 June 2010, available for sale financial assets with a fair value of €10.1 billion (31 December 2009: €9.8 billion) had been pledged to third parties in sale and repurchase agreements. Included within unlisted debt securities are non-guaranteed subordinated bonds issued by NAMA with a fair value of €51 million (see note 23 NAMA senior bonds below).

23 NAMA senior bonds

	30 June 2010 €m	31 December 2009 €m
NAMA senior bonds	1,447	-

The Group received as consideration for the Eligible Bank Assets transferred to NAMA, a combination of Government guaranteed bonds ("NAMA senior bonds"), issued by NAMA and guaranteed by the Minister for Finance (95% of the nominal consideration), and non-guaranteed subordinated bonds issued by NAMA (5% of the nominal consideration).

The Group has concluded that an active market does not exist for the NAMA senior bonds. They have been classified as loans and receivables and accounted for in line with the Group's accounting policy on loans and receivables as set out on page 163 of the 31 December 2009 Annual Report.

24 Loans and advances to customers

The loans and advances to customers of €121,144 million excludes loans held for sale to NAMA (see note 25).

	30 June 2010 €m	31 December 2009 €m
Loans and advances to customers	122,579	119,926
Finance leases and hire purchase receivables	2,300	2,510
	124,879	122,436
Less allowance for impairment charges on loans and advances to customers (note 26)	(3,735)	(2,997)
Loans and advances to customers	**121,144**	**119,439**

An assessment of the credit quality of these assets is set out in section 2.2.1 of the Risk Management Report.

25 Assets and liabilities held for sale to NAMA

Assets held for sale to NAMA	30 June 2010 €m	31 December 2009 €m
Land and development loans	7,229	8,522
Associated loans (primarily investment loans)	2,802	3,713
	10,031	12,235
Impairment provisions	(2,903)	(2,778)
	7,128	9,457
Derivatives	51	93
Accrued interest	27	31
Total assets held for sale to NAMA	**7,206**	**9,581**
Analysed by operating segment		
Retail Republic of Ireland	2,268	2,470
UK Financial Services	2,537	2,765
Capital Markets	2,401	4,346
Total assets held for sale to NAMA	**7,206**	**9,581**

At 30 June 2010 and 31 December 2009, the Group considered that the estimated Eligible Bank Assets which are expected to be transferred to NAMA met the criteria for classification as assets held for sale. Thus, the relevant loans and advances to customers, derivatives and accrued interest are classified as assets held for sale as at 30 June 2010. The assets classified as assets held for sale to NAMA continue to be measured on the same basis as prior to their classification as assets held for sale. In particular, loans and advances to customers continue to be measured at amortised cost less any incurred impairment losses. In accordance with accounting standards, de-recognition of these assets held for sale will occur when substantially all the risks and rewards of ownership have been transferred to NAMA. This will only occur on a phased basis when ownership of the beneficial interest in each tranche is legally transferred to NAMA.

As interactions with NAMA and the internal review work are ongoing and subject to changes in the eligibility criteria and the possibility that loans that are currently expected to be sold to NAMA may be repaid or refinanced with other banks, there is uncertainty as to the final amount of Eligible Bank Assets that will be sold.

The movement on assets held for sale to NAMA during the six month period ended 30 June 2010 is analysed as follows:

Movement in assets held for sale to NAMA	Total assets €m	Impairment provisions €m	Carrying value €m
Balance at 1 January 2010	12,359	(2,778)	9,581
Sale of assets to NAMA in the six months to 30 June 2010	(2,242)	308	(1,934)
New impairment provisions in the six months to 30 June 2010	-	(466)	(466)
Other movements	(8)	33	25
Balance at 30 June 2010	**10,109**	**(2,903)**	**7,206**

During the six month period ended 30 June 2010 €2.2 billion of assets (before impairment provisions) were sold to NAMA and a loss of €466 million was incurred. Further details of the loss of sale are set out in note 15.

Other movements during the period consisted principally of additional assets which were deemed to be Eligible Bank Assets by NAMA, assets which had been classified as held for sale to NAMA and were subseqently deemed to be ineligible under the NAMA regulations or were repaid, and foreign exchange movements.

25 Assets and liabilities held for sale to NAMA (continued)

On 16 July 2010, the Group sold a further €1.5 billion (before impairment provisions of €0.4 billion) of Tranche 2 loans to NAMA in return for Government guaranteed senior and non-guaranteed subordinated bonds with a nominal value of €0.8 billion. This has resulted in the loss on sale (before any fair value adjustments on consideration received or costs) of €0.3 billion which will be recognised in the results for the year ended 31 December 2010.

The Group expects to incur a loss on disposal of the Eligible Bank Assets to NAMA arising from the difference between the fair value of the consideration to be received and the carrying value of the Eligible Bank Assets to be disposed of together with the costs of disposal and any provision that may be required under accounting standards due to the ongoing cost of servicing these assets on behalf of NAMA.

The gross loss on disposal of Bank of Ireland Group Eligible Bank Assets to NAMA will be a function of three factors: the quantum of those loans, the mix of those loans, as between land and development and associated loans, and the discount that would apply to those loans. However, as previously advised, significant uncertainties still remain as to the final discount which will be applicable to the Group. The Group will only be able to accurately quantify the ultimate gross loss on the sale of all the Bank of Ireland Eligible Bank Assets to NAMA on completion of the relevant due diligence and the sale of the final portfolio of eligible bank assets to NAMA.

The principal determinant of the expected loss on disposal is the difference between the discount applied to the original gross Eligible Bank Asset value in arriving at NAMA's valuation and the impairment provisions recorded against the Eligible Bank Assets under accounting standards. This discount or haircut to original asset value is calculated on a different basis and using a different methodology to the determination of impairment provisions under accounting standards.

In accordance with accounting standards, the loss on disposal will only be recognised on the actual sale of each tranche of assets to NAMA. At the same time as recognition of such losses, the Bank will benefit from a reduction in its risk weighted assets for regulatory capital purposes.

