Anglo Irish Bank

Annual Report & Accounts 2010

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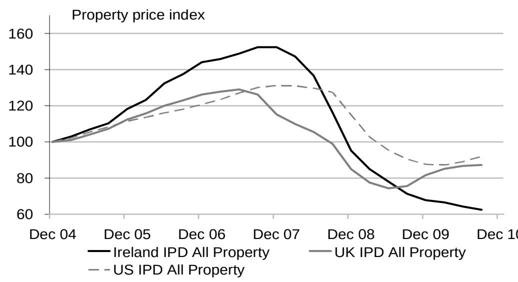
Contents

Economic backdrop

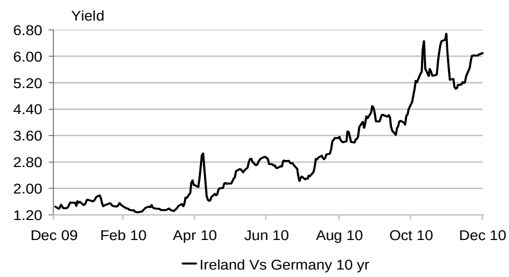
Property markets

Property prices in developed markets are significantly below their 2006/07 peaks (indices rebased to 100). Commercial property prices in Ireland continued to fall while the US and UK show some signs of stability.



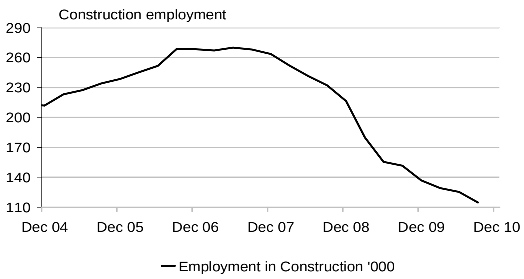
Sovereign yields

The spread of Irish Government bonds over their German equivalents rose dramatically in 2010 as worries over Irish banks and the economy intensified. Investors continue to seek safety in German Bunds.



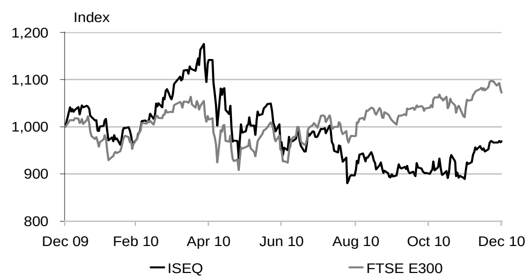
Employment in construction

The numbers employed in construction continued to fall in 2010 as the industry continues to contract.



Stock markets

After a volatile opening period the FTSE Eurofirst outperformed the ISEQ which posted a loss over the year (indices rebased to 1000).

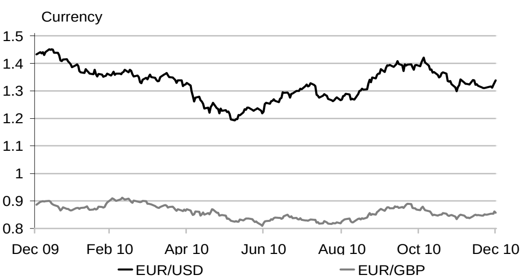


Trade surplus

The Irish seasonally adjusted monthly trade surplus picked up during the year. This is due to increased exports while imports have remained low.

Currency markets

The euro weakened significantly in the first half of the year touching its lowest level since 2006 versus the dollar before recovering somewhat in the third quarter.



Chairman’s statement

The year 2010 was another very difficult year for the Bank and for the Irish economy. Commercial property prices are a key determinant of the Bank’s performance, given its historical over-concentration in the sector. In Ireland, prices continued to fall. However, signs of stability are beginning to emerge in some sectors of the market in the UK and US.

The Bank is reporting a loss of €17.7bn for the year, primarily caused by losses of €14.1bn associated with NAMA assets. Impairment losses on assets remaining with the Bank totalled €5.2bn. Underlying these enormous losses are the sharp reduction in value of commercial property collateral and the deterioration in the financial condition of many of the Bank’s borrowers.

During the year a total of €17.0bn of capital support has been provided to the Bank by the Minister for Finance through increases of the promissory note to a total of €25.3bn nominal at the end of the year, bringing total cumulative capital support received to €29.3bn.

Further details in respect of the Bank’s results for the year are provided in the Group Chief Executive’s review and in the Business review.

Restructuring and the future of the Bank

Management devoted a great deal of energy early in the year to identifying the possible courses of future action for the Bank. All of the following alternatives were analysed:

- Liquidation;
- Wind down over an extended period;
- Stabilisation of the Bank; and
- A split of the Bank into a small good bank and a wind down vehicle for the bad assets.

This work concluded that there were three good reasons for keeping the Bank open. The first was to protect the funding platform of the Bank as funding for Ireland was seen to be very scarce. Continued uncertainty over the future of the Bank was seen to be eroding this funding platform. The second was value preservation of the assets of the Bank, both good and bad. Without a bank in the equation, the working out of assets over time was evaluated as being much more problematical and the Bank had good assets that could provide a profitable nucleus for the proposed new good bank. The third was that Ireland needed a corporate bank to aid recovery.

In summary, the overall conclusion was that the cheapest solution for the taxpayer was to split the Bank into a good bank and a recovery vehicle. This (second) restructuring plan was submitted to the European Commission in May 2010 with support from the national authorities.

By late summer it became clear that support for the plan had waned. The Bank was asked in September to develop a third restructuring plan that envisaged a split of the Bank into a funding bank and an asset recovery bank. At the same time, during September, the funding position of the Bank deteriorated significantly as redemptions could not be rolled over and there was market uncertainty about the continuation of the Government guarantee. The loss of confidence by the market and the resulting loss of liquidity led to an increase in recourse to central banks as lenders of last resort. Recourse to central banks by credit institutions in Ireland rose from €110bn to €165bn from the end of June to the end of October 2010. This liquidity crisis, together with the corresponding increases in government bond yields, led to the EC/ECB/IMF rescue package.

The rescue package contains a commitment by the authorities to resolve the position of the Bank. As a first step, the Bank was instructed in February 2011 to transfer the majority of its deposits in Ireland and the UK, together with the senior NAMA bonds and the Bank’s Isle of Man deposit taking subsidiary, to Allied Irish Banks, p.l.c.

At the same time, the Bank was asked to prepare a fourth restructuring plan for submission to the European Commission by the end of January 2011. It was specified that this plan should provide for an amalgamation of the Bank with Irish Nationwide Building Society after the divestment of deposits and NAMA bonds by the two entities. This plan was submitted on schedule.

The restructuring plan, if approved, envisages that the new, restructured entity will work out its assets in an orderly process over time, with the objective of securing the best possible realisation in the interests of the State and of the taxpayer. Staffing in the entity will have to be significantly reduced, commensurate with its much more limited mandate.

Legacy matters, disclosures and exceptional expenses

The Bank continues to co-operate fully with ongoing investigations by the various competent authorities. It will continue to disclose its activities and financial condition in a fully transparent manner as required by legislation and market regulation, and in the public interest.

Staff costs were down 11% in 2010 versus 2009. Total overheads for the year amount to €353m compared to €309m pro rata for 2009. Significant exceptional costs of €62m (2009: €20m pro rata) and provisions of €27m (2009: €14m pro rata) were incurred by the Bank in connection with:

- The successive restructuring plans mandated by the authorities;
- Due diligence work required by the transfer of assets to NAMA; and
- Legacy matters.

In addition, the Bank is conducting a major review and clean up of its loan data.

Board of Directors

I succeeded Donal O’Connor as Chairman when he stepped down in June 2010. I would like to acknowledge Donal O’Connor’s extraordinary efforts as a Board member and temporary Executive Chairman during the most difficult period for the Bank and thank him for his exemplary integrity and commitment. The Board welcomed three new members during the year, Dr. Noel Cawley, Aidan Eames and Gary Kennedy.

Conclusion

On behalf of the Board I would like to thank the Minister for Finance, and the staff of the Department of Finance, the Central Bank of Ireland and the National Treasury Management Agency, as well as all the staff in the Bank, for their invaluable help and support during 2010. I particularly thank the staff of the Bank, at all levels, who have shown great commitment, resilience and dedication through what has been a most trying period marked by considerable uncertainty.

Alan Dukes
Chairman
30 March 2011

Group Chief Executive's review

Throughout 2010 my key objective and that of the new senior management team has been to run the Bank in the public interest and in a manner that ultimately minimises the cost to the taxpayer. By focusing on the stabilisation and de-risking of the Bank, maximising the recovery of outstanding loans and the development of an appropriate restructuring plan in conjunction with the Shareholder and the authorities, the Bank aims to achieve its primary objective whilst also treating customers and creditors fairly.

Financial results

The Bank has reported a further loss of €17.7bn, after the €12.7bn loss reported for the 15 months ended 31 December 2009. This extremely disappointing result for the year has been driven by €14.1bn of losses associated with NAMA assets and further impairments on other assets of the Bank of €5.2bn. The Bank made an operating profit of €1.8bn before these impairments, due mostly to a €1.6bn gain on the repurchase and restructure of subordinated debt instruments following a liability management exercise which was completed late in the year.

At the end of the year, the Bank held a total of €36.9bn of nominal loan assets, of which €17.6bn were impaired. Cumulative specific impairments on these assets totalled €8.9bn, a coverage ratio of 51%.

Nominal assets of €33.9bn were transferred to NAMA during the year with associated losses on transfer of €11.5bn, including a NAMA bond fair value adjustment of €2.2bn. The average haircut on assets transferred was 62%. Cumulative impairment provisions on these NAMA assets before transfer totalled €11.9bn. Total realised losses in connection with assets which were transferred to NAMA are therefore €23.4bn. Although customer loans, net of impairments and after transfers to NAMA, total €26.0bn at the end of the year, the overall balance sheet of the Bank at 31 December 2010 has not reduced commensurately, as it includes €10.6bn in respect of NAMA senior bonds received and €25.7bn in respect of the promissory note issued by the Minister for Finance to recapitalise the Bank.

Further details on the financial results for the year are provided in the Business review.

Capital

A total of €17.0bn of capital support was provided by the Minister for Finance during the year through increases of the promissory note to a total of €25.3bn nominal at the end of the year. Despite the losses incurred, the Bank was therefore in compliance with regulatory capital requirements. At the end of the year, the Bank had risk weighted assets of €36.7bn, Core Tier 1 capital of €4.0 billion and Total capital of €4.6bn. The Core Tier 1 ratio was 10.9 % and the Total capital ratio was 12.4%.

Loan book management

The new management of the Bank has worked extremely hard over the past year and a half to bring the loan book under control. Credit and balance sheet risk management processes have been completely overhauled and the backlog in loan data management has been largely resolved.

Total customer lending balances declined significantly during the year primarily due to the transfer of loans to NAMA. The Bank's NAMA unit performed an exceptional task regarding the due diligence involved in these transfers.

Net loan repayments and other movements during the year further reduced loan balances by c.€3bn. This loan book reduction has been achieved through focused and targeted disposals, refinancing and repayment requests directly to clients. This effort has been most effective in markets where there is liquidity or where refinancing options are available. In Ireland repayments have been mainly limited to customers in the business banking and personal sectors.

A Group Recovery Management Unit was established which, together with a reformed and refocused lending area, is working to maximise recovery from distressed loans and improve the quality of the remaining loan book. Additionally the new Corporate Projects Unit works to maximise recovery of outstanding debt from our higher value, more complex corporate customers.

At present, the Bank expects the majority of any additional impairment losses to arise in Ireland where property prices have as yet not stabilised, borrowing costs are increasing and the ability of many tenants to pay rent is diminished. Market confidence is further undermined by the overhang of property to be sold in the Irish market to repay debt. The coverage ratio on impaired loans in the Irish banking portfolio totals 60%. We currently estimate that a further 10% fall in impaired loan collateral values, primarily property assets, in Ireland would lead to additional impairment losses of c.€0.4bn. Further significant declines in property values would also result in loans that are currently performing becoming impaired and crystallising additional losses. Losses not incurred but anticipated as a result of future events cannot be recognised under IFRS.

Funding

Lack of clarity regarding the future of the Bank, combined with growing concern regarding the banking sector and the economy, last year resulted in the Bank being unable to restore its market funding and, as a consequence, dependency on central banks increased, particularly in the last four months of the year. I would like to express my gratitude to the authorities for the significant funding and capital support provided to the Bank during the year. While it must be hoped that during 2011 the funding of the Bank can be put on a more permanent footing, the continued reliance on Government and monetary authority support is a key dependency of the Bank going forward. This and other relevant matters are outlined in the going concern considerations in note 1.2 to the financial statements.

Restructuring

When I wrote my review last year I was hopeful, having recruited a new management team, that the Bank could be transformed, albeit significantly reduced in size, and become a contributor to a recovery in the Irish banking sector and wider economy. The Chairman has referred to the restructuring plan that our management team produced in May last year which was sent by the authorities to the European Commission (‘EC’). This plan, which recommended splitting the Bank into a much smaller viable new bank and an asset recovery vehicle to be wound down over time, was ultimately not supported. The current restructuring plan, which is subject to EC approval, envisages the orderly work out of the Bank over a period of years. While disappointing, I understand the rationale for this decision and am fully cognisant of the importance of achieving this while minimising further cost to the Irish taxpayer.

The Bank has been working throughout the year to reduce the size of the balance sheet in preparation for a restructuring plan being agreed. In this regard, the Bank has disposed of its portfolio of asset backed securities. The transfers to NAMA have also significantly reduced the risk profile of the Bank’s asset base. €1.6bn of shareholder equity was generated following the liability management exercise of November/December 2010 where subordinated bondholders agreed to sell their bonds back to the Bank at a significant discount to par. As a further indication of the reduction in size of the organisation over the past year, the Bank employed 16% fewer people at 31 December 2010 compared to the prior year.

Direction Order

Following a Direction Order made by the Irish High Court on 8 February 2011, the Bank has transferred the vast majority of the remaining Irish and UK customer deposits to Allied Irish Banks, p.l.c. (‘AIB’) under a Transfer Order issued by the High Court on 24 February 2011. Also transferred to AIB under this order were the Bank’s holding of €12.2bn nominal of senior NAMA bonds at a price of 98.5% and its deposit taking subsidiary in the Isle of Man. In return for selling its Irish and UK deposits the Bank was required to pay AIB €1.6bn in excess of book value. In addition the Bank sold its shareholding in its Isle of Man deposit taking subsidiary to AIB at net asset value. The total net loss on disposal before tax arising from the transaction in 2011 is approximately €0.2bn. This transfer occurred on 24 February 2011 and reduced the balance sheet by approximately a further €11bn. As part of this process, over 200 staff transferred to AIB. I would like to thank them for their commitment and hard work through what was, at times, an extremely uncertain period.

Another key aspect of the Direction Order involves the proposal to combine the Bank with Irish Nationwide Building Society (‘INBS’), following the transfer of deposits from both institutions, into one entity regulated by the Central Bank of Ireland. The Bank is currently working with our stakeholders to formulate a detailed plan for an amalgamation of the two institutions. We will also implement a restructure of our remaining operations, subject to EC approval of the latest restructuring plan which was submitted at the end of January 2011. This is likely to lead to further restructuring and downsizing over time, the specifics of which will be the result of detailed planning in the months ahead. It is unlikely that redundancies can be avoided in this process.

While splitting the Bank into a smaller viable new bank and an asset recovery vehicle was my preferred option, I welcome the much needed clarity that the Direction Order provides and I am committed to achieving the new objectives set by our stakeholders. I look forward to working with the new Irish Government and indeed my new colleagues from INBS. There remain considerable challenges ahead for all stakeholders to ensure that the Irish banking system can recover and support a return to economic growth in Ireland.

I join the Chairman in a heartfelt thank you to stakeholders and staff for all the support and consistent hard work in difficult times.

A.M.R. (Mike) Aynsley
Group Chief Executive
30 March 2011

Business review

This business review covers the year to 31 December 2010 and includes commentary on key areas of financial and operating performance of the Group during that period. During the prior period, the Bank extended its financial reporting date by three months from 30 September to 31 December in line with the reporting dates of other State bodies. Comparable prior period information is for the fifteen months to 31 December 2009 unless otherwise stated.

The Bank reports a loss before taxation for the year of €17.7bn reflecting a loss on disposal of assets to the National Asset Management Agency ('NAMA') of €11.5bn and impairment charges of €7.8bn. For the prior period to 31 December 2009 the Bank reported a loss before taxation of €12.7bn including total impairment charges of €15.1bn. The level of impairment charges reflects the continuing stressed market conditions within which the Bank operates. Of a total specific lending impairment charge of €7.6bn, €2.6bn relates to loans that have transferred, or are expected to transfer, to NAMA. The loss on disposal to NAMA primarily relates to the transfer of €33.9bn of gross assets at an average discount to nominal value of 62%.

Gross customer lending at 31 December 2010 totals €36.9bn of which impaired loans amount to €17.6bn, with cumulative impairment provisions of €10.1bn representing 27% of total loan balances. The Government promissory note and NAMA senior bonds represent 50% of the Bank's assets as at 31 December 2010.

There was a significant deterioration in the Bank's customer and market funding position resulting in increased reliance on Government and monetary authority support mechanisms. Funding from central banks amounted to €45.0bn at 31 December 2010 (31 December 2009: €23.7bn), with €28.1bn borrowed under special liquidity facilities (31 December 2009: €11.5bn). The Bank's credit ratings were downgraded to sub-investment grade in late 2010 by Standard & Poor's and Moody's, and by Fitch in February 2011. Downgrades on bonds issued by Group entities have impacted on the eligibility of these bonds as collateral for central bank and monetary authority funding.

During the year the Shareholder provided additional capital contributions totalling €17.0bn to the Bank, bringing the total capital provided since nationalisation to €29.3bn, resulting in a Total Capital ratio at 31 December 2010 of 12.4% and a Core Tier 1 ratio of 10.9%.

NAMA

During 2010 the Bank transferred €33.9bn of assets (gross of impairment provisions) to NAMA, at an average discount rate of 62%, including associated derivative contracts with a fair value of €0.5bn. As consideration, the Bank received NAMA senior bonds in the form of Government Guaranteed Floating Rate Notes with a nominal value of €12.3bn and NAMA subordinated bonds with a nominal value of €0.6bn. The total loss on disposal amounted to €11.5bn, including a fair value adjustment of €2.2bn in respect of the NAMA bonds received. Details on the loss on disposal are contained in note 13 to the financial statements.

The €17.8bn of assets acquired by NAMA in November and December 2010, at a discount of 64%, were transferred without NAMA having completed full due diligence. NAMA reserves the right to adjust the consideration paid for these assets when full due diligence is completed. Since the period end NAMA has determined that a downward adjustment of €96m to the preliminary consideration paid is due in respect of €3.2bn of these assets. This amount has been reflected in the total loss on disposal of €11.5bn. Only when due diligence is completed on the remainder of the loans can the final total loss on transfer be determined.

NAMA has complete discretion as to which assets will be acquired. The remaining assets which the Bank expects to transfer to NAMA have been categorised in the consolidated statement of financial position as held for sale assets. At 31 December 2010 the Bank has €1.1bn of loans remaining to transfer to NAMA together with associated derivatives of €17m. These loans have been assessed for impairment by Group Risk at year end in accordance with IFRS and the carrying values reflect losses incurred in the period based on conditions existing at 31 December 2010. Losses expected as a result of future events, no matter how likely, are not recognised under IFRS. Cumulative impairment provisions at 31 December 2010 on these loans total €148m. Loans remaining to transfer consist of a small number of large relationships.

NAMA discounts

During the 12 months to 31 December 2010, the Group transferred €33.9bn of assets to NAMA. Of this total €27.0bn (80%) related to the Irish lending division, €6.7bn (19%) related to the UK and €0.2bn (1%) related to the US. Of the assets transferred, €14.8bn (44%) are land and development loans with a further €19.1bn (56%) of associated lending.

The table below displays the average discount by region:

Discounts by region

	31 December 2010					
	Land & development		Associated lending		Total	
	Assets transferred €bn	Average discount %	Assets transferred €bn	Average discount %	Assets transferred €bn	Average discount %
Ireland	**11.6**	**71%**	**15.4**	**62%**	**27.0**	**65%**
UK	**3.1**	**54%**	**3.6**	**43%**	**6.7**	**48%**
US	**0.1**	**85%**	**0.1**	**38%**	**0.2**	**67%**
Total	**14.8**	**68%**	**19.1**	**58%**	**33.9**	**62%**

Customer lending and asset quality

Loans gross of impairment provisions at 31 December 2010 total €36.9bn. Gross loans have reduced by 49% in the period mainly due to €33.3bn of loans transferring to NAMA. The primary focus of the Bank in 2010 was to maximise recovery on its loan portfolio and minimise the cost to the Shareholder. The unprecedented collapse in the Irish property market and the continued decline in collateral values and clients' net worth resulted in further deterioration in asset quality across the portfolio. Cumulative impairment provisions at 31 December 2010 total €10.1bn. The reduction of €4.8bn in the cumulative impairment provision in the period primarily reflects the release of €11.9bn of impairment related to loans that transferred to NAMA offset by an additional lending impairment charge of €7.7bn in the period.

Total lending

Analysis of customer lending[1]

	31 December 2010			
	Held for sale		Loans and advances to customers	
	31 December 2010 €bn	31 December 2009 €bn	**31 December 2010 €bn**	31 December 2009 €bn
Ireland	**0.9**	26.8	**16.2**	17.2
UK	**0.6**	6.8	**10.9**	12.0
US	**0.7**	2.0	**7.6**	7.3
Total	**2.2**	35.6	**34.7**	36.5
Provisions for impairment	**(0.6)**	(10.1)	**(9.5)**	(4.9)
Customer lending net of impairment	**1.6**	25.5	**25.2**	31.6
Provisions as a % of loan balances	**27%**	28%	**27%**	13%

Customer lending balances, gross of provisions, total €36.9bn. Of this €34.7bn (94%) relates to loans and advances to customers with the balance of €2.2bn (6%) classified as held for sale. Held for sale represents the outstanding loans due to transfer to NAMA, US held for sale assets and UK held for sale assets. The US and UK loans represent loans that the Bank is in the process of selling to third parties.

Total customer lending balances declined significantly during the year primarily due to the transfer of loans to NAMA. Net loan repayments and other movements during the 12 months contributed to an additional reduction in loan balances of €2.8bn, on a constant currency basis. This loan book reduction has been achieved through focused and targeted disposals, refinancing and repayment requests directly to clients. This effort has been most effective in markets where there is liquidity or where refinancing options are available. In Ireland repayments have been mainly limited to customers in the business banking and personal sectors.

Cumulative impairment provisions amount to €10.1bn, 27% of total gross loan balances. Provision balances consist of specific provisions of €8.9bn and a collective provision of €1.2bn. A reconciliation of opening to closing impairment provisions is detailed in notes 23 and 28 to the financial statements. Provision write-offs during the year as a result of loan sales and restructurings totalled €0.4bn.

Interest income on customer lending (including held for sale assets) for the year to 31 December 2010 totals €1.6bn. This is a decline of 52% compared to 2009 on an annualised basis (€3.3bn) and reflects the 49% reduction of the Bank's loan book as a result of loans being transferred to NAMA and the significant reduction in performing loans in the non-NAMA portfolio. Included in interest income is €150m of interest which has been capitalised on customers' loans, down from €1.2bn in December 2009. The reduction in interest capitalised on loan balances has resulted from the transfer to NAMA of a significant portion of loans being funded on an interest roll up basis and the change in the Bank's credit policy in relation to the approval of new or extended interest roll-up facilities. Interest income also includes €0.4bn in respect of impaired customer loan balances. The Bank continues, against a background of difficult client negotiations, to actively re-price existing loan facilities in order to reflect the increased cost of funding.

Additional advances in the period were restricted to previously committed facilities or approved to protect asset quality with the overall aim of reducing risk to the Bank. At 31 December 2010 undrawn committed facilities totalled €0.6bn (31 December 2009: €1.9bn). These balances relate to existing committed facilities. The Bank is not engaged in any new lending to new customers.

Lending asset quality

Grading analysis[1]

	31 December 2010				31 December 2009	
	Loans and advances to customers €bn	**Held for sale €bn**	**Total €bn**	**%**	Total €bn	%
Good quality	**7.4**	**0.2**	**7.6**	**20%**	21.5	30%
Satisfactory quality	**1.0**	**-**	**1.0**	**3%**	1.1	2%
Lower quality but not past due or impaired	**4.3**	**0.5**	**4.8**	**13%**	6.2	8%
Total neither past due or impaired	**12.7**	**0.7**	**13.4**	**36%**	28.8	40%
Past due but not impaired	**5.4**	**0.5**	**5.9**	**16%**	8.7	12%
Impaired loans	**16.6**	**1.0**	**17.6**	**48%**	34.6	48%
	34.7	**2.2**	**36.9**	**100%**	72.1	100%
Provisions for impairment	**(9.5)**	**(0.6)**	**(10.1)**		(15.0)	
Total	**25.2**	**1.6**	**26.8**		57.1	

With the continuing deterioration in the Irish economy and only small pockets of improvement in property market conditions in the Bank's other markets, asset quality across the portfolio continues to be adversely impacted. The net result is that 77% of loans at 31 December 2010 are classified as 'At Risk' (31 December 2009: 68%). 'At Risk' loans consist of loans that are impaired, past due but not impaired or lower quality. Group Risk review the loan book on an ongoing basis to ensure the accuracy of this grading.

Impaired loans at 31 December 2010 total €17.6bn (31 December 2009: €34.6bn). Allowing for the transfers of impaired loans to NAMA, there has been a net increase on a constant currency basis of €6.1bn in impaired loans during the year. Ireland is the worst performing geography with 60% of the portfolio impaired and specific provisions totalling 36% of gross loans.

Loans classified as past due but not impaired declined to €5.9bn at 31 December 2010 from €8.7bn at 31 December 2009. The decrease reflects the transfer of balances to NAMA and a downward migration of loan balances to impaired status. Ireland accounts for €3.7bn (63%) of the total past due but not impaired amount, the UK €1.5bn (25%), and the US €0.7bn (12%).

Loans past due for more than 90 days represent the highest risk element of past due but not impaired loans. At 31 December 2010 €3.2bn of loans are past due for more than 90 days (31 December 2009: €3.8bn) which represents 54% of past due but not impaired loans (31 December 2009: 44%). A significant portion of past due relates to client facilities which have expired and the Bank is engaged in the process of negotiating a new facility with the client, or seeking paydown or repayment of the loan. A full aged analysis is included within note 51 to the financial statements.

Lower quality but not past due or impaired loans at 31 December 2010 totalled €4.8bn or 13% of gross lending assets and represent those loans which management deem to have a higher risk of deterioration but are currently not past due or impaired.

The amount of lending assets which management deem to be good quality totals €7.6bn at 31 December 2010, representing 20% of total gross lending assets. After allowing for transfers to NAMA during 2010 the amount of good quality lending assets has reduced by €9.6bn (56%) on a constant currency basis compared to 31 December 2009.

During 2010 the Bank established a Group Recovery Management Unit to pro-actively work with distressed customers, with the aim of maximising recovery for the Bank and, where appropriate, to restructure loans so as to strengthen and improve asset quality. As part of this process the Bank may appoint experienced professionals to operate businesses on an arm's length basis ensuring they are run in the best long term interests of all stakeholders. In addition, during the period the Bank established a specialist team to deal with high value complex client groups to ensure maximum recovery of outstanding debt for the Bank.

Lending impairment – charge for the period

Income statement - lending impairment

	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Specific charge - loans and advances to customers	**4,956**	3,701
Specific charge - held for sale	**2,683**	10,160
Total specific lending impairment	**7,639**	13,861
Collective charge	**21**	583
Total lending impairment	**7,660**	14,444
Annualised % of closing loan balances	**20.6%**	16.0%

Reflecting the very difficult operating environment, the specific lending impairment charge for 2010 totals €7.6bn, 21% of closing loan balances. Of the specific charge, €2.6bn relates to loans which have either been sold or are scheduled to be sold to NAMA, with the balance attributable to the non-NAMA portfolio. The held for sale charge reduced significantly in the second half of the year (€2.3bn January to June 2010, €0.4bn July to December 2010) as a result of the transfer of assets to NAMA. The charge on loans and advances to customers in the second half of 2010, which primarily relates to the non-NAMA portfolio, was broadly consistent with the charge of €2.5bn in the six months to June 2010.

Impairment is calculated in accordance with IFRS and reflects losses incurred in the period based on conditions existing at 31 December 2010. Losses expected as a result of future events, no matter how likely, are not recognised under IFRS. In line with the Bank's credit risk management process, Group Risk Management carried out a detailed asset quality assessment during November and December 2010 to determine the total specific impairment charge for the year.

The collective impairment provision reflects an allowance for loan losses existing in the performing loan book where there is currently no specific evidence of impairment on individual loans. The cumulative balance sheet collective impairment provision remained broadly unchanged at €1.2bn notwithstanding the transfer of assets to NAMA during the year. The provision has been calculated based on historical loss experience supplemented by observable market evidence and management's judgement relating to market conditions at 31 December 2010. In determining the appropriate level of provision at year end management considered the impact of sovereign events in Ireland in November 2010 and the likely impact of these events on property values in the Irish market as at 31 December 2010.

Income statement - specific lending impairment

	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Ireland	**5,813**	10,815
UK	**737**	2,248
US	**1,089**	798
Total	**7,639**	13,861

On an overall geographic basis €5.8bn (76%) of the total specific impairment charge relates to Ireland, reflecting the difficult economic environment, lack of liquidity and continued price declines in the Irish property market. One significant Bank customer relationship accounts for €1.3bn of this charge. The UK represents €0.7bn (10%) of the specific impairment charge and the US €1.1bn (14%).

On a sector basis, development loan assets contributed €1.8bn (24%) of the total specific charge. Ireland accounted for 81% of this element of the total charge. The development property market in Ireland remained severely dislocated in the period, land values continued to decline in many cases back to agricultural value, funding availability to complete partially finished projects was very limited and the oversupply and lack of demand in the residential sector continued. Over 85% of the Bank's development assets at 31 December 2009 have transferred to NAMA. At 31 December 2010 €2.3bn of gross development loans remain in the post NAMA portfolio with €1.6bn relating to UK and US clients.

The leisure and retail sectors account for 50% of the impairment charge of €3.8bn related to investment property assets. This reflects the particularly tough trading environment in these sectors brought about by a significant reduction in consumer spending across all markets and increased unemployment in Ireland. This was particularly evident in Ireland where at 31 December 2010 the unemployment rate was 13.6%. In total Ireland accounted for €1.3bn of the €1.9bn charge relating to the leisure and retail sector. The remainder of the investment property impairment charge is primarily attributable to office, mixed and residential sectors.

The remainder of the specific impairment charge relates to Ireland with the Business Banking portfolio accounting for €1.6bn of this, reflecting the significant number of liquidations and receiverships in Ireland as a result of the extremely tough trading conditions during the year.

Post NAMA loan portfolio

Divisional lending balances by sector[1]

Loans and advances to customers	**31 December 2010 Commercial €bn**	**Residential €bn**	**Business Banking €bn**	**Other €bn**	**Total €bn**
Ireland	**9.1**	**0.8**	**3.4**	**2.9**	**16.2**
UK	**10.1**	**0.6**	**0.1**	**0.1**	**10.9**
US	**6.3**	**1.3**	**-**	**-**	**7.6**
Total	**25.5**	**2.7**	**3.5**	**3.0**	**34.7**

Excluding the Bank's UK and US held for sale assets of €1.1bn which are in the process of being sold to third parties, €34.7bn represents the Bank's post NAMA portfolio of loans and advances to customers, gross of impairment provisions. The UK and US represent 53% of these balances. Loan book performance in these markets was significantly better in the period compared to the domestic Irish market. Commercial lending represents 73% of this portfolio and consists of investment and development property lending across all sectors. The Business Banking sector consists of lending to small and medium enterprises ('SME') and accounts for €3.5bn, or 10%, of the post NAMA loan portfolio. The Bank is looking primarily to business earnings to service these debt obligations.

Loans and advances to customers by regulatory group size

	31 December 2010	
	Number of regulatory groups	**Total €bn**
Over €500m	**2**	**3.5**
€250m to €500m	**18**	**5.6**
€100m to €250m	**56**	**8.8**
€50m to €100m	**97**	**3.4**
€25m to €50m	**100**	**6.7**
€5m to €25m	**406**	**4.3**
Under €5m	**2,641**	**2.4**
Total	**3,320**	**34.7**

The top 20 customer groups excluding loans classified as held for sale, represent €9.1bn or 26% (31 December 2009: €8.8bn or 24%) of the Group's total loans and advances to customers before provisions for impairment. Total specific impairment provisions on these customer groups amount to €3.1bn. Of the top 20 customer groups, one group accounts for 8% of total gross loans and advances to customers. A regulatory customer group typically consists of a number of connected entities and the balances represent multiple individual loans secured by diverse portfolios of assets and multiple contracted cash flows.

A detailed geographic and sectoral analysis of the post NAMA loan book is contained in note 51 to the financial statements.

Financial markets

Funding overview

The composition of the Bank's funding profile has deteriorated significantly since 31 December 2009 with further declines in customer funding balances and unsecured deposits from market counterparts. €7.2bn of medium term notes ('MTNs') issued under the Credit Institutions (Financial Support) ('CIFS') Government guarantee scheme matured at the end of September 2010. Consequently, the Bank has had to increase reliance on funding support from central banks and monetary authorities, which amounted to €45.0bn at 31 December 2010, representing 70% of total funding. The decrease in customer and market funding has been driven by market wide risk aversion to the Bank and concerns regarding the Irish sovereign. The market for customer deposits remained extremely competitive during the year, particularly the retail deposit market where deposits reduced by €8.6bn in the year to 31 December 2010.

The dislocation in wholesale term funding markets continued during the year, with limited access to market counterparties making it difficult to achieve the Group's long term funding requirements. Continued access to central bank facilities is therefore required to meet the Bank's funding requirements.

In November 2010, the Bank's long-term Standard & Poor's ('S&P') counterparty credit rating was downgraded by six notches to B, below investment grade. Similar action was taken by Moody's in December 2010 (rating cut from Baa3 to Ba3) and by Fitch in February 2011 (rating cut from BBB- to BB-). In taking these rating actions, credit rating agencies cited concerns about sovereign support for the Bank. In February 2011 there were further downgrades to credit ratings with S&P cut to B- and Moody's cut to Caa1. Credit rating downgrades on bonds issued by Group entities have impacted on the eligibility of these bonds as collateral for central bank and monetary authority funding.

Following the issuance by the Minister for Finance of a Transfer Order under the Credit Institutions (Stabilisation) Act 2010 ('the Transfer Order') on 24 February 2011, most of the Group's retail and corporate deposits were acquired by Allied Irish Banks, p.l.c. ('AIB'). As part of this process the Bank's Isle of Man subsidiary was also acquired by AIB.

The Bank was a participating institution in both the CIFS and the Credit Institutions (Eligible Liabilities Guarantee) ('ELG') Government guarantee schemes during the year. The CIFS scheme covered pre-existing deposits and certain other liabilities and expired on 29 September 2010. The Group became a participating institution in the ELG scheme on 28 January 2010 and certain new qualifying deposits and securities issued by the Group from this date onwards are covered by the scheme. The Bank successfully issued €3.0bn of Government guaranteed MTNs during the period, with maturities of 2 to 5 years. The Irish Government has extended the ELG scheme for certain eligible liabilities to 30 June 2011.

Customer funding

	31 December 2010 €m	31 December 2009 €m
Retail	**6,120**	14,715
Non-retail	**4,972**	12,499
Total	**11,092**	27,214

Customer funding balances account for 17% of total funding at 31 December 2010, down from 36% at 31 December 2009. Total customer accounts decreased by €16.1bn since 31 December 2009. Retail balances decreased by €8.6bn largely as a result of maturing one year deposit products launched in 2009 and retention difficulties due to pricing restrictions imposed by the Financial Services Authority in the UK, as well as Bank and sovereign concerns.

Non-retail balances decreased by €7.5bn. There has been a decline in funding from non-bank financial institutions (insurance companies, asset managers, pension funds) and more granular corporate deposits primarily due to adverse ratings actions impacting both the Bank and the sovereign.

At 31 December 2010 61% of customer funding was sourced in Ireland, 23% in the UK and 16% in the Isle of Man.

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

Market and central bank funding

	31 December 2010 €m	31 December 2009 €m
Deposits from banks	**46,566**	32,971
Debt securities in issue	**6,912**	15,148
Total	**53,478**	48,119

Market funding, including borrowings from central banks, accounts for 83% of total funding at 31 December 2010, up from 64% a year earlier.

Debt securities in issue decreased by €8.2bn primarily due to the maturity of government guaranteed medium term notes in September 2010 with short term programme balances declining by €1.5bn due to reduced investor demand for issuance from commercial paper and certificate of deposit programmes. As outlined in further detail in the Principal risks and uncertainties statement on pages 19 to 22, the Group's debt securities programmes and subordinated capital instruments contain contractual covenants and terms of events of default which, if breached or triggered, could result in an actual or potential default that might result in the debt concerned becoming repayable immediately. The Bank is doing everything in its power to continue to comply with the covenants and contractual terms of its programmes.