The loss on disposal of Eligible Bank Assets will be tax deductible. However, the use of such tax losses in future years will be restricted as set out in part 10 of Schedule 3 of the National Asset Management Agency Act 2009 (the "Act"). This inserts a new section 396C into the Taxes Consolidation Act 1997 which limits the utilisation of tax losses carried forward by an institution participating in NAMA. It lengthens the period over which the deferred tax asset created will reverse by restricting the amount of profits against which trading losses can be utilised. Any tax losses are available for indefinite carry forward.

In addition, the Act provides that, on the later of ten years after the passing of the Act or the dissolution, restructuring or material alteration of NAMA, in the event that the accounts of NAMA disclose an underlying loss, the Minister for Finance may bring forward legislation to impose a special tax by way of surcharge on Participating Institutions to recover such loss.

26 Impairment provisions

The following tables show the movement in the impairment provisions on loans and advances to customers, including loans and advances reclassified to assets held for sale to NAMA.

30 June 2010	Residential Mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total impairment provisions €m
Impaired financial assets	816	3,399	11,153	442	15,810
Provision at 1 January 2010	359	1,152	3,884	380	5,775
Exchange adjustments	12	39	104	4	159
Amounts written off	(20)	(184)	(119)	(76)	(399)
Recoveries	3	-	-	3	6
Charge against income statement	152	366	761	80	1,359
Released - on sale of assets to NAMA	-	-	(308)	-	(308)
Other movements	3	30	7	6	46
Provision at 30 June 2010	**509**	**1,403**	**4,329**	**397**	**6,638**

The provision at 30 June 2010 is split as follows:

Loans and advances to customers	489	1,375	1,474	397	3,735
Loans held for sale to NAMA	20	28	2,855	-	2,903
Provision at 30 June 2010	**509**	**1,403**	**4,329**	**397**	**6,638**

31 December 2009	Residential Mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total impairment provisions €m
Impaired financial assets	471	2,806	9,648	426	13,351
Provision at 1 April 2009	144	480	856	301	1,781
Exchange adjustments	3	22	22	1	48
Amounts written off	(30)	(42)	-	(73)	(145)
Recoveries	-	1	(1)	3	3
Charge against income statement	237	659	2,993	166	4,055
Other movements	5	32	14	(18)	33
Provision at 31 December 2009	**359**	**1,152**	**3,884**	**380**	**5,775**

The provision at 31 December 2009 is split as follows:

Loans and advances to customers	359	1,134	1,124	380	2,997
Loans held for sale to NAMA	-	18	2,760	-	2,778
Provision at 31 December 2009	**359**	**1,152**	**3,884**	**380**	**5,775**

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

27 Other assets and liabilities classified as held for sale

Assets classified as held for sale	30 June 2010 €m	31 December 2009 €m
Assets of Bank of Ireland Asset Management ('BIAM')	32	-
Assets of Foreign Currency Exchange Corporation ('FCE Corporation')	46	-
Investment in Irish Credit Bureau Limited	-	-
Total	**78**	**-**

Liabilities classified as held for sale	30 June 2010 €m	31 December 2009 €m
Liabilities of BIAM	20	-
Liabilities of FCE Corporation	16	-
Total	**36**	**-**

The Group has been involved in detailed negotiations through the Department of Finance with the European Commission in relation to the terms of the EU Restructuring Plan which is required in the context of a review by the European Commission resulting from the State aid which has been received by the Group. Progress on negotiations with the EU on the Group's restructuring plan was announced by the Group on 17 April 2010 and the final approval by the European Commission was announced on 15 July 2010.

As outlined in note 40 the final EU Restructuring Plan includes, amongst other actions, the disposal of Bank of Ireland Asset Management (asset management business included within the Capital Markets Division) and Foreign Currency Exchange Corporation (US foreign exchange business) and the Group's stake in the Irish Credit Bureau Limited (both included within Retail Republic of Ireland).

At 30 June 2010, the Group considered that it was likely that the businesses outlined above would be disposed of within the next twelve months and accordingly, the assets and liabilities of these businesses have been reclassified as assets and liabilities held for sale.

28 Deposits from banks

	30 June 2010 €m	31 December 2009 €m
Deposits from banks	4,115	4,639
Securities sold under agreement to repurchase	12,751	12,994
Other bank borrowings	362	270
Deposits from banks	**17,228**	**17,903**

Deposits from banks includes cash collateral of €0.6 billion (31 December 2009: €0.5 billion) received from derivative counterparties in relation to net derivative asset positions.

29 Customer accounts

	30 June 2010 €m	31 December 2009 €m
Term deposits and other products	36,884	35,169
Demand deposits	32,365	34,979
Current accounts	15,161	14,664
Customer accounts	**84,410**	**84,812**

At 30 June 2010, the Group's largest 20 customer deposits amounted to 13% (31 December 2009: 11%) of total customer accounts.

30 Provisions

	30 June 2010 €m	31 December 2009 €m
Provisions	52	142

The main movement in provisions during the period is the payment of €91 million arising from the unfavourable court ruling in connection with a European property investment, which formed part of the legal provision disclosed in the 31 December 2009 Annual Report.

31 Retirement benefit obligations

The IAS 19 pension deficit across the Group's defined benefit schemes at 30 June 2010 was €1,267 million (31 December 2009: €1,638 million).

The principal changes in the financial assumptions used in deriving the valuation of pension obligations are set out in the table below.

	30 June 2010 €m	31 December 2009 €m
RoI Schemes		
Discount Rate	5.20%	5.60%
Inflation Rate	2.00%	2.10%
UK Schemes		
Discount Rate	5.30%	5.70%
Inflation Rate	3.25%	3.50%

All other financial and demographic assumptions remain consistent with those used at 31 December 2009, see note 43 of the 31 December 2009 Annual Report.

In January 2010, the Group launched a review to address the IAS 19 pension deficit in the defined benefit pension schemes sponsored by the Group.

31 Retirement benefit obligations (continued)

Arising from this review, in April 2010, the Group announced a number of amendments to the BSPF as follows:

Active members: No pensionable salary increases until April 2012; thereafter pensionable salary increases will be limited to increases in the Consumer Price Index ("CPI") in the Republic of Ireland and the Retail Price Index ("RPI") in the United Kingdom, to a maximum of 4%. However pensionable salary will not fall below 85% of what pensionable salary would have been had the CPI or RPI cap not been applied.

On retirement, discretionary pension increases will be frozen for 3 years and thereafter will increase at CPI or RPI, to a maximum of 4%.

Current Pensioners: No discretionary pension increases to April 2012; thereafter discretionary pension increases will be limited to CPI or RPI, to a maximum of 4%.

Deferred pensioners: Discretionary pension increases will be limited to CPI or RPI to a maximum of 4%.

As at 30 June 2010, 92% of active members had formally accepted the amendments by signing a legally binding acceptance letter. By 5 August 2010 96% of active members had formally accepted the amendments.

In addition by 30 June 2010 the Group had communicated with both current and deferred pensioners confirming that the proposed amendments had been implemented.

The total income statement impact of the amendments to the BSPF implemented by 30 June 2010 amounted to a gain of €676 million, as shown in the table below:

Impact of amendments to defined benefit pension schemes	6 months ended 30 June 2010 €m
Negative past service cost	308
Curtailments	368
Total	**676**

The amendments made to future increases in pensionable salary are recognised as a curtailment gain of €368 million. The amendments made to future discretionary increases are recognised as negative past service cost of €308 million.

Similar amendments to other Group sponsored defined benefit pension schemes are in the process of being implemented.

The Group also committed to make available additional funding of circa €750 million to further reduce the IAS 19 deficit in the defined benefit pension schemes sponsored by the Group. The timing and quantum of the contributions for each scheme will be discussed with the Trustees and Actuaries of each scheme in due course. This funding is in addition to the Group's normal annual contributions.

32 Subordinated liabilities

	30 June 2010 €m	31 December 2009 €m
Opening balance	6,053	7,942
Exchange adjustments	260	2
Redeemed during the period	(750)	-
Nominal exchanged or repurchased during the period	(2,423)	(1,688)
Issued during the period	1,203	-
Fair value movements and impact of hedge accounting adjustments	54	(218)
Amortisation of deferred expenses	7	15
Closing balance	**4,404**	**6,053**

Full details of the Group's subordinated liabilities can be found on pages 218 to 220 of the 31 December 2009 Annual Report. Information on the subordinated liabilities repurchased or exchanged during the six months ended 30 June 2010 and during the nine months ended 31 December 2009 is shown in note 9.

33 Deferred tax

The deferred tax asset of €1,030 million (31 December 2009: €865 million) shown on the balance sheet is after jurisdictional netting (€1,071 million before jurisdictional netting, 31 December 2009 €902 million). This includes an amount of €693 million at 30 June 2010 (31 December 2009: €475 million) in respect of operating losses which are available to relieve future profits from tax. This deferred tax asset has been recognised on the basis that it is probable it will be recovered as the Directors are satisfied that it is probable that the Group will have sufficient future taxable profits against which the deferred tax can be utilised to the extent it has not already reversed. Under current Irish and UK tax legislation, there is no time restriction on the utilisation of these losses.

The UK Finance (No 2) Act 2010, which was passed into law on 27 July 2010, includes legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. Further announced changes will reduce the rate by 1% per annum to 24% by 1 April 2014.

These changes had not been substantively enacted at the balance sheet date and are therefore not reflected in these financial statements. The effect of the changes enacted on 27 July 2010 would be to reduce the deferred tax asset at 30 June 2010 by €9 million.

The proposed reductions in the main rate of corporation tax by 1% per annum to 24% by 1 April 2014 are to be enacted separately each year. The overall effect of the future reductions from 27% to 24% would be to reduce the deferred tax asset at 30 June 2010 by an additional €27 million.

34 Contingent liabilities and commitments

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

Contingent Liabilities	30 June 2010 €m	31 December 2009 €m
Acceptances and endorsements	28	27
Guarantees and irrevocable letters of credit	1,694	1,599
Other contingent liabilities	666	799
	2,388	**2,425**

Commitments	30 June 2010 €m	31 December 2009 €m
Documentary credits and short-term trade-related transactions	294	186
Undrawn note issuance and revolving underwriting facilities	76	121
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- irrevocable or revocable with original maturity of 1 year or less	16,235	15,837
- irrevocable with original maturity of over 1 year	8,618	8,887
	25,223	**25,031**

In common with other banks, the Group conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. Endorsements are residual liabilities of the Group in respect of bills of exchange, which have been paid and subsequently rediscounted.

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will only be required to meet these obligations in the event of the customer’s default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions.

35 Capital stock

Authorised	30 June 2010	31 December 2009
€	**€m**	€m
24 billion units of €0.10 ordinary stock (31 December 2009: 2 billion units of €0.64 ordinary stock)	2,400	1,280
2 billion units of €0.54 deferred stock (31 December 2009: nil)	1,080	-
100 million units of non-cumulative preference stock of €1.27 each	127	127
100 million units of undesignated preference stock of €0.25 each	25	25
3.5 billion units of non-cumulative preference stock (2009 preference stock) of €0.01 each	35	35
Stg£	**£m**	£m
100 million units of non-cumulative preference stock of Stg£1 each	100	100
100 million units of undesignated preference stock of Stg£0.25 each	25	25
US$	**$m**	$m
8 million units of non-cumulative preference stock of US$25 each	200	200
100 million units of undesignated preference stock of US$0.25 each	25	25

Allotted and fully paid	30 June 2010 €m	31 December 2009 €m
5.1924 billion units of €0.10 ordinary stock (31 December 2009: 0.993 billion units of €0.64 ordinary stock)	519	636
1.2106 billion units (at 31 December 2009: nil) of €0.54 deferred stock	654	-
57.0 million units of €0.10 (31 December 2009: 33.2 million units of €0.64) treasury stock	6	21
1.9 million units of non-cumulative preference stock of Stg£1 each	3	3
3.0 million units of non-cumulative preference stock of €1.27 each	4	4
1.837 (31 December 2009: 3.5) billion units of non-cumulative preference stock (2009 preference stock) of €0.01 each	18	35
	1,204	**699**

For further information on the significant movements in capital stock and stock premium during the period, please refer to note 36 below.