The decline in customer funding and debt securities in issue has been offset by increased borrowings from central banks and monetary authorities through both open market operations and other special funding facilities. Deposits from banks and central banks have increased to €46.6bn, and represent 72% of total funding at 31 December 2010, compared to 44% at December 2009. Total borrowings from central banks were €45.0bn at 31 December 2010 (31 December 2009: €23.7bn).

Included within this was €28.1bn of borrowings under facilities from the Central Bank of Ireland (31 December 2009: €11.5bn). The facilities utilised were a Special Master Repurchase Agreement ('SMRA'), a Master Loan Repurchase Agreement ('MLRA') and a Facility Deed from the Central Bank of Ireland. The majority of the funds were advanced under the SMRA, involving the sale and repurchase of the promissory note. Also, during the year, NAMA senior bonds were eligible for central bank open market sale and repurchase agreements and represented a material source of funding at 31 December 2010. Collateral assigned under the MLRA is derived from the Bank's customer lending assets. The interest rate on these facilities is set by the Central Bank of Ireland and advised at each rollover and is currently linked to the ECB marginal lending facility rate.

Due to the short term and concentrated nature of its funding base the Bank is not in full compliance with a number of regulatory requirements. The Group has borrowed €16.9bn from central banks under open market operations (31 December 2009: €12.2bn). The total amount of loan assets assigned as collateral under rated securitisation programmes and secured central bank borrowings at 31 December 2010 was €13.5bn (31 December 2009: €29.7bn).

Borrowings from central banks and a large proportion of the Group's other funding balances are denominated in euro while the majority of the Group's lending assets are denominated in euro, sterling and US dollars. As a consequence the Group has made extensive use of foreign currency derivatives to manage the currency profile of its balance sheet during the year.

Continued access to market participants is required to enable the Group to continue with this risk management strategy. The Bank has a contingency euro-sterling swap agreement in place with the Central Bank of Ireland at a market based fee. This facility is available to assist the Bank in managing the currency profile of its balance sheet. This facility had not been used prior to 31 December 2010.

In November 2010 the Minister for Finance put in place a guarantee for the Bank which covered amounts payable in relation to derivative and certain other interbank transactions. The Bank may now only enter into derivative transactions for specified purposes, including balance sheet management. As the guarantee is for contractual performance only, no fee is payable.

Liability management exercise

The Group undertook a liability management exercise ('LME') in the last quarter of 2010 which involved the restructure or repurchase of €1.9bn of dated and undated subordinated liabilities, resulting in a profit of €1.6bn. €1.5bn of Lower Tier 2 subordinated debt was exchanged for Government guaranteed senior bonds at 20% of par, with the remaining €0.1bn repurchased at 1 cent per €1,000 of nominal. Undated subordinated securities of €0.3bn were restructured with the insertion of a 1 cent/pence per €/£1,000 call feature for which consent fees of 5% of nominal were paid. These call options have all since been exercised. Further details regarding the LME are included in notes 7 and 43 to the financial statements.

Loans and advances to banks

Placements with banks and central banks decreased by €3.8bn in the year. The total balance of €3.5bn at 31 December 2010 includes €1.8bn of cash collateral placed with banking counterparties to offset changes in mark to market valuations arising from derivative contracts and €1.7bn of primarily short term placements and secured reverse repurchase agreements with banks. The reduction in placements with banks is primarily due to the decline in the level of reverse repurchase transactions as a result of a lack of willing market counterparts.

NAMA bonds

During the year the Bank received €12.3bn nominal of NAMA senior bonds, representing 95% of the consideration received for assets transferred to NAMA. These bonds were recognised at their fair value of €10.5bn on acquisition, averaging 85% of the nominal amount of the bonds. The difference of €1.8bn is included in the loss on disposal of assets to NAMA.

In line with the Transfer Order issued by the Minister for Finance on 24 February 2011 these bonds were sold to AIB.

The Bank received €0.6bn nominal of NAMA subordinated bonds, representing 5% of the consideration received for assets transferred to NAMA. On acquisition, these bonds were recognised at a fair value of €0.2bn representing an average valuation of 37%. The difference of €0.4bn is included in the loss on disposal of assets to NAMA.

Treasury assets

The Bank holds a portfolio of debt securities that are held for liquidity reasons. Most debt securities are classified as available-for-sale ('AFS'), though certain investments with embedded derivatives are included within financial assets at fair value through profit or loss. The debt securities portfolio comprises sovereign investments and debt issued by financial institutions as the Bank took a strategic decision during the year to dispose of its holdings of asset backed securities and bank subordinated paper. The Bank's AFS portfolio now also includes NAMA subordinated bonds, representing 5% of the consideration received for assets transferred.

As a result of the decision to reduce the Bank's exposure to asset backed securities, losses of €165m were realised on the disposal of €2.3bn nominal of asset backed securities and bank subordinated debt. These losses were offset by a gain of €55m realised on the disposal of €1.5bn of government bonds. A net loss on disposal of €110m is reported in other operating expense.

Available-for-sale financial assets total €2.2bn at 31 December 2010, a decrease of €5.7bn from 31 December 2009. The following table represents the credit quality of AFS assets.

Available-for-sale financial assets

	31 December 2010 €m	31 December 2009 €m
AAA / AA	**537**	6,228
A	**683**	1,346
BBB+ / BBB / BBB-	**827**	206
Sub investment grade	**-**	105
Unrated	**172**	5
Total	**2,219**	7,890

Of the Bank's holdings of AFS securities, 24% are graded AA or above, with 55% graded A or above, and €172m (including NAMA subordinated bonds) being sub investment grade or unrated. Euro denominated sovereign bonds account for 18% of holdings, senior bank bonds 74%, NAMA subordinated and other bonds 8%. Of the total bank bonds included within the portfolio €0.4bn, or 19%, relate to bonds issued by Irish banks covered under the Irish Government guarantee schemes.

All bonds are reviewed for impairment on an individual basis, with impairment charges reflected in the income statement. The Group incurred an impairment charge of €11m on its portfolio of subordinated bank paper during the year. With the exception of a single position, which has since matured, the Bank's entire asset backed securities and subordinated financial institution portfolio was disposed of during the year to 31 December 2010. The closing market value of the AFS portfolio at 31 December 2010 is €2.2bn.

Financial markets revenue

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

The cost of the Government guarantee schemes, particularly the ELG scheme, has also contributed to increased funding costs during the period. The cost of the CIFS and ELG Government guarantee schemes for the year was €54m and €128m respectively. The cost of the CIFS scheme, which covers liabilities already in issue at 29 September 2008, is classified as fee and commission expense. The cost of the ELG scheme is classified as interest expense as the cost of this scheme is directly attributable to each specific eligible liability and represents an incremental cost of issuance.

Corporate treasury income is down by 70% to €18m due to the low level of new deal flows on interest rate derivatives given the lack of new lending activity and reduced client demand for hedging derivatives. Net trading income includes credit related fair value losses of €27m on lending client originated derivative transactions. The equivalent charge calculated with respect to the 15 months ending 31 December 2009 was €212m. Net trading income also includes €36m of positive fair value movements on derivatives which transferred to NAMA during the year. No additional consideration was received at transfer date to reflect the increase in derivative valuations.

Promissory note

On 31 March 2010 the Minister for Finance settled the amount due from Shareholder at 31 December 2009 by providing the Bank with a promissory note with a value of €8.3bn. Subsequent capital contributions by the Shareholder were settled by increasing the amount of the promissory note on 28 May (€2.0bn), 23 August (€8.58bn) and 31 December 2010 (€6.42bn) resulting in a total nominal amount of promissory note of €25.3bn at 31 December 2010. Each tranche of the promissory note pays a market based internal rate of return which is set on the date of issue and is appropriate to the maturity date of the tranche. An amount equal to 10% of the original principal amount of the promissory note will be paid each year, resulting in the promissory note having an amortising profile.

In December, at the request of the Shareholder, a change was made to the legal terms of the promissory note allowing for an 'interest holiday' in 2011 and 2012, with a higher interest rate thereafter. This change did not impact the accounting for the promissory note as the cash flows and effective interest rate of the note remain unchanged.

The promissory note has resulted in the Group having significant interest rate risk as it is a fixed rate instrument. The Bank has hedged a total of €4.6bn of the nominal amount using interest rate swaps. Offsetting balance sheet hedges exist in the form of the Group's capital and fixed rate debt issuance. However significant fixed interest rate exposure remains with limited capacity to hedge further amounts with market counterparties.

The promissory note is currently pledged as collateral for funding under the Special Master Repurchase Agreement with the Central Bank of Ireland.

Capital

Losses incurred by the Bank during the year to 31 December 2010 placed significant stress on the Bank's regulatory capital resources and resulted in the Minister for Finance, as the sole shareholder, providing €17.0bn of additional capital contributions during the year. These capital contributions restored the Bank's regulatory capital position resulting in a Tier 1 Capital ratio of 10.9% and a Total Capital ratio of 12.4% as at 31 December 2010. The additional capital contributions bring the total amount contributed by the Shareholder to date to €29.3bn, which the Central Bank of Ireland has confirmed qualifies as Core Tier 1 regulatory capital.

Capital contributions from the Shareholder to 31 December 2010

- 29 June 2009: €3.0bn of share capital invested.
- 6 August 2009: €0.8bn of share capital invested.
- 25 September 2009: €0.2bn of share capital invested.
- 31 December 2009: Capital contribution of €8.3bn recognised. Related promissory note received on 31 March 2010.
- 28 May 2010: Capital contribution of €2.0bn received by way of an adjustment instrument to the promissory note.
- 30 June 2010: Capital contribution of €8.58bn recognised. Related adjustment instrument to the promissory note received on 23 August 2010.
- 30 November 2010: Capital contribution of €6.42bn recognised. Related promissory note received on 31 December 2010.

Total regulatory capital at 31 December 2010 of €4.6bn comprises €4.0bn or 88% of Core Tier 1 capital. This percentage increased significantly following the successful execution, in November and December 2010, of the liability management exercise whereby subordinated debt instruments were restructured or repurchased generating a profit of €1.6bn.

The Group adopts the Basel II Standardised Approach in calculating its minimum capital requirements. Risk weighted assets at 31 December 2010 total €36.7bn, a decrease of 51% since 31 December 2009, primarily as a result of the transfer of assets to NAMA during the period. Further specific impairment charges incurred in the year to 31 December 2010 also reduced the level of risk weighted assets. Due to the promissory notes issued by the Minister for Finance and senior NAMA floating rate notes, which are guaranteed by the Irish Government, the Bank has €39bn of exposure to the Irish Government at 31 December 2010. This exposure is risk weighted at 0% in line with the requirements of the Capital Requirements Directive ('CRD') and guidance from the Central Bank of Ireland.

The Group reported a Total Capital ratio of 7.7% as at 31 May 2010, a breach of the minimum requirement, in revised regulatory returns which were submitted to the Financial Regulator on 31 August 2010. These returns were revised following the final determination of the appropriate fair value of the senior NAMA floating rate notes, of which a nominal amount of €3.9bn was received in May. This breach was temporary as the € 8.58bn capital contribution of 30 June 2010 restored the Bank's capital ratio above the minimum required. While the Bank is in compliance with its minimum capital requirements it is not in full compliance with all regulatory requirements at 31 December 2010.

During the year the Bank benefited from derogations from certain regulatory capital requirements granted on a temporary basis by the Central Bank of Ireland. These derogations lapsed on 31 August 2010 and the regulatory capital position as at 31 December 2010 therefore does not include any derogations from regulatory capital requirements. On 21 October 2010 the Central Bank of Ireland reduced the Bank's required minimum total capital ratio from 9.5% to 8.0%.

Wealth management

New investment activity in the Bank's Wealth Management division continues to be very subdued as a result of the ongoing recession in Ireland. Recurring fee income relating to assets under management continues to be the primary source of income for the division. Reflecting a decline in the value of assets under management this recurring fee income is lower than the prior comparable period. Minimal structuring and set up fee income was earned in the year to 31 December 2010 due to an absence of significant levels of new business. Lending activity within the Wealth Management business was transferred to the Lending division during the period and management's primary focus is now on managing the existing portfolio of investments and generating fee income from investment related activities.

As part of normal business activity the Bank previously acquired property assets with the intention of placing these investments with Wealth Management clients. However, as a result of market conditions and a lack of investor appetite, these assets are now being held on the Group's balance sheet. Depending on the investment structure used to acquire the assets, they are included in the consolidated statement of financial position as either investment property held on own account or interests in joint ventures. Given the significant decline in property values since they were acquired the Group does not expect to recover all of its initial investment in these assets. Accordingly, €131m of losses have been recognised in the year due to a decline in their recoverable amounts. In addition, the Group has incurred negative fair value movements of €9m in relation to swaps that were put in place to hedge interest payments on these investments. These fair value movements reflect the decline in long term market interest rates over the period. The Group is continuing to examine the possibility of restructuring some of these investments and is evaluating its strategic options in this regard.

Under the Direction Order issued by the Minister for Finance on 8 February 2011 the Bank was instructed to formulate a detailed plan for the disposal of the Wealth Management business and deliver it to the National Treasury Management Agency no later than 31 March 2011.

Costs

Operating expenses

	Year ended 31 December 2010 €m	Restated[2] 15 months Ended 31 December 2009 €m
Staff costs	**130**	155
Share-based payments	**-**	37
Other administrative expenses	**108**	117
Depreciation and amortisation	**26**	35
Recurring operating expenses	**264**	344
Exceptional costs	**89**	42
Total operating expenses	**353**	386

Total recurring operating expenses for the year to 31 December 2010 are €264m and exceptional costs are €89m.

On an annualised like for like basis staff costs have fallen by 11% in 2010 after adjusting for the impact of the release of €27m staff related accruals in 2009. Staff costs have declined due to a reduction in the average number of employees, which has fallen by 349 to 1,332 in the current period from 1,681 in the previous period. The reduction in average staff numbers is primarily due to the voluntary redundancy programme announced in November 2009 under which 275 people left the Group. The Group headcount at 31 December 2010 is 1,296, a reduction of 16% over the year, and includes 126 people working in the Bank's NAMA unit.

Other administrative costs have increased by 15% as a result of significantly higher loan book asset quality related professional fees which offset savings achieved on other cost lines through cost management and tighter control of discretionary spending.

Exceptional costs of €89m were incurred in 2010 and include €62m in relation to the Bank's restructuring, NAMA process and legacy matters, and provisions of €27m for staff redundancy and legacy matters. Included within the loss on sale to NAMA is a €30m onerous contract allowance related to ongoing future service costs and a further €32m in relation to future legal due diligence costs arising from the accelerated transfer of assets to NAMA in November and December 2010.

Exceptional costs

	Year ended 31 December 2010 €m	Restated[2] 15 months ended 31 December 2009 €m
Redundancy and other staff costs	**27**	13
Professional fees	**62**	25
Provision for onerous leases	**-**	4
Total exceptional costs	**89**	42

Other

As advised in the Interim Report the Bank is undertaking an internal review of historical interest rate settings as applied to certain loan accounts for the period prior to January 2005, to determine whether interest rates applied were consistent with terms of the associated customer loan documentation. Whilst the review is ongoing €45m has been provided for in 2010 to cover the amount of any liability to customers who may have been adversely affected.

Taxation

No Irish tax will be payable on the majority of the Group's Irish business activities due to the availability of losses in the Bank which are group relieved against any available profits.

A foreign taxation charge in respect of prior periods of €30m is reflected in the accounts. A deferred tax charge of €2m has been recognised in respect of the release of deferred tax assets which are no longer required.

Risks and uncertainties

The Group is subject to a variety of risks and uncertainties in the normal course of its business activities. The principal risks and uncertainties facing the Bank at present are those related to general economic conditions, Government and restructuring risk, the approval and implementation of the latest restructuring plan, ratings downgrades, liquidity and funding risk, the NAMA process, credit risk, operational risk, events of default risk, regulatory compliance risk, market risk, valuation risk, and litigation and legal compliance risk. In addition continued concerns within the banking industry regarding counterparty and country risk could adversely impact on the Bank. More detail is contained in the Principal risks and uncertainties statement on pages 19 to 22.

Subsequent events and future developments

The key events that have occurred since the end of the period are reviewed in note 58 to the financial statements which includes further detail on the Transfer Order and the transfer of the majority of the Bank's customer deposits to AIB. The Group Chief Executive's review and the Chairman's statement review the outlook and future of the Group.

[1] Gross of impairment provisions and including lending associated with the Group's assurance company

[2] The prior period has been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on page 44.

Board of Directors

Alan Dukes (65), was appointed as Non-Executive Chairman on 14 June 2010 having initially joined the Board in December 2008. He is a Director and Public Affairs Consultant of Wilson Hartnell Public Relations Limited. He has served at various times as Minister for Agriculture, Finance, Justice, and Transport, Energy and Communications. He is a former leader of Fine Gael. He was Director General of the Institute of European Affairs from 2003 to 2007.

Member of the Nomination and Governance Committee
Member of the Remuneration Committee

A.M.R. (Mike) Aynsley (53), was appointed Chief Executive Officer and joined the Board in September 2009. He has previously been Chief Risk Officer – New Zealand for ANZ Bank & National Bank of New Zealand. Prior to that he was a Global Partner, Banking and Financial Services with Deloitte Consulting and General Manager – Global Markets, Global Wholesale Financial Services for National Australia Bank. He holds a Master of Business Administration degree from Macquarie University.

Member of the Nomination and Governance Committee
Member of the Risk and Compliance Committee

Dr. Noel Cawley (66), was appointed to the Board on 24 May 2010. He is Chairman of Teagasc (the Agricultural and Food Development Authority). He is a Director of An Bord Bia and One51 plc. He was previously Chief Executive of the Irish Dairy Board and Chairman of the Irish Horse Board.

Chairman of the Remuneration Committee
Member of the Audit Committee
Member of the Nomination and Governance Committee
Member of the Risk and Compliance Committee

Aidan Eames (52), was appointed to the Board on 24 May 2010. He is a commercial lawyer and Managing Partner of Eames Solicitors, Dublin. He is a Director of Bord Gáis Éireann and is Chairman of their Risk Committee. He is also a member of the Department of Foreign Affairs Independent Audit Committee. He has served as Chairman and Board Member of a number of private and state enterprises and acts as advisor to leading commercial and technology companies.

Chairman of the Nomination and Governance Committee
Member of the Audit Committee
Member of the Remuneration Committee
Member of the Risk and Compliance Committee

Maurice Keane (69), who joined the Board on 21 January 2009, is a former Group Chief Executive and member of the Court of Directors of Bank of Ireland. He is a Director of DCC plc and Axis Capital Holdings Limited and is also a member of the National Pension Reserve Fund Commission. He is a former Chairman of BUPA Ireland Limited and Bristol & West plc.

Chairman of the Risk and Compliance Committee
Member of the Audit Committee
Member of the Nomination and Governance Committee
Member of the Remuneration Committee

Gary Kennedy (53), was appointed to the Board on 24 May 2010. He is a Director of Elan Corporation plc, Greencore Group plc and Friends First General Insurance Company Limited. He is also a Director of a number of private companies. Previously, he was Group Director, Finance and Enterprise Technology at Allied Irish Banks, p.l.c. and was a member of its main Board. Prior to that he was group vice-president at Nortel Networks Europe after starting his management career at Deloitte & Touche. He served on the board of the Industrial Development Authority of Ireland for 10 years and also on the board of Calyx Group plc.

Chairman of the Audit Committee
Member of the Nomination and Governance Committee
Member of the Remuneration Committee
Member of the Risk and Compliance Committee

Corporate Responsibility

Introduction

At Anglo Irish Bank we recognise our corporate obligations and responsibilities and are committed to fulfilling them.

We take a responsible approach to environmental issues and are proactive in seeking innovative ways in which to become more efficient. In addition, the management and staff of the Bank believe that a commitment to supporting the development of the wider community is an important part of our corporate responsibility ('CR').

We continually invest in the development and training of our staff, as well as maintaining quality relationships with our stakeholders.

Environment

Global warming and climate change are substantial concerns in today's world. As a corporate citizen Anglo Irish Bank recognises its responsibility to the environment and aims to operate in a way which minimises its carbon footprint.

The Bank has an Energy Policy which recognises the importance of practising energy efficiency to minimise costs and impact on the environment and has appointed an Energy Manager with responsibility for promoting and managing this agenda throughout the Bank.

We are seeking to monitor and to report on our carbon footprint as an organisation. In this regard we have initiated measurement within the Bank on aspects of the Bank's impact on the environment and we now obtain carbon tracking reports from a number of our suppliers. It is the Bank's preference to source and deal with environmentally focused and aware suppliers and we have incorporated this preference into our tendering processes.

We continue to track three elements of the Bank's impact on the environment, measuring electrical, gas and water consumption in our Irish offices and where possible in our overseas offices. On 27 March 2010, coinciding with Environmental Awareness Week, our Irish offices participated in Earth Hour 2010 with staff members being made aware of the need to conserve energy, reduce carbon emissions and reduce light pollution in the night skies. The Bank completed the Carbon Disclosure Project annual questionnaire in 2010 and will do so again in 2011.

The Bank has replaced its entire printer and photocopier fleet with a smaller number of new higher specification multi-function devices which conform to the best in class standards for minimising carbon footprint and energy consumption. The new multi-function devices support secure printing through the use of swipe cards and this has helped to reduce the volume of print output.

The Bank has now virtualised all of its production servers on to a smaller number of higher specification servers which consume less power. All of the Bank's production server and storage infrastructure is now stored in purpose-built data centres where best in class air and water cooling are used to reduce power consumption, recycle water and reduce carbon footprint.

The Bank continues to use an energy company which is committed to sourcing most of its energy supplies from renewable sources. In Ireland, the Bank participated in the Electricity Winter Demand Reduction Scheme ('WDRS') from December 2010 to March 2011. Available information to date confirms that we achieved our committed reduction in electrical consumption.

It is Bank policy to recycle paper, cardboard, glass and computer consumables where possible. All electronic and electrical equipment is disposed of in a safe and environmentally responsible way as stipulated in the EU Waste Electrical and Electronic Equipment Directive. The use of technology such as email and electronic payments across the Group has significantly reduced paper usage. The Bank encourages its customers to receive electronic statements and to utilise electronic payments. In addition, the use of video, web meetings and teleconferencing facilities across all offices is reducing our business travel and therefore minimising our carbon footprint.

It is important to the Bank to continue to increase the environmental awareness of the Group's staff. In 2010, we continued to increase our waste recycling rates through improved waste segregation methods and awareness amongst staff in our Dublin offices. These are now being formally measured and reported on by our service providers on a monthly basis. We will continue to focus our attention in 2011 on further reducing resource consumption and maintaining responsible methods of waste disposal.

The Bank has actively promoted the Government's Cycle to Work Scheme which was introduced in January 2009.

In keeping with our environmental policies, we have worked with our print partner to minimise the environmental impact of our Annual Report publication in two ways. Firstly, the paper selected for the Report comes from certified well managed forests, accredited by the Programme for the Endorsement of Forest Certification ('PEFC') to a standard known as Chain of Custody. These certified forests are managed to ensure long term timber supplies while protecting the environment and the lives of forest dependent people.

Secondly, the Annual Report will be a Carbon Neutral® publication. This was achieved by selecting a print partner who is already CarbonNeutral® and by offsetting the lifecycle emissions of the paper that was used in the Annual Report. The Bank is pleased to be able to add both the CarbonNeutral® and the PEFC logos to this report as evidence of achieving these standards.

In addition, the Bank provides an online version of its Annual Report in Adobe® format which is available on www.angloirishbank.com.

Community

Our community strategy seeks to ensure that the Bank does its part in encouraging social inclusiveness and supporting the young and disadvantaged. Our approach to CR in the community is rooted in the generosity and commitment of our staff, who give their time and effort to support a wide range of worthwhile causes.

The Bank is a founding member of Business in the Community ('BITC') which works with Irish companies seeking to make a positive impact on society through numerous initiatives which focus on community involvement.

In Ireland, the Bank continues to support and develop our mentoring programmes for secondary level students of Warrenmount School in the Liberties district of Dublin. We started this programme in 2000 and since then it has received widespread commitment from staff who, with the Bank's support, offer their time to help students realise their full potential. To date, over 130 members of staff have been involved with the Warrenmount initiative. The mentoring scheme enables the pupils to develop important personal and professional skills which will benefit their future lives and careers.

The management and staff of the Bank feel that supporting the disadvantaged to attain a third level education is of great benefit to both the individual and the wider community. It is an investment that continues to benefit the entire community long after the initial support or funding is provided. To this end, we are pleased to continue our Access Scholarship Programmes for disadvantaged students in Dublin City University and University of Limerick. In close cooperation with the universities, these programmes are structured to ensure the participating students are supported throughout the duration of their chosen degree course.

The Bank has a history of supporting a number of charities. A significant number of our Irish employees participate in a 'Give As You Earn' scheme in support of Children Direct, a partnership of five Irish children's charities: Temple Street Children's Hospital, the ISPCC, Enable Ireland, Focus Ireland and ActionAid Ireland. Under this initiative, which has been in place since 2004, monthly donations made by staff are matched by the Bank.

The Social Finance Foundation ('SFF'), a not-for-profit company limited by guarantee, was created in 2006. SFF has become a significant wholesale supplier of funding for social finance through Social Lending Organisations who make micro-finance available for borrowers. In 2007, Anglo Irish Bank was one of a number of banks who contributed seed capital totalling €25m to launch this initiative.

In April 2009, new arrangements were agreed and put in place regarding the SFF's resourcing by banking institutions to ensure that it will continue to operate on a sustainable, long-term footing. Anglo Irish Bank is one of the contributing institutions making €72m available in loans over the next 12 years at very competitive interest rates appropriate for social finance.

Workplace

The skill of our people is important to the Bank. We aim to develop our people by furthering their technical and specialist competencies. This ensures that our employees receive the appropriate training to help them undertake their role within the Bank.

In order to further support up-skilling, the Bank is committed to assisting employees in furthering their education. This includes funding to cover approved course fees and study leave in advance of exams.

Employee well-being is of continual importance to us. The Bank runs an Employee Well-Being scheme, which is available to staff in Ireland and is operated in conjunction with an independent consultancy firm. This service offers confidential support to staff. Similar programmes exist for UK staff (Employee Assistance Programme) and US staff (Ability Assist).

From the date they join, all employees are covered under the Bank's life assurance and disability insurance policies, giving staff members and their families a reassuring level of financial protection. As well as supporting our staff during their careers, we are committed to safeguarding their future later in life. We therefore continue to support an incentive based pension scheme, whereby staff are encouraged to make additional voluntary contributions ('AVCs') to their pension. Under the scheme, the Bank matches, on a one-for-one basis, AVCs made by staff up to a pre-defined level.

In conclusion, the staff, management team and Board of the Bank aspire to uphold a set of core values and principles by which to operate in the best interests of all our stakeholders – the Minister for Finance, customers, suppliers, regulatory bodies and the community.

Principal risks and uncertainties

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

The Board of Directors and senior management have ultimate responsibility for the governance of all risk taking activity and have established a framework to manage risk throughout the Group. Details of the risk management and control framework in place in the Bank are contained in note 51 to the financial statements.

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

General economic conditions

The Group's results are influenced by general economic and other business conditions in the Group's three key markets: Ireland, the UK and the US.

Economic conditions in Ireland remain extremely challenging and consequently the results of the Group have been adversely affected. Ireland continues to experience high unemployment, reduced consumer confidence, a contraction in the housing market, and a continued decline in commercial activity, all of which have contributed to a decline in economic growth. The prospects for the Irish economy have deteriorated in recent months. The application for EU/IMF financial support was approved on 21 November 2010. Market sentiment has continued to be negatively affected by uncertainty about the political situation, continuing uncertainty regarding the banking sector and about the economic impact of the austerity measures introduced in the December 2010 budget. However, export-led growth may provide the impetus for a gradual recovery.

Any continued deterioration in property prices could further adversely affect the Group's financial condition and results of operations. The Group's financial performance may also be affected by future recovery rates on assets and the historical assumptions underlying asset recovery may no longer be accurate given general economic instability.

While conditions in the UK and US have improved, there remains uncertainty surrounding the sustainability of the global economic recovery, particularly if fiscal and monetary supports are withdrawn. In the UK, there is the risk that a slow down in the demand for goods and services due to UK Government spending cutbacks and higher taxes could have a negative effect on the country's modest economic recovery. As a result, unemployment would increase, and residential and commercial property would suffer a second period of falling prices.

Government and restructuring risk

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

For instance, if new governmental policies were to require the Bank to resolve its position over a shorter than expected time frame, projected asset recovery values could be negatively impacted.

Over the course of the year the Bank has been working with the Department of Finance, the National Treasury Management Agency and the Central Bank of Ireland to decide upon the future of the Bank. A plan for the Bank's restructuring was submitted to the European Commission ('EC') in May 2010. Given the changing circumstances in the broader economy and financial sector in Ireland, this plan was revised in October with a further plan submitted on 31 January 2011.

The speed of deterioration in the economy and the banking sector in the second half of 2010 has culminated with the Government, International Monetary Fund ('IMF') and the EC agreeing a substantial assistance package for the country which included agreements to reorganise and restructure the Irish banking sector. In that respect, the IMF and the EC also have a significant influence on the future of the Bank.

The Credit Institutions (Stabilisation) Act 2010, which was enacted on 23 December 2010, gives broad powers to the Government, in particular, in relation to: (i) transferring relevant institutions' assets and liabilities to facilitate the restructuring of the banking sector; and (ii) achieving appropriate burden sharing by subordinated creditors in relevant institutions that have received State support, on a case by case basis and under particular conditions. The legislation "*provides the legislative basis for the reorganisation and restructuring of the banking system agreed in the joint EU/IMF Programme"* and *"is the first important step in putting in place an extensive Special Resolution Regime (SRR) that will provide for a comprehensive framework to facilitate the orderly management and resolution of distressed credit institutions." (Source: Department of Finance)*

On 8 February 2011 the Bank received a Direction Order from the High Court to:

- Begin a process, in accordance with EU State Aid rules, to transfer deposits and assets held by the Bank to a third-party financial institution or institutions; and
- Formulate detailed steps plans for the implementation of certain aspects of the restructuring plan as submitted to the EC for approval at the end of January 2011.

This order facilitates the Minister's plan to restructure the Bank, which is in accordance with the provisions of the EU/IMF Programme of Financial Support for Ireland. Significant organisational restructuring will need to be undertaken by the Bank to implement the restructuring plan and the related operational risk associated with the transfer of deposits could have an adverse impact on the operations and financial condition of the Group.

The joint steps plan, which is subject to EC approval, provides for the amalgamation of the Bank with Irish Nationwide Building Society in the first half of 2011. It is envisaged that once the restructuring plan is approved by the authorities, the restructured group will work out its assets in an orderly process over time, with the objective of securing the best possible realisation in the interest of the State and of the taxpayer.

Ratings downgrades

In November 2010, the Bank's long-term Standard & Poor's ('S&P') counterparty credit rating was downgraded by six notches to B, below investment grade. Similar action was taken by Moody's in December 2010 (rating cut from Baa3 to Ba3) and by Fitch in February 2011 (rating cut from BBB- to BB-). In taking these rating actions, credit rating agencies cited concerns about sovereign support for the Bank. In February 2011 there were further downgrades to credit ratings with S&P cut to B- and Moody's cut to Caa1. Credit rating downgrades on bonds issued by Group entities have negatively impacted on the eligibility of some of these bonds as collateral for central bank and monetary authority funding.

Liquidity and funding risk

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

In response to major market instability and illiquidity, governments and central banks around the world have intervened in order to inject liquidity and capital into financial markets, and, in some cases, to prevent the failure of systemically important financial institutions. These various initiatives to stabilise financial markets are subject to revocation or change, which could have an adverse effect on the availability of funding to the Group.

In common with many other banks, the Group's access to traditional sources of liquidity remains constrained. The Bank experienced greater reliance on Government and monetary authority support mechanisms due to significant customer deposit outflows and the maturity of debt securities. The Bank's continued reliance on support from central banks includes access to special funding facilities. The funding support from central banks and monetary authorities amounted to €45.0bn at 31 December 2010, representing 70% of total funding, and included €28.1bn borrowed under special liquidity facilities. This support has increased following the transfer in February 2011 of deposits and NAMA bonds under the High Court Transfer Order.

Should monetary authorities materially change their eligibility criteria or limit the Bank's access to such special funding facilities without providing an alternative funding source, this would adversely affect the Group's financial condition and prospects. Additionally, credit rating downgrades may impact on the eligibility of assets currently pledged as collateral for central bank open market sale and repurchase agreements.

NAMA

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

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

In the year ended 31 December 2010 the Bank transferred €33.9bn of assets (gross of impairment provisions of €11.9bn) to NAMA, generating a loss on disposal of €11.5bn. The €17.5bn of loans acquired by NAMA in November and December 2010 were transferred without NAMA having completed full due diligence. NAMA reserve the right to adjust the consideration paid for these assets when the due diligence is completed. The final loss on transfer will therefore only be determined when full due diligence in respect of the assets has been completed.

At 31 December 2010 the Bank has €1.1bn of loans remaining to transfer to NAMA. Not all of these assets may ultimately transfer to NAMA.

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

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

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

Credit risk

Credit risk is the risk that the Group will suffer a financial loss from a counterparty's failure to pay interest, repay capital or meet a commitment, and the collateral pledged as security is insufficient to cover the payments due. It arises primarily from the Group's lending activities to customers, interbank lending and repurchase agreements, investment in available-for-sale debt securities and derivative transactions.

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

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

The Irish property markets remain severely impacted by a lack of confidence and liquidity which has led to further reductions in property collateral values. This, together with an extremely difficult operating environment in the Group's key markets, particularly in Ireland, and the rapid erosion of clients' net worth has resulted in a substantial deterioration in the asset quality of the Bank's loan book.

The Group's financial performance will be affected by future recovery rates on loan assets. Any further deterioration in property prices, any failure of prices to recover to their long term averages or any delay in realising collateral secured on these loan assets will further adversely affect the Group's financial condition and results of operations.

Following the submission of the restructuring plan to the EC, the Group is also exposed to additional recovery risk given that counterparties are aware that the plan provides for an orderly work out of its loan book over a period of years. As a result, amounts recoverable may be reduced.

Operational risk

Operational risk is the risk of loss arising from inadequate controls and procedures, unauthorised activities, outsourcing, human error, systems failure and business continuity. Operational risk is inherent in every business organisation and covers a wide spectrum of issues. The Group's management of its exposure to operational risk is governed by a policy prepared by Group Risk Management and approved by the Risk and Compliance Committee.

The Group's exposure to operational risk is elevated following the issuance of the Transfer Order by the High Court in February 2011, which resulted in the immediate transfer of the deposit book and certain Government guaranteed assets to Allied Irish Banks, p.l.c. ('AIB'). Due to the tight timelines involved and the mechanics of the transfer, which also involved the immediate transfer of a large number of Bank staff, the Bank is now exposed to heightened operational risk concerning the temporary transitional arrangements.

Furthermore, given the submission of the restructuring plan to the EC in January 2011, which envisages the restructuring and orderly work out of the Bank's loan book over a period of years, there is the added risk of a weakened control environment. The lack of career prospects and incentives in the medium term may lead to disillusionment among remaining staff, with an increased associated risk of material error. Separately, the current economic climate increases the risk of the occurrence of fraud.

Events of default risk

The Group's debt securities programmes and subordinated capital instruments contain contractual covenants and terms for events of default which, if breached or triggered, could result in an actual or potential default that might result in the debt concerned becoming payable immediately, or other adverse consequences occurring. In some cases, a covenant breach or event of default may arise if the Bank or any of its principal subsidiaries ceases or threatens to cease to carry on its business or any substantial part of its business.

The Credit Institutions (Stabilisation) Act 2010 (the 'Stabilisation Act') includes important provisions that are designed to prevent an event of default becoming applicable because of an order or certain requirements made under the Stabilisation Act or anything done on foot of such an order or requirements. The Stabilisation Act provides that an order or certain requirements made under the Stabilisation Act may take effect as a reorganisation measure under the Credit Institutions Reorganisation and Winding Up Directive ('CIWUD') and any law giving effect to it. The relevant protective provisions of the Stabilisation Act apply in relation to the Direction Order made on 8 February 2011 and the transfer of deposits and of assets to AIB contemplated by the Direction Order, and effected on 24 February 2011 by a Transfer Order made under the Stabilisation Act. Each such order was declared to be a reorganisation measure for the purposes of CIWUD. Accordingly, the Stabilisation Act and laws giving effect to CIWUD confer important protections from business cessation and other default risk in respect of the matters and timelines contained in the relevant orders.

Pursuant to the Bank's €30bn Euro Medium Term Note Programme and the Group's €10bn Global Covered Bond Programme, from September 2010 the Bank has received several requests to provide certificates that no event of default or potential event of default under the relevant programme has occurred during the period specified therein, and the related correspondence has in some instances included reference to the question of whether an event of default of the kind referred to above has occurred. On each occasion, the Bank has provided the required certificate within the required timeframe confirming that no such default has occurred.

With regard to litigation in connection with alleged breaches of covenant in the documentation governing certain subordinated loan notes, see the disclosure concerning legal claims referred to in note 58 to the financial statements.