Renominalisation of ordinary stock

As part of the recapitalisation of the Bank (see note 36) the Bank's ordinary stock was renominalised by Stockholders at the Extraordinary General Court held on 19 May 2010. This resulted in the nominal value of each unit of ordinary stock being reduced from €0.64 per unit to €0.10 per unit. Each existing unit of ordinary stock at the date of renominalisation was subdivided into one unit of Ordinary Stock of €0.10 ("€0.10 Ordinary Stock") and one unit of deferred stock of €0.54 in the capital of Bank of Ireland ("Deferred Stock"). The purpose of the issue of deferred stock was to ensure that the reduction in the nominal value of the ordinary stock did not result in a reduction in the capital of Bank of Ireland. Each ordinary stockholder's proportionate interest in the issued ordinary stock of Bank of Ireland remained unchanged as a result of the renominalisation.

Aside from the change in nominal value, the rights attaching to €0.10 Ordinary Stock (including voting and dividend rights and rights on a return of capital) are substantively identical to those of the previous €0.64 Ordinary Stock. The Deferred Stock created on the renominalisation has no voting or dividend rights and, on a return of capital on a winding up of Bank of Ireland, will have the right to receive the amount paid up thereon only after stockholders have received, in aggregate, any amounts paid up thereon plus €10 million per unit of €0.10 Ordinary Stock, the purpose of which is to ensure that the units of deferred stock have no economic value.

The Deferred Stock is not transferable at any time, other than with the prior written consent of the directors. At the appropriate time, the Bank may redeem or repurchase the deferred stock, make an application to the High Court of Ireland for the deferred stock to be cancelled, or acquire or cancel or seek the surrender of the deferred stock (in each case for no consideration) using such other lawful means as the directors may determine.

35 Capital stock (continued)

2009 Preference Stock:

(i) Coupon

As part of the Government's participation in the recapitalisation of the Bank, the rights attaching to the 2009 Preference Stock were amended to increase the non-cumulative dividend to a fixed rate of 10.25% (from 8% previously) of the issue price per annum, payable annually in arrears at the discretion of the Bank.

(ii) Voting rights

As the holder of the 2009 Preference Stock, the NPRFC had the right to directly appoint 25% of the directors of the Group (such 25% to include any directors nominated by the Minister for Finance pursuant to the CIFS Scheme) and could exercise voting rights equivalent to 25% of the total voting rights on any resolution proposed at a General Court of the Bank in relation to the appointment or removal of a Director of the Group. The 2009 Preference Stock also carried 25% of the total voting rights in relation to any Control Resolution (exclusive of any voting rights that the NPRFC or any Government Body may have through any holding of Ordinary Stock). The tabling of any resolution at a General Court of the Bank to alter the capital structure of the Group required the prior approval in writing of the Minister for Finance. These rights applied in full for so long as the NPRFC held any units of 2009 Preference Stock.

In addition, the NPRFC and other Government Bodies were restricted from exercising more than 25% of the total voting rights at a General Court of the Bank in respect of the voting rights attaching to, amongst other securities, the 2009 Preference Stock and any Ordinary Stock issued in lieu of cash dividends or issued upon the exercise of the Warrants, on a resolution to appoint, re-elect or remove a director. This restriction did not apply to other Ordinary Stock held by the NPRFC (for example Ordinary Stock held pursuant to its other investment activities).

Following the implementation of the Proposals for the recapitalisation of the Group, the NPRFC's voting rights were altered. The NPRFC are no longer subject to the restriction on exercising more than 25% of the total voting capital on resolutions for the appointment, re-election or removal of directors: as such, the NPRFC is entitled to exercise the full ordinary voting rights attaching to its Ordinary Stock. However, the 2009 Preference Stock no longer carries a block vote of 25% of the total voting rights in respect of resolutions relating to directors and Control Resolutions; instead, the 2009 Preference Stock will carry the right to "top-up" the NPRFC's total voting rights to 25% of the total voting rights on directors and Control Resolutions where the NPRFC's ordinary voting rights through its holding of Ordinary Stock (or other securities issued in future) falls below this level. The other rights attaching to the 2009 Preference Stock or granted to the Minister for Finance under the Bank's Bye-laws (including the right to directly appoint 25% of the directors of the Group, as earlier described, and the requirement for the for the Minister's prior consent before any resolution to alter the capital structure of the Group) remain unchanged.

36 Recapitalisation of the Bank

On 26 April 2010, the Bank announced proposals to increase its capital by way of an Institutional Placing[1], a NPRFC Placing[1], a rights issue and debt for equity offers. The proceeds of the Institutional Placing[1] and the rights issue were underwritten. The proposals which were approved by stockholders on 19 May 2010 consisted of:

- **Placing:** The placing, comprised the Institutional Placing[1] and the NPRFC Placing[1]. The institutional placing involved the issue of 326,797,386 units of Ordinary Stock at a price of €1.53 per unit of Ordinary Stock. The price at which the Ordinary Stock was issued to placees represented a 15% discount to the closing price of €1.80 of the Existing Stock[1] on 23 April 2010 (being the last practicable date prior to announcement of the proposals). Placees were considered qualifying stockholders for the purposes of the rights issue in respect of their Ordinary Stock. Pursuant to the NPRFC Placing[1] the NPRFC agreed to subscribe for 575,555,556 units of Ordinary Stock at a price of €1.80 per unit of Ordinary Stock (being the closing price on 23 April 2010). The consideration for the NPRFC's subscription was the conversion of 1,036,000,000 units of 2009 Preference Stock (at their subscription price of €1.00 per unit of 2009 Preference Stock) to units of Ordinary Stock. The Ordinary Stock issued pursuant to the NPRFC Placing[1] was eligible for participation in the rights issue as if such Ordinary Stock was held on the Record Date (17 May 2010);
- **Rights Issue:** The NPRFC's consideration for the take up of its rights in respect of the NPRFC Coupon Ordinary Stock[1] and its holding of ordinary stock as a result of the NPRFC Placing[1] was the conversion of 626,958,696 units of 2009 Preference Stock at their subscription price of €1.00 each to 1,139,924,901 units of Ordinary Stock at the rights issue price of €0.55;

[1] Defined on page 123.

36 Recapitalisation of the Bank (continued)

- **Debt for Equity Offers:** Under the debt for equity offers, holders of certain of the Group's subordinated liabilities and the US$150 million Perpetual Floating Rate Primary Capital Notes exchanged these securities for (a) Allotment Instruments (which automatically convert into Ordinary Stock on 10 September 2010); or (b) cash proceeds from the allotment of Ordinary Stock to be sold on their behalf; or (c) a combination thereof. For further information see note 9; and
- **Warrant Cancellation:** The Warrants held by the NPRFC were cancelled in return for the payment of €491 million in cash by the Bank to the NPRFC. This resulted in the cancellation of €110 million of warrants and a €381 million charge to retained earnings. The cancellation of the warrants had no impact on capital stock or stock premium, rather the impact was to reduce other reserves and retained earnings as shown in the Consolidated Condensed Statement of Changes in Equity (see pages 75 and 76).

These capital proposals completed on 8 June 2010 and settled on 14 June 2010.

The following table shows the impact of the capital raising initiatives and the dividend on the 2009 Preference Stock (which was paid in ordinary stock), on ordinary stock, deferred stock, 2009 Preference Stock and stock premium. These movements are reflected in the statement of changes in equity on pages 75 and 76.

	Ordinary Stock		Deferred Stock		2009 Preference Stock		Stock Premium
	Number	€m	Number	€m	Number	€m	€m
Government							
Dividend on 2009 Preference Stock paid in units of ordinary stock[(a)]	**184,394,378**	**118**	**-**	**-**	**-**	**-**	**(118)**
NPRFC placing[(b)]	575,555,556	58	-	-	(1,036,000,000)	(11)	(47)
NPRFC rights[(b)]	1,139,924,901	114	-	-	(626,958,696)	(6)	(108)
Conversion of 2009 preference stock		**172**				**(17)**	**(155)**
Other							
Institutional placing[(c)]	326,797,386	33	-	-	-	-	467
Rights issue[(c)]	981,992,918	98	-	-	-	-	442
Debt for equity offers[(d)]	1,014,528,644	101	-	-	-	-	457
Issue of ordinary stock	**-**	**232**	**-**	**-**	**-**	**-**	**1,366**
Transaction costs charged to stock premium	**-**	**-**	**-**	**-**	**-**	**-**	**(121)**
Renominalisation of ordinary stock	**-**	**(654)**	**1,210,621,289**	**654**	**-**	**-**	**-**
	4,223,193,783	**(132)**	**1,210,621,289**	**654**	**(1,662,958,696)**	**(17)**	**972**

(a) Paid in units of €0.64 cents prior to renominalisation of ordinary stock
(b) Settled through the conversion of 2009 preference stock into units of ordinary stock
(c) Issue of new units of ordinary stock for cash
(d) Issue of ordinary stock in exchange for debt instruments

[1] Defined on page 123.

37 Summary of relations with the Irish Government

A full outline of the Group's relations with the Irish Government is outlined in note 55 of the 31 December 2009 Annual Report (Summary of relations with the Irish Government). An update on significant changes in the current period is given below.

(a) Irish Government Guarantee Schemes
The deposits and certain liabilities of four of the Group's entities (Governor and Company of the Bank of Ireland, Bank of Ireland Mortgage Bank, ICS Building Society and Bank of Ireland (IOM) Limited ("the Participating Entities")) are guaranteed until 29 September 2010 under the Credit Institutions (Financial Support) Scheme 2008 ("CIFS").

On 11 January 2010, the Participating Entities were accepted as participating institutions in the Irish Government's Eligible Liabilities Guarantee Scheme ("the ELG Scheme"). This scheme provides a guarantee for relevant customer deposits and provides flexibility to issue certain debt securities in both un-guaranteed and guaranteed form (up to a maximum maturity of 5 years). The issuance window under the ELG Scheme was scheduled to be reviewed in June 2010 and on 28 June 2010 the European Commission approved an extension with modifications of the ELG Scheme for a further issuance period of six months to 31 December 2010.

The terms of the prolongation and modification of the ELG Scheme on 28 June 2010 provides that issuance under the scheme can continue with similar conditions, albeit at a higher cost, to 29 September 2010. Beyond this date, the European Commission has approved a modification to the scheme to provide for a prolongation of the issuance window from 29 September 2010 to 31 December 2010 in respect of the following liabilities:

- retail deposits of any duration of up to five years (deposits under €100,000 are covered by the Deposits Guarantee Scheme); and
- corporate deposits and certain debt securities with a maturity between three months and five years.

Interbank deposits are excluded from the prolongation of the issuance window beyond 29 September 2010.

Further information in relation to the Irish Government Guarantee Schemes is shown in note 55 in the 31 December 2009 Annual Report.

(b) 2009 Preference Stock
On 31 March 2009 the Irish Government invested in Bank of Ireland by the issue of 3.5 billion units of Preference Stock by the Bank to the NPRFC and by the issue of Warrants by the Bank to the NPRFC.

Please refer to note 55 of the 31 December 2009 Annual Report for further information on the terms of the 2009 Preference Stock and Warrants. During the six month period ended 30 June 2010 a number of changes took place in relation to the 2009 Preference Stock, as set out below.

(i) Dividend
On 22 February 2010, the Bank issued to the NPRFC 184,394,378 units of Ordinary Stock, being the number of units equal to the aggregate cash amount of the 2010 dividend on the 2009 Preference Stock, of €250.4 million, divided by the average price per unit of Ordinary Stock in the 30 trading days prior to and including 19 February 2010. This equated to a share price of €1.3582. This increased the units of Ordinary Stock of Bank of Ireland in issue at that date to 1,186,611,367.

(ii) NPRFC placing
As described in more detail in note 36, the NPRFC subscribed for 575,555,556 units of Ordinary Stock at a price of €1.80 per unit of Ordinary Stock (being the closing price on 23 April 2010). The consideration for the NPRFC's subscription was the conversion of 1,036,000,000 units of 2009 Preference Stock (at their subscription price of €1.00 per unit of 2009 Preference Stock) to units of Ordinary Stock. The Ordinary Stock issued pursuant to the NPRFC Placing was eligible for participation in the Rights Issue as if such Ordinary Stock was held on the Record Date (17 May 2010).