Regulatory compliance risk

Regulatory compliance risk primarily arises from a failure or inability to comply fully with the laws, regulations, standards or codes applicable specifically to regulated entities in the financial services industry. The Bank is not in full compliance with all Irish regulatory requirements. While the Bank ensures that the relevant authorities are kept fully informed in this regard, non-compliance may result in the Group being subject to regulatory sanctions, material financial loss and/or loss of reputation.

Regulatory risk also includes tax compliance risk, which is the risk associated with changes in tax law or in the interpretation of tax law. It also includes the risk of changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risk effectively could lead to additional tax charges. It could also lead to financial penalties for failure to comply with required tax procedures or other aspects of tax law. The Group is subject to the application and interpretation of tax laws in all countries in which it operates. In relation to any tax risk, if the costs associated with the resolution of the matter are greater than anticipated, it could negatively impact the financial position of the Group.

Capital risk is the risk that the Group has insufficient capital resources to meet its minimum regulatory capital requirements.

Losses incurred by the Bank during the year to 31 December 2010 placed significant stress on the Bank's regulatory capital resources and resulted in the Minister for Finance, as the sole shareholder, providing €17.0bn of additional capital contributions during the year. Further losses, including those resulting from further NAMA transfers, could again lead to regulatory capital constraints in the future.

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

Market risk

Market risk is the risk of a potential adverse change in the Group's income or financial position arising from movements in interest rates, exchange rates or other market prices. Changes in interest rates and spreads may affect the interest rate margin realised between income on lending assets and borrowing costs.

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 to accurately predict changes in economic or market conditions and to anticipate the effects that such changes could have on the Group.

Borrowings from central banks and a large proportion of the Group's other funding balances are denominated in euro while the majority of the Group's lending assets are denominated in euro, sterling and US dollars. As a consequence, the Group has made extensive use of foreign currency derivatives to manage the currency profile of its balance sheet during the year. Continued access to market participants is required to enable the Group to continue with this risk management strategy.

The promissory note, which is a fixed rate instrument, has resulted in the Group having significant interest rate risk exposure. The Bank has hedged a total of €4.6bn of the nominal amount using interest rate swaps. A further €6.1bn of economic hedges exist in the form of the Group's capital and fixed rate debt issuance. However, significant fixed rate exposure remains, with limited capacity to hedge further amounts with market counterparties.

In current market circumstances it is envisaged that the Bank will have to continue to rely on support mechanisms provided by monetary and governmental authorities.

Valuation risk

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

Litigation and legal compliance risk

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

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

Due to the complexity of the anticipated restructuring of the Bank, there is a potential for unforeseen legal risks to arise.

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 December 2010.

Results
The Group loss attributable to the owner of the parent amounted to €17,651m (2009: €12,705m) as set out in the Consolidated income statement on page 32.

Review of activities
The principal activity of the Group is the provision of banking services in accordance with the Relationship Framework between the Bank and the Minister for Finance which was formally approved by the Board in June 2009. The Chairman's statement, the Group Chief Executive's review and the Business review on pages 3 to 15 report on developments during the year, recent events and likely future developments. The financial statements for the year ended 31 December 2010 are set out in detail on pages 32 to 174.

Dividends
No dividends were paid during the year. It is not proposed to pay a dividend in respect of the year ended 31 December 2010.

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

The promissory note provided for the issuance of adjustment instruments which could amend the original principal amount of the note. On 28 May and 23 August 2010, the Minister issued adjustment instruments increasing the principal amount of the 31 March promissory note to €18.88bn.

A revised promissory note was issued by the Minister in December 2010 in exchange for the initial promissory note and the two adjustment instruments. This revised promissory note included an additional €6.42bn principal amount, increasing total capital provided by the Minister for the year to €17.0bn. Total capital support over the last two reporting periods is €29.3bn.

Details of changes in capital during the year are included in notes 43 to 48 to the financial statements.

Accounting policies
The principal accounting policies, together with the basis of preparation of the financial statements, are set out in note 1 to the financial statements.

Directors and Secretary
The names of the Bank's Directors, together with a short biographical note on each, appear on page 16.

Dr. Noel Cawley, Aidan Eames and Gary Kennedy were appointed to the Board on 24 May 2010.

Donal O'Connor resigned as Chairman and as a Director on 14 June 2010 and was succeeded as Chairman by Alan Dukes on the same date.

On 5 July 2010 Natasha Mercer resigned as Group Secretary and was replaced by Dr. Max Barrett who was appointed on the same date.

The interests of the Directors and Secretary who held office at 31 December 2010 in the share capital of the Bank are shown in the Remuneration Committee's report on behalf of the Board, set out in note 54 to the financial statements.

Credit Institutions (Stabilisation) Act 2010
In the performance of their functions the Directors have a duty to have regard to the matters set out in section 4(f) of the Credit Institutions (Stabilisation) Act 2010. This duty is owed by the Directors to the Minister for Finance on behalf of the State and takes priority over any other duties of the Directors to the extent of any inconsistency.

Substantial shareholdings
On 21 January 2009, under the terms of the Anglo Irish Bank Corporation Act, 2009, all of the Bank's ordinary and preference share capital was transferred to the Minister for Finance. As at the date of this Report, all of the Bank's issued share capital is held by the Minister.

Foreign branches
The Bank has established branches, within the meaning of EU Council Directive 89/666/EEC, in Austria, Germany, Jersey and the United Kingdom.

Corporate governance
The Directors' Corporate governance statement appears on pages 25 to 29.

Principal risks and uncertainties
Information concerning the principal risks and uncertainties facing the Bank and the Group is set out in the Principal risks and uncertainties section on pages 19 to 22. The Group's financial risk management objectives and policies and its use of financial instruments are discussed in notes 21 and 51 to the financial statements.

Books of account
The Directors are responsible for ensuring that proper books of account, as outlined in Section 202 of the Companies Act, 1990, are kept by the Bank. To ensure compliance with these requirements the Directors have appointed professionally qualified accounting personnel with appropriate expertise and have provided adequate resources to the Finance function. The books of account of the Bank are maintained at the Bank's registered office at Stephen Court, 18/21 St. Stephen's Green, Dublin 2.

Auditors
The Auditors, Deloitte & Touche, Chartered Accountants, have expressed their willingness to continue in office in accordance with Section 160(2) of the Companies Act, 1963.

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

Secretary:
Dr. Max Barrett.

30 March 2011

Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the Auditors' report on pages 30 and 31, is made with a view to distinguishing for the Shareholder the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

Irish company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Bank and of the Group as at the end of the financial period and of the profit or loss of the Group for that period. With regard to the financial statements on pages 32 to 174, the Directors have determined that it is appropriate that they continue to be prepared on a going concern basis and consider that in their preparation:

- suitable accounting policies have been selected and applied consistently;
- judgements and estimates that are reasonable and prudent have been made; and
- the financial statements comply with applicable International Financial Reporting Standards ('IFRS').

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Bank and which enable them to ensure that the financial statements are prepared in accordance with IFRS, as adopted by the European Union, and comply with the Companies Acts, 1963 to 2009 and Article 4 of the IAS Regulation. They also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and of the Group, and to prevent and detect fraud and other irregularities.

The Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland require the Directors to include a fair review of the business as well as a description of the principal risks and uncertainties faced by the Bank and the Group.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that, to the best of their knowledge, they have complied with these requirements in preparing the financial statements, including preparation of these financial statements in accordance with IFRS, as adopted by the European Union, to give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2010 and of the loss of the Group for the year then ended. They also confirm that the management reports contained in the Annual Report and Accounts include a fair review of the development and performance of the business and the position of the Bank and the Group, together with a description of the principal risks and uncertainties that they face.

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

Secretary:
Dr. Max Barrett.

Corporate governance statement

The Board of Directors is accountable to the Shareholder for the overall performance of the Group. In doing so, it is responsible for:

- The effective, prudent and ethical oversight of the Bank;
- Setting the business strategy for the Bank, following consultation with the Shareholder; and
- Ensuring that risk and compliance are properly managed in the Bank.

The Board is cognisant of the responsibilities of the Board and its individual members under the Credit Institutions (Stabilisation) Act 2010.

The UK Corporate Governance Code (the 'Code'), as updated by the Financial Reporting Council in June 2010, sets out a model of best practice principles for good governance. Companies listed on the Irish Stock Exchange are required to report on their compliance with the provisions of the Code. Although the Bank's shares are no longer listed on the Irish and London Stock Exchanges, the Board continued to support the principles and provisions of the Code during 2010 as the predominant corporate governance code in issuance. Furthermore, the Board now welcomes and endorses the principles as set out in the Central Bank of Ireland's Corporate Governance Code for Credit Institutions and Insurance Undertakings ('the Central Bank Code') which became effective as and from 1 January 2011. Following the implementation of the Central Bank Code, the Board now notes that this is the primary corporate governance code to which the Bank will be subject from 2011 onwards.

The Board believes that the application of the principles in the Code assist the Group to comply with the ethical and other considerations implicit in the Code of Practice for the Governance of State Bodies (May 2009), as published by the Department of Finance.

The Bank is in compliance with the corporate governance and other obligations imposed by the Ethics in Public Office Act, 1995 and the Standards in Public Office Act, 2001.

This corporate governance statement describes how the Bank applied the principles of the Code throughout the year ended 31 December 2010. Except where otherwise stated, the Directors believe that the Group has complied with the provisions of the Code throughout the year.

Relationship with the Shareholder
In addition to the provisions of the Anglo Irish Bank Corporation Act, 2009, a Relationship Framework between the Minister and the Bank was formally approved by the Board in June 2009 and is currently under review. This provides the framework under which the relationship between the Minister and the Bank is governed. Under the Relationship Framework, certain key matters are reserved to the Minister, and in respect of which the Board may only engage on the instructions of, or with the prior consent of, the Minister.

There has been regular two way communication between the Shareholder and the Board during the financial year on a wide range of issues, including in particular strategic matters regarding the restructuring of the Bank within the overall re-organisation of the Irish financial system, with the Directors being kept informed of the Shareholder's views through regular reports to the Board by the Chairman and the Group Chief Executive and through meetings between the Board, or the Chairman, and the Minister.

Board of Directors and Membership
The Board of Directors recognises its responsibility for the leadership, direction and control of the Bank and the Group and its accountability to the Shareholder for financial performance. As at 31 December 2010, the Board comprised the Chairman, four Non-executive Directors and the Group Chief Executive. The Board sees it as a priority to further enhance its existing skills and experience through the recruitment of further independent Non-executive Directors, with a process having commenced in this regard.

The Non-executive Directors are independent of management, with varied backgrounds, skills and experience.

There have been a total of 39 board meetings during the financial year, 10 of which were scheduled. The purpose of the 29 unscheduled meetings was to address a variety of matters, including discussions in respect of the difficult market conditions that existed during the financial period and included funding issues, capital matters, legacy related matters and the Bank's Restructuring Plan.

All Directors are expected to attend each meeting and the attendance at board and committee meetings during 2010 is set out on page 29. Directors are provided with relevant papers in advance of each meeting. In addition, electronic copies of meeting papers and other relevant information are available to Directors.

If any Director is unable to attend a meeting, he will still receive the supporting papers and will have the opportunity to discuss any matters he wishes to raise with the Chairman to ensure his views are given due consideration. During the financial year, many of the unscheduled meetings were arranged at short notice and it was not always possible for all Directors to attend. The attendance rate at board and committee meetings for 2010 was 95%.

The Board keeps a formal schedule of matters specifically reserved for its decision. These are matters which are significant to the Bank because of their strategic, financial or reputational implications and include agreement of strategic objectives, annual plans and performance targets, monitoring and control of operations, review of the performance of Board Committees and approval of specific senior appointments. The schedule of matters reserved for the Board was reviewed, updated and approved by the Board in February 2011. In addition, a formal Board Charter was also approved and adopted in November 2010 which details the rules governing the operation of the board as well as outlining the responsibilities of the Board and the Directors. The Chairman, Group Chief Executive and Company Secretary are always available for the Directors to discuss any issues concerning Board meetings or other matters.

Maurice Keane was appointed as the Senior Independent Director on 25 November 2010.

The Bank has insurance in place to cover the Directors and Officers in respect of legal actions which may be brought against them in the course of their duties. In addition, the Bank has offered a third party indemnity to individuals who act as officers of Bank subsidiaries or other related entities in relation to certain losses and liabilities which they may incur in connection with their duties, powers or office.

Roles of Chairman and Group Chief Executive
Alan Dukes was appointed as Non-executive Chairman of the Bank with effect from 14 June 2010, following Donal O'Connor's retirement as Chairman and Director of the Bank.

The roles of Chairman and Group Chief Executive are distinct, separate and have been agreed by the Board and are documented within the Board Charter.

The Chairman's main responsibility is to lead and manage the Board, encourage critical discussions, challenge mind-sets and additionally, promote effective communication within the Board. In addition, he is responsible for promoting best practice corporate governance and effective communication with the Shareholder. The Chairman allocates a substantial amount of time to the Group and his role has priority over any other commitments.

The Board has delegated day to day responsibility for the Bank's operations, compliance and performance to the Group Chief Executive to ensure that the strategic direction agreed by the Board is followed. The Group Chief Executive in turn delegates the implementation of operational decisions to the Bank's executive management team. A formal charter governing the operation of the Bank's executive management team which details their duties and responsibilities was adopted during 2010.

Under the direction and management of the Group Chief Executive, the executive management team is responsible for the management of the group's human, financial and physical resources having responsibility for:

- Formulating and executing plans for the achievement of the Bank's objectives and strategy as are prescribed by the Board from time to time;
- Providing such assurance to the Board and Board Committees as the Board in the discharge of its responsibilities may seek regarding compliance by the Bank with all relevant laws and regulations, managing the risks associated with the business activities of the Bank and financing the Bank; and
- Acting in accordance with the interests of the Bank and the business connected with it, taking into consideration the interests of all the stakeholders of the Bank.

Independence of the Board
The Board has carried out its annual evaluation of the independence of each of its Non-executive Directors, taking into account the relevant provisions of the Code, namely whether the Directors are independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, the Directors' judgement. The Board is satisfied that each of the current Non-executive Directors fulfilled the independence provisions of the Code.

Appointments to the Board
The Board appoints new Directors on the recommendation of the Nomination and Governance Committee. Directors are appointed initially for three years and, subject to satisfactory performance, may be re-appointed for additional terms.

Following nationalisation, the Minister has additional powers to appoint Directors of the Bank under the Anglo Irish Bank Corporation Act, 2009.

Dr. Noel Cawley, Aidan Eames and Gary Kennedy were appointed to the Board on 24 May 2010 as independent Non-executive Directors, following consultation with the Minister for Finance.

Alan Dukes was appointed as Non-executive Chairman of the Board on 14 June 2010, following Donal O'Connor's retirement from the position. The Board assessed the requirements for the role having regard to the importance of maintaining continuity within the Board and, following consultation with the Minister, unanimously agreed that Alan Dukes was the best candidate. Accordingly, the role was not openly advertised and external search consultants were not used in the appointment process, nor in the Non-executive Director appointments during 2010. Alan Dukes was considered to meet the relevant independence criteria on appointment.

A copy of the standard terms and conditions of appointment of Non-executive Directors can be inspected during normal business hours by contacting the Company Secretary.

Re-election
Following an amendment to the Articles of Association by shareholder resolution, the requirement to retire by rotation has been dispensed with. Directors are appointed initially for three years and, subject to satisfactory performance, may be re-appointed for additional terms.

Induction
On joining the Board, new Directors receive an induction presentation, which explains their responsibilities as a Director and provides an overview of the Group and its business. Each Director receives an information pack which provides details of the disclosures that each is obliged to make to the Bank in order to comply with applicable laws, regulations and best practice corporate governance standards. The programme also includes briefing sessions with senior management from each of the main business units.

Performance review
A formal performance evaluation of the Board, its Committees, individual Directors and the Chairman is completed annually. The 2010 evaluations took the form of detailed questionnaires, which were completed by each Director, complemented by individual interviews as considered appropriate. The Board reviewed the results of the evaluations and has agreed action plans to progress improvements in 2011. All Directors were considered to have discharged their respective duties and responsibilities effectively and have committed an appropriate amount of time to fulfil their duties as a Board member.

With regard to individual performance, the Chairman met with each of the Directors to discuss their performance. The annual performance evaluation of the Chairman was led by the Senior Independent Director, in private consultation with each of the Directors and the results were shared with the Chairman and the Board as a whole.

The Directors can avail of the advice and services of the Company Secretary. The Directors and Committees of the Board can also seek independent professional advice if required, at the Bank's expense.

Board Committees
In accordance with the provisions of the Code, the Board has established four Committees operating under their own specific terms of reference. These terms of reference, setting out the roles and responsibilities of each Committee, are available on request through the Company Secretary and on the Bank's website.

The minutes of all meetings of Board Committees are circulated to all Directors for information with their board papers and are formally noted by the Board.

There were intervals during 2010 when the requisite number of members for the Committees was below the minimum requirement as set out in the Code. This issue was resolved in June 2010 following the appointment of the additional Directors.

A description of each of these Committees is given below.

Remuneration Committee
Members at 31 December 2010:
Dr. Noel Cawley (Chairman), Alan Dukes, Aidan Eames, Maurice Keane and Gary Kennedy

The Remuneration Committee is responsible for:

- Ensuring that the overall reward philosophy and remuneration governance framework of the Bank and its companies (the 'Group') are consistent with the achievement of the Group's strategic objectives, having regard also to promoting effective risk management within the Group;

- Considering and making recommendations to the Board in respect of remuneration policy for the Chairman, Directors, Group Chief Executive, Company Secretary, senior management and other individuals whose remuneration may exceed defined minimum thresholds across the Group; and

- Ensuring that remuneration policies and practices are operated in accordance with any applicable legal and regulatory requirements (including any requirements which the Central Bank of Ireland may issue).

The Committee's report on behalf of the Board on Directors' remuneration and interests is set out in note 54 to the financial statements.

Audit Committee
Members at 31 December 2010:
Gary Kennedy (Chairman), Dr. Noel Cawley, Aidan Eames and Maurice Keane.

The Audit Committee is responsible for:

- Reviewing the appropriateness and completeness of the system of internal control, reviewing the manner and framework in which management ensures and monitors the adequacy of the nature, extent and effectiveness of internal control systems, including accounting control systems and thereby maintains an effective overall system of internal control (in overseeing these matters, the Committee has regard to the activities of the Risk and Compliance Committee);

- Monitoring the integrity of the financial statements, including compliance with applicable legislative, regulatory and accounting standards;

- Monitoring the activities of Group Internal Audit, receiving regular reports regarding their activities and recommendations;

- Overseeing all matters relating to the relationship between the Group and the External Auditors; and

- Reviewing financial information which, to the knowledge of the Committee, shall be communicated to the public.

Within this remit, the Audit Committee reviews the Group's annual and interim financial statements, considers the significant financial reporting issues and judgements which they contain and makes recommendations to the Board concerning their approval and content.

The Committee is responsible for making recommendations to the Board regarding the appointment and removal of the External Auditors.

The Group Internal Auditor and External Auditors have unrestricted access to the Committee. The Committee meets privately with both the External Auditors and the Group Internal Auditor at least once a year without management present.

There is a process in place for the Audit Committee to review the nature and extent of all non-audit services provided by the External Auditor and, if appropriate, to approve such services and the related fees, with a formal non-audit services policy having been adopted.

The Audit Committee, on behalf of the Board, reviews annually the Group's speak-up policy which covers all staff and is in accordance with best practice for whistle-blowing arrangements. The policy encourages staff to raise concerns in a confidential manner, detailing the senior contacts within the group to whom such concerns may be addressed, including the Chairman of the Audit Committee and the Chairman of the Board. Confidential advice is available from Public Concern at Work, an independent, not-for-profit organisation, through a free phone number.

At the invitation of the Committee, there are a number of additional standing attendees at each meeting including the Group Chief Executive, Chief Financial Officer, Chief Risk Officer, the Head of Group Internal Audit and the External Auditors to aid the Committee's collective discussion on matters under its remit.

The Board has determined that Gary Kennedy, as a result of his accountancy background and career experience, has 'recent and relevant financial experience' as recommended by the Code. The Board is further of the view that the collective skills and financial experience of the Committee members enable them to discharge their responsibilities as a group.

Risk and Compliance Committee
Members at 31 December 2010:
Maurice Keane (Chairman), Dr. Noel Cawley, Aidan Eames and Gary Kennedy.

Mike Aynsley was appointed as a member of the Committee with effect from 25 January 2011.

The Risk and Compliance Committee is responsible for:

- Review and oversight of the risk and compliance profile of the Group within the context of the Board-determined risk appetite;
- Making recommendations to the Board concerning the Group's risk appetite, along with all material policies relating to the Group's risk profile and in respect of any particular risk or compliance management practices of concern to the Committee;
- Oversight of, and advice to the Board on, current and prospective risk exposures of the Group and future risk strategy;
- Monitoring risk elements of proposed strategic transactions involving acquisitions or disposals and accordingly advising the Board to ensure thorough due diligence is undertaken for such transactions and their impact on the risk profile assessed;
- Commissioning and reviewing reports on key risk issues;
- Review and oversight of management's plans for mitigation of the material risks faced by the various business units of the Group; and
- Oversight of the implementation and review of risk management and internal compliance and control systems throughout the Group.

The Group Risk Management function provides a risk report to each meeting of the Committee which addresses the material risk types to which the Group has exposure including credit, liquidity and market risk. The Group Compliance function also provides a report to the Committee's meetings which addresses all material compliance matters.

At the invitation of the Committee, there are a number of additional standing attendees at each meeting including the Chief Financial Officer, Chief Risk Officer and the Head of Group Internal Audit.

Nomination and Governance Committee
Members at 31 December 2010:
Aidan Eames (Chairman), Mike Aynsley, Dr. Noel Cawley, Alan Dukes, Maurice Keane and Gary Kennedy

The Nomination and Governance Committee is responsible for:

- Leading the process for appointments and renewals to the Board and Board sub-committees and reviewing senior management succession plans, making recommendations to the Board, as appropriate;
- Overseeing the process for appointments and renewals of the boards of subsidiary entities, including regulated subsidiaries; and
- Monitoring developments in corporate governance, assessing the implications for the Bank, overseeing adherence by the Bank and its group of companies to applicable governance requirements and advising the Board accordingly.

The Committee is responsible for monitoring developments in Corporate Governance, overseeing the Group's compliance to its corporate governance requirements and advising the Board accordingly.

Internal control
The Directors acknowledge their overall responsibility for the Group's system of internal control and for reviewing its effectiveness, including having an appropriate process in place for the preparation of Group Accounts. The Board has delegated to the executive management team the planning and implementation of the system of internal control within an appropriate established framework which applies across the Group. The system is designed to manage rather than eliminate the risk of failure to achieve the Group's business objectives and provides reasonable but not absolute assurance against material financial misstatement or loss. Such losses could arise due to the nature of the Group's business in undertaking a wide range of financial services that inherently involve varying degrees of risk.

The Group's system of internal control includes:

- An organisation structure with clearly defined authority limits and reporting mechanisms to senior levels of management and to the Board;
- Divisional managers who, in conjunction with the Group Risk Management and the Group Compliance functions, have responsibility for ensuring that risks are identified, assessed and managed throughout the Group. The Group Risk Management function together with the Group Asset and Liability Committee provides support to the Audit Committee and the Risk and Compliance Committee;
- An independent Group Finance function, under the leadership of the Chief Financial Officer, which has responsibility for managing the process in respect of the preparation of group accounts, having regard to applicable regulatory, legislative and financial accounting requirements;
- An annual budgeting and monthly financial reporting system for all Group business units which enables progress against plans to be monitored, trends to be evaluated and variances to be acted upon;
- A set of policies and guidelines relating to credit risk management, asset and liability management (including interest, currency, and liquidity and funding risk), compliance, operational risk management, capital expenditure, computer security and business continuity planning; and
- A Code of Conduct setting out the standards expected of all Directors, officers and employees of the Group.

Corporate governance statement continued

Procedures for monitoring the effectiveness of internal controls include internal audit reports which are considered by the Audit Committee, reporting by Group Risk Management and Group Compliance to the Risk and Compliance Committee meetings, an overview report provided by the Head of Internal Audit to each committee and an annual assessment by the Board of the effectiveness of internal controls.

The Group Internal Audit function reports to the Group Chief Executive and the Audit Committee. The system of internal control is reviewed by Group Internal Audit. Emphasis is focused on areas of greatest risk as identified by risk analysis. During the year, resources from Group Internal Audit, with the support of the Audit Committee, were diverted to carry out investigations and complete specific reviews both for the Board and in relation to a number of ongoing regulatory investigations. The internal control systems are subject to regulatory supervision by the Central Bank of Ireland and overseas regulators.

The Board confirms that there is a framework in place (which is described in note 51) for identifying, evaluating and managing the significant risks faced by the Group including compliance with relevant law and regulation. This framework is regularly reviewed and is in accordance with the Financial Reporting Council Revised Guidance on Internal Control ('the Turnbull guidance').

The Directors confirm that they have reviewed the effectiveness of the Group's system of internal controls for the year ended 31 December 2010 and for the period up to and including the date of approval of the financial statements. The review undertaken covers all aspects of control including financial, operational and compliance controls and risk management. Any significant weaknesses identified from this review will be addressed by the Directors.

Going concern
The Directors confirm that they are satisfied that the Bank and the Group have adequate resources to continue to operate for the foreseeable future and are financially sound, as described in note 1.2. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Annual General Meeting
Following the nationalisation of the Bank and the transfer of all shares to the Minister the provisions of the Code relating to shareholder relations and conduct at the Annual General Meeting are no longer applicable.

The Group uses its internet site (www.angloirishbank.com) to provide the full text of each annual and interim report for the five years previous to the year of this report. The website also provides detailed financial data, Bank information, information on credit ratings and other press releases

Attendance at scheduled and unscheduled meetings during the year ended 31 December 2010.

Name	Board - Scheduled		Board - Unscheduled		Audit		Remuneration		Risk and Compliance		Nomination and Governance	
	A*	B*	A*	B*	A*	B*	A*	B*	A*	B*	A*	B*
Donal O'Connor (1)	5	5	10	10	-	-	-	-	-	-	5	5
Alan Dukes (2)	10	10	29	28	7	7	8	8	5	5	7	7
Mike Aynsley	10	10	29	28	-	-	-	-	-	-	7	7
Maurice Keane	10	10	29	22	12	12	8	7	10	10	7	7
Dr. Noel Cawley (3)	6	5	21	19	5	5	3	3	5	5	2	2
Aidan Eames (4)	6	6	21	19	5	5	3	3	5	5	2	2
Gary Kennedy (5)	6	6	21	19	5	5	3	3	5	5	2	2

* Column A indicates the number of meetings held during the period the Director was a member of the Board or Committee and was eligible to attend. Column B indicates the number of meetings attended.

(1) Donal O'Connor retired as Non-executive Chairman and Director on 14 June 2010.

(2) Alan Dukes was appointed as Non-executive Chairman on 14 June 2010. He resigned as a member of the Audit and Risk and Compliance Committees on 14 June 2010, following his appointment as Chairman of the Board. He also resigned as Chairman of the Remuneration and Nomination and Governance Committees with effect from 11 June 2010.

(3) Dr. Noel Cawley was appointed to the Audit, Nomination and Governance, Remuneration and Risk & Compliance Committees on 11 June 2010. He was appointed Chairman of the Remuneration Committee on 11 June 2010.

(4) Aidan Eames was appointed to the Audit, Nomination and Governance, Remuneration and Risk & Compliance Committees on 11 June 2010. He was appointed Chairman of the Nomination and Governance Committee on 11 June 2010.

(5) Gary Kennedy was appointed to the Audit, Nomination and Governance, Remuneration and Risk & Compliance Committees on 11 June 2010. He was appointed Chairman of the Audit Committee on 11 June 2010.

Independent Auditors' report to the Shareholder of Anglo Irish Bank Corporation Limited

We have audited the financial statements of Anglo Irish Bank Corporation Limited ('the Bank') and its subsidiaries (together 'the Group') for the year ended 31 December 2010 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and the Bank statements of financial position, the Consolidated and the Bank statements of changes in equity, the Consolidated and the Bank statements of cash flows, and the related notes 1 to 59. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Bank's Shareholder, in accordance with Section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the Bank's Shareholder those matters we are required to state to the Shareholder in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's Shareholder, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the financial statements, including the preparation of the Group financial statements and the Bank financial statements, in accordance with applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union.

Our responsibility, as Independent Auditor, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements and the Bank financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009, the European Communities (Credit Institutions: Accounts) Regulations, 1992 as amended by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations, 2005, and Article 4 of the IAS Regulation.

We also report to you whether in our opinion: proper books of account have been kept by the Bank; whether, at the end of the reporting period, there exists a financial situation requiring the convening of an extraordinary general meeting of the Bank; and whether the information given in the Annual Report is consistent with the financial statements. In addition, we state whether we have obtained all information and explanations necessary for the purposes of our audit and whether the Bank's statement of financial position is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding Directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

We are required by law to report to you our opinion as to whether the description in the Corporate governance statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group and Bank financial statements is consistent with the Group financial statements. We review whether the statement regarding the system of internal financial control required by the Code of Practice for the Governance of State Bodies ('the Code') made in the Corporate governance statement reflects the Group's and Bank's compliance with paragraph 13.1 (iii) of the Code and is consistent with the information of which we are aware from our audit work on the financial statements and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's and Bank's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. The other information comprises only the Chairman's statement, the Group Chief Executive's review, the Business review, the Report of the Directors, and the Corporate governance statement. Our responsibilities do not extend to other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Bank's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the affairs of the Group as at 31 December 2010 and of its loss for the year then ended;

- the Group financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009, the European Communities (Credit Institutions: Accounts) Regulations, 1992 as amended by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations, 2005, and Article 4 of the IAS Regulation;

- the Bank's financial statements give a true and fair view, in accordance with IFRS, as adopted by the European Union as applied in accordance with the provisions of the Companies Acts, 1963 to 2009, of the state of the Bank's affairs as at 31 December 2010; and

- the Bank's financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009, and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

Emphasis of matter – Basis of preparation

Without qualifying our opinion we draw attention to the disclosures made by the Directors in note 1.2 regarding the appropriateness of the preparation of the financial statements on a going concern basis.

The Directors have assessed the potential impact that a range of risk factors and uncertainties could have on the orderly work out of the Bank over a ten year time horizon. Based on their assessment the Directors have formed the view that the Bank will continue in operational existence for the foreseeable future and therefore that it is appropriate to prepare the financial statements on a going concern basis.

Other matters

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the Bank. The Bank's statement of financial position is in agreement with the books of account.

In our opinion the information given in the Report of the Directors is consistent with the financial statements and the description given in the Corporate governance statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group and Bank financial statements is consistent with the Group financial statements.

The net assets of the Bank, as stated in the Bank's statement of financial position, are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2010 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Bank.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin

30 March 2011

Consolidated income statement

For the year ended 31 December 2010

	Note	Year ended 31 December 2010 €m	Restated* 15 months ended 31 December 2009 €m
Interest and similar income		**2,304**	4,634
Interest expense and similar charges		**(1,562)**	(3,109)
Net interest income	3	**742**	1,525
Fee and commission income	4	**47**	98
Fee and commission expense	4	**(58)**	(142)
Net trading expense	5	**(41)**	(427)
Financial assets designated at fair value	6	**(23)**	(53)
Gains on liability management exercises	7	**1,589**	1,758
Other operating (expense)/income	8	**(104)**	15
Other income		**1,410**	1,249
Total operating income		**2,152**	2,774
Administrative expenses	9	**(327)**	(351)
Depreciation		**(16)**	(22)
Amortisation of intangible assets - software	32	**(10)**	(13)
Total operating expenses		**(353)**	(386)
Operating profit before loss on disposal to NAMA and provisions		**1,799**	2,388
Loss on disposal of assets to NAMA	13	**(11,547)**	-
Provisions for impairment	14	**(7,767)**	(15,105)
Operating loss		**(17,515)**	(12,717)
Share of results of associate and joint ventures	30	**(104)**	(167)
Profit on disposal of businesses	15	**-**	49
Loss before taxation		**(17,619)**	(12,835)
Taxation	16	**(32)**	120
Loss for the period		**(17,651)**	(12,715)
Attributable to:			
Owner of the parent	17	**(17,651)**	(12,705)
Non-controlling interests	18	**-**	(10)
		(17,651)	(12,715)

* The prior period has been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on page 44.

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

Consolidated statement of comprehensive income

For the year ended 31 December 2010

	Note	Year ended 31 December 2010 €m	Restated* 15 months ended 31 December 2009 €m
Loss for the period		**(17,651)**	(12,715)
Other comprehensive income			
Net actuarial (losses)/gains in retirement benefit schemes, after tax	11	**(7)**	2
Net change in cash flow hedging reserve, after tax	46	**(53)**	119
Net change in available-for-sale reserve, after tax	46	**17**	356
Foreign exchange translation		**59**	(47)
Other comprehensive income for the period, after tax	48	**16**	430
Total comprehensive income for the period		**(17,635)**	(12,285)
Attributable to:			
Owners of the parent		**(17,635)**	(12,275)
Non-controlling interests		**-**	(10)
		(17,635)	(12,285)

* The prior period has been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on page 44.

Consolidated statement of financial position

As at 31 December 2010

	Note	31 December 2010 €m	31 December 2009 €m
Assets			
Cash and balances with central banks	19	**181**	302
Financial assets at fair value through profit or loss			
- held on own account	20	**13**	118
- held in respect of liabilities to customers under investment contracts	20	**237**	244
Derivative financial instruments	21	**1,936**	2,483
Loans and advances to banks	22	**3,525**	7,360
Assets classified as held for sale	23	**1,640**	25,892
Amount due from Shareholder	24	**-**	8,300
Available-for-sale financial assets	25	**2,219**	7,890
Promissory note	26	**25,704**	-
Government debt securities at amortised cost	27	**10,623**	-
Loans and advances to customers	28	**24,364**	30,852
Interests in joint ventures	30	**42**	142
Intangible assets - software	32	**16**	21
Investment property			
- held on own account	33	**217**	267
- held in respect of liabilities to customers under investment contracts	34	**1,193**	1,143
Property, plant and equipment	35	**19**	24
Current taxation		**91**	74
Retirement benefit assets	11	**1**	7
Deferred taxation	36	**46**	46
Other assets	37	**87**	29
Prepayments and accrued income		**29**	18
Total assets		**72,183**	85,212
Liabilities			
Deposits from banks	38	**46,566**	32,971
Customer accounts	39	**11,092**	27,214
Derivative financial instruments	21	**2,460**	2,669
Debt securities in issue	40	**6,912**	15,148
Liabilities to customers under investment contracts	41	**351**	383
Current taxation		**48**	2
Other liabilities	42	**575**	170
Accruals and deferred income		**135**	102
Subordinated liabilities and other capital instruments	43	**509**	2,383
Total liabilities		**68,648**	81,042
Share capital	44	**4,123**	4,123
Share premium		**1,156**	1,156
Capital reserve	45	**25,300**	8,300
Other reserves	46	**(129)**	(152)
Retained earnings		**(26,916)**	(9,258)
Shareholders' funds		**3,534**	4,169
Non-controlling interests	47	**1**	1
Total equity		**3,535**	4,170
Total equity and liabilities		**72,183**	85,212

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

Bank statement of financial position

As at 31 December 2010

	Note	31 December 2010 €m	31 December 2009 €m
Assets			
Cash and balances with central banks	19	**181**	302
Financial assets at fair value through profit or loss			
- held on own account	20	**5**	92
Derivative financial instruments	21	**2,177**	2,644
Loans and advances to banks	22	**5,989**	13,152
Assets classified as held for sale	23	**1,349**	21,828
Amount due from Shareholder	24	**-**	8,300
Available-for-sale financial assets	25	**2,168**	7,857
Promissory note	26	**25,704**	-
Government debt securities at amortised cost	27	**10,623**	-
Loans and advances to customers	28	**24,916**	35,263
Interests in joint ventures	30	**-**	-
Investments in Group undertakings	31	**4,186**	3,236
Intangible assets - software	32	**16**	21
Property, plant and equipment	35	**7**	12
Current taxation		**125**	123
Retirement benefit assets	11	**1**	7
Other assets	37	**68**	1
Prepayments and accrued income		**22**	13
Total assets		**77,537**	92,851
Liabilities			
Deposits from banks	38	**49,555**	39,136
Customer accounts	39	**13,456**	28,896
Derivative financial instruments	21	**3,003**	3,584
Debt securities in issue	40	**6,912**	15,143
Current taxation		**30**	-
Other liabilities	42	**532**	126
Accruals and deferred income		**126**	93
Subordinated liabilities and other capital instruments	43	**503**	2,109
Total liabilities		**74,117**	89,087
Share capital	44	**4,123**	4,123
Share premium		**1,156**	1,156
Capital reserve	45	**25,300**	8,300
Other reserves		**(111)**	(108)
Retained earnings		**(27,048)**	(9,707)
Total equity		**3,420**	3,764
Total equity and liabilities		**77,537**	92,851

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

Consolidated statement of changes in equity

For the year ended 31 December 2010

	Attributable to owner of the parent											
				Other reserves								
	Share capital €m	Share premium €m	Capital reserve €m	Non-distributable capital €m	Exchange translation €m	Cash flow hedging €m	Available-for-sale €m	Share-based payments €m	Retained earnings €m	Total €m	Non-controlling interests €m	Total equity €m
Year ended 31 December 2010												
Balance at 31 December 2009	4,123	1,156	8,300	1	(56)	110	(207)	-	(9,258)	4,169	1	4,170
Total comprehensive income												
Loss for the period	-	-	-	-	-	-	-	-	(17,651)	(17,651)	-	(17,651)
Other comprehensive income (net of tax):												
Net actuarial losses in retirement benefit schemes	-	-	-	-	-	-	-	-	(7)	(7)	-	(7)
Net change in cash flow hedging reserve	-	-	-	-	-	(53)	-	-	-	(53)	-	(53)
Net change in available-for-sale reserve	-	-	-	-	-	-	17	-	-	17	-	17
Foreign exchange translation	-	-	-	-	59	-	-	-	-	59	-	59
	-	-	-	-	59	(53)	17	-	(17,658)	(17,635)	-	(17,635)
Transactions with owners												
Capital contribution	-	-	17,000	-	-	-	-	-	-	17,000	-	17,000
	-	-	17,000	-	-	-	-	-	-	17,000	-	17,000
Balance at 31 December 2010	4,123	1,156	25,300	1	3	57	(190)	-	(26,916)	3,534	1	3,535

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

* The prior period has been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on page 44.