37 Summary of relations with the Irish Government (continued)

(iii) Rights issue
The NPRFC took up its Rights in respect of its holding of Ordinary Stock. The consideration for the take up of its Rights in respect of the NPRFC Coupon Ordinary Stock and its holding of Ordinary Stock as a result of the NPRFC Placing was the conversion of 626,958,696 units of 2009 Preference Stock at their subscription price of €1.00 each to 1,139,924,901 units of Ordinary Stock at the Rights Issue Price of €0.55 per unit of ordinary stock.

(iv) Fees
Fees paid to the NPRFC in relation to the transactions referred to in (ii) and (iii) amounted to €52 million.

(v) Shareholding
As set out in note 36 the NPRFC increased its holding of Ordinary Stock, but had its Warrants cancelled and its holding of 2009 Preference Stock reduced. This resulted in the NPRFC holding 36% of the Bank's enlarged ordinary stock and the NPRFC's holding of 2009 Preference Stock falling from the 3,500 million units held at 26 April 2010 to 1,837,041,304 units.

(vi) Coupon and voting rights
The coupon and voting rights attaching to the 2009 Preference Stock also changed with effect from 19 May 2010, as set out in note 35, Capital Stock.

(c) National Asset Management Agency (NAMA)
Please refer to note 25 for details on NAMA and also to note 26 in the 31 December 2009 Annual Report.

(d) National Asset Management Agency Investment Limited (NAMAIL)
On 30 March 2010, the Group, through its wholly-owned subsidiary New Ireland Assurance Company plc, acquired 17 million B shares in NAMAIL, corresponding to one-third of the 51 million B shares issued by NAMAIL. The balance of the B shares are held in equal proportion by Irish Life Assurance and major pension and institutional clients of AIB Investment Managers. The cost to the Group of acquiring these B shares was €17 million. NAMAIL have also issued 49 million A shares to NAMA. As a result the Group holds 17 per cent of the total ordinary share capital of NAMAIL. NAMAIL is a holding company and its subsidiaries include the entity to which NAMA Participating Institutions transfer Eligible Bank Assets.

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. In total, the B shareholders may also jointly appoint up to six directors. As holder of the A shares, NAMA has veto rights in relation to: the declaration of dividends; the appointment or removal of directors; the exercise of voting rights in respect of any subsidiary of NAMAIL and the appointment of a Chairman. In addition NAMA can veto any actions by NAMAIL, which NAMA considers in any manner to be inconsistent with its objectives. A holder of the B shares may not sell the shares without the consent of NAMA.

A discretionary non-cumulative dividend on the capital invested may be paid on an annual basis and this is limited to the yield on ten year Irish government bonds. On a winding-up, the return on B shares is capped at 110 per cent of the capital invested, (€18.7 million in the case of the Group), and the maximum loss that may be suffered is limited to the original amount invested (€17 million in the case of the Group).

38 Fair value of assets and liabilities

Fair value hierarchy

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

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

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

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

30 June 2010	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets held at fair value				
Trading securities	152	-	-	152
Derivative financial instruments	-	7,960	41	8,001
Assets held for sale to NAMA - derivatives	-	-	51	51
Other financial assets at fair value through profit or loss	8,960	711	17	9,688
AFS financial assets	16,632	1,381	273	18,286
	25,744	10,052	382	36,178
As a % of financial assets at fair value	**71.1%**	**27.8%**	**1.1%**	**100%**
Financial liabilities held at fair value				
Customer accounts	-	1,726	35	1,761
Derivative financial instruments	-	8,102	32	8,134
Liabilities to customers under investment contracts	-	5,141	-	5,141
Insurance contract liabilities	-	6,928		6,928
Debt securities in issue	-	-	590	590
Subordinated liabilities	-	-	243	243
Other liabilities	27	-	-	27
	27	21,897	900	22,824
As a % of financial liabilities at fair value	**0.1%**	**96.0%**	**3.9%**	**100%**

38 Fair value of assets and liabilities (continued)

31 December 2009	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets held at fair value				
Trading securities	403	-	-	403
Derivative financial instruments	-	5,788	36	5,824
Assets held for sale to NAMA - derivatives	-	-	93	93
Other financial assets at fair value through profit or loss	8,987	692	-	9,679
AFS financial assets	18,921	1,687	332	20,940
	28,311	8,167	461	36,939
As a % of financial assets at fair value	**76.6%**	**22.1%**	**1.3%**	**100%**
Financial liabilities held at fair value				
Deposits from banks	-	2	-	2
Customer accounts	-	1,658	62	1,720
Derivative financial instruments	-	6,017	20	6,037
Liabilities held for sale to NAMA - derivatives	-	-	1	1
Liabilities to customers under investment contracts	-	5,050	-	5,050
Insurance contract liabilities	-	6,658	-	6,658
Debt securities in issue	-	-	472	472
Subordinated liabilities	-	-	229	229
Other liabilities	19	-	-	19
	19	**19,385**	**784**	**20,188**
As a % of financial liabilities at fair value	**0.1%**	**96.0%**	**3.9%**	**100%**

The movements in level 3 assets and liabilities between 31 December 2009 and 30 June 2010 are primarily attributable to the following:

- transfer of AFS assets of €44 million from level 3 to level 2;
- derecognition of derivative financial instruments held for sale to NAMA at 31 December 2009;
- recognition of NAMA subordinated debt received as partial consideration on sale of the financial assets held for sale to NAMA;
- fair value movements.