Bank statement of changes in equity

For the year ended 31 December 2010

				Other reserves						
	Share capital €m	Share premium €m	Capital reserve €m	Non-distributable capital €m	Exchange translation €m	Cash flow hedging €m	Available-for-sale €m	Share-based payments €m	Retained earnings €m	Total equity €m
<u>Year ended 31 December 2010</u>										
Balance at 31 December 2009	4,123	1,156	8,300	1	9	110	(228)	-	(9,707)	3,764
Total comprehensive income										
Loss for the period	-	-	-	-	-	-	-	-	(17,336)	(17,336)
Other comprehensive income (net of tax):										
Net actuarial losses in retirement benefit schemes	-	-	-	-	-	-	-	-	(7)	(7)
Net change in cash flow hedging reserve	-	-	-	-	-	(53)	-	-	-	(53)
Net change in available-for-sale reserve	-	-	-	-	-	-	36	-	-	36
Foreign exchange translation	-	-	-	-	14	-	-	-	-	14
	-	-	-	-	14	(53)	36	-	(17,343)	(17,346)
Transactions with owners										
Capital contribution	-	-	17,000	-	-	-	-	-	-	17,000
Other movements	-	-	-	-	-	-	-	-	2	2
	-	-	17,000	-	-	-	-	-	2	17,002
Balance at 31 December 2010	4,123	1,156	25,300	1	23	57	(192)	-	(27,048)	3,420

				Other reserves						
	Share capital €m	Share premium €m	Capital reserve €m	Non-distributable capital €m	Exchange translation €m	Cash flow hedging €m	Available-for-sale €m	Share-based payments €m	Retained earnings €m	Total equity €m
Restated*										
<u>**15 months ended 31 December 2009**</u>										
Balance at 30 September 2008	123	1,156	-	1	(8)	(9)	(571)	37	2,939	3,668
Total comprehensive income										
Loss for the period	-	-	-	-	-	-	-	-	(12,796)	(12,796)
Other comprehensive income (net of tax):										
Net actuarial gains in retirement benefit schemes	-	-	-	-	-	-	-	-	2	2
Net change in cash flow hedging reserve	-	-	-	-	-	119	-	-	-	119
Net change in available-for-sale reserve	-	-	-	-	-	-	343	-	-	343
Foreign exchange translation	-	-	-	-	17	-	-	-	-	17
	-	-	-	-	17	119	343	-	(12,794)	(12,315)
Transactions with owners										
Issue of share capital	4,000	-	-	-	-	-	-	-	-	4,000
Capital contribution	-	-	8,300	-	-	-	-	-	-	8,300
Share-based payments	-	-	-	-	-	-	-	28	-	28
Extinguishment of share options and awards	-	-	-	-	-	-	-	(61)	61	-
Other movements	-	-	-	-	-	-	-	(4)	87	83
	4,000	-	8,300	-	-	-	-	(37)	148	12,411
Balance at 31 December 2009	4,123	1,156	8,300	1	9	110	(228)	-	(9,707)	3,764

* The prior period has been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on page 44.

Statement of cash flows

For the year ended 31 December 2010

	Note	The Group Year ended 31 December 2010 €m	The Group Restated* 15 months ended 31 December 2009 €m	The Bank Year ended 31 December 2010 €m	The Bank Restated* 15 months ended 31 December 2009 €m
Cash flows from operating activities					
Loss before taxation		**(17,619)**	(12,835)	**(17,340)**	(12,890)
Provisions for impairment		**7,767**	15,105	**7,760**	14,010
Loss on disposal of assets to NAMA		**11,547**	-	**10,888**	-
Gains on liability management exercises		**(1,589)**	(1,758)	**(1,325)**	(383)
Interest earned on available-for-sale financial assets		**(104)**	(336)	**(104)**	(335)
Financing costs of subordinated liabilities and other capital instruments		**25**	131	**20**	102
Other non-cash items	50	**(698)**	75	**(775)**	(27)
		(671)	382	**(876)**	477
Changes in operating assets and liabilities					
Net increase in deposits from banks		**13,595**	12,001	**10,419**	14,610
Net decrease in customer accounts		**(16,122)**	(23,710)	**(15,440)**	(23,514)
Net decrease in debt securities in issue		**(8,522)**	(2,126)	**(8,517)**	(2,131)
Net decrease in loans and advances to customers (1)		**1,385**	964	**2,071**	6,834
Net decrease/(increase) in loans and advances to banks		**746**	(1,654)	**4,547**	(8,579)
Net (increase)/decrease in assets held in respect of liabilities to customers under investment contracts		**(43)**	878	**-**	-
Net decrease in investment contract liabilities		**(32)**	(808)	**-**	-
Net decrease in financial assets at fair value through profit or loss held on own account		**105**	127	**87**	106
Net movement in derivative financial instruments		**309**	1,004	**(142)**	1,104
Net increase in other assets		**(66)**	(2)	**(67)**	(1)
Net increase/(decrease) in other liabilities		**179**	(69)	**176**	(28)
Exchange movements		**(48)**	87	**(82)**	43
Net cash flows from operating activities before taxation		**(9,185)**	(12,926)	**(7,824)**	(11,079)
Tax (paid)/refunded		**(2)**	22	**-**	33
Net cash flows from operating activities		**(9,187)**	(12,904)	**(7,824)**	(11,046)
Cash flows from investing activities (note a)		**5,985**	375	**5,061**	(1,779)
Cash flows from financing activities (note b)		**(48)**	2,998	**(41)**	3,561
Net decrease in cash and cash equivalents		**(3,250)**	(9,531)	**(2,804)**	(9,264)
Opening cash and cash equivalents		**4,779**	14,535	**3,714**	13,041
Effect of exchange rate changes on cash and cash equivalents		**40**	(225)	**33**	(63)
Closing cash and cash equivalents	50	**1,569**	4,779	**943**	3,714

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

* The prior period has been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on page 44.

	The Group		The Bank	
	Year ended 31 December 2010 €m	Restated* 15 months ended 31 December 2009 €m	**Year ended 31 December 2010 €m**	Restated* 15 months ended 31 December 2009 €m
(a) Cash flows from investing activities				
Purchases of available-for-sale financial assets	**(756)**	(3,252)	**(752)**	(3,237)
Sales and maturities of available-for-sale financial assets	**6,571**	3,471	**6,571**	3,464
Interest received on available-for-sale financial assets net of associated hedges	**169**	338	**169**	337
Interest received on Government debt securities at amortised cost	**14**	-	**14**	-
Proceeds on disposals of businesses	**-**	141	**-**	-
Purchases of property, plant and equipment	**(1)**	(3)	**-**	(2)
Additions to intangible assets - software	**(5)**	(14)	**(5)**	(13)
Investments in joint venture interests	**(3)**	(37)	**-**	-
Proceeds on disposals of joint venture interests	**-**	5	**-**	-
Distributions received from joint venture interests	**2**	5	**-**	-
Purchases of investment property held on own account	**(13)**	(279)	**-**	-
Proceeds on disposals of investment property held on own account	**7**	-	**-**	-
Net increase in investments in Group undertakings	**-**	-	**(936)**	(2,328)
Net cash flows from investing activities	**5,985**	375	**5,061**	(1,779)
(b) Cash flows from financing activities				
Proceeds of equity share issues	**-**	4,000	**-**	4,000
Repurchase of subordinated liabilities and other capital instruments	**(23)**	(827)	**(16)**	(347)
Coupons paid on subordinated liabilities and other capital instruments	**(25)**	(175)	**(25)**	(92)
Net movements in own shares	**-**	(5)	**-**	-
Additions to non-controlling interests	**-**	10	**-**	-
Distributions paid to non-controlling interests	**-**	(5)	**-**	-
Net cash flows from financing activities	**(48)**	2,998	**(41)**	3,561

Notes to the financial statements

Index to the notes to the financial statements

1. General information and accounting policies

The principal accounting policies that the Group applied in preparing its financial statements for the period ended 31 December 2010 are set out below.

1.1 General information

Anglo Irish Bank Corporation Limited ('the Bank') and its subsidiaries (collectively, 'the Group') provide banking services in three core areas: business lending, treasury and private banking. These services are provided in accordance with a Relationship Framework between the Bank and the Minister for Finance which was formally approved by the Board in June 2009. It provides a framework under which the relationship between the Minister and the Bank shall be governed. Under the Relationship Framework, certain key matters are reserved for decision by the Minister. The Board will only engage in these matters on the instructions of, or with the prior consent of, the Minister. The Bank is a limited liability company incorporated and domiciled in Ireland. Its registered office is at Stephen Court, 18/21 St. Stephen's Green, Dublin 2, Ireland. Under the terms of the Anglo Irish Bank Corporation Act, 2009 which became law on 21 January 2009, the Bank was taken into public ownership. Until then, the Bank had a primary listing on the Irish Stock Exchange. On the same date the Bank was re-registered as a private limited company and its name was changed from Anglo Irish Bank Corporation plc to Anglo Irish Bank Corporation Limited.

On 9 February 2010, the Bank applied to be designated as a participating institution in NAMA. This application was accepted by the Minister for Finance on 12 February 2010. From that date, the Bank has been subject to NAMA's statutory powers.

Losses incurred by the Bank in 2010 have placed significant stress on the Bank's regulatory capital resources and resulted in the Minister for Finance providing €17.0bn of additional capital contributions during the year. The additional capital contributions bring the total amount contributed by the Shareholder to date to €29.3bn.

The speed of deterioration in the economy and the banking sector in 2010, has culminated with the Government, International Monetary Fund ('IMF') and the EC agreeing a substantial assistance package for the country. The Credit Institutions (Stabilisation) Act 2010, enacted on 21 December 2010, provides the legislative basis for the reorganisation and restructuring of the banking system agreed in the joint EU/IMF Programme of Financial Support for Ireland. It will facilitate the planned restructuring of the Bank as set out in the programme agreement and consistent with EU State Aid requirements.

Subsequent to the submission of previous restructuring plans to the EC in May and September 2010, the Bank prepared and submitted its most recent restructuring plan to the EC at the end of January 2011. It was specified that this plan should provide for an amalgamation of the Bank with Irish Nationwide Building Society.

On 8 February 2011 the Bank received a Direction Order from the High Court, granted under the Credit Institutions (Stabilisation) Act 2010, which facilitates the Minister's plan to restructure the Bank, and which is in accordance with the provisions of the EU/IMF Programme of Financial Support for Ireland. This Direction Order confers important protections from business cessation default risk.

On 24 February 2011, under powers granted by the Credit Institutions (Stabilisation) Act 2010, the Minister for Finance, in consultation with the Central Bank of Ireland, announced the immediate transfer of the majority of the Irish and UK deposits and certain NAMA bonds (with the exception of certain excluded liabilities) from the Bank to Allied Irish Banks, p.l.c. The Transfer Order was made by the Irish High Court and facilitates the Minister's plan to restructure the Bank.

1.2 Basis of preparation

Both the consolidated and parent Bank's financial statements comply with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and applicable at 31 December 2010. The financial statements also comply with the requirements of relevant Irish legislation including the Companies Acts, 1963 to 2009, the Asset Covered Securities Acts, 2001 and 2007 and the European Communities (Credit Institutions: Accounts) Regulations, 1992 as amended by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations, 2005.

In the prior period the Group changed its reporting period end from 30 September to 31 December which is in line with the financial reporting periods of other commercial State bodies. Accordingly, the consolidated and parent Bank financial statements and the related notes for the current year are not directly comparable to those disclosed for the 15 months ended 31 December 2009.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities to the extent required or permitted under accounting standards as set out in the relevant accounting policies. They are presented in euro, rounded to the nearest million.

The Bank's restructuring plan was submitted to the EC on 31 January 2011 and envisages the orderly work out of the Bank over a ten year time horizon. Taking into account the context, the Directors have determined, following an assessment, that it is reasonable to conclude that the Bank will continue in operational existence for the foreseeable future and therefore that it is appropriate to prepare the financial statements on a going concern basis.

In making the going concern assessment the Directors considered the impact of the following principal risk factors and uncertainties:

- the Group's ability to continue to access liquidity and funding;
- political factors;
- the approval of the restructuring plan which was submitted to the EC on 31 January 2011;
- the impact on credit risk of general economic conditions;
- the availability of regulatory capital;
- the impact of regulatory change;
- litigation and events of default risk; and
- operational risk.

1. General information and accounting policies continued

1.2 Basis of preparation continued
Taking into account the risks and uncertainties listed above the validity of the Directors' assessment is primarily dependent on the following key judgements:

a) that the Group will continue to have access to sufficient liquidity and funding facilities from a combination of the ECB and the Central Bank of Ireland and, if required, an alternative appropriate source, this in the realisation that a lack of funding would necessitate an accelerated disposal of assets creating significant further losses which the authorities have repeatedly said they want to avoid; and
b) that subject to final agreement with the EC and the External Authorities (IMF/EU/ECB) the Group will proceed with the restructuring of the Bank as outlined in the plan submitted by the Authorities to the EC on 31 January 2011 which envisages an orderly work out of the Bank's loan book over a period of years; and
c) that the Bank will continue to function as a licensed bank and that the shareholder will continue to provide capital support if required in order for the Bank to continue to meet its regulatory capital requirements.

Should the key judgements on which the directors have based their decision to prepare the financial statements on a going concern basis prove to be mistaken it may lead to a requirement to make significant adjustments to the carrying value of certain assets and to make provisions for the additional costs of an orderly work out of the Bank over a much shorter period than is currently envisaged.

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Irish company law and IFRS require the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. A description of the significant accounting estimates and judgements is set out in note 1.33 on pages 54 to 56.

1.3 Adoption of new accounting standards
The following standards and amendments to standards, which apply to the Group, have been adopted during the year:

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

Under the amendment, in the event of a cancellation the Group recognises immediately the amount of the expense that would have otherwise been recognised over the remainder of the vesting period. As all rights outstanding under the various share-based payment schemes were extinguished following the Bank's nationalisation in January 2009, the adoption of the amendment has had no impact on the Group's financial statements for the current year. However, the amendment is applied retrospectively and has resulted in a restatement of the comparative figures. The comparative income statement for the fifteen months ended 31 December has been adjusted to increase administrative expenses, and therefore the loss before taxation, by €6m. The adoption of the amendment has not impacted the statement of financial position at 31 December 2009 or 1 October 2008.

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

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

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

1.4 Basis of consolidation
The consolidated financial statements include the financial statements of Anglo Irish Bank Corporation Limited and all of its subsidiary undertakings (including special purpose entities) prepared to the end of the financial year. An entity is a subsidiary where the Group has the power, directly or indirectly, to control the financial and operating policies of the entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Group controls the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group until the date that control ceases. The purchase method of accounting is used by the Group to account for the acquisition of subsidiary undertakings. Intercompany balances and any unrealised gains and losses, or income and expenses, arising on transactions between Group entities are eliminated on consolidation.

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Bank and are presented in the consolidated income statement and statement of financial position separately to amounts attributable to owners of the parent.

The accounting policies have been consistently applied by Group entities.

1.5 Interest income and expense recognition
Interest income and expense is recognised in profit or loss for all interest-bearing financial instruments held on own account using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments and receipts throughout the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

The calculation includes all fees, transaction costs and other premiums and discounts that are an integral part of the effective interest rate on the transaction.

Once an impairment loss has been made on an individual asset, interest income is recognised on the unimpaired portion of that asset using the rate of interest at which its estimated future cash flows were discounted in measuring impairment.

1.6 Fee and commission income
Fees and commissions which are not an integral part of the effective interest rate are generally recognised on an accruals basis over the period in which the service has been provided.

Asset management, advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. The same principle is applied to the recognition of income from wealth management, financial planning, trustee and custody services that are continuously provided over an extended period of time.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan once drawn. Commitment fees in relation to facilities where drawdown is not probable are recognised over the term of the commitment.

Fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the acquisition of property assets, are recognised upon completion of the underlying transaction. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained either no part of the loan for itself or retained a part of the loan at the same effective interest rate as the other participants.

1.7 Fair value of financial instruments
The Group recognises trading securities, other financial assets and liabilities designated at fair value through profit or loss, derivatives and available-for-sale financial assets at fair value in the statement of financial position.

The fair values of financial assets quoted in active markets are based on current bid prices. For unquoted financial assets or where the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of prices obtained from independent third party pricing service providers, recent arm's length transactions, reference to other similar instruments, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Private equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured using valuation techniques are measured at cost.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which primarily uses observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Group recognising a profit in initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price.

Where non-observable market data is used in valuations, any resulting difference between the transaction price and the valuation is deferred. The deferred day one profit or loss is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement, depending on the nature of the instrument and availability of market observable inputs.

An analysis of the fair values of financial instruments and further details on their measurement is provided in note 52.

1.8 Financial assets
Financial assets are classified into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of financial assets at initial recognition.

Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

1. General information and accounting policies continued

1.8 Financial assets continued
Financial assets at fair value through profit or loss continued
A financial asset may be designated at fair value through profit or loss in the following circumstances:

a) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising gains and losses arising on them on different bases; or
b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
c) a financial instrument contains one or more embedded derivatives that significantly modify the cash flows arising from the instrument and would otherwise need to be accounted for separately.

The principal categories of financial assets designated at fair value through profit or loss are (a) policyholders' assets underpinning investment contracts issued by the Group's assurance company - fair value designation significantly reduces the measurement inconsistency that would arise if these assets were classified as available-for-sale; and (b) certain investment securities containing embedded derivatives that are not closely related to the host contracts.

Interest on financial assets at fair value through profit or loss held on own account is included in net interest income. Other gains and losses arising from changes in fair value are included directly in the income statement within financial assets designated at fair value.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available-for-sale. They arise when the Group provides money to a customer with no intention of trading the receivable. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs, and are subsequently carried on an amortised cost basis.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale financial assets.

Available-for-sale financial assets
Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, asset prices or other factors.

Purchases of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised on a trade date basis, being the date on which the Group commits to purchase the asset. Loans and receivables are recognised when funds are advanced to the borrowers. Financial assets are initially recognised at fair value plus directly attributable transaction costs, with the exception of financial assets carried at fair value through profit or loss whose transaction costs are taken directly to the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest rate method.

Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss held on own account are included within fair value movements in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised as a separate component of shareholders' equity until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is transferred to the income statement. Interest on both financial assets at fair value through profit or loss held on own account and available-for-sale financial assets is reported in interest and similar income.

Interest is calculated using the effective interest rate method and is recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

The Bank accounts for investments in subsidiary undertakings at cost less provisions for impairment.

1.9 Financial liabilities
Financial liabilities other than those at fair value through profit or loss are initially recognised at fair value, being their issue proceeds net of transaction costs incurred. Transaction costs on liabilities at fair value are expensed to the income statement. All liabilities, other than those designated at fair value through profit or loss, are subsequently carried at amortised cost. For financial liabilities measured at amortised cost any difference between initial fair value and redemption value is recognised in profit and loss using the effective interest rate method.

A liability upon initial recognition may be designated at fair value through profit or loss when:

a) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
c) a financial instrument contains one or more embedded derivatives that significantly modify the cash flows arising from the instrument and would otherwise need to be accounted for separately.

The principal categories of financial liabilities designated at fair value through profit or loss are (a) investment contracts issued by the Group's assurance company: fair value designation significantly reduces the measurement inconsistency that would arise if these liabilities were measured at amortised cost; and (b) structured liabilities issued by the Group: designation significantly reduces the measurement inconsistency between these liabilities and the related derivatives carried at fair value.

Net gains and losses on financial liabilities designated at fair value through profit or loss are recognised in net trading income. Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with financial liabilities designated at fair value through profit or loss are included in net trading income.

The classification of instruments as a financial liability or an equity instrument is dependent upon the substance of the contractual arrangement. Instruments which carry a contractual obligation to deliver cash or another financial asset to another entity are classified as financial liabilities.

Preference shares and other subordinated capital instruments issued are classified as financial liabilities if coupon payments are not discretionary. Distributions on these instruments are recognised in profit or loss as interest expense using the effective interest rate method.

1.10 Financial guarantees
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because the guaranteed party fails to meet a contractual obligation or to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities and to other parties in connection with the performance of customers under obligations related to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties and taxes.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the end of the reporting period.

Where the parent Bank enters into financial guarantee contracts to guarantee the indebtedness of other Group companies, the parent Bank considers these contracts to be insurance arrangements and accounts for them as such. The parent Bank treats these guarantee contracts as contingent liabilities until such time as it becomes probable that it will be required to make a payment under these guarantees.

1.11 Impairment of financial assets
It is Group policy to make provisions for impairment of financial assets to reflect the losses inherent in those assets at the end of the reporting period.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or a portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and that loss event (or events) has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the financial asset, or portfolio of financial assets, and can be reliably measured.

Objective evidence that a financial asset, or a portfolio of financial assets, is potentially impaired includes observable data that comes to the attention of the Group about the following loss events:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty, that the Group would not otherwise consider;
d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified within the individual financial assets in the portfolio, including:
    - adverse changes in the payment status of borrowers in the portfolio; or
    - national or local economic conditions that correlate with defaults on the assets in the portfolio.

1. General information and accounting policies continued

1.11 Impairment of financial assets continued
The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes that asset in a group of financial assets with similar credit risk characteristics and includes these performing assets under the collective incurred but not reported ('IBNR') assessment. An IBNR impairment provision represents an interim step pending the identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included under the collective assessment of impairment.

For loans and receivables and held-to-maturity investments, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The amount of the loss is recognised using an allowance account and is included in the income statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

When a borrower fails to make a contractually due payment of interest or principal but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collections of amounts owed to the Group, a loan is classified as past due but not impaired. In this instance the entire exposure is reported as past due but not impaired, rather than just the amount in arrears.

Renegotiated loans are those loans and receivables outstanding at the end of the reporting period whose terms have been renegotiated during the financial period, resulting in an upgrade from impaired to performing status. This is based on subsequent good performance and/or an improvement in the profile of the borrower.

When a loan is deemed to be uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

In the case of equity instruments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the instrument below its cost is considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity shares are not reversed through the income statement. All increases in the fair value of equity shares after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale financial assets, impairment is assessed based on the same criteria as for all other financial assets. Impairment charges are made where there is objective evidence to suggest that the recovery value of the debt instrument will be permanently lower than its cost. A significant or prolonged decline in the fair value of such an instrument below its cost is considered in determining whether an impairment loss has been incurred. Other factors for asset backed securities ('ABS') include evidence of deterioration in the quantum or quality of the collateral pools underlying the investments and the non-payment or deferral of interest. Reversals of impairments of debt securities are recognised in profit or loss if the increase in fair value can be objectively related to an event occurring after the impairment loss was recognised.

1.12 Derivative financial instruments and hedge accounting
Derivatives
Derivative instruments, including swaps, futures, forward foreign exchange contracts, forward rate agreements and options, are used for trading and for hedging purposes.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets and where these are not available from valuation techniques including discounted cash flow and option pricing models. Fair values are adjusted for counterparty credit risk. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Derivatives are classified as held for trading unless they are designated as hedges.

Hedge accounting
The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either fair value hedges (where the Group hedges changes in the fair value of recognised assets or liabilities or firm commitments), cash flow hedges (where the Group hedges the exposure to variability of cash flows attributable to recognised assets or liabilities or highly probable forecasted transactions) or hedges of a net investment in a foreign currency operation.

The Group documents, at the inception of each hedging transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge accounting
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying amount of the hedged item is, for items carried at amortised cost, amortised to profit or loss over the period to maturity of the previously designated hedge relationship using the effective interest rate method. For available-for-sale financial assets the fair value hedging adjustment remains in equity until the hedged item affects profit or loss. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in profit or loss.

Cash flow hedge accounting
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are initially recognised directly in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in equity are recycled to the income statement in the same periods as the hedged items affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued. Any cumulative gain or loss existing in equity at that time remains in equity and is recognised in profit or loss when the forecast transaction arises. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement. Interest income and expense on economic hedges that no longer meet the criteria for hedge accounting are recognised in net interest income.

Hedges of net investments
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in equity; the gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Gains and losses accumulated in equity are included in the income statement on the disposal or partial disposal of the foreign operation. Hedges of net investments may include non-derivative liabilities.

Derivatives that do not qualify for hedge accounting
Certain derivative instruments entered into as economic hedges may not qualify for hedge accounting. These derivatives are classified as held for trading. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

Embedded derivatives
Certain financial instruments contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. When the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative. Embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in net trading income.

1.13 Collateral and netting
Collateral
The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future liabilities. The collateral is, in general, not recorded in the Group's statement of financial position.

The Group also pays and receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing or derivative contracts, in order to reduce credit risk. Collateral received in the form of securities is not recorded in the statement of financial position. Collateral paid or received in the form of cash is recognised in the statement of financial position with a corresponding asset or liability. These items are typically assigned to loans and advances to banks and deposits from banks accordingly. Any interest receivable or payable arising is recorded as interest expense or interest income respectively.

Netting
The Group enters into master netting agreements with counterparties whenever possible and, when appropriate, obtains collateral. Master netting agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.14 Investment contracts
Contracts issued by the life assurance business are unit-linked and do not contain any significant insurance risk. These contracts are all classified as investment contracts.

Financial assets and investment property held in respect of linked liabilities to customers and related liabilities to customers under investments contracts are stated at fair value and are separately disclosed in the Group statement of financial position or in the notes thereto.

1. General information and accounting policies continued

1.14 Investment contracts continued
Premiums received and claims paid are accounted for directly in the statement of financial position as adjustments to the investment contract liability. Investment income and changes in fair value arising from the investment contract assets and the corresponding movement in investment contract liabilities are included on a net basis in other operating income. Revenue on investment management services provided to holders of investment contracts is recognised as the services are performed.

1.15 Derecognition
A financial asset is derecognised when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either transfers the contractual rights to receive the asset's cash flows or retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party.

After a transfer, the Group assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains in the statement of financial position. If substantially all the risks and rewards have been transferred, the asset is derecognised.

If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Group has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

A financial liability is removed from the statement of financial position when the obligation is discharged, cancelled or expires.

1.16 Property, plant and equipment
Property, plant and equipment is held for use in the business and is stated at cost less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditure are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the asset. Property, plant and equipment are depreciated on a straight-line basis to their residual values over their estimated useful economic lives as follows:

Freehold buildings	2% per annum
Fixtures and fittings	12.5% to 25% per annum
Motor vehicles	20% per annum
Computer equipment	25% per annum

Leasehold improvements are depreciated on a straight-line basis over the shorter of twenty years or the period of the lease or the period to the first break clause date in the lease. Freehold land is not depreciated.

The useful lives and residual values of property, plant and equipment are reviewed and adjusted, if appropriate, at the end of each reporting period. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If impaired, an asset's carrying amount is written down immediately to its estimated recoverable amount which is the higher of its fair value less costs to sell or its value in use. Gains and losses arising on the disposal of property, plant and equipment are included in the income statement.

1.17 Trading properties
Trading properties are held for resale and are stated at the lower of cost and net realisable value.

1.18 Intangible assets
Goodwill
The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the transaction, plus costs directly attributable to the acquisition. Identifiable assets acquired are fair valued at the acquisition date. The excess of the Group's cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Goodwill is tested annually for impairment or more frequently when there are indications that impairment may have occurred. Goodwill is allocated to cash-generating units for the purposes of impairment testing. When the recoverable amount of a cash-generating unit is less than its carrying amount, an impairment loss is required. The recoverable amount of a cash-generating unit is the higher of its fair value less costs to sell and its value in use. Goodwill is carried at cost less accumulated impairment losses.

In accordance with IFRS 1, goodwill written off directly to reserves or amortised to the income statement prior to 1 October 2004 under Irish Generally Accepted Accounting Principles has not been reinstated.

Computer software
Computer software is stated at cost less accumulated amortisation and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised on a straight-line basis over its expected useful life which is normally four years.

1.19 Investment property
Investment property comprises freehold and leasehold properties that are held to earn rentals or for capital appreciation or both. This may include real estate collateral repossessed by the Bank in foreclosure proceedings.

Investment property - held on own account
Investment property held on own account is included in the statement of financial position at cost less accumulated depreciation and provisions for impairment losses, if any. Freehold buildings are depreciated on a straight-line basis over fifty years. Fixtures and fittings are depreciated on a straight-line basis to their residual values over their estimated useful economic lives. Leasehold investment properties are depreciated on a straight-line basis over the remaining term of the lease up to a maximum of fifty years. Rental income and the net amount of other operating income and expenses is recognised within other operating (expense)/income in the income statement.

Investment property - held in respect of liabilities to customers under investment contracts
Investment property held in respect of liabilities to customers under investment contracts is included in the statement of financial position at fair value. Fair values are based on valuations by independent registered valuers using, where relevant, accepted Royal Institution of Chartered Surveyors guidelines or equivalent local guidelines appropriate to the location of the property. Fair values are reviewed and agreed by management.

1.20 Employee benefits
Pension obligations
The Group operates various pension schemes including both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service and basic pay. The Group’s defined benefit plans have been closed to new members since January 1994. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a fund and has no legal or constructive obligations to pay any further contributions.

The asset or liability recognised in the statement of financial position in respect of each defined benefit pension plan is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting period. Current bid prices are used to measure the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Plans in surplus are shown as assets and plans in deficit, together with unfunded plans, are shown as liabilities. The recognised asset, where applicable, is limited to the present value of any future refunds due from or reductions in future contributions payable to plans that are in surplus.

The cost of providing defined benefit plans to employees comprising the current service cost, past service cost, the expected return on plan assets and the change in the present value of plan liabilities arising from the passage of time is charged to the income statement within employee expenses. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited directly to reserves through the statement of comprehensive income.

For defined contribution plans, once the contributions have been paid the Group has no further obligation. The contributions are recognised as an employee benefit expense when they are due.

Termination Payments
Termination payments are recognised as an expense when the Group is demonstrably committed to a formal plan to terminate employment before the normal retirement date. A provision is made for the anticipated cost of restructuring, including redundancy costs, when an obligation exists. An obligation exists when the Group has a detailed formal plan for restructuring and has raised valid expectations in those affected by the restructuring by starting to implement the plan or has announced its main features.

Share-based payments to employees
The Group used a number of share-based payment schemes to incentivise its employees. Following the signing into Irish law of the Anglo Irish Bank Corporation Act, 2009 all rights granted under the various share-based incentive plans were extinguished and any shares held in trust under these plans were transferred to the Minister for Finance. The fair value of shares or share options granted in exchange for employee services received is recognised as an expense over the period that the employees become unconditionally entitled ('the vesting period') to the shares or share options. The total amount expensed over the vesting period is determined by reference to the fair value of the shares or share options on the date of grant. The fair value of share options granted is calculated using a binomial lattice model which takes into account any market conditions upon which vesting is conditional, the exercise price of the option, the share price at the date of grant of the option, the risk-free interest rate, the expected dividend yield, the expected volatility of the share price over the expected life of the option and other relevant factors.

Non-market vesting conditions are taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services so that ultimately the amount recognised in profit or loss reflects the number of vested shares or share options. Where vesting conditions are related to market conditions, the charge for the services received is recognised regardless of whether or not the market-related vesting conditions are met, provided that the non-market vesting conditions are met.

The expense related to equity-settled share-based payments is credited to the share-based payment reserve in equity. Where a share-based payment arrangement gives rise to the issue of new shares, the proceeds of issue are credited to the share capital (with par value) and share premium accounts and there is also a transfer between the share-based payment reserve and retained earnings reflecting the accumulated cost of the share-based payment recognised in profit or loss.

1. General information and accounting policies continued

1.20 Employee benefits continued

Share-based payments to employees continued

Where shares are purchased by employee share trusts to satisfy share-based payment awards they are treated as treasury shares and the cost of these shares is deducted directly from revenue reserves. Any cash consideration received on the subsequent vesting of these shares is credited directly to revenue reserves and there is also a transfer between the share-based payment reserve and retained earnings reflecting the accumulated cost of the share-based payment recognised in profit or loss. The fair value of share options granted on or before 7 November 2002 has not been expensed to the income statement.

During the year the Group adopted the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations' (note 1.3).

1.21 Assets classified as held for sale

Loans which are due to be transferred from the Group to NAMA are classified as held for sale. These assets meet the definition of a disposal group under IFRS 5 as their carrying amount is expected to be recovered principally through a sale transaction and the sale is highly probable within one year. These loans continue to be carried at amortised cost less provisions for impairment. Derivatives associated with loans classified as held for sale continue to be carried at fair value. See note 23.

Other assets are classified as held for sale if they are primarily acquired for the purpose of selling in the near term and where a sale is highly probable and is expected to occur within one year. These assets are stated at the lower of their carrying amount and fair value less costs to sell. Gains and losses arising from changes in fair value are recognised in profit or loss.

1.22 Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in euro, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency which is the currency of the primary economic environment in which the entity operates. Items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign operations

The results and financial position of all Group entities that have a non-euro functional currency are translated into euro as follows:

a) assets and liabilities and goodwill arising on acquisition of foreign operations are translated at the closing rate at the end of the reporting period;
b) income and expenses are translated into euro at the average rates of exchange during the period where these are a reasonable approximation of the exchange rates at the dates of these transactions; and
c) all resulting exchange differences are included as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of funding designated as hedges of such investments are included as a separate component of equity. When a foreign entity is sold, the cumulative exchange differences deferred as a separate component of equity are recognised in profit or loss as part of the gain or loss on disposal.

1.23 Provisions

Provisions are recognised in respect of present legal or constructive obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

1.24 Taxation (current and deferred)

Current tax is the expected tax payable (shown as a liability) or the expected tax receivable (shown as an asset) on the taxable income for the period adjusted for changes to previous years and is calculated based on the applicable tax law in each jurisdiction in which the Group operates. Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities for taxation purposes and their carrying amounts in the financial statements. Current and deferred taxes are determined using tax rates based on legislation enacted or substantively enacted at the end of the reporting period and expected to apply when the related tax asset is realised or the related tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which temporary differences will be utilised. Deferred tax is provided on temporary differences arising from investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. Deferred tax is not provided on goodwill.

Current and deferred taxes are recognised in profit or loss in the period in which the profits or losses arise except to the extent that they relate to items recognised directly in equity, in which case the taxes are also recognised in equity.

Deferred and current tax assets and liabilities are only offset when they arise in the same reporting group for tax purposes and where there is both the legal right and intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.25 Leases
Group as lessor
Leasing and instalment credit agreements with customers are classified as finance leases if the agreements transfer substantially all the risks and rewards of ownership of an asset, with or without ultimate legal title. An asset classified as a finance lease is recorded within loans and advances to customers as a receivable based on the present value of the lease payments, discounted at the rate of interest implicit in the lease, less any provisions for bad and doubtful rentals. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership. Where leased assets are included within investment property held on own account in the Group's statement of financial position, depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Rental income from investment property held on own account and related lease incentives granted are recognised on a straight-line basis over the non-cancellable term of the lease. Investment contract accounting applies where leased assets are included within investment property held in respect of linked liabilities to customers.

Group as lessee
Operating lease rentals payable and related lease incentives receivable are recognised in profit or loss on a straight-line basis over the non-cancellable term of the lease.

1.26 Interests in joint ventures and associates
Joint ventures are contractual arrangements whereby two or more parties undertake an economic activity that is subject to joint control.

An associate is an entity in which the Group has significant influence, but not control, holding between 20% and 50% of the voting rights. The determination of significant influence includes a consideration of the Group's ability to participate in the financial and operating policies of the entity.

The Group's interests in joint ventures and associates are recognised using the equity method of accounting and are initially recognised at cost, with the exception of interests in joint ventures or associates held under investment contracts which are designated at fair value through profit or loss. Under the equity method, the Group's share of the post-acquisition profits or losses after taxation of joint ventures and associates is recognised in profit or loss and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Where the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture. Unrealised losses are also eliminated to the extent of the Group's interest in the associate or joint venture unless they provide evidence of impairment of the Group's interest in the associate or joint venture.

The calculation of the share of the results of joint ventures and associates is adjusted where necessary to ensure consistency with the Group's accounting policies.

1.27 Venture capital and other investments
Equity shares and similar instruments held on own account as part of a venture capital portfolio are carried at fair value with gains and losses taken to net trading income as they arise.

All other equity shares and similar instruments held on own account are classified as available-for-sale. They are held in the statement of financial position at fair value with unrealised gains or losses being recognised directly through reserves except for impairment losses, which are recognised immediately through profit or loss. Income on these equity instruments is credited to other operating income.

1.28 Sale and repurchase agreements
Debt securities sold subject to a commitment to repurchase them are retained in the statement of financial position when substantially all the risks and rewards of ownership remain with the Group. The liability to the counterparty is included separately in the statement of financial position in deposits from banks or customer accounts as appropriate.

When securities are purchased subject to a commitment to resell, but the Group does not acquire the risks and rewards of ownership, the transaction is treated as a collateralised loan and recorded within loans and advances to banks or customers as appropriate. The securities are not included in the statement of financial position.

The difference between the sale and repurchase price is treated as interest and is accrued over the life of the agreement using the effective interest rate method.

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recognised in the financial statements.

1. General information and accounting policies continued

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

Share issue costs
Incremental costs directly attributable to the issue of new shares are shown in equity, net of tax, as a deduction from the proceeds.

Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are paid or are approved by the ordinary shareholders for payment. Dividends proposed after the end of the reporting period are not recognised as a liability until they have been approved by ordinary shareholders. They are disclosed in the events after the reporting period note.

When scrip shares are issued in lieu of dividends the cash equivalent, net of withholding tax when applicable, is written back to retained earnings. Shares issued in lieu of dividends are set off against the share premium account.

Treasury shares
Where any Group company purchases the Bank's ordinary shares they are classified as treasury shares and the consideration paid is shown as a deduction from shareholders' equity. No gain or loss is recognised on the sale, issue or cancellation of treasury shares. The consideration received on the subsequent sale or issue of treasury shares is credited to shareholders' equity.

As permitted under Irish legislation, a Group subsidiary held ordinary shares in the Bank on behalf of life assurance policyholders under contracts classified as investment contracts. All liabilities under investment contracts are carried at fair value through profit or loss. As the Group is not allowed to treat treasury shares as an asset, an increase in the ordinary share price resulted in a loss being reflected in the income statement. Conversely, a fall in the ordinary share price resulted in a gain being reflected in the income statement.

1.30 Segmental reporting
Operating segments are distinguishable parts of the Group about which separate financial information is available that is evaluated regularly by the chief operating decision makers in deciding how to allocate resources and in assessing performance. The Group’s reportable operating segments reflect the internal financial reporting structure. The chief operating decision makers rely primarily on the Group management accounts as the basis for assessing the performance of each segment and making decisions about resource allocations.

Transactions between operating segments are on normal commercial terms and conditions. Internal charges and transfer pricing adjustments are reflected in the performance of each segment. Revenue sharing agreements are used to allocate external customer revenues to the relevant operating segment on a reasonable basis.

Geographical segments are distinguishable parts of the Group that provide products or services within a particular economic environment that is subject to risks and rewards that are different to those operating in other economic environments. The geographical segments are based primarily on the location of the office recording the transaction.

1.31 Cash and cash equivalents
For the purposes of the statement of cash flows, cash comprises cash on hand and demand deposits. Cash equivalents are highly liquid investments convertible into cash with an insignificant risk of changes in value and with maturities of less than three months.

1.32 Fiduciary and trust activities
The Group acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, unit trusts, investment trusts and pension schemes. These assets are not consolidated in the accounts as the Group does not have beneficial ownership. Fees and commissions earned in respect of these activities are included in the income statement.

1.33 Significant accounting estimates and judgements
The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Irish company law and IFRS require the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent.

The judgements and estimates involved in the Group's accounting policies that are considered by the Board to be the most important to the portrayal of the Group's financial condition and that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group could affect its reported results.

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

The determination of these provisions requires the exercise of considerable subjective judgement by management involving matters such as future economic conditions, trading performance of client businesses and the valuation of the underlying collateral held. Provision calculations are highly sensitive to the underlying assumptions made in relation to the amount and timing of future cash flows, including the sale of assets held as collateral. The Group's assessment, in cases where it plans to continue to support the borrower, is primarily based on the strategy and business model of the client, and these may make assumptions in relation to a return to more normalised property market conditions and higher asset values over time. The majority of the Group's collateral consists of property assets. The values of these assets have declined significantly as a result of the economic downturn. In the current market, where there is limited transactional activity, there may be a wide range of valuation estimates. Changes in estimated realisable collateral values and the timing of their realisation could have a material effect on the amount of impairment provisions reflected in the income statement and the closing provisions in the statement of financial position.

The Group has evaluated the impact on its specific impairment charge, for both loans and advances to customers and loans classified as held for sale, of applying a lower estimate of the realisable value of collateral and of a change in the timing of the realisation of these assets. The Bank estimates that a decrease of 10% in realisable collateral values on currently impaired loans would have increased the impairment charge for the period by approximately €0.8bn. Similarly, an extension of one year in the timing of the realisation of these assets would have increased the impairment charge by approximately €0.25bn. These estimates are based on impaired loans at 31 December 2010. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly.

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

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

The future credit quality of loan portfolios against which an IBNR collective provision is applied is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include factors such as local and international economic conditions, borrower specific factors, industry trends, interest rates, unemployment levels and other external factors. For loan impairment details, see note 28.

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

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

Impairment of available-for-sale financial assets
In the case of debt instruments classified as available-for-sale financial assets the Group has considered the decline in fair values to ascertain whether any impairment has occurred. Impairment is recognised when there is objective evidence that a specific financial asset is impaired. Evidence of impairment is assessed by reference to the underlying assets of the debt instrument, the most up to date market valuations and whether there is evidence of a significant or prolonged decline in fair value, and all other available information. The determination of whether or not objective evidence of impairment is present requires the exercise of management judgement, particularly in relation to asset backed securities ('ABS') where exposures are not to a single obligor but rather to a diverse pool of underlying collateral. In addition, these investments also include credit enhancement features such as over-collateralisation or subordination that must also be evaluated in the impairment assessment.

Carrying amount of investment property
Investment properties held at cost are reviewed regularly to determine their recoverable values and to assess impairment, if any. Where a value in use calculation is performed as part of this review, management estimates the future cash flows expected to be derived from the asset. Expectations of future cash flows, and any variations in their amount or timing, are subject to management judgement. In some cases, recoverable amount is based on management estimates.

Fair value
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. Fair values are determined by reference to observable market prices where these are available and are reliable. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These include prices obtained from independent third party pricing service providers, comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analyses, option pricing models and other valuation techniques commonly used by market participants. Where non-observable market data is used in valuations, any resulting difference between the transaction price and the valuation is deferred. The deferred day one profit or loss is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs or realised through settlement, depending on the nature of the instrument and availability of market observable inputs. The accuracy of fair value calculations could be affected by unexpected market movements when compared to actual outcomes. Due to the increasing significance

1. General information and accounting policies continued

1.33 Significant accounting estimates and judgements continued

Fair value continued

of credit related factors, determining the fair value of corporate interest rate derivative financial assets requires considerable judgement. In the absence of unadjusted quoted market prices, valuation techniques take into consideration the credit quality of the underlying loans when determining fair value.

Expected life of lending

IAS 39 requires interest and arrangement fees which form an integral part of the return earned from lending to be measured using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash receipts and payments through the expected life of the loan or, when appropriate, a shorter period to the net carrying amount of the loan.

Management uses judgement to estimate the expected life of each loan and hence the expected cash flows relating to it. The accuracy of the effective interest rate would therefore be affected by unexpected market movements resulting in altered customer behaviour and differences in the models used when compared to actual outcomes.

Taxation

The taxation charge recognises amounts due to tax authorities in the various jurisdictions in which the Group operates. It includes estimates based on a judgement regarding the application of tax law and practice and the availability of future profits in order to determine the quantification of current liabilities. In arriving at such estimates, management assesses the relative merits and risks of tax treatments assumed, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice. However the final tax outcome may only be determined after the completion of tax audits or the expiration of statutes of limitations. In addition, changes in tax laws, judicial interpretation of tax laws, or policies and practices of tax authorities could cause the amount of taxes ultimately paid to differ from the amount provided.

Retirement benefits

The Group operates defined benefit pension schemes. The Group's two schemes have been closed to new members since January 1994. In determining the actual pension cost, the values of the assets and liabilities of the schemes are calculated. The assets of the schemes are valued at fair value. The liabilities of the schemes are measured on an actuarial basis, using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. This involves modelling the future growth of scheme liabilities and requires management to make assumptions as to price inflation, dividend growth, salary and pensions increases, return on investments and employee mortality. There are acceptable ranges in which these estimates can reasonably fall. The impact on the Consolidated income statement and the Consolidated statement of financial position could be materially different if an alternative set of assumptions was used.

1.34 Prospective accounting changes

Details of amendments to standards and interpretations adopted during the period are set out in note 1.3. The Group has not applied the following new standards, amendments to standards and interpretations that have been approved by the International Accounting Standards Board and which would be applicable to the Group with an effective date after the date of these financial statements.

The following will be applied in 2011:

- Amendment to IAS 24 - Related Party Disclosures;
- Amendments to IAS 32 - Financial Instruments: Presentation;
- Amendment to IFRIC Interpretation 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction; and
- IFRIC Interpretation 19 - Extinguishing Financial Liabilities with Equity Instruments.

The following will be applied in 2013:

- IFRS 9 - Financial Instruments: Classification and Measurement.

These will be adopted in future years and, with the exception of IFRS 9 and the amendment to IAS 24, are not expected to have a material impact on the Bank's results or financial statements.

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

The amendment to IAS 24 simplifies the disclosure requirements for Government-related entities and clarifies the definition of a related party.

2. Segmental reporting

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

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

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

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

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

Amounts reported for each segment are as disclosed in the Group management accounts. The performance of operating segments is reported in the Group management accounts using a measure of segment profit or loss which is referred to as "Net contribution".

Interest income is reported net as the chief operating decision makers rely primarily on net interest income as a performance measure, not the gross income and expense.

Total segment income in the Group management accounts includes an internal cost of funding allocation from 1 January 2010.

Revenue includes interest and similar income, fee and commission income, net trading expense, the net change in value of financial assets designated at fair value, gains on liability management exercises and other operating (expense)/income. Revenues from transactions with the Government and entities under the control of the Government amounted to 10% or more of the Group's revenues and included interest on the promissory note of €433m and interest on Government debt securities at amortised cost of €146m. Further details of transactions with the Government and Government-related entities are included in note 55. Inter-segment transactions are conducted on an arm's length basis.

The geographical segments are based primarily on the location of the office recording the transaction. Non-current assets includes intangible assets, investment property and property, plant and equipment and excludes financial instruments, deferred taxation assets and retirement benefit assets.

2. **Segmental reporting** continued

Operating segments	Year ended 31 December 2010					
	Business Lending €m	**Financial Markets €m**	**Wealth Management €m**	**Group items €m**	**Inter-segment eliminations €m**	**Group €m**
Net interest income	**1,128**	**(598)**	**2**	**210**	**-**	**742**
Gains on liability management exercise	-	-	-	**1,589**	-	**1,589**
Other expense	**(26)**	**(152)**	**(1)**	-	-	**(179)**
Cost of funding - internal allocation	**(913)**	**732**	-	**181**	-	-
Total income	**189**	**(18)**	**1**	**1,980**	-	**2,152**
Administrative expenses	**(67)**	**(57)**	**(20)**	**(183)**	-	**(327)**
Depreciation and amortisation	**(8)**	-	**(4)**	**(14)**	-	**(26)**
Total overheads	**(75)**	**(57)**	**(24)**	**(197)**	-	**(353)**
Contribution before loss on NAMA and impairment	**114**	**(75)**	**(23)**	**1,783**	-	**1,799**
Loss on disposal of assets to NAMA	**(8,892)**	-	-	**(2,655)**	-	**(11,547)**
Provisions for impairment	**(7,709)**	**(34)**	**(24)**	-	-	**(7,767)**
Share of results of joint ventures	-	-	**(104)**	-	-	**(104)**
Net contribution	**(16,487)**	**(109)**	**(151)**	**(872)**	-	**(17,619)**
Loss before taxation						**(17,619)**
Additional information:						
Capital expenditure	**1**	**1**	-	**4**	-	**6**
Other non-cash expenses	-	-	-	-	-	-
Interests in joint ventures	-	-	**42**	-	-	**42**
Total assets	**26,952**	**66,445**	**1,642**	**36,686**	**(59,542)**	**72,183**
Total liabilities	**26,952**	**66,445**	**1,642**	**33,151**	**(59,542)**	**68,648**
Revenue by business segment						
Revenue from external customers	**1,424**	**364**	**1**	**1,983**	-	**3,772**
Inter-segment revenue	-	**1,053**	-	**181**	**(1,234)**	-
Total revenue	**1,424**	**1,417**	**1**	**2,164**	**(1,234)**	**3,772**

Geographical segments	Year ended 31 December 2010				
	Republic of Ireland €m	**UK & IOM €m**	**USA €m**	**Rest of the World €m**	**Group €m**
Revenue from external customers	**2,728**	**794**	**248**	**2**	**3,772**
Non-current assets	**1,299**	**20**	**126**	-	**1,445**

2. **Segmental reporting** continued

Operating segments	15 months ended 31 December 2009 restated*					
	Business Lending €m	Financial Markets €m	Wealth Management €m	Group items €m	Inter-segment eliminations €m	Group €m
Net interest income	2,040	(839)	5	319	-	1,525
Gains on liability management exercise	-	-	-	1,758	-	1,758
Other income/(expense)	11	75	(23)	(572)	-	(509)
Total income	2,051	(764)	(18)	1,505	-	2,774
Administrative expenses	(101)	(100)	(31)	(119)	-	(351)
Depreciation and amortisation	(18)	(5)	(3)	(9)	-	(35)
Total overheads	(119)	(105)	(34)	(128)	-	(386)
Contribution before impairment	1,932	(869)	(52)	1,377	-	2,388
Provisions for impairment	(14,189)	(471)	(445)	-	-	(15,105)
Share of results of associate and joint ventures	-	-	(167)	-	-	(167)
Profit on disposal of business	-	-	49	-	-	49
Net contribution	(12,257)	(1,340)	(615)	1,377	-	(12,835)
Loss before taxation						(12,835)
Additional information:						
Capital expenditure	7	3	-	7	-	17
Other non-cash expenses	12	6	2	8	-	28
Interests in joint ventures	-	-	142	-	-	142
Total assets	57,834	77,371	1,711	8,492	(60,196)	85,212
Total liabilities	57,834	77,371	1,711	4,322	(60,196)	81,042
Revenue by business segment						
Revenue from external customers	3,971	420	(14)	1,648	-	6,025
Inter-segment revenue	-	1,918	-	-	(1,918)	-
Total revenue	3,971	2,338	(14)	1,648	(1,918)	6,025

Geographical segments	15 months ended 31 December 2009 restated*				
	Republic of Ireland €m	UK & IOM €m	USA €m	Rest of the World €m	Group €m
Revenue from external customers	3,315	2,328	369	13	6,025
Non-current assets	1,283	25	147	-	1,455

* Amounts reported for each segment are as disclosed in the Group management accounts. On 1 January 2010 all Wealth Management loans and advances and the related income were transferred to Business Lending. The comparatives disclosed above have been adjusted to reflect these changes. The comparatives have also been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on page 44.

3. Net interest income

	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Interest and similar income		
Interest on loans and advances to banks	**49**	194
Interest on loans and advances to customers (including loans classified as held for sale)	**1,567**	4,091
Interest on available-for-sale financial assets	**104**	336
Interest on promissory note	**433**	-
Interest on Government debt securities at amortised cost	**146**	-
Finance leasing and hire purchase income	**2**	5
	2,301	4,626
Interest on financial assets at fair value through profit or loss held on own account	**3**	8
	2,304	4,634
Interest expense and similar charges		
Interest on deposits from banks	**(646)**	(758)
Interest on customer accounts	**(631)**	(1,716)
Interest on debt securities in issue	**(260)**	(504)
Interest on subordinated liabilities and other capital instruments	**(25)**	(131)
	(1,562)	(3,109)
Net interest income	**742**	1,525

Lower average market interest rates across the Bank's three core operating currencies of euro, sterling and US dollar in the current year have resulted in a decrease in gross interest income and expense relative to the comparative period. Furthermore, customer lending advances during the year are subject to the governance agreed with the Bank's stakeholders and therefore have been restricted to funds that had previously been committed or approved to protect asset quality.

Group net interest income has declined by 39% on an annualised basis reflecting the significant increase in funding costs and the transfer of held for sale loans to NAMA during the year. Other contributing factors were greater competition for customer deposits, continued stressed funding market conditions, an increased reliance by the Bank on funding from central banks, combined with the significant increase in the level of impaired customer loans.

Interest income on customer lending includes margin interest and arrangement fees amortised over the expected lives of the related loans. The average expected loan life has increased during the year as a result of very difficult operating conditions for clients. Interest on loans and advances to customers includes interest income on held for sale loans which, at 31 December 2010, represent 6% (31 December 2009: 49%) of total customer loan balances.

Interest on loans and advances to customers includes €150m (31 December 2009: €1,212m) which has been capitalised on customer loan balances. The Bank's credit policy was revised in 2009 to restrict the approval of new or extended interest roll-up facilities. The reduction in interest capitalised on loan balances has resulted from the transfer to NAMA of a significant portion of loans being funded on an interest roll-up basis.

Included within net interest income is €413m (31 December 2009: €236m) in respect of impaired customer loan balances. Specific impairment on individual loans is calculated based on the difference between the current loan balance and the discounted value of estimated future cash flows on the loan. The impact of the unwinding of this discount, as the time to the realisation of the estimated future cash flows shortens, is recognised as interest income in accordance with IFRS.

Interest and similar income includes net exchange losses of €59m (31 December 2009: gains of €47m).

Interest on deposits from banks includes €435m (31 December 2009: €240m) in respect of amounts borrowed under a Special Master Repurchase Agreement, a Master Loan Repurchase Agreement and a Facility Deed agreement from the Central Bank of Ireland (note 38). The interest rates on these facilities are set by the Central Bank of Ireland and advised at each rollover, and are currently linked to the European Central Bank marginal lending facility rate.

3. Net interest income continued

The decrease in interest expense on subordinated liabilities and other capital instruments is primarily attributable to the Group's repurchase in August 2009 and the repurchase, exchange or restructure in the last quarter of 2010 of certain subordinated liabilities as part of its ongoing capital management activities (notes 7 and 43). Also, in July 2009, as a condition of its approval of the Government's capitalisation of the Bank, the European Commission required that no further coupon payments be made on the Group's Tier 1 securities.

Included within interest expense for the year is €128m (31 December 2009: €nil) relating to the cost of the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the 'ELG Scheme'), in which the Bank became a participating institution on 28 January 2010. The cost of this scheme is classified as interest expense as it is directly attributable and incremental to the issuance of specific financial liabilities. The cost of the Credit Institutions (Financial Support) Scheme ('CIFS') 2008 is included in fee and commission expense (note 4).

4. Fee and commission income and expense

	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Fee and commission income		
Corporate treasury commissions	**18**	61
Asset management and related fees	**11**	15
Financial guarantee fees	**8**	12
Trust and other fiduciary fees	**-**	1
Other fees	**10**	9
	47	98
Fee and commission expense	**(58)**	(142)

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

The Corporate Treasury division provides foreign exchange and interest rate management services to the Bank's corporate clients. Corporate treasury commissions have reduced in the current financial year due to decreased sales of interest rate derivatives.

Asset management and related fees are earned for the sourcing, structuring and ongoing management of investments on behalf of clients. The decline in these fees during the year reflects the significant reduction in new client investment activity and a decrease in the value of assets under management.

Other fees include €7m due from NAMA in relation to management fees.

Fee and commission expense includes €54m (31 December 2009: €134m) in respect of the CIFS Scheme. The reduction in the expense is primarily attributable to the introduction of the ELG Scheme, the cost of which is included in net interest income (note 3). The CIFS scheme expired on 29 September 2010.

5. Net trading expense

	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Interest rate contracts	**(29)**	(251)
Foreign exchange contracts	**(13)**	(179)
Credit contracts	**1**	1
Hedge ineffectiveness	**-**	2
	(41)	(427)

Interest rate contracts include credit fair value losses of €27m (31 December 2009: €212m) relating to corporate swaps, reflecting the deterioration in corporate counterparty credit quality (note 21).

Interest rate contracts also include negative mark-to-market movements of €23m (31 December 2009: €47m) in respect of interest rate swaps entered into in connection with the acquisition of investment assets by the Group that have not been sold on to clients.

Mark-to-market gains of €36m (31 December 2009: €nil) on derivatives transferred to NAMA are also included in interest rate contracts. However, no additional consideration was received for the increase in value of these derivatives, increasing the loss on disposal to NAMA. This increased loss offsets the gains reported above and results in no net change to the Group's operating result.

Foreign exchange contracts include a net gain of €18m (31 December 2009: €nil) as a result of the Group's capital management and net investment hedging strategies and a loss of €33m (31 December 2009: €nil) in relation to the close out of structural foreign exchange positions.

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

6. Financial assets designated at fair value

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

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

7. Gains on liability management exercises

	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Gains on repurchases/restructurings under the Group's liability management exercises ('LME')	**1,589**	1,752
Gains on other repurchases	**-**	6
	1,589	1,758

During the year the Group repurchased or restructured certain subordinated liabilities as part of its ongoing capital management activities. €270m nominal of Tier 1, €45m of Upper Tier 2 and €1,575m of Lower Tier 2 securities were repurchased, exchanged or restructured (note 43).

The net LME gain of €1,589m (31 December 2009: €1,752m) results from consideration and fees paid of €309m (31 December 2009: €819m) extinguishing securities with a carrying value of €1,898m (31 December 2009: €2,571m). The gain includes costs and fees incurred as part of the liability management exercise.

8. Other operating (expense)/income

	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Increase/(decrease) in value of assets designated at fair value held in respect of liabilities to customers under investment contracts	**46**	(534)
(Increase)/decrease in value of liabilities designated at fair value held in respect of liabilities to customers under investment contracts	**(46)**	539
Net (losses)/gains on disposal of available-for-sale financial assets	**(110)**	5
Rental income	**10**	11
Net losses on disposal of trade finance assets	**(4)**	(6)
Other	**-**	-
	(104)	15

The increase in the value of assets held in respect of liabilities to customers under investment contracts is primarily attributable to increases in UK property values. The decrease in the prior period (note 41) resulted from the decline in the market values of property and financial assets held on behalf of policyholders.

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

The Group recognised losses of €165m on the disposal of asset backed securities and investments in bank subordinated debt during the year. These capital losses were partially offset by gains of €55m on the sale of €1.5bn of government bonds.

Other includes the net amount of operating income and expenses relating to the Group's investment properties held on own account. Included in the net amount are payroll and related expenses of €10m (31 December 2009: €10m) in respect of 275 (31 December 2009: 250) staff who are directly employed in the running of a US hotel, which is classified as an investment property (note 33), and which is independently managed by an international hotel management group.

9. Administrative expenses

	Year ended 31 December 2010 €m	Restated* 15 months ended 31 December 2009 €m
Staff costs:		
Wages and salaries	**97**	114
Share-based payment schemes	**-**	37
Retirement benefits cost - defined contribution plans	**12**	17
Retirement benefits cost - defined benefit plans (note 11)	**1**	4
Social welfare costs	**10**	14
Other staff costs	**10**	6
	130	192
Other administrative costs	**108**	117
Exceptional costs	**89**	42
	327	351

The decrease in wages and salaries and related social welfare costs reflects a fall in average staff numbers from 1,681 in the previous period to 1,332 in the current period primarily due to the voluntary redundancy programme that was announced in late 2009.

Administrative expenses have increased on a pro-rata basis as a result of significantly higher loan book asset quality related professional fees.

* The prior period has been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on page 44.

9. Administrative expenses continued

Exceptional costs during the year include €62m (31 December 2009: €25m) incurred in relation to the Bank's EC restructuring plan, the NAMA process and legacy issues, while the remaining €27m (31 December 2009: €17m) relates to provisions in respect of redundancies and additional legacy related matters.

The average number of persons employed during the year, analysed by location, was as follows:

	Year ended 31 December 2010 number	15 months ended 31 December 2009 number
Republic of Ireland	**842**	968
United Kingdom and Isle of Man	**405**	573
United States of America	**69**	106
Rest of the World	**16**	34
	1,332	1,681

As part of the Group's restructuring process a voluntary redundancy programme commenced in November 2009, the effect of which is reflected in the reduced headcount numbers.

The average number of persons employed does not include individuals directly employed in the running of a US hotel which is independently managed by an international hotel management group (note 8).

10. Share-based payment schemes

Following the Bank's nationalisation in January 2009 all rights outstanding under the share-based payment schemes were extinguished for zero benefit.

The following table summarises the movement in the number of share options and conditional awards outstanding at the beginning and end of the 15 months ended 31 December 2009. Further details in respect of the share-based incentive schemes that were operated by the Group are contained in the 2009 Annual Report & Accounts.

	15 months ended 31 December 2009				
	Outstanding at 30 September 2008 '000	Vested '000	Forfeited '000	Extinguished '000	Outstanding at 31 December 2009 '000
Employee Share Option Scheme	14,401	-	(1,200)	(13,201)	-
Employee Share Ownership Plan	3,264	-	-	(3,264)	-
Save As You Earn Scheme	3,895	-	(3,331)	(564)	-
Performance Share Plan	498	-	(293)	(205)	-
Deferred Share Scheme	1,125	(358)	(25)	(742)	-

11. Retirement benefits

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

Neither the Group nor the Bank operates a post-employment medical benefit scheme.

Details of defined benefit schemes
Retirement benefits under the Bank's Irish defined benefit plans are calculated by reference to pensionable service and pensionable salary at normal retirement date. The pension charge in the income statement relating to the two defined benefit pension schemes is based on the advice of an independent actuary. An actuarial valuation for the purposes of IAS 19 has been prepared as at 31 December 2010 by an independent actuary using the projected unit method. Using this method the current service cost will increase as the members of closed schemes approach retirement.

The principal assumptions used, which are based on the advice of an independent actuary, are set out in the table below:

Financial assumptions	**31 December 2010 % p.a.**	31 December 2009 % p.a.
Discount rate for liabilities of the schemes	**5.50**	6.00
Rate of increase in salaries	**3.00**	3.00
Rate of increase in pensions	**2.00 to 3.00**	2.00 to 3.00
Inflation rate	**2.00**	2.00

Mortality assumptions
The key mortality assumptions used in estimating the actuarial value of the schemes' liabilities are:

	31 December 2010	31 December 2009
Longevity at age 60 for current pensioners (years)		
Males	**27.9**	26.2
Females	**29.5**	29.3
Longevity at age 60 for future pensioners (years)		
Males	**30.6**	27.4
Females	**31.7**	30.5

Sensitivity analysis
Sensitivity analysis for each of the principal assumptions used to measure the schemes' liabilities at 31 December 2010 is as follows:

		Impact on scheme liabilities	
	Change in assumption	**increase by %**	**increase by €m**
Discount rate	Decrease 0.5%	10.0%	9
Rate of increase in salaries	Increase 0.5%	1.0%	1
Inflation rate	Increase 0.5%	4.4%	4
Life expectancy	Increase by 1 year	2.1%	2

11. **Retirement benefits** continued

Assets

The expected long term rate of return on assets of 5.0% (31 December 2009: 5.4%) at the year end is estimated based on the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the actual allocation to develop the long-term rate of return on assets assumption for the portfolio.

The market value of assets in the schemes and the expected long term rates of return were:

	Expected return 31 December 2010 %	**% of scheme assets 31 December 2010 %**	**Market value of assets 31 December 2010 €m**	Expected return 31 December 2009 %	% of scheme assets 31 December 2009 %	Market value of assets 31 December 2009 €m
Equities	**7.2**	**34**	**32**	7.8	34	33
Bonds	**4.0**	**53**	**50**	4.0	60	59
Property	**6.2**	**3**	**3**	6.8	3	3
Hedge funds	**6.2**	**1**	**1**	6.8	1	1
Cash	**2.0**	**9**	**8**	2.5	2	2
Total market value of schemes' assets			**94**			98
Actuarial value of liabilities of funded schemes			**(93)**			(91)
Retirement benefit assets			**1**			7

At 31 December 2010, the assets of the pension schemes included ordinary shares in the parent Bank amounting to €nil (31 December 2009: €nil).

Components of pension expense

The following table sets out the components of the defined benefit cost:

	Group and Bank	
	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Included in administrative expenses:		
Current service cost	**1**	2
Expected return on assets of pension schemes	**(5)**	(8)
Interest on liabilities of pension schemes	**6**	8
Settlement (gain)/loss	**(1)**	2
Cost of providing defined retirement benefits (note 9)	**1**	4

The actual return on assets during the year ended 31 December 2010 was €4m (period ended 31 December 2009: €2m).

Amount recognised in statement of comprehensive income

	The Group		The Bank	
	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m	**Year ended 31 December 2010 €m**	15 months ended 31 December 2009 €m
Change in assumptions underlying the present value of schemes' liabilities	**(10)**	4	**(10)**	4
Experience gains on liabilities of the pension schemes	**4**	4	**4**	4
Actual return less expected return on assets of the pension schemes	**(1)**	(6)	**(1)**	(6)
Actuarial (losses)/gains recognised under IAS 19	**(7)**	2	**(7)**	2
Deferred tax on actuarial losses/(gains)	**-**	-	**-**	-
Actuarial (losses)/gains after tax	**(7)**	2	**(7)**	2
Cumulative amount of after tax actuarial losses recognised since 1 October 2004 in statement of comprehensive income to end of period	**(18)**	(11)	**(19)**	(12)

Employer contributions to funded schemes

The expected employer contributions for defined benefit schemes for the year ending 31 December 2011 are €1m.

The following tables provide information in respect of the assets and obligations of the Group's funded defined benefit pension schemes.

Reconciliation of the fair value of schemes' assets during the year

	31 December 2010 €m	31 December 2009 €m
Fair value of schemes' assets at beginning of year	**98**	108
Expected return	**5**	8
Contributions paid by employer	**2**	3
Benefit payments	**(10)**	(15)
Actuarial loss during year	**(1)**	(6)
Fair value of schemes' assets at end of year	**94**	98

11. Retirement benefits continued

Reconciliation of defined benefit obligations during the year

	31 December 2010 €m	31 December 2009 €m
Defined benefit obligation at beginning of year	**91**	102
Current service cost	**1**	2
Interest cost	**6**	8
Benefit payments	**(10)**	(15)
Settlement (gain)/loss	**(1)**	2
Actuarial loss/(gain) during year	**6**	(8)
Defined benefit obligation at end of year	**93**	91

History of experience gains and losses in funded and unfunded schemes	31 December 2010 €m	31 December 2009 €m	30 September 2008 €m	30 September 2007 €m	30 September 2006 €m
Difference between actual and expected return on assets:					
Amount	(1)	(6)	(25)	(1)	3
Percentage of schemes' assets at year end	**1%**	6%	23%	1%	3%
Experience gains/(losses) on liabilities:					
Amount	**4**	4	2	(4)	(1)
Percentage of schemes' liabilities at year end	**4%**	4%	2%	4%	1%
Total gross amount recognised in statement of comprehensive income	**(7)**	2	(21)	14	6

Defined benefit pension schemes

	31 December 2010 €m	31 December 2009 €m	30 September 2008 €m	30 September 2007 €m	30 September 2006 €m
Scheme assets	**94**	98	108	123	118
Funded defined benefit obligation	**(93)**	(91)	(102)	(97)	(105)
Surplus within funded schemes	**1**	7	6	26	13

12. Auditors' remuneration

	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Audit of Group and Bank financial statements	**0.6**	0.4
Other assurance services	**0.3**	0.2
Tax advisory services	**0.1**	0.1
Other non-audit services	**0.2**	0.8
	1.2	1.5

Fees payable to other Deloitte & Touche firms outside of Ireland are as follows:

	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Audit of Group and Bank financial statements	**0.3**	0.3
Other assurance services	**0.1**	-
Tax advisory services	**-**	-
Other non-audit services	**-**	-
	0.4	0.3

Other non-audit services fees for Deloitte & Touche in the prior period relate primarily to advisory work in respect of the restructuring of the Bank, and include all fees earned since 1 October 2008. Of this amount, €0.3m was earned prior to their appointment as auditors on 21 September 2009.

All amounts are stated exclusive of VAT.

The Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors. Auditors' remuneration is included within administrative expenses.

13. Loss on disposal of assets to NAMA

	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Fair value of consideration received	**10,728**	-
Carrying value of assets transferred to NAMA	**(21,924)**	-
	(11,196)	-
Provision for servicing liability and other transfer adjustments	**(351)**	-
Loss on disposal of assets to NAMA	**(11,547)**	-

On 7 April 2009 the Irish Government announced its intention to establish the National Asset Management Agency ('NAMA') and, on 22 November 2009, the National Asset Management Agency Act, 2009 ('the Act') provided for its establishment. On 12 February 2010 the Bank became a participating institution in NAMA, and is now subject to NAMA's statutory powers.

During the year the Bank transferred loans to NAMA with a gross value of €33,329m (before provisions for impairment of €11,858m), and related derivatives with a fair value on date of disposal of €453m (net of credit fair value adjustments of €84m). Of the nominal consideration received, €12,275m, or 95%, comprised Government Guaranteed Floating Rate Notes, with the remaining 5% comprising Callable Perpetual Subordinated Fixed Rate Bonds. The senior floating rate notes are classified as Government debt securities at amortised cost (note 27) at an initial fair value of €10,491m. The subordinated bonds are classified as available-for-sale financial assets (note 25). The initial fair value of the subordinated bonds on acquisition was €237m.

The final loss on disposal of assets to NAMA will only be determined when full NAMA due diligence has been completed on all assets transferred. At 31 December 2010 the due diligence process was ongoing in respect of €17,523m of loans transferred to NAMA, as part of a preliminary accelerated asset transfer programme during November and December 2010. These assets were transferred at an average discount of 64%. The NAMA transfer legislation allows for an adjustment to this preliminary discount, upward or downward, when full due diligence has been completed. Since the year end NAMA have completed full due diligence on €3,246m of the €17,523m loans transferred via this accelerated process. This resulted in a downward adjustment to the preliminary NAMA consideration paid for these assets of €96m, a provision in respect of this additional loss has been reflected in the total loss on disposal of €11,547m. No further provisions have been included in respect of any possible further amendments to the preliminary consideration received in respect of the remaining €14,277m assets where the due diligence process is still ongoing.

Included in the provision for servicing liability and other transfer adjustments is an amount of €189m due to NAMA in respect of the value to transfer settlement which represents the difference between the loan amount on the date the loan actually transferred to NAMA and the loan amount on the date NAMA assessed its value. In addition the provision for servicing liability and other transfer adjustments includes a provision of €32m in respect of due diligence costs arising from the accelerated loan transfers during November and December 2010 and €30m in respect of the ongoing cost of servicing assets on behalf of NAMA.

Further information in relation to the loss on disposal of assets to NAMA is provided in the Business review.

14. Provisions for impairment

	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Loans and advances to customers (note 28)		
Specific	**4,956**	13,861
Collective	**21**	583
	4,977	14,444
Loans classified as held for sale (note 23)		
Specific	**2,683**	-
Debt securities - available-for-sale ('AFS') financial assets (note 25)		
Financial institutions	**11**	4
Residential mortgage backed securities	**-**	31
Other asset backed securities ('ABS')	**-**	436
	11	471
Investment property - held on own account (note 33)		
Attributable to owners of the parent	**61**	92
Attributable to non-controlling interests	**-**	9
	61	101
Financial guarantee contracts and other provisions (note 42)	**35**	89
Total provisions for impairment	**7,767**	15,105

The total specific lending impairment charge for the year of €7,639m (31 December 2009: €13,861m) reflects the very difficult operating environment across all of the Bank's core markets during the year. Ireland, where property market conditions continue to be extremely stressed, represents €5,813m (31 December 2009: €10,815m) of the total charge. The remainder comprises €1,089m (31 December 2009: €798m) in respect of North America and €737m (31 December 2009: €2,248m) in respect of the UK.

Of the specific charge €2,557m relates to loans which have either been sold or are scheduled to be sold to NAMA with the balance of €5,082m attributable to the non-NAMA portfolio.

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

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

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

Financial guarantee contracts and other provisions in the current year includes a charge of €45m relating to an internal review of historical interest rate setting procedures as applied to certain loan accounts (note 42). Also included is a release of €18m in respect of provisions recognised during the prior period representing obligations which arose under guarantees provided by the Group in respect of certain lending to customers.

15. Profit on disposal of businesses

	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Cash consideration received	-	141
Carrying value of net assets on date of disposal excluding goodwill	-	(92)
Profit on disposal	-	49

On 19 December 2008 the Group completed the sale of Anglo Irish Bank (Austria) A.G. for a consideration of €141m. The consideration was part financed by a subordinated loan of €24m from the Group to the purchaser and the transaction gave rise to a profit on disposal of €49m.