39 Liquidity risk

The tables below summarise the maturity profile of the Group's financial liabilities, (excluding derivatives and liabilities arising from insurance and investment contracts in BoI Life) at 30 June 2010 and 31 December 2009 based on contractual undiscounted repayment obligations. Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,141 million and €6,928 million respectively (31 December 2009: €5,050 million and €6,658 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts. The Group does not manage liquidity risk on the basis of contractual maturity. Instead the Group manages liquidity risk based on expected cashflows. The contractual balances will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

39 Liquidity risk (continued)

As at 30 June 2010	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Deposits from banks	105	12,574	2,322	2,198	90	17,289
Customer accounts	33,974	36,215	8,917	5,832	476	85,414
Debt securities in issue	-	17,172	3,066	17,529	8,444	46,211
Subordinated liabilities	-	58	240	984	5,790	7,072
Contingent liabilities	2,388	-	-	-	-	2,388
Commitments	16,605	-	-	8,618	-	25,223
Total	**53,072**	**66,019**	**14,545**	**35,161**	**14,800**	**183,597**

As at 31 December 2009	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Deposits from banks	128	8,386	8,205	1,075	241	18,035
Customer accounts	33,666	34,613	12,625	4,361	692	85,957
Debt securities in issue	-	14,120	11,043	12,813	10,548	48,524
Subordinated liabilities	-	859	87	839	5,715	7,500
Contingent liabilities	2,425	-	-	-	-	2,425
Commitments	16,144	-	-	8,887	-	25,031
Total	**52,363**	**57,978**	**31,960**	**27,975**	**17,196**	**187,472**

40 EU restructuring plan

The Group has been involved in detailed negotiations through the Department of Finance with the European Commission in relation to the terms of the EU Restructuring Plan which is required in the context of a review by the European Commission resulting from the State aid which has been received by the Group. The plan was approved by the European Commission on 15 July 2010.

The terms of the EU Restructuring Plan include, amongst other actions, the disposal of New Ireland Assurance Company plc, BIAM (asset management business), ICS Building Society (Irish intermediary sourced mortgage business), FCE Corporation (US foreign exchange business), and the Group's stakes in Paul Capital Top Tier Investments LLC (a US asset management business) and in the Irish Credit Bureau Limited, and the wind-down or disposal of, the Group's UK intermediary sourced mortgage business and certain discontinued international corporate lending portfolios. It also includes certain behavioural measures, including:

- commitments relating to the non-payment of discretionary coupons and the non-exercise of voluntary call options on hybrid capital securities up until 31 January 2011;
- a commitment relating to the non-payment of dividends on Ordinary Stock until the earlier of (i) 30 September 2012 or (ii) the date on which 2009 Preference Stock is redeemed or no longer owned by the State through the NPRFC or otherwise;
- a commitment not to make any material acquisitions; and
- measures to facilitate competition in the Irish banking market.

As outlined in note 27, the Group has reclassified the assets and liabilities of BIAM, FCE Corporation and the Group's stake in the Irish Credit Bureau as held for sale. The other businesses mentioned above have not been reclassified to held for sale as the Group does not believe that the disposals are probable within 12 months.

41 Related party transactions

Other than as outlined in the Summary of relations with the Irish Government (see note 37), there have been no changes to the related party transactions described on pages 245 to 250 of the 31 December 2009 Annual Report in the six months ended 30 June 2010 that have materially affected the Group's financial position or performance.

In the financial statements for the nine month period ended 31 December 2009, there was a one-off amount paid to the Bank Staff Pensions Fund required to cover the contractual option allowing Richie Boucher to retire at 55 on a pension without actuarial reduction. This option was waived by Richie Boucher in April 2010, and the financial impact of the waiver has been included in the financial statements for the six month period ended 30 June 2010.

Loans to Key Management Personnel (IAS 24)
Disclosure as at 31 December 2009 of loans to key management personnel, including loans to close members of their families and entities influenced by them, as required by IAS 24 *Related Party Disclosures*, was set out on page 250 of the 31 December 2009 Annual Report.

There have been no changes to those disclosures in the six month period ended 30 June 2010 that have materially affected the Group's financial position or performance.

Loans to Connected Persons of Directors (Companies Act 1990)
Disclosure as at 31 December 2009 of loans to connected persons[1] of directors, on favourable terms (similar to those available to staff generally), was set out on page 249 of the 31 December 2009 Annual Report.

There has been no material change to those disclosures in the six month period ended 30 June 2010.

On 11 August 2009 the Irish Financial Services Regulatory Authority added a new condition to the Bank's licence, under the Central Bank Act 1971, requiring disclosure in the annual audited financial statements of details of:

(a) the aggregate amount of lending to all connected persons[1], and
(b) the aggregate maximum amount outstanding during the period for which those financial statements are being prepared.

Disclosure is subject to certain de minimis exemptions and to exemptions for loans relating to principal private residences where the total of such loans to an individual connected person does not exceed €1 million and only applies to directors who were appointed or re-appointed after 11 August 2009.

At the Bank's Annual General Court on 19 May 2010, all directors (except for Joe Walsh and Tom Considine) retired. Declan McCourt and Terry Neill did not offer themselves for re-election. The Governor was elected and all other directors were re-elected on that date.

Persons connected to the following Directors	Number of persons as at 30 June 2010	Balance at 30 June 2010 €'000	Maximum amounts outstanding during 6 month period ended 30 June 2010 €'000
Persons connected to Patrick Molloy	1	34,269	34,281
Persons connected to Heather Ann McSharry	2	490	497

[1] *Connected persons of Directors are defined by Section 26 of the Companies Act 1990 as the Director's spouse, parent, brother, sister, child, a trustee where the beneficiaries of the trust are the director, his spouse, children or a company which the Director controls, or a company controlled by the director or a person in partnership within the meaning of the Partnership Act 1890.*

42 Post balance sheet events

(a) EU restructuring plan
Please refer to note 40 for details on the EU restructuring plan.

(b) Restructuring
On 16 July 2010, the Group announced that it anticipated a reduction of approximately 750 in the overall number of people employed. The Group anticipates that the reduction will be achieved over a two year period and on a voluntary basis. The restructuring is required to ensure that the Group becomes more focused and efficient. The interim financial statements do not include any provision for costs that may be incurred as part of the restructuring as the announcement was made post 30 June 2010.

(c) National Asset Management Agency (NAMA)
Please refer to note 25 for details on NAMA.

43 Approval of Interim Report

The Interim Report was approved by the Court of Directors on 10 August 2010.