16. Taxation

	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Current taxation		
Irish corporation tax - current year	-	(91)
Foreign tax - current year	-	13
- prior period	**30**	7
	30	(71)
Deferred taxation		
Current period - temporary differences (note 36)	**2**	(49)
Taxation charge/(credit) for period	**32**	(120)
Effective tax rate	**0.2%**	(0.9%)

The reconciliation of taxation on losses at the standard Irish corporation tax rate to the Group's actual tax charge/(credit) is analysed as follows:

	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Loss before taxation at 12.5%	**(2,202)**	(1,604)
Effects of:		
Deferred tax asset not recognised on losses available for carry forward	**2,144**	1,487
Foreign earnings subject to different tax rates including the impact of a Japanese Yen financing arrangement (note 5)	**45**	(47)
Deferred tax adjustments in respect of prior periods	-	15
Unrealised losses on investments	**6**	10
Adjustment in respect of prior periods	**30**	7
Other	**9**	12
Taxation charge/(credit) for period	**32**	(120)

No Irish corporation tax charge arises in the year due to the availability of operating losses in the current year.

However a foreign taxation charge in respect of prior periods of €30m is reflected in the accounts. A deferred tax charge of €2m has been recognised in respect of the release of deferred tax assets which are no longer required.

17. Loss attributable to owner of the parent

In accordance with section 148(8) of the Companies Act, 1963 and section 7(1A) of the Companies (Amendment) Act, 1986, the Bank is availing of the exemption from presenting its individual income statement to the annual general meeting and from filing it with the Registrar of Companies. The Bank's loss for the financial year determined in accordance with IFRS as adopted by European Union is €17,336m (31 December 2009: €12,796m).

18. Non-controlling interests

The loss attributable to non-controlling interests is analysed as follows:

	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Impairment attributable to non-controlling interests	-	(9)
Other non-controlling interests	-	(1)
	-	(10)

19. Cash and balances with central banks

	The Group		**The Bank**	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Cash and balances with central banks	**181**	302	**181**	302

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

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

20. Financial assets at fair value through profit or loss

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Held on own account				
Debt securities	**-**	76	**-**	76
Equity shares	**13**	42	**5**	16
	13	118	**5**	92
Of which listed	**-**	76	**-**	76
Of which unlisted	**13**	42	**5**	16
	13	118	**5**	92

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

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

As part of the strategy to de-risk the Bank, all debt securities held on own account with value have either been sold or have matured during the year. In addition, financial assets at fair value through profit or loss have been negatively impacted by fair value movements of €23m (31 December 2009: €53m) (note 6).

The Group's interest in Arnotts is held in the form of equity warrants and is classified, upon initial recognition, at fair value through profit or loss.

The external ratings profile of financial assets at fair value through profit or loss held on own account, excluding equity shares, is as follows:

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
AAA / AA	**-**	36	**-**	36
A	**-**	13	**-**	13
BBB+ / BBB / BBB-	**-**	13	**-**	13
Sub investment grade	**-**	14	**-**	14
	-	76	**-**	76

	The Group	
	31 December 2010 €m	31 December 2009 €m
Held in respect of liabilities to customers under investment contracts (note 41)		
Investments in property structures	**125**	121
Equity shares	**103**	115
Debt securities	**9**	8
	237	244
Of which listed	**107**	116
Of which unlisted	**130**	128
	237	244

All financial assets at fair value through profit or loss held in respect of liabilities to customers under investment contracts are designated at fair value through profit or loss.

21. Derivative financial instruments

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

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

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

Details of the objectives, policies and strategies arising from the Group's use of financial instruments, including derivative financial instruments, are presented in note 51 on risk management and control.

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

	The Group					
	31 December 2010			31 December 2009		
	Contract notional amount €m	**Fair values Assets €m**	**Fair values Liabilities €m**	Contract notional amount €m	Fair values Assets €m	Fair values Liabilities €m
Derivatives held for trading						
Interest rate contracts	**103,930**	**1,665**	**(2,211)**	127,702	1,709	(2,392)
Foreign exchange contracts	**15,016**	**168**	**(98)**	15,931	240	(133)
Credit derivatives	**-**	**-**	**-**	20	-	(3)
Equity index options - held and written	**234**	**11**	**(7)**	636	14	(11)
Total trading derivatives	**119,180**	**1,844**	**(2,316)**	144,289	1,963	(2,539)
Derivatives held for hedging						
Fair value hedges	**7,120**	**82**	**(60)**	7,054	345	(44)
Cash flow hedges	**1,887**	**10**	**-**	14,650	175	-
Total hedging derivatives	**9,007**	**92**	**(60)**	21,704	520	(44)
Derivatives held in respect of liabilities to customers under investment contracts (note 41)	**1,075**	**-**	**(84)**	1,100	-	(86)
Total derivative financial instruments	**129,262**	**1,936**	**(2,460)**	167,093	2,483	(2,669)

21. Derivative financial instruments continued

	The Bank					
	31 December 2010			31 December 2009		
	Contract notional amount	**Fair values**		Contract notional amount	Fair values	
		Assets	**Liabilities**		Assets	Liabilities
	€m	**€m**	**€m**	€m	€m	€m
Derivatives held for trading						
Interest rate contracts	**114,370**	**1,793**	**(2,340)**	138,592	1,806	(2,501)
Foreign exchange contracts	**23,720**	**281**	**(596)**	23,615	522	(1,025)
Credit derivatives	**-**	**-**	**-**	20	-	(3)
Equity index options - held and written	**234**	**11**	**(7)**	636	14	(11)
Total trading derivatives	**138,324**	**2,085**	**(2,943)**	162,863	2,342	(3,540)
Derivatives held for hedging						
Fair value hedges	**7,120**	**82**	**(60)**	6,362	127	(44)
Cash flow hedges	**1,887**	**10**	**-**	14,650	175	-
Total hedging derivatives	**9,007**	**92**	**(60)**	21,012	302	(44)
Total derivative financial instruments	**147,331**	**2,177**	**(3,003)**	183,875	2,644	(3,584)

Derivatives are carried in the statement of financial position at fair value. The decrease in fair value of derivative assets and liabilities since 31 December 2009 is largely attributable to the decline in volume of interest rate contracts due to maturing trades and a significant fall in new transactions, offset by mark-to-market increases due to lower interest rates over the year.

The net derivative liability has arisen from the transfer of derivative assets (which were included within assets classified as held for sale at 31 December 2009) to NAMA during the year.

The Group's corporate lending clients have entered into interest rate swaps with the Bank to hedge their exposure to rising interest rates. However, the value of the related collateral, which is mostly in the form of investment property, has declined significantly and accordingly interest rate contracts include negative fair value adjustments reflecting the deterioration in corporate counterparty credit quality (note 5). The Bank manages the market risk arising on the interest rate swaps with corporate counterparties through offsetting interbank derivatives.

Included within interest rate contracts held for trading are assets of €1,156m in relation to transactions with corporate clients. Client originated derivative transactions totalling €17m which have been identified for potential transfer to NAMA are included within assets classified as held for sale (note 23). Both of these amounts are net of credit fair value adjustments that have been applied, totalling €182m.

The majority of the Bank’s derivative transactions with interbank counterparties are covered by CSAs, with cash collateral exchanged on a daily basis (notes 22 and 38). This significantly reduces the credit risk on interbank derivatives. Were the Bank to net outstanding derivative contracts with counterparties covered under CSAs, this would lead to a reduction in derivative assets and derivative liabilities of €1.8bn (31 December 2009: €1.0bn).

Hedging activities

The Group uses derivatives for hedging purposes to mitigate the market risk exposures arising from its banking and other activities. For accounting purposes the Group uses derivatives which may qualify as fair value hedges or cash flow hedges.

Fair value hedges

The Group uses interest rate swaps and cross-currency interest rate swaps to hedge the interest rate risk and foreign exchange risk resulting from potential changes in the fair value of certain fixed rate assets and liabilities. Hedged assets include the promissory note and fixed rate investment securities held. Hedged liabilities include fixed rate debt securities in issue.

The Group recognised a net gain of €53m (31 December 2009: €138m) in net trading expense in respect of fair value movements on hedging instruments designated as fair value hedges. The corresponding net loss attributable to the hedged risk on the hedged items also recognised in net trading expense was €53m (31 December 2009: €136m).

Cash flow hedges

The Group uses interest rate swaps and forward rate agreements to hedge its exposure to variability in future cash flows on variable rate non-trading assets and liabilities. Gains and losses are initially recognised directly in equity, in the cash flow hedging reserve (note 46), and are subsequently recognised in profit or loss when the forecast cash flows affect the income statement.

The Group has hedged the following forecast cash flows on operating assets and liabilities. These cash flows are expected to affect the income statement in the following periods, excluding any hedge adjustments that may be applied:

Group and Bank	**31 December 2010**				
	Within one year €m	**Between one to three years €m**	**Between three to five years €m**	**After five years €m**	**Total €m**
Forecast receivable cash flows	**6**	**-**	**-**	**-**	**6**
Forecast payable cash flows	**-**	**-**	**-**	**-**	**-**
	6	**-**	**-**	**-**	**6**

	31 December 2009				
	Within one year €m	Between one to three years €m	Between three to five years €m	After five years €m	Total €m
Forecast receivable cash flows	96	55	27	8	186
Forecast payable cash flows	-	-	-	-	-
	96	55	27	8	186

In the year to 31 December 2010 the Group transferred income of €85m (period ended 31 December 2009: €221m) from the cash flow hedging reserve to net interest income. There are no forecast transactions for which hedge accounting had previously been used, but that are now no longer expected to occur.

Total hedge ineffectiveness on cash flow hedges charged to net trading expense amounted to €0.2m (31 December 2009: income of €0.4m).

22. Loans and advances to banks

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Placements with banks	**3,038**	3,696	**5,502**	9,488
Securities purchased with agreements to resell	**487**	3,664	**487**	3,664
	3,525	7,360	**5,989**	13,152
Amounts include:				
Due from Group undertakings			**3,089**	6,848

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

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
AAA / AA	**300**	1,586	**266**	5,732
A	**2,815**	3,447	**2,280**	2,565
BBB+ / BBB / BBB-	**397**	2,309	**2,155**	2,309
Unrated - due from Group undertakings	**-**	-	**1,288**	2,546
Total held on own account	**3,512**	7,342	**5,989**	13,152
Policyholders' assets (note 41)	**13**	18	**-**	-
	3,525	7,360	**5,989**	13,152

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

Loans and advances to banks include short term placements of €0.4bn (31 December 2009: €2.8bn) with entities covered under the Irish Government guarantee scheme. €0.1bn (31 December 2009: €2.8bn) of these placements are secured and included within securities purchased with agreements to resell.

Placements with banks include €1.8bn (31 December 2009: €1.5bn) of cash collateral placed with counterparties to offset changes in mark to market valuations arising from derivative contracts and €0.1bn (31 December 2009: €0.1bn) held with central banks which cannot be withdrawn on demand.

Securities purchased with agreements to resell declined by €3.2bn during the year reflecting the Bank's decrease in this activity.

The fair value of securities accepted under reverse repurchase agreements, which can be sold or repledged, is €0.5bn (31 December 2009: €3.7bn). The fair value of such collateral sold or repledged is €0.2bn (31 December 2009: €3.6bn).

23. Assets classified as held for sale

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Loans classified as held for sale to NAMA	**1,113**	35,602	**1,055**	30,552
Less: provision for impairment	**(148)**	(10,120)	**(148)**	(9,134)
	965	25,482	**907**	21,418
Derivative financial instruments	**17**	410	**17**	410
NAMA assets held for sale	**982**	25,892	**924**	21,828
Other loans classified as held for sale	**1,075**	-	**796**	-
Less provisions for impairment	**(417)**	-	**(371)**	-
Other assets held for sale	**658**	-	**425**	-
Total assets classified as held for sale	**1,640**	25,892	**1,349**	21,828
Amounts include:				
Due from Group undertakings			**15**	-

Assets classified as held for sale comprise those loans which have been identified for transfer to NAMA, including related derivatives, together with certain US and UK loans scheduled to be sold to third parties. In total, €1,623m (31 December 2009: €25,482m) of customer loans, net of associated provisions of €565m (31 December 2009: €10,120m), are anticipated to be transferred to NAMA or sold to third parties.

The derivative financial instruments balance of €17m (31 December 2009: €410m) represents the fair value of interest rate contracts linked to NAMA eligible assets at 31 December 2010. The total notional amount of these contracts is €537m (31 December 2009: €11,195m) and the transactions consist primarily of interest rate swap agreements.

NAMA has complete discretion as to which assets will be acquired and has not confirmed to the Bank the total value of loans that it expects to purchase. Included in loans classified as held for sale are certain loans which are subject to a court challenge in relation to NAMA's legal rights to acquire the assets.

The Bank's loans classified as held for sale include €15m (31 December 2009: €nil) lent to fund assets held in respect of liabilities to customers under investment contracts (note 41).

Specific provisions for impairment on loans classified as held for sale	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
At beginning of year	**10,120**	-	**9,134**	-
Charge against profits - specific (note 14)	**2,683**	-	**2,627**	-
Write-offs	**(19)**	-	**(17)**	-
Unwind of discount	**(245)**	-	**(210)**	-
Exchange movements	**69**	-	**64**	-
Net transfers (to)/from loans and advances to customers (note 28)	**(185)**	10,120	**(97)**	9,134
Release on disposal of assets to NAMA (note 13)	**(11,858)**	-	**(10,982)**	-
At end of year	**565**	10,120	**519**	9,134
Impaired loans classified as held for sale	**979**	25,070	**905**	22,150

An analysis of lending assets by internal credit quality category, geographical location and industry sector concentration is provided for the Group in note 51 and for the Bank in note 56.

24. Amount due from Shareholder

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Amount due from Shareholder	**-**	8,300	**-**	8,300

The amount due from Shareholder at 31 December 2009 represented the receivable due from the Minister for Finance following his commitment in his letter of 22 December 2009 to ensure the Bank had sufficient capital to meet its regulatory capital requirements. On 31 March 2010 the Minister fulfilled his December 2009 commitment by providing the Bank with a promissory note to the value of €8.3bn.

During 2010 further capital was received from the Shareholder. A capital contribution of €2.0bn was received on 28 May 2010 in the form of an adjustment instrument to the promissory note. A further mid-year receivable of €8.58bn was settled on 23 August 2010 following the issuance of a second adjustment instrument, both increasing the principal amount of the 31 March promissory note. Additionally, a revised promissory note was issued by the Minister in December 2010 in exchange for the initial promissory note and the two adjustment instruments. This revised promissory note included an additional €6.42bn principal amount, settling an amount due from Shareholder at 30 November 2010. Full details of all promissory notes received during the year are included in note 26.

25. Available-for-sale financial assets

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Listed				
Government bonds	**397**	3,211	**351**	3,170
Financial institutions	**1,648**	3,330	**1,648**	3,343
Residential mortgage backed securities	**-**	804	**-**	804
Asset backed securities	**-**	423	**-**	423
	2,045	7,768	**1,999**	7,740
Unlisted				
Financial institutions	**2**	68	**2**	68
Residential mortgage backed securities	**-**	17	**-**	17
Asset backed securities	**5**	37	**-**	32
NAMA subordinated bonds	**167**	-	**167**	-
	174	122	**169**	117
Total	**2,219**	7,890	**2,168**	7,857
Amounts include:				
Due from Group undertakings			**-**	13

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

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
At beginning of year	**7,890**	8,158	**7,857**	8,143
Additions	**993**	3,252	**989**	3,237
Disposals (sales and maturities)	**(6,571)**	(3,471)	**(6,571)**	(3,464)
Fair value movements	**(107)**	(29)	**(121)**	(39)
Increase/(decrease) in interest accruals	**(70)**	3	**(70)**	3
Exchange and other movements	**84**	(23)	**84**	(23)
At end of year	**2,219**	7,890	**2,168**	7,857

As part of the strategy to de-risk the Bank there were significant disposals of bond assets during the year. Disposals and maturities include €2.7bn of government securities, €2.5bn of financial institution bonds and €1.4bn of other asset backed securities. Additions during the year include the purchase of €0.7bn of bonds issued by Irish banks and the receipt of NAMA subordinated bonds with an initial fair value of €0.2bn.

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

The amount removed from equity and recognised as a loss in profit or loss in respect of the disposal of available-for-sale financial assets amounted to €110m (31 December 2009: gain of €5m) for the Group (note 8).

In the current year €11m (31 December 2009: €471m) has been recycled from the available-for-sale reserve and recognised as an impairment charge in the income statement (note 14).

The carrying value of available-for-sale financial assets classified as impaired is less than €1m (31 December 2009: €106m). There are no items in the available-for-sale category that are past due but not impaired.

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

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

The AFS portfolio comprises investments in debt securities issued in Ireland of €1.0bn (31 December 2009: €2.6bn); Rest of Europe €1.1bn (31 December 2009: €4.7bn) and Rest of World €0.1bn (31 December 2009: €0.6bn).

At 31 December 2010 available-for-sale financial assets of €1,757m (31 December 2009: €6,080m) were used in sale and repurchase agreements with third parties for periods not exceeding six months for both the Group and the Bank.

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

	The Group 31 December 2010					
	Sovereign €m	**Financial Institutions €m**	**Residential Mortgage Securities €m**	**Asset Backed Securities €m**	**NAMA Subordinated Bonds €m**	**Total €m**
AAA / AA	**119**	**418**	**-**	**-**	**-**	**537**
A	**-**	**683**	**-**	**-**	**-**	**683**
BBB+ / BBB / BBB-	**278**	**549**	**-**	**-**	**-**	**827**
Sub investment grade	**-**	**-**	**-**	**-**	**-**	**-**
Unrated	**-**	**-**	**-**	**5**	**167**	**172**
	397	**1,650**	**-**	**5**	**167**	**2,219**

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

26. Promissory note

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Promissory note	**25,704**	-	**25,704**	-

On 31 March 2010, in settlement of the Minister for Finance's commitment (note 24), the Shareholder provided the Bank with a promissory note to the value of €8.3bn. Subsequent adjustment instruments increased the principal amount of the promissory note by €2.0bn and €8.58bn on 28 May and 23 August 2010 respectively.

On 30 September 2010, following an assessment of the Bank's capital requirements by the Central Bank of Ireland, the Minister announced the State's intention to provide additional capital by increasing the promissory note to meet the expected base case requirement of €29.3bn. In fulfilment of this undertaking, on 22 December 2010 the Bank, at the request of the Shareholder, agreed to return the initial promissory note and the two adjustment instruments totalling €18.88bn to the Minister in exchange for a single promissory note of €25.3bn. The revised promissory note is comprised of four tranches. The cash flows relating to tranches 1 to 3 correspond to the cash flows on the initial promissory note and the two adjustment instruments. Tranche 4 is effective 31 December 2010 and amounts to €6.42bn.

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

In December 2010, at the request of the Shareholder, a change was made to the legal terms of the promissory note allowing for the introduction of an ‘interest holiday’ in 2011 and 2012. Because the ‘interest holiday’ is compensated for by a higher interest rate thereafter this change did not impact the IFRS accounting treatment for the promissory note from the Bank’s perspective as the cash flows and effective interest rate over the expected life of the note remain unchanged. Hence the Bank will continue to accrue interest income on the note in 2011 and 2012.

The promissory note pays 10% of the initial principal amount each year commencing on 31 March 2011. Each tranche of the note has a market based fixed internal rate of return which is set on the date of issue and is appropriate to the maturity date of the tranche. The fixed cash flows of the instrument create an interest rate risk for the Group. As at 31 December 2010, the Bank had hedged a total of €4.6bn of the nominal amount using interest rate swaps. At 31 December 2010 a further €6.1bn of economic hedges exist in the form of shareholders’ funds and fixed rate debt securities in issue.

27. Government debt securities at amortised cost

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
NAMA Government Guaranteed Floating Rate Notes	**10,623**	-	**10,623**	-

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

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

Throughout the year the Bank has received NAMA senior bonds with a total nominal value of €12,275m and a total initial fair value of €10,491m. The difference between the nominal amount of the notes received and their initial fair value is included in the loss on disposal of assets to NAMA (note 13). Information on the valuation technique used to determine the fair value of NAMA senior bonds is set out on page 141.

As at 31 December 2010, €12,275m nominal of NAMA Government Guaranteed Floating Rate notes were used in sale and repurchase agreements under open market operations with central banks.

28. Loans and advances to customers

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Amounts receivable under finance leases and hire purchase contracts	**49**	67	**48**	64
Other loans and advances to customers	**33,892**	35,631	**34,357**	39,952
	33,941	35,698	**34,405**	40,016
Provisions for impairment	**(9,577)**	(4,846)	**(9,489)**	(4,753)
	24,364	30,852	**24,916**	35,263
Amounts include:				
Due from Group undertakings			**4,346**	9,087

The Group's loans and advances to customers at 31 December 2010 of €24,364m (31 December 2009: €30,852m) exclude loans classified as held for sale of €1,623m (31 December 2009: €25,482m).

The Bank's loans and advances to customers at 31 December 2010 of €24,916m (31 December 2009: €35,263m) exclude loans classified as held for sale of €1,332m (31 December 2009: €21,418m).

The Bank's loans and advances to customers include €749m (31 December 2009: €771m) lent to fund assets held in respect of liabilities to customers under investment contracts (note 41).

The Group's loans and advances to customers include loans to equity-accounted joint venture interests of €1,056m (31 December 2009: €1,045m) and loans of €126m (31 December 2009: €122m) to joint venture interests held in respect of liabilities to customers under investment contracts.

Provisions for impairment on loans and advances to customers	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
At beginning of period	**4,846**	914	**4,753**	732
Charge against profits - specific (note 14)	**4,956**	13,861	**5,030**	12,889
- collective (note 14)	**21**	583	**61**	573
Write-offs	**(363)**	(83)	**(363)**	(77)
Recoveries	**1**	-	**-**	-
Unwind of discount	**(168)**	(236)	**(154)**	(199)
Exchange movements	**99**	(73)	**65**	(31)
Net transfers from/(to) assets classified as held for sale (note 23)	**185**	(10,120)	**97**	(9,134)
At end of period	**9,577**	4,846	**9,489**	4,753
Specific	**8,341**	3,647	**8,310**	3,649
Collective	**1,236**	1,199	**1,179**	1,104
Total	**9,577**	4,846	**9,489**	4,753
Impaired loans (excludes loans classified as held for sale)	**16,564**	9,511	**15,213**	8,851

The collective provision of €1,236m (31 December 2009: €1,199m) has been calculated based on total performing customer loan balances, including those classified as held for sale.

Owing to a marked deterioration in the financial position of some borrowers, in order for the Bank to maximise the recovery of impaired loan balances it may in certain circumstances agree to a restructuring of loan arrangements so as to improve overall asset quality. The increase in provision write-offs in the period is primarily as a result of the active management of impaired loans, which may also include the sale of collateral and/or certain loan assets to third parties.

Loans assigned as collateral
Loans, including those classified as held for sale, of €9,384m (31 December 2009: €17,201m) have been assigned as collateral under the Bank's various covered securities programmes. Bonds issued externally under the Bank's UK covered bond programme are included within debt securities in issue (note 40). In addition, loans with a carrying value of €4,110m (31 December 2009: €12,490m) have been assigned as collateral under a Master Loan Repurchase Agreement with the Central Bank of Ireland (note 38). All of the loans remain in the Group's statement of financial position as substantially all of the risks and rewards relating to them are retained.

An analysis of lending assets by internal credit quality category, geographical location and industry sector concentration is provided for the Group in note 51 and for the Bank in note 56.

29. Leasing

Loans and advances to customers include amounts receivable under finance leases and hire purchase contracts analysed by remaining maturity as follows:

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Gross receivables:				
Three months or less	**26**	22	**25**	20
One year or less but over three months	**11**	17	**11**	16
Five years or less but over one year	**15**	33	**15**	33
Over five years	**-**	-	**-**	-
	52	72	**51**	69
Unearned future income	**(3)**	(5)	**(3)**	(5)
Net receivables (note 28)	**49**	67	**48**	64
Present value of minimum lease payments receivable:				
Three months or less	**25**	22	**25**	20
One year or less but over three months	**11**	16	**10**	15
Five years or less but over one year	**13**	29	**13**	29
Over five years	**-**	-	**-**	-
Present value of minimum payments receivable	**49**	67	**48**	64
Provision for uncollectible minimum lease payments receivable *	**35**	4	**34**	3

* Included in provisions for impairment on loans and advances to customers (note 28)

There are no unguaranteed residual values accruing to the benefit of the Bank or the Group (31 December 2009: €nil).

The cost of assets acquired by the Group during the year for letting under finance leases and hire purchase contracts amounted to €2m (31 December 2009: €15m).

30. Interests in associate and joint ventures

Joint ventures	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Unlisted				
At beginning of year	**142**	284	**-**	31
Investment in joint ventures	**3**	37	**-**	-
Disposals	**-**	(5)	**-**	-
Share of results	**(104)**	(151)	**-**	(31)
Distributions	**(2)**	(5)	**-**	-
Exchange movements	**3**	(18)	**-**	-
At end of year	**42**	142	**-**	-

Joint ventures	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Group's share of:				
Current assets	**17**	16	**-**	-
Non-current assets	**657**	813	**47**	43
Current liabilities	**(14)**	(53)	**-**	-
Non-current liabilities	**(618)**	(634)	**(47)**	(43)
Interests in joint ventures	**42**	142	**-**	-
Income	**35**	59	**-**	-
Expenses (including impairment)	**(139)**	(210)	**-**	(31)
Taxation	**-**	-	**-**	-
Share of results of joint ventures	**(104)**	(151)	**-**	(31)

Significant joint venture entities and registered offices	Principal activity	Group's interest in equity
Aggmore Europe 1 S.A. 47 boulevard Royal, L-2449 Luxembourg	Property investment	49%
Heywood Park Limited * Jubilee Buildings, Victoria Street, Douglas, Isle of Man IM1 2SH	Property investment	95%
Merchant Anglo (Amazon Park) Limited Partnership 145 St. Vincent Street, Glasgow G2 5JF, Scotland	Property investment	49%
Taurus Euro Retail Holdings Sarl 12 rue Guillaume J Kroll, L-1882 Luxembourg	Property investment	20%
The Second Anglo Irish UK Property Fund SLP 50 Lothian Road, Festival Square, Edinburgh EH3 9WJ, Scotland	Property investment	19%

* The Group's interest in the equity of this entity is greater than 50%. However, the substance and legal form of this venture is such that it is a jointly controlled entity as the approval of all joint venture parties is required for all strategic financial and operating decisions.

Associate

	The Group	
	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Share of results of associate	**-**	**(16)**

During the 15 months ended 31 December 2009 the Group wrote down the value of its interest in its associate to €nil.

The Group's share of the assets and shareholders' funds of its associate is €nil (31 December 2009: €nil). The Group has recognised a loss of €nil (31 December 2009: €16m, reflecting the write down of its interest).

The Group had neither capital commitments nor contingent liabilities, whether incurred jointly or otherwise, in relation to its joint ventures or associate at 31 December 2010 or 31 December 2009.

In accordance with the European Communities (Credit Institutions: Accounts) Regulations, 1992, the Group will annex a full listing of its joint ventures and associates to its annual return to the Companies Registration Office in Ireland.

31. Investments in Group undertakings

	The Bank	
	31 December 2010 €m	31 December 2009 €m
Investments in subsidiary undertakings at cost less provisions for impairment	**4,186**	3,236

The increase in investments in subsidiary undertakings during the year arises from the Bank's irrevocable waiver of certain loans due to it by Anglo Irish Asset Finance plc, Anglo Irish Property Lending Limited and Anglo Irish Commercial Properties (No. 1) Limited, and also the establishment of a new U.S. subsidiary, Anglo Irish Real Estate Holdings, Inc. (U.S.), to hold and dispose of U.S. property assets following loan foreclosures/restructuring.

Significant subsidiary undertakings and registered offices	**Principal activity**
Anglo Irish Asset Finance plc 10 Old Jewry, London EC2R 8DN, England	Finance
Anglo Irish Assurance Company Limited Heritage House, 23 St. Stephen's Green, Dublin 2, Ireland	Life assurance and pensions
Anglo Irish Mortgage Bank Stephen Court, 18/21 St. Stephen's Green, Dublin 2, Ireland	Issuance of mortgage covered securities
Anglo Irish Bank Corporation (International) PLC Jubilee Buildings, Victoria Street, Douglas, Isle of Man IM1 2SH	Banking
Anglo Irish Capital UK LP 10 Old Jewry, London EC2R 8DN, England	Finance
Anglo Irish Capital UK (2) LP 10 Old Jewry, London EC2R 8DN, England	Finance
Anglo Irish Capital UK (3) LP 10 Old Jewry, London EC2R 8DN, England	Finance
Anglo Irish Covered Bonds LLP 10 Old Jewry, London EC2R 8DN, England	Guarantor of covered bonds
Anglo Irish International Financial Services Limited Stephen Court, 18/21 St. Stephen's Green, Dublin 2, Ireland	Finance
Anglo Irish Property Lending Limited 10 Old Jewry, London EC2R 8DN, England	Finance
Anglo Irish Real Estate Holdings, Inc. (U.S.) 265 Franklin Street, 19th Floor, Boston, MA 02110, USA	Investment holding
Buyway Group Limited Stephen Court, 18/21 St. Stephen's Green, Dublin 2, Ireland	Investment holding
CDB (U.K.) Limited 10 Old Jewry, London EC2R 8DN, England	Investment holding
Colligo Funding Limited 5 Harbourmaster Place, IFSC, Dublin 1, Ireland	Secured debt issuance

Significant subsidiary undertakings and registered offices	Principal activity
Mainland Investments GP, Inc.	Property investment
Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, USA	
Sparta Financial Services	Finance
Stephen Court, 18/21 St. Stephen's Green, Dublin 2, Ireland	
Steenwal B.V.	Investment holding
Locatellikade 1 Parnassustoren, 1076 AZ Amsterdam, The Netherlands	
The Anglo Aggmore Limited Partnership	Property investment
10 Old Jewry, London EC2R 8DN, England	

The Group owns all of the issued ordinary share capital of all subsidiary undertakings listed unless otherwise stated. All of the Group undertakings are included in the consolidated financial statements. The Group holds 75% of the equity and loan capital contributed to The Anglo Aggmore Limited Partnership. The capital contributors earn a return of 10% per annum on their capital and thereafter the Group is entitled to 50% of the remaining profits of this partnership. The Group is the general partner of Anglo Irish Capital UK LP, Anglo Irish Capital UK (2) LP, Anglo Irish Capital UK (3) LP and The Anglo Aggmore Limited Partnership. The Anglo Irish Capital UK Limited Partnership, Anglo Irish Capital UK (2) Limited Partnership, Anglo Irish Capital UK (3) Limited Partnership and The Anglo Aggmore Limited Partnership have availed of the exemption under paragraph 7 of the UK Partnerships (Accounts) Regulations, 2008 from the requirements to comply with paragraphs 4 to 6 of those regulations.

The Group's interests in Anglo Irish Covered Bonds LLP and Colligo Funding Limited are, in substance, no different than if they were wholly owned subsidiary undertakings. As a result they are consolidated in the Group accounts. There are no other entities which might be considered to be subsidiaries under SIC 12 which have not been consolidated.

Each subsidiary undertaking operates principally in the country in which it is registered. In accordance with the European Communities (Credit Institutions: Accounts) Regulations, 1992, a complete listing of Group undertakings will be annexed to the annual return to the Companies Registration Office in Ireland.

Anglo Irish Mortgage Bank ('AIMB')

AIMB is a wholly owned subsidiary of Anglo Irish Bank Corporation Limited and is regulated by the Central Bank of Ireland. Its principal activity, as a licensed bank, is the issuance of commercial mortgage asset covered securities, in accordance with the Asset Covered Securities Acts, 2001 and 2007.

On 15 January 2009 Anglo Irish Bank Corporation Limited transferred a portfolio of commercial mortgage loans of €6bn to AIMB, and on 21 January 2009 AIMB launched a €10bn Mortgage Covered Securities Programme. At 31 December 2010 the total amount of principal outstanding in respect of mortgage covered securities issued was €1.8bn (31 December 2009: €4.3bn), all of which is held by the Bank. At the same date the total principal outstanding in the cover assets pool including mortgage loans and cash was €4.0bn (31 December 2009: €7.7bn)

Guarantees provided to subsidiaries by Anglo Irish Bank Corporation Limited

Each of the companies listed below, and consolidated into these accounts, has availed of the exemption from filing its individual accounts as set out in Section 17 of the Companies (Amendment) Act, 1986 ('the Act'). In accordance with the Act, Anglo Irish Bank Corporation Limited has irrevocably guaranteed the liabilities of Anglo Irish Bank ESOP Limited, Anglo Irish Bank Limited, Anglo Irish Capital Partners Limited, Anglo Irish International Financial Services Limited, Aragone Limited, Buyway Group Limited, Fitzwilliam Leasing Limited, Irish Buyway Limited, Knightsdale Limited, Modify 5 Limited, Sparta Financial Services and Tincorra Investments Limited.

32. Intangible assets

	The Group	The Bank
	Computer software €m	Computer software €m
Cost		
At 1 October 2008	76	61
Additions	14	13
Disposals	(2)	(2)
Disposal of Group undertaking (note 15)	(14)	-
Exchange movement	(2)	(2)
At 31 December 2009	72	70
Additions	5	5
At 31 December 2010	77	75
Accumulated amortisation		
At 1 October 2008	55	40
Charge for the period	13	11
Disposals	(2)	(2)
Disposal of Group undertaking (note 15)	(14)	-
Exchange movement	(1)	-
At 31 December 2009	51	49
Charge for the year	10	10
At 31 December 2010	61	59
Net book value		
At 31 December 2010	16	16
At 31 December 2009	21	21

33. Investment property - held on own account

	The Group	
	31 December 2010 €m	31 December 2009 €m
Cost		
At beginning of year	**376**	110
Additions	**13**	279
Disposals	**(7)**	-
Exchange movement	**21**	(13)
At end of year	**403**	376
Accumulated depreciation		
At beginning of year	**109**	2
Charge for the year	**10**	10
Impairment	**61**	101
Exchange movement	**6**	(4)
At end of year	**186**	109
Net book value		
At end of year	**217**	267
At beginning of year	**267**	108

Investment property held on own account includes hotel, office and retail properties, previously acquired by the Group's Private Banking and Lending businesses which were not allocated to policyholders under investment contracts or sold to private clients.

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

The fair value of investment property held on own account at 31 December 2010 is €216m (31 December 2009: €173m). Fair values are based on valuations provided by independent third party valuers during the year which have been reviewed and agreed by management. These values are based on a sale in current, highly illiquid markets and reflect a lack of recent transactional evidence. The fair values do not necessarily represent the expected longer term recoverable value of the properties on which the carrying amount is based.

34. Investment property - held in respect of liabilities to customers under investment contracts

	The Group	
	31 December 2010 €m	31 December 2009 €m
Fair value		
At beginning of year	**1,143**	1,796
Additions	**-**	-
Disposals	**-**	(50)
Fair value, exchange and other movements	**50**	(603)
At end of year (note 41)	**1,193**	1,143

Investment property held in respect of liabilities to customers under investment contracts is included in the statement of financial position at fair value. Fair values are based on valuations provided by independent third party valuers using, where relevant, accepted Royal Institution of Chartered Surveyors guidelines or equivalent local guidelines appropriate to the location of the property. Fair values are reviewed and agreed by management.

35. Property, plant and equipment

The Group	Freehold properties €m	Leasehold improvements €m	Computer and other equipment €m	Total €m
Cost				
At 1 October 2008	5	29	60	94
Disposal of Group undertaking	(5)	-	(3)	(8)
Additions	-	1	2	3
Disposals	-	-	(1)	(1)
Exchange movements	-	-	(2)	(2)
At 31 December 2009	-	30	56	86
Additions	-	1	-	1
At 31 December 2010	-	31	56	87
Accumulated depreciation				
At 1 October 2008	2	12	42	56
Disposal of Group undertaking	(2)	-	(2)	(4)
Charge for the period	-	4	8	12
Disposals	-	-	(1)	(1)
Exchange movements	-	-	(1)	(1)
At 31 December 2009	-	16	46	62
Charge for the year	-	1	5	6
At 31 December 2010	-	17	51	68
Net book value				
At 31 December 2010	-	14	5	19
At 31 December 2009	-	14	10	24

The Group occupies properties with a net book value of €12m at 31 December 2010 (31 December 2009: €12m) in the course of carrying out its own activities.

The Bank	Leasehold improvements €m	Computer and other equipment €m	Total €m
Cost			
At 1 October 2008	**15**	**54**	**69**
Additions	**1**	**1**	**2**
Disposals	**-**	**(1)**	**(1)**
Exchange movements	**-**	**(2)**	**(2)**
At 31 December 2009	**16**	**52**	**68**
At 31 December 2010	**16**	**52**	**68**
Accumulated depreciation			
At 1 October 2008	**10**	**38**	**48**
Charge for the period	**3**	**7**	**10**
Disposals	**-**	**(1)**	**(1)**
Exchange movements	**-**	**(1)**	**(1)**
At 31 December 2009	**13**	**43**	**56**
Charge for the year	**-**	**5**	**5**
At 31 December 2010	**13**	**48**	**61**
Net book value			
At 31 December 2010	**3**	**4**	**7**
At 31 December 2009	**3**	**9**	**12**

The Group has minimum future rental payments under non-cancellable operating leases as follows:

	31 December 2010		31 December 2009	
	Property €m	**Equipment €m**	Property €m	Equipment €m
Within one year	**9**	**3**	12	3
One to five years	**30**	**1**	49	1
Over five years	**51**	**1**	140	1
	90	**5**	201	5

In February 2010, the Bank issued a notice to terminate an existing agreement for lease regarding a premises in North Wall Quay, Dublin. The impact on future minimum lease rentals was a reduction of €101m.

The total of future minimum sublease payments expected to be received under non-cancellable subleases at 31 December 2010 was €1m (31 December 2009: €1m).

The Group loss before taxation is arrived at after charging operating lease rentals of €15m (31 December 2009: €18m). Sublease income recognised for the year was €1m (31 December 2009: €1m).

As at 31 December 2010 the Group and the Bank had contractual commitments of €1m (31 December 2009: €1m) for the acquisition of property, plant and equipment.

36. Deferred taxation

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Analysis of movement in deferred taxation:				
Opening net asset	**46**	81	**-**	103
Income statement (charge)/credit for year (note 16)	**(2)**	49	**-**	(18)
Movements through equity	**-**	(83)	**-**	(85)
Exchange movements	**2**	(1)	**-**	-
Closing net asset	**46**	46	**-**	-
Analysis of deferred taxation asset:				
Losses available for offset against future profits	**46**	46	**-**	-
Represented in the statement of financial position as follows:				
Deferred taxation asset	**46**	46	**-**	-
Deferred taxation liability	**-**	-	**-**	-
	46	46	**-**	-

At 31 December 2010, pending a final decision in relation to the restructuring of the Bank's operations which is subject to EC approval, deferred tax assets of €4,376m (31 December 2009: €1,794m) and €4,318m (31 December 2009: €1,628m) have not been recognised in respect of unused losses for the Group and the Bank respectively.

37. Other assets

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Trading properties	**9**	10	**-**	-
Trade and other receivables	**78**	19	**68**	1
	87	29	**68**	1

Trade and other receivables includes a receivable of €67m in respect of the termination of certain external cross currency swaps in the UK covered bond programme. The swaps were terminated prior to year end but the final exchange did not occur until early January 2011.

38. Deposits from banks

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Deposits repayable on demand	**54**	359	**3,342**	6,211
Sale and repurchase agreements - central banks	**45,023**	23,680	**45,023**	23,680
Sale and repurchase agreements - banks	**545**	7,238	**545**	7,238
Other deposits by banks with agreed maturity dates	**944**	1,694	**645**	2,007
	46,566	32,971	**49,555**	39,136
Amounts include:				
Due to Group undertakings			**3,289**	6,423

Sale and repurchase agreements with central banks include €16.9bn (31 December 2009: €12.2bn) borrowed under open market operations from central banks. A combined €28.1bn (31 December 2009: €11.5bn) was also borrowed under a Special Master Repurchase Agreement ('SMRA'), a Master Loan Repurchase Agreement ('MLRA'), and a Facility Deed agreement ('FD') from the Central Bank of Ireland.

The SMRA is secured on the promissory note. The MLRA is secured on unencumbered qualifying loan assets. The FD is an unsecured loan facility guaranteed by the Minister for Finance, who separately benefits from a counter indemnity from the Bank should the guarantee be called upon.

Certain of the Bank's assets have been pledged as collateral under open market operations with monetary authorities at the year end through the Group's covered securities programmes (note 28).

Deposits from banks include €0.1bn (31 December 2009: €0.3bn) of cash collateral received from counterparties to offset credit risk arising from derivative and sale and repurchase agreements.

Other deposits by banks with agreed maturity dates in the Group include €299m (31 December 2009: €258m) of funding provided to policyholders by external banks in respect of liabilities to customers under investment contracts (note 41).

39. Customer accounts

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Repayable on demand	**3,771**	7,852	**6,832**	11,932
Other deposits by customers with agreed maturity dates	**7,321**	19,362	**6,624**	16,964
	11,092	27,214	**13,456**	28,896
Amounts include:				
Due to Group undertakings			**3,956**	5,268
Customer type				
Retail deposits	**6,120**	14,715	**4,847**	12,013
Non-retail deposits	**4,972**	12,499	**8,609**	16,883
	11,092	27,214	**13,456**	28,896

The movement in balances in the above table includes foreign currency movements. During the year, customer accounts have decreased by €16.7bn on a constant currency basis with retail balances decreasing by €8.9bn and non-retail balances decreasing by €7.8bn.

The decline in retail balances can be attributed to customer concerns regarding the Bank and the sovereign. Due to pricing constraints, in particular in the Bank's UK retail deposit business, the Bank was not in a position to set pricing to retain maturing one year deposit products.

The decrease in non-retail funding was driven by adverse credit rating actions and both Bank and sovereign specific concerns.

As at 31 December 2010 the Group's largest 20 customer deposits accounted for 14% (31 December 2009: 14%) of total customer deposit balances.

The Group's customer accounts include €6m (31 December 2009: €10m) received from equity-accounted joint venture interests.

The Bank's customer accounts include €92m (31 December 2009: €129m) of deposits held in respect of liabilities to customers under investment contracts (note 41). The deposits eliminate on consolidation in the Group customer accounts balances.

40. Debt securities in issue

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Medium term note programme	**6,899**	13,000	**6,899**	13,000
Covered bonds	**-**	670	**-**	665
Short term programmes:				
Commercial paper	**13**	776	**13**	776
Certificates of deposit	**-**	702	**-**	702
	6,912	15,148	**6,912**	15,143

Debt securities in issue have decreased by €8.2bn (31 December 2009: €2bn) largely due to the significant maturities of government guaranteed notes previously issued under the Credit Institutions (Financial Support) Scheme 2008 which matured at the end of September 2010. Furthermore, due to continued market-wide risk aversion towards the Bank, coupled with concerns regarding the Irish sovereign, the Bank only has very limited access to wholesale funding markets.

€3.0bn of medium term notes, all of which are Government guaranteed with maturities of up to five years, were issued during the year. This includes €286m of bonds issued as part of the Group's liability management exercise. Maturities and redemptions during the year were €9.4bn, of which €7.2bn matured in September 2010. On 30 December 2010 the Bank repurchased the remaining €171m of covered bonds outstanding.

Short term programmes have decreased during the year by €1.5bn primarily due to the uncertainty regarding the future of the Bank and downgrades to the Bank's credit rating.

The Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 has been extended for certain eligible liabilities to 30 June 2011. Fees payable under the Government guarantee schemes are set out in notes 3 and 4.

Pursuant to the Bank's €30bn Euro Medium Term Note Programme and the Group's €10bn Global Covered Bond Programme, from September 2010 the Bank has received several requests to provide certificates that no event of default or potential event of default under the relevant programme has occurred during the period specified therein, and the related correspondence has in some instances included reference to the question of whether a particular event of default has occurred. The event of default in question may arise if the Bank or any of its principal subsidiaries ceases or threatens to cease to carry on its business or any substantial part of its business. Triggering an event would have adverse consequences for the Bank and could result in the debt concerned becoming payable immediately. On each occasion, the Bank has provided the required certificate within the required timeframe confirming that no such default has occurred.

41. Liabilities to customers under investment contracts

	The Group	
	31 December 2010 €m	31 December 2009 €m
Assets held in respect of liabilities to customers under investment contracts:		
Investment property	**1,193**	1,143
Financial assets at fair value through profit or loss	**237**	244
Loans and advances to banks	**13**	18
Total	**1,443**	1,405
Less:		
Funding provided by parent Bank	**(764)**	(771)
Funding provided by external banks	**(299)**	(258)
Derivative financial instruments	**(84)**	(86)
Net asset value attributable to external unitholders	**(37)**	(36)
Add:		
Funds on deposit with parent Bank	**92**	129
Liabilities to customers under investment contracts at fair value	**351**	383

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

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

In accordance with IFRS, obligations under investment contracts are carried at fair value in the statement of financial position and are classified as liabilities to customers under investment contracts. The above table sets out where the relevant assets and liabilities in respect of the life assurance business investment contracts are included in the Group statement of financial position. On consolidation, Group loans and advances to customers and Group loans classified as held for sale are shown net of funding of €764m (31 December 2009: €771m) provided by the parent Bank to fund assets held by the life assurance business in respect of liabilities to customers under investment contracts.

Total funding provided by the parent Bank amounts to €954m (31 December 2009: €933m). €764m represents the current market value of assets, net of related derivative liabilities, to which the parent Bank holds recourse. In prior periods the market value of assets to which the Bank held recourse exceeded the amount of funding that it had provided in relation to those assets. The Group has assessed these lending facilities for impairment, with any resulting charge included within provisions for impairment on loans and advances to customers.

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

42. Other liabilities

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Obligations under financial guarantees	**64**	83	**61**	76
Payable to NAMA	**138**	-	**138**	-
Amounts attributable to external unitholders linked to investment contracts (note 41)	**37**	36	**-**	-
Sundry liabilities	**201**	36	**199**	35
Provisions for liabilities and charges	**135**	15	**134**	15
	575	170	**532**	126

The amount payable to NAMA is primarily attributable to a €100m clawback settlement amount relating to certain loan balances which were transferred in November 2010 before full due diligence had been completed by NAMA. NAMA reserve the right for a clawback of the original consideration paid upon completion of due diligence. The amount payable also includes €38m relating to value-to-transfer adjustments (representing the movement in loan balances between the NAMA cut-off date and the actual loan transfer date). Separately within provisions for liabilities and charges the Bank has provided €30m for an onerous contract relating to the requirement to provide an ongoing service to NAMA and a further €32m in respect of future due diligence costs arising from the accelerated transfer of assets which occurred in November and December 2010.

The increase in sundry liabilities relates to the redemption of covered bonds in issue of €171m which occurred on 30 December 2010 but which did not settle until 5 January 2011.

The Bank continues to undertake a review of interest rates applied to loan accounts in the period from 1 January 1996 to 31 January 2005. The review will identify any difference between the interest rates applied and the variable market quoted rates. The Bank has provided €45m in relation to this matter for the period from 1 January 1996 to 31 January 2005 which is included in provisions for liabilities and charges.

Provisions for liabilities and charges also includes €10m for staff redundancy costs and €15m in respect of legacy matters, which have been identified following internal reviews into historical practices, and largely relate to compensation and benefit arrangements involving former Executive Directors. New management shall vigorously pursue former Executive Directors for any sums owed.

43. Subordinated liabilities and other capital instruments

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Dated Loan Capital				
US$165m Subordinated Notes Series A 2015 (a)	**124**	119	**124**	119
US$35m Subordinated Notes Series B 2017 (b)	**28**	26	**28**	26
€750m Floating Rate Subordinated Notes 2014 (c)	**-**	325	**-**	325
€500m Callable Floating Rate Subordinated Notes 2016 (d)	**-**	500	**-**	500
€750m Callable Floating Rate Subordinated Notes 2017 (e)	**-**	749	**-**	749
Undated Loan Capital				
Stg£300m Non-Cumulative Preference Shares (f)	**351**	342	**351**	342
Stg£200m Step-up Callable Perpetual Capital Securities (g)	**3**	23	**-**	-
Stg£250m Tier One Non-Innovative Capital Securities (h)	**3**	38	**-**	-
€600m Perpetual Preferred Securities (i)	**-**	134	**-**	-
Stg£300m Step-up Perpetual Subordinated Notes (j)	**-**	48	**-**	48
€600m Fixed/Floating Perpetual Preferred Securities (k)	**-**	78	**-**	-
Stg£350m Fixed/Floating Perpetual Preferred Securities (l)	**-**	1	**-**	-
Other subordinated liabilities (m)	**-**	-	**-**	-
	509	2,383	**503**	2,109

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

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

During the year the Group repurchased or restructured certain subordinated liabilities as part of a Liability Management Exercise ('LME'). €270m nominal of Tier 1, €45m of Upper Tier 2 and €1,575m of Lower Tier 2 securities were repurchased, exchanged or restructured, resulting in a net gain of €1,589m (note 7).

In August 2009 the Group repurchased €1,805m of Tier 1, €307m of Upper Tier 2 and €388m of Lower Tier 2 subordinated liabilities, resulting in a net gain of €1,752m.

(a) The US$165m Subordinated Notes Series A 2015 bear interest at 4.71% per annum to 28 September 2010 and thereafter reset at three month LIBOR plus 0.92% per annum. Please refer to note 58 for details of events after the reporting period.

(b) The US$35m Subordinated Notes Series B 2017 bear interest at 4.80% per annum to 28 September 2012 and thereafter reset at three month LIBOR plus 0.93% per annum. Please refer to note 58 for details of events after the reporting period.

(c) During the year €307m nominal amount of the €750m Floating Rate Subordinated Notes 2014 was exchanged for new euro-denominated Floating Rate Notes due 2011 issued by the Bank, together with the payment of any applicable cash amounts. An amendment to the terms and conditions of the notes was separately approved by the holders of the notes giving the Bank the right to redeem the notes at an amount equal to €0.01 per €1,000. The remaining €18m principal amount of the notes was subsequently redeemed at this amount.

(d) During the year €459m nominal amount of the €500m Callable Floating Rate Subordinated Notes 2016 was exchanged for new euro-denominated Floating Rate Notes due 2011 issued by the Bank, together with the payment of any applicable cash amounts. An amendment to the terms and conditions of the notes was separately approved by the holders of the notes giving the Bank the right to redeem the notes at an amount equal to €0.01 per €1,000. The remaining €41m principal amount of the notes was subsequently redeemed at this amount.

(e) During the year €690m nominal amount of the €750m Callable Floating Rate Subordinated Notes 2017 was exchanged for new euro-denominated Floating Rate Notes due 2011 issued by the Bank, together with the payment of any applicable cash amounts. An amendment to the terms and conditions of the notes was separately approved by the holders of the notes giving the Bank the right to redeem the notes at an amount equal to €0.01 per €1,000. The remaining €60m principal amount of the notes was subsequently redeemed at this amount.

(f) The holders of the 300,000 Non-cumulative Preference Shares of Stg£1 each are entitled to a non-cumulative preference dividend of 6.25% per annum based on a principal amount of Stg£1,000 per share payable annually in arrears on 15 June in each year to 15 June 2015. Thereafter dividends are due to be paid quarterly in arrears on 15 March, 15 June, 15 September and 15 December in each year based on a principal amount of Stg£1,000 per share and on the three month LIBOR rate plus 1.66% per annum. No preference dividends can be paid if the issuer is not in compliance with applicable regulatory capital requirements.

Upon any winding up of the issuer these preference shares rank in priority to the ordinary shares in the Bank and equally among themselves and any other present and future Tier 1 capital issues of the Group. Holders of these preference shares are not entitled to vote at any general meetings of the Bank, except in certain restricted circumstances.

On 21 January 2009, under the terms of the Anglo Irish Bank Corporation Act, 2009, ownership of the 300,000 Non-Cumulative Preference Shares in issue was transferred to the Minister for Finance. In May 2009 the Bank received correspondence from the Minister stating that dividend payments on these preference shares, including the dividend otherwise payable on 15 June 2009, would be waived until such time as the Minister informs the Bank that dividend payments are to resume.

(g) During the year the terms and conditions of the Stg£200m Step-up Callable Perpetual Capital Securities, issued by Anglo Irish Asset Finance plc, were modified by the insertion of a call right for the issuer at £0.01 per £1,000. This modification was approved by resolution at a meeting of the holders of the Securities. The holders of £18m principal amount of the Securities (out of a total of £19m in external ownership at that time) voted in favour of the resolution and received a consent fee in the amount of £50 for each £1,000 nominal amount held. The holders of £0.4m principal amount voted against the resolution. The call right was exercised by the issuer in March 2011.

(h) During the year the terms and conditions of the Stg£250m Tier One Non-Innovative Capital Securities, issued by Anglo Irish Asset Finance plc, were modified by the insertion of a call right for the issuer at £0.01 per £1,000. This modification was approved by resolution at a meeting of the holders of the Securities. The holders of £23m principal amount of the Securities (out of a total of £30m in external ownership at that time) voted in favour of the resolution and received a consent fee in the amount of £50 for each £1,000 nominal amount held. The holders of £6.5m principal amount voted against the resolution. The call right was exercised by the issuer in March 2011.

(i) During the year the terms and conditions of the Non-voting Non-cumulative Perpetual Preferred Securities, issued by Anglo Irish Capital UK LP, were modified by the insertion of a call right for the issuer at €0.01 per €1,000. This modification was approved by resolution at a meeting of the holders of the Securities. The holders of €72m principal amount of the Securities (out of a total of €138m in external ownership at that time) voted in favour of the resolution and received a consent fee in the amount of €50 for each €1,000 nominal amount held. The holders of €5.1m principal amount voted against the resolution. The call right was exercised by the issuer in March 2011.

(j) During the year the terms and conditions of the Stg£300m Step-up Perpetual Subordinated Notes were modified by the insertion of a call right for the issuer at £0.01 per £1,000. This modification was approved by extraordinary resolution at a meeting of the holders of the Notes. The holders of £38m principal amount of the Notes voted in favour of the extraordinary resolution and received a consent fee in the amount of £50 for each £1,000 nominal amount held. The call right was exercised by the Bank in December 2010.

(k) During the year the terms and conditions of the Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities, issued by Anglo Irish Capital UK (2) LP, were modified by the insertion of a call right for the issuer at €0.01 per €1,000. This modification was approved by resolution at a meeting of the holders of the Securities. The holders of €58m principal amount of the Securities (out of a total of €74m in external ownership at that time) voted in favour of the resolution and received a consent fee in the amount of €50 for each €1,000 nominal amount held. The holders of €1.7m principal amount voted against the resolution. The call right was exercised by the issuer in March 2011.

(l) During the year the terms and conditions of the Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities, issued by Anglo Irish Capital UK (3) LP, were modified by the insertion of a call right for the issuer at €0.01 per €1,000. This modification was approved by resolution at a meeting of the holders of the Securities. The call right was exercised by the issuer in March 2011.

(m) Other subordinated liabilities includes €100,000 A Preference Shares issued by Anglo Irish Asset Finance plc. The Group is precluded from declaring and paying any distribution on these shares.

43. Subordinated liabilities and other capital instruments continued

Credit Institutions (Stabilisation) Act 2010

On 21 December 2010, the Credit Institutions (Stabilisation) Act 2010 (the 'Act') was signed into law. The Act provides a legislative basis for the restructuring of the Irish banking system agreed in the joint EU - IMF Programme for Ireland. In addition, under this legislation the Minister for Finance, after consultation with the Governor of the Central Bank of Ireland, has the power to apply to the High Court for a subordinated liabilities order (an 'Order').

An Order can provide for the modification of contractual terms relating to the subordinated liabilities, including (amongst others) terms relating to:

(a) the payment of interest;
(b) the repayment of the principal;
(c) what constitutes an event of default;
(d) collective action provisions;
(e) the timing of obligations;
(f) the due date;
(g) the applicable law; and
(h) any right to enforce payment.

Orders can also make provision for the granting of a shareholding in a relevant institution to subordinated creditors. Orders can also require a relevant institution to acquire subordinated liabilities for a specified consideration, including a consideration calculated on the assumption that the State has not and will not provide financial support to the relevant institution. The Act restricts subordinated creditors from instituting a petition to wind up an institution on the basis of failure to honour the terms of a subordinated liability where the institution in question is in compliance with the terms of an Order.

Once an Order is made, no subordinated creditor of the relevant institution may exercise any right of set-off in respect of any amount in connection with the subordinated liabilities owed to the subordinated creditor by the relevant institution. This legislation will cease to have effect from 31 December 2012 unless this period is extended by the Irish Government.

44. Share capital

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

Movements in allotted, called up and fully paid share capital	31 December 2010 number	31 December 2009 number
Number of ordinary shares:		
At beginning of year	**25,769,150,409**	769,150,409
Issue of share capital	**-**	25,000,000,000
At end of year	**25,769,150,409**	25,769,150,409

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

Preference share capital

The Bank had authorisation from shareholders to issue preference share capital as follows:

	Group and Bank	
	31 December 2010 €m	31 December 2009 €m
50,000,000 non-cumulative preference shares of €1 each	**50**	50
50,000,000 non-cumulative preference shares of £1 each	**58**	56
50,000,000 non-cumulative preference shares of $1 each	**37**	35

On 15 June 2005 300,000 non-cumulative preference shares of £1 each were issued at a price of £997.99 per share. Under IAS 32, these are classified as subordinated liabilities and other capital instruments (note 43).

On 21 January 2009, under the terms of the Anglo Irish Bank Corporation Act, 2009, the 300,000 non-cumulative preference shares of £1 each were transferred to the Minister for Finance.

45. Capital reserve

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Capital reserve	**25,300**	8,300	**25,300**	8,300

On 22 December 2009 the Bank's sole Shareholder, the Minister for Finance, wrote to the Bank outlining his commitment, subject to EU State Aid approval, to ensure that the Bank had sufficient capital to continue to meet regulatory capital requirements at 31 December 2009. On 23 December 2009 the Board accepted the Shareholder's binding commitment. The Bank recognised a receivable from the Shareholder on 31 December 2009 on the basis that it was virtually certain to occur (note 24), and a corresponding credit to the capital reserve. On 31 March 2010, the Bank received an initial promissory note to the value of €8.3bn from the Minister.

The promissory note provided for the issuance of adjustment instruments which could amend the original principal amount of the note. On 28 May and 23 August 2010, the Minister issued adjustment instruments increasing the principal amount of the 31 March promissory note to €18.88bn (note 26), resulting in corresponding credits to the capital reserve.

A revised promissory note was issued by the Minister in December 2010 in exchange for the initial promissory note and the two adjustment instruments. This revised promissory note included an additional €6.42bn principal amount, settling an amount due from Shareholder at 30 November 2010. This resulted in a corresponding credit of €6.42bn to the capital reserve, increasing it from €18.88bn to €25.3bn at 31 December 2010.

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

46. Other reserves

Non-distributable capital reserve

This is a non-distributable capital reserve.

Exchange translation reserve

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

	The Group	
	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Movement in exchange translation reserve		
At beginning of year	**(56)**	(9)
Exchange differences on translation of foreign operations	**88**	(212)
Net (loss)/gain on hedges of net investments in foreign operations	**(29)**	165
At end of year	**3**	(56)

Cash flow hedging reserve

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

	The Group	
	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Movement in cash flow hedging reserve		
At beginning of year	**110**	(9)
Release of deferred taxation	**-**	(1)
Net changes in fair value	**32**	341
Transfers to income statement	**(85)**	(221)
At end of year	**57**	110

Available-for-sale reserve

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

	The Group	
	Year ended 31 December 2010 €m	15 months ended 31 December 2009 €m
Movement in available-for-sale reserve		
At beginning of year	**(207)**	(563)
Release of deferred taxation	**-**	(80)
Net changes in fair value	**(113)**	(42)
Impairment recognised in income statement	**11**	471
Transfers to income statement	**110**	(5)
Foreign exchange and other movements	**9**	12
At end of year	**(190)**	(207)

The available-for-sale reserve consists of unrealised losses on bank securities of €107m (31 December 2009: €79m), on NAMA subordinated bonds of €70m (31 December 2009: €nil), on sovereign securities of €12m (31 December 2009: unrealised gains of €71m), on asset backed securities of €1m (31 December 2009: €112m), and on residential mortgage backed securities of €nil (31 December 2009: €87m).

Share-based payments reserve

The share-based payments reserve represented the cumulative income statement expense for unexercised share options and deferred share awards granted on or after 7 November 2002. Following the enactment of the Anglo Irish Bank Corporation Act, 2009, which extinguished all rights outstanding under the various share-based incentive plans, the cumulative balance in the share-based payment reserve was transferred to retained earnings.

47. Non-controlling interests

	The Group	
	31 December 2010 €m	31 December 2009 €m
Equity interests in subsidiary undertakings	**1**	1

48. Income tax effects relating to comprehensive income

	The Group		
	Year ended 31 December 2010		
	Before tax amount €m	**Tax benefit/ (expense) €m**	**Net of tax amount €m**
Net actuarial losses in retirement benefit schemes	**(7)**	**-**	**(7)**
Net change in cash flow hedging reserve	**(53)**	**-**	**(53)**
Net change in available-for-sale reserve	**17**	**-**	**17**
Foreign exchange translation	**59**	**-**	**59**
	16	**-**	**16**

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

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

49. Contingent liabilities, commitments and other contingencies

	The Group		The Bank	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
Contingent liabilities				
Guarantees and irrevocable letters of credit	**175**	270	**266**	330
Performance bonds and other transaction related contingencies	**48**	74	**38**	63
	223	344	**304**	393
Commitments				
Credit lines and other commitments to lend	**552**	1,858	**551**	1,668

Regulatory reviews and enquiries

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

Legal claims
In the normal course of the Bank's business and operations, litigation arises from time to time. The Bank has a policy of active management and rigorous defence of legal claims and there are procedures in place to ensure the oversight of claims by the Risk and Compliance Committee. At 31 December 2010 there are a number of ongoing legal proceedings.

Other than the regulatory reviews and enquiries referred to above, the only significant additional proceedings, which are ongoing, are as follows:

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

(ii) On 14 February 2011 the Bank received notice that holders of certain subordinated loan notes filed a claim for relief against the Bank in the United States District Court. See note 58 'Events after the reporting period' for more information.

Guarantees
In the normal course of business, the Group is a party to financial instruments with off balance sheet risk to meet the financing needs of customers. These instruments involve, to varying degrees, elements of risks which are not reflected in the statement of financial position. Guarantee contracts expose the Bank to the possibility of sustaining a loss if the other party to the financial instrument fails to perform in accordance with the terms of the contract. Even though these obligations may not be recognised in the statement of financial position, they do contain risk and are therefore part of the overall risk of the Bank (see note 51).

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

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

Other contingencies
The Bank continues to undertake a review of interest rates applied to loan accounts in the period prior to 1 January 1996. The review will identify any difference between the interest rates applied and the variable market quoted rates. However, until further work is completed the Bank is not in a position to provide a reliable estimate of any such liability which may arise for the period prior to 1 January 1996.

50. Statement of cash flows

Other non-cash items	The Group Year ended 31 December 2010 €m	The Group Restated* 15 months ended 31 December 2009 €m	The Bank Year ended 31 December 2010 €m	The Bank Restated* 15 months ended 31 December 2009 €m
Share of results of associate and joint ventures	**104**	167	**-**	31
Loans and advances written-off net of recoveries (1)	**(381)**	(83)	**(380)**	(77)
Interest earned on promissory note	**(433)**	-	**(433)**	-
Interest earned on Government debt securities at amortised cost	**(146)**	-	**(146)**	-
Profit on disposal of businesses	**-**	(49)	**-**	-
Depreciation and amortisation	**26**	35	**15**	21
Share-based payment expense	**-**	28	**-**	25
Net (increase)/decrease in prepayments and accrued income	**(11)**	25	**(9)**	22
Net increase/(decrease) in accruals and deferred income	**33**	(39)	**33**	(40)
Net losses/(gains) on disposal of available-for-sale financial assets	**110**	(5)	**145**	(5)
Other	**-**	(4)	**-**	(4)
	(698)	75	**(775)**	(27)

Cash and cash equivalents	The Group 31 December 2010 €m	The Group 31 December 2009 €m	The Bank 31 December 2010 €m	The Bank 31 December 2009 €m
Cash and balances with central banks	**181**	302	**181**	302
Loans and advances to banks (with a maturity of less than three months)	**1,388**	4,477	**762**	3,412
At end of period	**1,569**	4,779	**943**	3,714

(1) Loans and advances written-off net of recoveries includes loans classified as held for sale.

Loans and advances to banks (with a maturity of less than three months) excludes cash collateral placed with counterparties to offset mark to market valuations arising from derivative contracts (note 22).

* The prior period has been restated to reflect the impact of the adoption of the amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations'. Further information is provided on page 44.

51. Risk management

Since the Bank was taken into State ownership in 2009, the new management team has focussed on the stabilisation and de-risking of the Bank, while maximising the recovery of outstanding loans. The balance sheet continues to be reduced and managed in the public interest and in a manner that ultimately minimises the total cost to the taxpayer. Outstanding loan balances have been significantly reduced in the period with total gross loans of €33.3bn transferring to NAMA. From a funding and liquidity perspective, the Bank is reliant on the ongoing support of its Shareholder and the relevant authorities.

This note should be read in conjunction with note 58 'Events after the reporting period'. Note 58 provides further details of the transfer of deposits and NAMA bonds to Allied Irish Banks, p.l.c., effected on 24 February 2011 by a Transfer Order, and provides details of the long term foreign exchange swap agreement executed with the National Treasury Management Agency ('NTMA') in March 2011. Both of these transactions occurred after the reporting period, however they impact funding and liquidity risk and are relevant to an understanding of the Bank's exposure to these risks.

The Group is subject to a variety of risks and uncertainties as set out on pages 19 to 22.

In addition to the principal risks and uncertainties identified by the Group, which include general macro-economic conditions, specific risks also arise from the use of financial instruments. The material risks identified and managed by the Group in its day-to-day business are credit risk, liquidity and funding risk, market risk, operational risk and compliance and regulatory risk. In order to effectively minimise the impact of these risks, the Board of Directors ('the Board') has established a risk management framework covering accountability, measurement, reporting and management of risk throughout the Group. In accordance with the wishes of the Shareholder, a key objective over the coming years is to reduce the risk profile of the business. Management recognises the importance of the support functions of Group Risk Management, Group Compliance and Operational Risk, and Group Finance within the Bank in assisting with this process.

This note describes the risk management and control framework in place in the Bank and sets out the key risks which could impact the Bank's future results and financial position. The risks discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties as there may be risks and uncertainties of which the Bank is not aware or which the Bank does not currently consider significant but which may become significant in the future.

Risk oversight and corporate governance

Introduction
Current best practice corporate governance standards for banks were set out in the 2006 recommendations of the Basel Committee on Banking Supervision. The Committee has expanded on these best practice standards by issuing further 'Principles for enhancing corporate governance' in October 2010. These principles reaffirmed the primary points of the 2006 guidance. In respect of risk management and internal controls, the Committee set out the following principles:

- Banks should have an effective internal controls system and a risk management function (including a Chief Risk Officer or equivalent) with sufficient authority, stature, independence, resources and access to the Board;
- Risks should be identified and monitored on an ongoing firm-wide and individual entity basis, and the sophistication of the Bank's risk management and internal control infrastructures should keep pace with any changes to the Bank's risk profile (including its growth) and to the external risk landscape;
- Effective risk management requires robust internal communication within the Bank about risk, both across the organisation and through reporting to the Board and senior management; and
- The Board and senior management should effectively utilise the work conducted by the internal audit function, external auditors, and internal control functions.

The Bank's approach is further influenced by the principles of the Financial Reporting Council ('FRC'), including their guidelines for good corporate governance, and recent publications which focus on risk identification and reporting, and also by the standards and guidelines set out by the Committee of European Banking Supervisors ('CEBS').

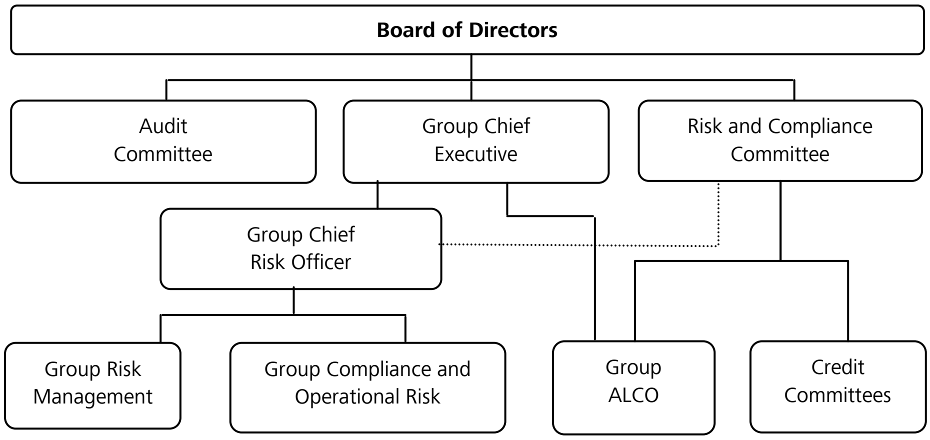
The Central Bank of Ireland has introduced a Corporate Governance Code for Credit Institutions and Insurance Undertakings which applies from 1 January 2011. This governance code, amongst other matters, sets out the requirements for Irish credit institutions to prepare documented risk appetite statements and establish risk committees with responsibility for oversight and advice to the Board on current risk exposures of the entity and future risk strategy.

A description of the Bank's corporate governance structure is set out in the Corporate governance statement on pages 25 to 29.

51. **Risk management** continued

Risk oversight and corporate governance continued

The Bank's approach to corporate governance and risk management is to ensure that there is independent checking of key decisions by management. The Bank has an established risk oversight framework to deliver on this approach. The key elements of this framework are detailed below.



Risk and Compliance Committee
The Risk and Compliance Committee's role is to oversee risk management and compliance within the Group. It reviews, on behalf of the Board, the key risks and compliance issues inherent in the business and the system of internal control necessary to manage them and presents its findings to the Board. This involves oversight of management's responsibility to assess and manage the Group's risk profile and key risk exposures covering credit, liquidity and funding, market, operational, and compliance and regulatory risks.

The key responsibilities of the Committee include:

- Review and oversight of the risk and compliance profile of the Group within the context of the Board approved risk appetite;
- Making recommendations to the Board concerning the Group's risk appetite and material risk management policies;
- Review and oversight of management's plans for mitigation of the material risks faced by the various business units of the Group; and
- Oversight of the implementation and review of risk management and internal compliance systems throughout the Group.

The Bank's risk appetite statement was approved by the Board on 26 November 2009. Further consideration of the Bank's risk appetite has been deferred for consideration until 2011, pending approval of the restructuring plan by the European Commission. The Committee also monitors progress of the Bank's internal NAMA unit which has management responsibility in respect of NAMA asset transfers and loan management for such assets, subject to the over-riding authority of NAMA itself.

The Board delegates its monitoring and control responsibilities to the Credit Committees for credit risk (including banking and counterparty credit risk) and to the Group Asset and Liability Committee ('ALCO') for market risk, and liquidity and funding risk. These Committees comprise senior management from throughout the Group. Credit Committees are supported by a dedicated Group Risk Management function, which is headed by a Group Chief Risk Officer ('CRO'). All key areas of the Group contribute to and are represented on the ALCO which is supported by Group Balance Sheet Management ('GBSM').

GBSM is responsible for the management of balance sheet risks with particular emphasis on the Bank's current and projected liquidity, interest rate and FX risks. Balance sheet risk exposures and related issues, together with mitigation strategies, are reported to the ALCO and the Risk and Compliance Committees. GBSM is also responsible for ensuring the execution of approved strategies through Financial Markets.

The CRO reports directly to the Group Chief Executive, and also has independent access to the Risk and Compliance Committee. The CRO was an external appointment and joined the Bank on 2 November 2009. A further enhancement to the structure during 2009 was the separation of the CRO and Chief Financial Officer ('CFO') roles. In addition to the appointment of an external candidate to the role of CRO, the Bank also appointed a new external CFO in 2010.

Audit Committee
The Audit Committee's role in the Risk Management Framework includes ensuring Group compliance with regulatory, prudential and financial reporting responsibilities. It also reports to the Board on the effectiveness of both financial and non-financial control processes operating throughout the Group. The Committee is supported by Group Finance and Group Internal Audit, which are central control functions independent of the business units. Group Internal Audit provides independent, objective assurance as to whether the Group's Risk Management and Control Framework is appropriate and functioning effectively.

Group Risk Management
Management of risk is the responsibility of staff at all levels. However, primary responsibility for managing risk and for ensuring adequate controls are in place lies with the Group Risk Management function. The Group Risk Management function is responsible for:

- Supporting senior management and the Board in setting the Group's risk appetite and policies;
- Supporting management in business decision making through independent and objective challenge to business unit management of risk and exposures in line with agreed risk appetites;
- Developing and communicating risk management policies, procedures, appetites and accountabilities; and
- Analysing, monitoring and reporting risk management information across all risk types and geographies to present an aggregated view of the Group's risk appetite to the senior management team and the Risk and Compliance Committee.

During the year the Group Risk Management function initiated general improvements as part of an ongoing process review. Some examples include:

- Enhancement of Credit Quality teams and monthly Asset Quality forum;
- Enhanced sensitivity analysis for loan loss projections;
- Review of data capture of loan account information;
- Qualitative assessment of the regional loan portfolios; and
- Enhancement of the Stress Testing Framework.

Risk appetite and strategy
Risk appetite can be defined as the total amount of risk the Bank is prepared to accept in pursuit of its strategic objectives. This is outlined in detail in the Bank's Risk Appetite Statement. The Bank's current risk exposure exceeds its risk bearing capacity and the key objective of senior management is to de-risk the Bank. Following approval of the restructuring plan, the Group's risk appetite will set the boundaries that form a dynamic link between the restructuring plan, capital management plan and the risk management framework.