Independent review report to the Governor and Company of the Bank of Ireland

Introduction

We have been engaged by the Governor and Company of the Bank of Ireland (the "Bank") to review the condensed set of financial statements in the Interim Statement for the six months ended 30 June 2010, which comprises the Consolidated Income Statement, Consolidated Statement of Other Comprehensive Income, Consolidated Balance Sheet, Consolidated Condensed Statement of Changes in Equity, Consolidated Condensed Cash Flow Statement, the related notes on pages 78 to 119 and the information in section 2.2 of the Risk Management Report that is described as being an integral part of the interim financial statements. We have read the other information contained in the Interim Statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

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

As disclosed on page 78, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The condensed set of financial statements included in this Interim Statement have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union and in accordance with International Accounting Standard 34 as issued by the International Accounting Standards Board.

Our responsibility

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

Scope of review

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

Conclusion

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

PricewaterhouseCoopers
Chartered Accountants
Dublin

10 August 2010

Other Information

1 Average balance sheet and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for each of the six months ended 30 June 2010 and the nine months ended 31 December 2009. The calculations of average balances are based on daily, weekly or monthly averages, depending on the reporting unit. The average balances used are considered to be representative of the operations of the Group. The Group's operating divisions are managed on a product margin basis, with funding and interest exposure managed centrally by Global Markets. Domestic and foreign margins are provided for statutory purposes. The explanation of the underlying business trends in the Group's net interest margin, after adjusting for the impact of IFRS income classifications, is explained on page 13. Rates for the six month period and nine month period are annualised.

	6 months ended 30 June 2010			9 months ended 31 December 2009		
	Average Balance €m	**Interest €m**	**Rate %**	Average Balance €m	Interest €m	Rate %
Assets						
Loans and advances to banks						
Domestic offices	5,309	24	0.9	5,619	39	0.9
Foreign offices	3,327	8	0.5	3,284	9	0.4
Loans and advances to customers						
Domestic offices	74,870	1,382	3.7	78,956	2,293	3.9
Foreign offices	59,512	899	3.0	59,440	1,349	3.0
Available for sale financial assets						
Domestic offices	20,045	277	2.8	23,037	490	2.8
Foreign offices	323	2	1.1	919	8	1.2
Other financial assets at fair value through profit or loss						
Domestic	68	-	-	53	-	-
Foreign	128	-	-	202	-	-
Total interest earning assets	**163,582**	**2,592**	**3.2**	**171,510**	**4,188**	**3.3**
Domestic offices	100,292	1,683	3.4	107,665	2,822	3.5
Foreign offices	63,290	909	2.9	63,845	1,366	2.9
	163,582	2,592	3.2	171,510	4,188	3.3
Allowance for impairment charges	(6,053)	-	-	(3,103)	-	-
Non interest earning assets	22,748	-	-	20,398	-	-
Total assets	**180,277**	**2,592**	**2.8**	**188,805**	**4,188**	**3.0**
Percentage of assets applicable to foreign activities	**36.3%**	**-**	**-**	**35.8%**	**-**	**-**

1 Average balance sheet and interest rates (continued)

	6 months ended 30 June 2010			9 months ended 31 December 2009		
	Average Balance €m	Interest €m	Rate %	Average Balance €m	Interest €m	Rate %
Liabilities and stockholders' equity						
Deposits by banks						
Domestic offices	18,309	91	1.0	24,531	192	1.0
Foreign offices	298	5	3.4	1,803	6	0.4
Customer accounts						
Domestic offices	43,204	246	1.1	42,297	372	1.2
Foreign offices	28,755	540	3.8	31,166	623	2.7
Debt securities in issue						
Domestic offices	35,110	438	2.5	31,444	568	2.4
Foreign offices	7,118	26	0.7	9,116	86	1.3
Subordinated liabilities						
Domestic offices	3,586	96	5.4	3,146	97	4.2
Foreign offices	1,646	75	9.1	3,373	65	2.6
Total interest bearing liabilities	**138,026**	**1,517**	**2.2**	**146,876**	**2,009**	**1.8**
Domestic offices	100,209	870	1.7	101,418	1,229	1.6
Foreign offices	37,817	647	3.4	45,458	780	2.3
	138,026	**1,517**	**2.2**	**146,876**	**2,009**	**1.8**
Current accounts	1,550	-	-	9,332	-	-
Other non interest bearing liabilities	33,354	-	-	24,855	-	-
Stockholders' equity	7,347	-	-	7,742	-	-
Total liabilities and stockholders' equity	**180,277**	**1,517**	**1.7**	**188,805**	**2,009**	**1.4**
Percentage of liabilities applicable fo foreign activities	**19.6%**			**22.6%**		

Certain lines above have been adjusted to correct for inter-jurisdictional funding items that arise through normal business activities, to give a more meaningful picture of the Group's domestic and foreign activities.

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

2 Rates of exchange

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

	30 June 2010		30 June 2009		31 December 2009	
	Closing	Average	Closing	Average	Closing	Average
€ / US$	1.2271	1.3268	1.4134	1.3328	1.4406	1.4248
€ / Stg£	0.8175	0.8700	0.8521	0.8939	0.8881	0.8851

3 Defined Terms

Core Tier 1 Capital
Tier 1 Capital excluding innovative and non- innovative Tier 1 Securities and before deductions required from Tier 1 Capital;

Equity Tier 1 Capital
The amount of the Bank's Core Tier 1 Capital less all Preference Stock of the Bank;

Existing Stock
The units of Ordinary Stock in issue as at 26 April 2010;

Institutional Placing
The placing of Ordinary Stock with institutional investors (but excluding the NPRFC);

NPRFC Coupon Ordinary Stock
184,394,378 units of Ordinary Stock issued to the NPRFC on Monday 22 February 2010 in lieu of the cash dividend on the 2009 Preference Stock;

NPRFC Placing
The placing of Ordinary Stock with the NPRFC;

Rights Issue Stock
The units of new Ordinary Stock allotted and issued by the Bank pursuant to the Rights Issue;

Tier 1 Capital
Tier 1 capital instruments (within the meaning of the Financial Regulator's requirements at such time or equivalent) which includes Stockholder's funds and innovative and non-innovative Tier 1 Securities;

Tier 1 Securities
The securities issued by the Group that constitute Tier 1 Capital;

Warrant Cancellation
The cancellation of the Warrants in return for the payment of €491 million by the Bank to the NPRFC;

Notes