Scenarios and stress testing
The Group uses stress testing as an important instrument in the measurement, monitoring, management and mitigation of its individual risks as these arise.

However, arising from the ongoing financial crisis and in light of significant new guidance from regulatory bodies the Bank revised its Group-wide Stress Testing Framework in 2010. This revised framework addresses all regulatory requirements and takes cognisance of regulatory guidance and best practice where identified.

The Group-wide Stress Testing Framework addresses the risks to which the Bank is exposed arising from its day-to-day operations and general business activities across the Group. Therefore, it applies to all of the Bank's business operations across all geographies and captures both on-balance sheet and off-balance sheet exposures and trading and hedging positions of the Bank.

This Group-wide stress testing analysis is referred to as cross-divisional analysis of stress testing. The purpose of this analysis is to ensure that the stress testing programme captures inter-relationships and inter-dependencies between exposures, which may only become apparent and/or more pronounced under Group-wide stressed scenarios.

The Group's stress testing programme also addresses the risks that arise within a specific risk category (e.g. credit risk or market risk), with this referred to as intra-divisional risk analysis. These risks, which are associated with the normal operation of banking business, are addressed through their own separate policies and are addressed under each risk category in this note.

The Group utilises a variety of modelling approaches to its stress testing programme. These mainly include the Scenario Approach and the Sensitivity Analysis Approach. Each of the modelling approaches used by the Group has its own merits and demerits; hence, the adequacy of the approaches is reviewed by the Group on a regular basis.

The practical aspects of the design, implementation and reporting of the output of the stress testing programme is the responsibility of the Bank's senior management. The forum for this is the Bank's Internal Capital Adequacy Assessment Process ('ICAAP') Steering Committee. The results are presented to senior management on a bi-annual basis.

51. **Risk management** continued

Risk oversight and corporate governance continued

Key risk exposures

The following risks have been identified and assessed as the material risks for the Bank. These risks are subject to independent oversight and analysis by Group Risk Management:

- Credit risk;
- Liquidity and funding risk;
- Market risk;
- Operational risk; and
- Compliance and regulatory risk.

Credit risk

Definition

Credit risk is defined as the risk that the Group will suffer a financial loss from a counterparty's failure to pay interest, repay capital or meet a commitment and the collateral pledged as security is insufficient to cover the payments due. The Group's credit risk arises primarily from its lending activities to customers (banking credit risk) but also from interbank lending and repurchase agreements ('repos'), investment in available-for-sale debt securities and derivative transactions. Credit risk includes the following types of risk:

- Country risk is the risk of losses arising from economic difficulties or political unrest in a country, including the risk of losses resulting from nationalisation, expropriation and debt restructuring.

- Settlement risk is the risk of loss when payments are settled e.g. payments for foreign currency transactions and the purchase or sale of debt securities.

Objectives

It is the stated aim of the Bank to reduce its lending credit risk profile as per the Subscription Agreement between the Minister for Finance and the Bank. The Bank's participation in NAMA was a key element in achieving this objective. Gross loans have reduced by 49% in the period with €33.3bn of loans transferring to NAMA. Loans, gross of impairment provisions, at 31 December 2010 total €36.9bn. Further information in respect of NAMA is provided in notes 13 and 23.

Policy

The Group's policy on credit risk is set out in a detailed Group Credit Policy (the 'Credit Policy') which is approved by the Board following recommendation by the Risk and Compliance Committee. It has been framed in the context of the Bank's present position in terms of ownership, State guarantees and short/medium term strategy. It is also consistent with the Bank's Risk Appetite statement. The Credit Policy forms the core of the Bank's credit risk ethos and represents a comprehensive guide to policies and underwriting criteria which govern the way in which the Bank conducts its credit business with a focus on recovery management. The Credit Policy also:

- Sets out the process surrounding credit approval;
- Outlines the manner in which credit risk is managed; and
- Sets out the context for the Bank's business and how the Bank strives to reduce risk.

Strategies and processes

Consistency of approach to banking credit risk across the Group is ensured through the implementation of the Credit Policy and presence of key personnel at all Credit Committee meetings. The Credit Committee is the most senior forum for approving credit exposures and consensus is required before authorising a credit exposure, with each individual credit application approved by a valid quorum composed of business and risk management officers.

With regard to the Bank's transaction approval and review processes, the Banking Credit Risk team in conjunction with the Quality Assurance team within Group Risk Management oversees the Credit Committee meetings and periodic loan reviews. Furthermore, to monitor the ongoing quality of the loan book, the Banking Credit Risk team undertakes frequent asset quality reviews on significant exposures.

The monthly Pricing and Asset Quality Committee meeting considers material price movements and external rating changes for the debt securities portfolio. The legacy portfolio of asset backed securities was sold during 2010 (see Financial Markets section in the Business review).

The independent credit teams within Group Risk Management monitor any treasury counterparty exposures which have materially deteriorated in credit quality since approval. Such exposures are reported to the Treasury Credit Committee on a monthly basis, where an action plan for each case is agreed. This may involve cancelling limits or actively managing down or selling an exposure.

To support customers that encounter financial difficulties the Bank has set up a dedicated unit, Group Recovery Management Unit ('GRMU'), which is responsible for the ongoing assessment and management of certain impaired exposures – principally Irish impaired loans. The GRMU is target driven, with the expressed objective of efficient impaired loan reduction and maximising loan recovery. The unit maintains its focus through a systematic loan management process that formulates work plans to achieve timely resolution, and its senior management team is actively involved in all stages of the process to ensure that the agreed plans for resolution are achieved within agreed timeframes.

Reporting and measurement systems
Credit risk relating to the loan book is identified and assessed on a combination of top-down and bottom-up risk assessment processes on a portfolio-wide basis. Top-down processes focus on broad risk types and common risk drivers, rather than specific individual risk events, and adopt a forward-looking view of perceived threats. Bottom-up risk assessment is performed on a loan-by-loan basis, focusing on risk events that have been identified through specific qualitative or quantitative measurement tools. In line with the Credit Policy, the Banking Credit Risk team is taking steps to reduce concentration risk related to single counterparties and/or groups of closely related counterparties. The top exposures are reported on a monthly basis to senior management and the Risk and Compliance Committee.

The performance of individual facilities is closely monitored by Banking Credit Risk on an ongoing basis, which maintains a list of lower quality cases. These cases, while considered lower quality, are not impaired but require increased management attention to prevent any further deterioration in asset quality. Banking Credit Risk also maintains a list of satisfactory cases for exposures that continue to represent satisfactory quality loans but which are subject to closer monitoring. Impaired loans are identified where 'objective evidence' exists in accordance with IFRS.

Specific provisions are created where one or more loss events have been recognised and as a result a shortfall is expected between the Group's exposure and the likely recoverable amount. The recoverable amount is calculated by discounting the value of expected future cash flows by the exposure's original effective interest rate.

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

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

Renegotiated loans are those facilities that, during the financial period, have had their terms renegotiated resulting in an upgrade from impaired to performing status. This upgrade can be based on, among other things, subsequent good performance or an improvement in the credit profile of the borrower. Renegotiated loans and advances were €28m as at 31 December 2010 (31 December 2009: €66m).

The Group uses external ratings and market information, supplemented by internal analysis, to assess the risks associated with treasury assets. The performance of all asset-backed securities is monitored closely through monthly trustee reports and rating agency commentary. Impairment is monitored on a monthly basis and recognised when there is objective evidence that a specific financial asset is impaired. A range of factors are used in recognition of impairment, which can vary depending on the nature of the underlying assets or collateral but will typically include a significant or prolonged decline in the fair value of the security, the level of over-collateralisation, and adverse credit ratings action.

Counterparty credit exposure arising from derivative and repo transactions is calculated based on replacement cost methodology involving the current contract value (marked to market) and an estimate of the maximum cost of rewriting the contract within certain confidence levels.

51. **Risk management** continued

Credit risk continued

Risk mitigation

Settlement risk on many transactions, particularly those involving securities, is substantially mitigated when effected via assured payment systems or on a delivery-versus-payment basis. Each counterparty's credit profile is assessed and clearing agents, correspondent banks and custodians are selected with a view to minimising settlement risk. The most significant portion of the Group’s settlement risk exposure arises from foreign exchange transactions. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from foreign exchange transactions on a single day.

For the majority of the Group's interbank counterparties, settlement risk is effectively eliminated through the use of Continuous Linked Settlement ('CLS'). CLS is a real-time, global settlement system which minimises settlement risk and is operated by CLS Bank, which is supervised and regulated by the US Federal Reserve.

Group Risk Management monitors country risk exposures, taking into consideration independent credit information from well established international sources.

Maximum exposure to credit risk

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

	The Group	
	31 December 2010 €m	31 December 2009 €m
Exposures in the consolidated statement of financial position		
Cash and balances with central banks	**181**	302
Financial assets at fair value through profit or loss - held on own account *	**-**	76
Derivative financial instruments	**1,936**	2,483
Loans and advances to banks	**3,512**	7,342
Assets classified as held for sale	**1,655**	25,892
Available-for-sale financial assets *	**2,219**	7,890
Promissory note	**25,704**	-
Government debt securities at amortised cost	**10,623**	-
Loans and advances to customers	**25,113**	31,623
Exposures not recognised in the consolidated statement of financial position		
Contingent liabilities	**223**	344
Commitments to lend	**552**	1,858
Maximum exposure to credit risk	**71,718**	77,810

* Excludes equity shares

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

In addition to the above, other assets includes financial assets of €67m (31 December 2009: €nil) which settled in early January 2011.

Loans and advances to customers and assets classified as held for sale include €749m (31 December 2009: €771m) and €15m (31 December 2009: €nil) respectively lent to fund assets held in respect of liabilities to customers under investment contracts (note 41) as the Group is exposed to credit risk in respect of this lending.

Loans and advances to banks exclude €13m (31 December 2009: €18m) advanced on behalf of policyholders under investment contracts (note 41) as the Group is not exposed to credit risk in respect of these advances.

Contingent liabilities includes €175m (31 December 2009: €270m) in respect of financial guarantees.

Large exposures

The top 20 customer groups (as defined by the Central Bank of Ireland), excluding loans classified as held for sale, represent €9.1bn or 26% (31 December 2009: €8.8bn or 24%) of the Group's total loans and advances to customers before provisions for impairment. Total specific impairment provisions on these customer groups amounts to €3.1bn. Of the top 20 customer groups, one group accounts for 8% of total loans and advances to customers.

The following table shows the loans and advances to customers classified by regulatory group size:

	31 December 2010	
	Number of regulatory groups	Total €bn
Over €500m	2	3.5
€250m to €500m	18	5.6
€100m to €250m	56	8.8
€50m to €100m	97	3.4
€25m to €50m	100	6.7
€5m to €25m	406	4.3
Under €5m	2,641	2.4
Total	**3,320**	**34.7**

A regulatory customer group typically consists of a number of connected entities and the balances represent multiple individual loans secured by diverse portfolios of assets and multiple contracted cash flows. These regulatory groups are identified on the basis of specific guidelines in relation to 'Control' and/or 'Economic Dependence' as set out by the Central Bank of Ireland.

Interbank placements with, and investments in debt securities issued by, Irish financial institutions covered under Irish Government guarantee schemes total €1.1bn (31 December 2009: €4.0bn).

Lending asset quality

Credit risk arises primarily on loans and advances to customers and loans classified as held for sale. At 31 December 2010 loans and advances to customers were €33,941m (31 December 2009: €35,698m) before provisions for impairment of €9,577m (31 December 2009: €4,846m) and loans classified as held for sale were €2,188m (31 December 2009: €35,602m) before provisions for impairment of €565m (31 December 2009: €10,120m).

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

Good quality

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

Satisfactory quality

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

Lower quality but not past due or impaired

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

Past due but not impaired

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

Impaired loans

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

51. **Risk management** continued

Credit risk continued

Loans and advances to customers

Asset quality - profile of loans and advances to customers

	The Group 31 December 2010				
	Commercial €m	**Residential €m**	**Business Banking €m**	**Other Lending €m**	**Total €m**
Good quality	6,183	447	445	292	7,367
Satisfactory quality	911	35	79	10	1,035
Lower quality but not past due or impaired	3,850	365	73	40	4,328
Total neither past due or impaired	10,944	847	597	342	12,730
Past due but not impaired	3,363	384	417	1,232	5,396
Impaired loans	11,145	1,515	2,438	1,466	16,564
	25,452	2,746	3,452	3,040	34,690
Provisions for impairment	(5,702)	(692)	(1,865)	(1,318)	(9,577)
	19,750	2,054	1,587	1,722	25,113
Less:					
Lending to policyholders in respect of investment contracts (note 41)					(749)
Total					24,364

Provisions for impairment on loans and advances to customers	The Group 31 December 2010				
	Commercial €m	**Residential €m**	**Business Banking €m**	**Other Lending €m**	**Total €m**
At beginning of year	2,862	315	743	926	4,846
Charge against profits	2,634	309	1,647	387	4,977
Write-offs	(156)	(10)	(193)	(4)	(363)
Recoveries	1	-	-	-	1
Unwind of discount	(119)	(18)	(24)	(7)	(168)
Exchange movements	33	(26)	28	64	99
Net transfers from/(to) assets classified as held for sale and sectoral reclassification	447	122	(336)	(48)	185
At end of year	5,702	692	1,865	1,318	9,577
Specific	4,979	623	1,694	1,045	8,341
Collective	723	69	171	273	1,236
Total	5,702	692	1,865	1,318	9,577

The charge against profits includes collective provisions for impairment analysed on a portfolio basis.

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

	The Group 31 December 2009				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
Good quality	12,366	1,114	1,470	1,353	16,303
Satisfactory quality	570	83	77	5	735
Lower quality but not past due or impaired	4,508	70	536	46	5,160
Total neither past due or impaired	17,444	1,267	2,083	1,404	22,198
Past due but not impaired	2,916	668	362	814	4,760
Impaired loans	6,249	574	1,628	1,060	9,511
	26,609	2,509	4,073	3,278	36,469
Provisions for impairment	(2,862)	(315)	(743)	(926)	(4,846)
	23,747	2,194	3,330	2,352	31,623
Less:					
Lending to policyholders in respect of investment contracts (note 41)					(771)
Total					30,852

Provisions for impairment on loans and advances to customers	The Group 31 December 2009				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
At beginning of period	448	373	27	66	914
Charge against profits	8,442	2,867	920	2,215	14,444
Write-offs	(15)	(11)	(17)	(40)	(83)
Unwind of discount	(127)	(79)	(5)	(25)	(236)
Exchange movements	(45)	(21)	(2)	(5)	(73)
Transfers to assets classified as held for sale	(5,841)	(2,814)	(180)	(1,285)	(10,120)
At end of period	2,862	315	743	926	4,846
Specific	2,081	160	650	756	3,647
Collective	781	155	93	170	1,199
Total	2,862	315	743	926	4,846

The charge against profits includes collective provisions for impairment analysed on a portfolio basis.

51. **Risk management** continued

Credit risk continued

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

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

	The Group 31 December 2010				
	Commercial €m	**Residential €m**	**Business Banking €m**	**Other Lending €m**	**Total €m**
Past due 1 to 30 days	**1,162**	**129**	**287**	**57**	**1,635**
Past due 31 to 60 days	**502**	**4**	**1**	**7**	**514**
Past due 61 to 90 days	**329**	**18**	**4**	**26**	**377**
Past due 91 days and over	**1,370**	**233**	**125**	**1,142**	**2,870**
Total	**3,363**	**384**	**417**	**1,232**	**5,396**

	The Group 31 December 2009				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
Past due 1 to 30 days	962	68	197	193	1,420
Past due 31 to 60 days	665	319	9	57	1,050
Past due 61 to 90 days	346	19	9	57	431
Past due 91 days and over	943	262	147	507	1,859
Total	2,916	668	362	814	4,760

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

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

	31 December 2010				
	Ireland €m	**United Kingdom €m**	**USA €m**	**Total €m**	**%**
Retail	**2,260**	**2,425**	**1,491**	**6,176**	**18%**
Office	**2,554**	**1,978**	**2,192**	**6,724**	**19%**
Mixed use	**654**	**1,116**	**469**	**2,239**	**7%**
Industrial	**259**	**575**	**548**	**1,382**	**4%**
Residential investment	**447**	**474**	**1,166**	**2,087**	**6%**
Residential development	**380**	**160**	**119**	**659**	**2%**
Business banking	**3,394**	**51**	**7**	**3,452**	**10%**
Personal	**2,433**	**137**	**43**	**2,613**	**8%**
Leisure	**2,166**	**3,502**	**1,080**	**6,748**	**19%**
Commercial development	**311**	**257**	**480**	**1,048**	**3%**
Other property investment	**919**	**168**	**48**	**1,135**	**3%**
Fund investment	**390**	**3**	**-**	**393**	**1%**
Unzoned land	**31**	**3**	**-**	**34**	**0%**
Total loans and advances to customers	**16,198**	**10,849**	**7,643**	**34,690**	**100%**

	31 December 2009				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	2,422	3,127	1,409	6,958	19%
Office	2,514	2,205	2,242	6,961	19%
Mixed use	861	1,377	492	2,730	7%
Industrial	265	592	525	1,382	4%
Residential investment	430	477	1,165	2,072	6%
Residential development	176	170	91	437	1%
Business banking	3,931	140	2	4,073	11%
Personal	2,777	31	64	2,872	8%
Leisure	2,264	3,463	1,032	6,759	19%
Commercial development	190	167	185	542	1%
Other property investment	929	279	69	1,277	4%
Fund investment	394	7	-	401	1%
Unzoned land	3	2	-	5	0%
Total loans and advances to customers	17,156	12,037	7,276	36,469	100%

Geographical location is based on the location of the office recording the transaction.

51. **Risk management** continued

Credit risk continued

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

	31 December 2010				
	Ireland €m	**United Kingdom €m**	**USA €m**	**Total €m**	**%**
Retail	**504**	**258**	**100**	**862**	**11%**
Office	**433**	**166**	**262**	**861**	**11%**
Mixed use	**146**	**94**	**97**	**337**	**4%**
Industrial	**89**	**86**	**60**	**235**	**3%**
Residential investment	**115**	**19**	**136**	**270**	**3%**
Residential development	**232**	**102**	**19**	**353**	**4%**
Business banking	**1,693**	**1**	**-**	**1,694**	**20%**
Personal	**914**	**3**	**18**	**935**	**11%**
Leisure	**899**	**308**	**359**	**1,566**	**19%**
Commercial development	**210**	**122**	**100**	**432**	**5%**
Other property investment	**683**	**2**	**1**	**686**	**8%**
Fund investment	**87**	**1**	**-**	**88**	**1%**
Unzoned land	**20**	**2**	**-**	**22**	**0%**
Total specific provisions on loans and advances to customers	**6,025**	**1,164**	**1,152**	**8,341**	**100%**

	31 December 2009				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	230	195	21	446	12%
Office	178	84	71	333	9%
Mixed use	48	66	16	130	3%
Industrial	34	69	6	109	3%
Residential investment	42	2	57	101	3%
Residential development	36	23	-	59	2%
Business banking	648	2	-	650	18%
Personal	683	1	4	688	19%
Leisure	362	232	143	737	20%
Commercial development	52	28	5	85	2%
Other property investment	241	-	-	241	7%
Fund investment	63	1	-	64	2%
Unzoned land	3	1	-	4	0%
Total specific provisions on loans and advances to customers	2,620	704	323	3,647	100%

Geographical location is based on the location of the office recording the transaction.

Loans classified as held for sale

Asset quality - profile of loans classified as held for sale

	The Group 31 December 2010				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
Good quality	186	72	-	2	260
Satisfactory quality	-	-	-	-	-
Lower quality but not past due or impaired	392	58	-	-	450
Total neither past due or impaired	578	130	-	2	710
Past due but not impaired	434	43	3	34	514
Impaired loans	688	237	-	54	979
	1,700	410	3	90	2,203
Provisions for impairment	(392)	(127)	-	(46)	(565)
	1,308	283	3	44	1,638
Less:					
Lending to policyholders in respect of investment contracts (note 41)					(15)
Total					1,623

Provisions for impairment on loans classified as held for sale	The Group 31 December 2010				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
At beginning of year	5,841	2,814	180	1,285	10,120
Charge against profits	1,664	665	11	343	2,683
Write-offs	(8)	(11)	-	-	(19)
Unwind of discount	(150)	(75)	(2)	(18)	(245)
Exchange movements	30	21	9	9	69
Net transfers (to)/from loans and advances to customers and sectoral reclassification	(130)	(95)	(22)	62	(185)
Released on disposal of assets to NAMA (note 13)	(6,855)	(3,192)	(176)	(1,635)	(11,858)
At end of year	392	127	-	46	565
Specific	392	127	-	46	565
Total	392	127	-	46	565

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

51. **Risk management** continued

Credit risk continued

	The Group 31 December 2009				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
Good quality	4,160	830	11	160	5,161
Satisfactory quality	145	201	1	22	369
Lower quality but not past due or impaired	812	198	-	28	1,038
Total neither past due or impaired	5,117	1,229	12	210	6,568
Past due but not impaired	3,030	513	19	402	3,964
Impaired loans	15,756	6,728	276	2,310	25,070
	23,903	8,470	307	2,922	35,602
Provisions for impairment	(5,841)	(2,814)	(180)	(1,285)	(10,120)
Total	18,062	5,656	127	1,637	25,482

Provisions for impairment on loans classified as held for sale	The Group 31 December 2009				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
At beginning of period	-	-	-	-	-
Transfers from loans and advances to customers (note 28)	5,841	2,814	180	1,285	10,120
At end of period	5,841	2,814	180	1,285	10,120
Specific	5,841	2,814	180	1,285	10,120
Total	5,841	2,814	180	1,285	10,120

The Bank's impairment charge is calculated in accordance with IFRS and reflects losses incurred in the year based on conditions existing at 31 December 2010. Losses expected as a result of future events, no matter how likely, are not recognised under IFRS. In accordance with IFRS, specific impairment on individual loans is calculated based on the difference between the current loan balance and the discounted value of estimated future cash flows on the loan. IFRS impairment provisions on held for sale assets should not be considered an indicator of future discounts on transfers of loans to NAMA.

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

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

	The Group 31 December 2010				
	Commercial €m	**Residential €m**	**Business Banking €m**	**Other Lending €m**	**Total €m**
Past due 1 to 30 days	**10**	**20**	**3**	**-**	**33**
Past due 31 to 60 days	**18**	**-**	**-**	**-**	**18**
Past due 61 to 90 days	**88**	**-**	**-**	**-**	**88**
Past due 91 days and over	**318**	**23**	**-**	**34**	**375**
Total	**434**	**43**	**3**	**34**	**514**

	The Group 31 December 2009				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
Past due 1 to 30 days	675	215	3	168	1,061
Past due 31 to 60 days	284	11	1	1	297
Past due 61 to 90 days	593	46	-	21	660
Past due 91 days and over	1,478	241	15	212	1,946
Total	3,030	513	19	402	3,964

51. **Risk management** continued

Credit risk continued

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

	31 December 2010				
	Ireland €m	**United Kingdom €m**	**USA €m**	**Total €m**	**%**
Retail	**345**	**287**	**26**	**658**	**30%**
Office	**127**	**59**	**-**	**186**	**8%**
Mixed use	**33**	**61**	**80**	**174**	**8%**
Industrial	**-**	**34**	**8**	**42**	**2%**
Residential investment	**46**	**26**	**169**	**241**	**11%**
Residential development	**39**	**43**	**87**	**169**	**8%**
Business banking	**3**	**-**	**-**	**3**	**0%**
Personal	**78**	**1**	**-**	**79**	**4%**
Leisure	**148**	**-**	**44**	**192**	**9%**
Commercial development	**13**	**107**	**309**	**429**	**19%**
Other property investment	**19**	**-**	**-**	**19**	**1%**
Fund investment	**-**	**-**	**-**	**-**	**0%**
Unzoned land	**11**	**-**	**-**	**11**	**0%**
Total loans classified as held for sale	**862**	**618**	**723**	**2,203**	**100%**

	31 December 2009				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	4,076	985	142	5,203	15%
Office	2,718	548	157	3,423	10%
Mixed use	1,898	469	233	2,600	7%
Industrial	192	353	34	579	2%
Residential investment	718	407	155	1,280	4%
Residential development	5,120	1,857	213	7,190	20%
Business banking	292	9	6	307	1%
Personal	1,798	11	23	1,832	5%
Leisure	2,718	296	362	3,376	9%
Commercial development	5,747	1,747	678	8,172	23%
Other property investment	482	68	-	550	1%
Fund investment	88	8	6	102	0%
Unzoned land	984	4	-	988	3%
Total loans classified as held for sale	26,831	6,762	2,009	35,602	100%

Geographical location is based on the location of the office recording the transaction.

Total loans classified as held for sale are stated gross of provisions and include €15m (31 December 2009: €nil) lent to fund assets in respect of liabilities to customers under investment contracts (note 41).

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

	31 December 2010				
	Ireland €m	**United Kingdom €m**	**USA €m**	**Total €m**	**%**
Retail	**-**	**12**	**15**	**27**	**5%**
Office	**-**	**9**	**-**	**9**	**2%**
Mixed use	**-**	**16**	**58**	**74**	**13%**
Industrial	**-**	**-**	**6**	**6**	**1%**
Residential investment	**-**	**-**	**47**	**47**	**8%**
Residential development	**23**	**-**	**57**	**80**	**14%**
Business banking	**-**	**-**	**-**	**-**	**0%**
Personal	**46**	**-**	**-**	**46**	**8%**
Leisure	**75**	**-**	**28**	**103**	**18%**
Commercial development	**11**	**24**	**138**	**173**	**31%**
Other property investment	**-**	**-**	**-**	**-**	**0%**
Fund investment	**-**	**-**	**-**	**-**	**0%**
Unzoned land	**-**	**-**	**-**	**-**	**0%**
Total specific provisions on loans classified as held for sale	**155**	**61**	**349**	**565**	**100%**

	31 December 2009				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	875	74	-	949	9%
Office	259	49	28	336	3%
Mixed use	523	63	33	619	6%
Industrial	41	6	-	47	0%
Residential investment	160	7	32	199	2%
Residential development	1,945	567	103	2,615	26%
Business banking	171	9	-	180	2%
Personal	900	1	4	905	9%
Leisure	678	58	76	812	8%
Commercial development	2,024	683	170	2,877	29%
Other property investment	167	34	-	201	2%
Fund investment	29	1	3	33	0%
Unzoned land	345	2	-	347	4%
Total specific provisions on loans classified as held for sale	8,117	1,554	449	10,120	100%

Geographical location is based on the location of the office recording the transaction.

51. **Risk management** continued

Credit risk continued

Collateral

The acceptance of both financial and non-financial collateral is central to the risk mitigation and underwriting policies of the Group. The nature of the collateral held will reflect the transaction being underwritten. Loans and advances to customers are collateralised principally by charges over real estate assets, business assets and liens on cash deposits, and are supplemented by personal guarantees. In the case of clients with more than one transaction, the Bank seeks to cross-collateralise security to strengthen repayment cover.

Due to the continued dislocation in property markets and the lack of transactional activity over the period, it is impracticable for the Bank to obtain reliable fair values for individual collateral held against some past due or impaired financial assets as at 31 December 2010. However declines in prices of approximately 60% since the market peak for Irish commercial property reflected in certain market indices would appear to be a fair indicator of the scale of the decline in collateral values over the past twelve months. Ireland, which represents the majority of impaired and past due loan balances, experienced the most significant drop in valuations compared with price declines in the UK and US markets.

During 2010, the UK property market has seen increased transaction volumes, particularly in London and the South East. However, there continues to be dislocation between prime assets and the market for secondary and tertiary assets, where property yields have widened and demand has been weak. Therefore it is difficult to obtain reliable fair values for individual collateral held against UK past due or impaired assets.

During the year the Group repossessed collateral, consisting of land and property, equities and cash, of €52m on balances of €350m (31 December 2009: €6m on balances of €20m). It is the Group’s policy to dispose of repossessed assets in an orderly fashion. The proceeds are used to reduce or repay the outstanding balance. The Group does not use repossessed assets for business purposes. A specific foreclosure process has been put in place in the US to allow the Bank to repossess collateral in an efficient and effective manner across all US jurisdictions.

The Group has executed Collateral Support Agreements ('CSAs') with its principal interbank derivatives counterparties. Under the terms of a CSA, if the aggregate market value of a set of derivative contracts between two parties exceeds an agreed threshold amount, the party which would be exposed to loss in the event of default receives a deposit of cash equal to the excess aggregate value over the threshold. Correlation or 'wrong-way' risk is largely mitigated as collateral received is exclusively cash. Under certain CSA agreements, the Group has posted initial amounts, the effect of which for the counterparty is over collateralising its exposure. The Group has additional credit risk on the initial amounts and could suffer financial loss in the event of a counterparty default.

Netting arrangements

The Group has entered into master netting agreements with counterparties with which it undertakes a significant amount of transactions, primarily in the interbank markets for derivative instruments and repurchase transactions. As these transactions usually settle on a gross basis, the ability to settle on a net basis in the event of a default substantially reduces the overall credit risk.

Parent Bank credit risk

Additional information on the parent Bank's credit risk is contained in note 56.

Liquidity and funding risk

Definition

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

Objectives

The current objective for the management of liquidity and funding risk is to continue to meet cash flow obligations as they fall due and minimise the funding required from our stakeholders. The future funding and liquidity strategy and balance sheet structure will be largely reliant on our stakeholder and the relevant authorities. This will take into account the long term best interests of the wider Irish banking sector in a manner consistent with the EU/IMF Programme for the Recovery of the Irish Banking system.

Funding markets, both retail and wholesale, have remained challenging for the Group with Bank and country specific concerns having a significant adverse effect. The market for customer deposits remained extremely competitive, particularly the retail deposit market where pricing pressure made deposit retention difficult. Since 31 December 2009 the quantity and quality of the Bank’s funding has continued to deteriorate resulting in an increased reliance on support from central banks, including access to special funding facilities. Customer deposits have decreased by €16.1bn over the year, of which sterling customer deposits have decreased by £7.3bn and US dollar by $0.9bn. On 24 February 2011, under powers granted by the Credit Institutions (Stabilisation) Act 2010, a Transfer Order was made by the High Court, and the Bank transferred the majority of its Irish and UK customer deposits and the Isle of Man deposit taking business to Allied Irish Banks, p.l.c.

The Group currently borrows from central banks through both open market operations with monetary authorities and through special funding facilities with the Central Bank of Ireland (note 38). The Group has total borrowings from central banks at 31 December 2010 of €45.0bn (31 December 2009: €23.7bn), including €28.1bn (31 December 2009: €11.5bn) borrowed through these special funding facilities.

Structural foreign exchange risk principally arises from the funding shortfall between the Group's sterling and US dollar lending activities and the Group's funding in those currencies. The deposit outflow in non-euro currencies has increased this funding shortfall which has been replaced through using forward foreign exchange hedging. The availability of counterparty lines has reduced in the past year and it is the subject of ongoing management through the Financial Markets Division in conjunction with the authorities and the Group's stakeholders.

The long term foreign exchange swap agreement executed with the NTMA in March 2011, and detailed in note 58 'Events after the reporting period', has led to a significant improvement in the Group's US dollar funding. This transaction has provided US dollar funding in exchange for euros and reduced the requirement to source US dollars in the interbank or wholesale foreign exchange markets.

In November 2010, the Minister for Finance put in place a guarantee for the Bank which covered amounts payable in relation to derivative and certain other interbank transactions. In accordance with the terms of this guarantee, the Bank may only enter into derivative transactions for balance sheet management purposes. There is no fee payable for this guarantee.

In the context of liquidity and funding risk the Bank actively monitors compliance with the contractual covenants contained in the Group’s debt securities programmes and subordinated capital instruments. Significantly the Credit institutions (Stabilisation) Act 2010 (the ‘Stabilisation Act’) includes important provisions that are designed to prevent a potential event of default becoming applicable because of an order or requirement made under the Stabilisation Act or anything done on foot of such an order or requirement.

Liquidity and funding risk is monitored centrally by ALCO, whose responsibilities in relation to liquidity include, but are not limited to:

- Providing the Board and relevant Board Committees with regular liquidity updates;
- Setting liquidity risk strategy for the Group;
- Setting liquidity risk appetite for the Group;
- Approving and maintaining Group funding and liquidity policy;
- Approving and maintaining the Group contingency funding plan;
- Maintaining internal and external liquidity risk limits; and
- Liquidity stress testing and scenario analysis.

51. **Risk management** continued

Liquidity and funding risk continued

Policies

Group Liquidity Policy details the Bank's risk policy relating to all funding and liquidity matters. The policy document articulates the Risk Appetite as set and approved by the Board and how ALCO manages this within the parameters.

The policy document formally describes the liquidity governance structure and control framework to monitor and control liquidity risk within the Group. The Group Liquidity Policy provides detail on the liquidity stress testing that is conducted and remains a key pillar of how the Group analyses and assesses its liquidity risk exposures.

The Group Liquidity Policy is monitored by Group Risk but owned by ALCO which has delegated responsibility for liquidity management from the Board.

Strategies and processes

ALCO is responsible for structural liquidity risk management and provides regular formal updates to the Risk and Compliance Committee and the Board. The Financial Markets division has delegated responsibility for the management of operational liquidity risk under agreed limits set and approved by ALCO.

Operational liquidity risk is short term liquidity risk, ranging from intra-day to one month. Execution of the Group's short term operational liquidity strategy and cash flow management on a daily and real time intra-day basis is the responsibility of the Financial Markets division, operating within policy set by ALCO. Cash flow requirements are determined using contractual cash flows and conservative assumptions for non contractual cash flows which may fall due.

Structural liquidity risk is managed under the guidelines set out in the Group funding policy. GBSM and Group Risk provide updates to ALCO on the structural liquidity and funding position both on a current and forward looking basis.

The structural liquidity risk has been materially altered by the deposit transfer transaction in February 2011 and the US dollar/euro foreign exchange swap agreement (note 58). The deposit transfer has significantly reduced the amount of customer deposit liabilities and reduced the amount of NAMA bonds on the Bank's balance sheet. This has led to an increase in the nominal amount of, and the future reliance on, liquidity assistance from the Central Bank of Ireland.

The US dollar/euro forward exchange agreement has positively improved the structural foreign exchange shortfall in US dollars by providing term US dollar funding without recourse to wholesale markets.

Reporting and measurement systems

Liquidity risk is measured using the cash flow mismatch approach where cash inflows and outflows are analysed to produce a net cash flow position over set time periods. Cash outflows are assumed to be paid at the earliest time period and cash inflows to be received at the latest potential time period.

Separate liquidity cash flow limits are in place for the management of liquidity in non-euro currencies ensuring foreign currency cash flow exposure is managed within approved risk tolerance limits.

Contractual undiscounted cash flows

The following tables present the cash flows payable by the Group under financial liabilities, and under contingent liabilities and commitments which are not recognised in the statement of financial position, by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the tables for financial liabilities are contractual undiscounted cash flows and therefore differ from the carrying amounts of these liabilities in the consolidated statement of financial position.

Contractual undiscounted cash flows

The Group

31 December 2010

	Demand €m	Between one and eight days €m	Between nine days and one month €m	Between one and three months €m	Between three months and one year €m	Between one and five years €m	Over five years €m	Total €m
Deposits from banks	1,695	43,743	285	504	55	-	-	46,282
Customer accounts	3,771	1,433	1,758	1,370	2,537	387	20	11,276
Derivative financial instruments (1)	-	(3)	10	74	2	248	(38)	293
Debt securities in issue	-	1	808	34	1,420	4,946	18	7,227
Subordinated liabilities and other capital instruments	-	-	-	1	3	145	384	533
	5,466	45,174	2,861	1,983	4,017	5,726	384	65,611
Contingent liabilities (2)	-	26	1	99	59	37	1	223
Commitments to lend (2)	77	-	6	41	140	255	33	552
Total financial liabilities, contingent liabilities and commitments	**5,543**	**45,200**	**2,868**	**2,123**	**4,216**	**6,018**	**418**	**66,386**

31 December 2009

	Demand €m	Between one and eight days €m	Between nine days and one month €m	Between one and three months €m	Between three months and one year €m	Between one and five years €m	Over five years €m	Total €m
Deposits from banks	11,866	2,842	4,409	2,822	10,851	3	-	32,793
Customer accounts	7,852	4,456	3,757	4,482	6,481	512	34	27,574
Derivative financial instruments (1)	-	(17)	21	38	(139)	140	18	61
Debt securities in issue	-	16	1,069	1,174	9,080	4,036	39	15,414
Subordinated liabilities and other capital instruments	-	-	-	8	30	565	2,182	2,785
	19,718	7,297	9,256	8,524	26,303	5,256	2,273	78,627
Contingent liabilities (2)	-	20	2	21	174	116	11	344
Commitments to lend (2)	-	65	99	270	719	671	34	1,858
Total financial liabilities, contingent liabilities and commitments	19,718	7,382	9,357	8,815	27,196	6,043	2,318	80,829

(1) Derivative cash outflows are stated net of related inflows.
(2) The Group does not expect all contingent liabilities or commitments to be drawn.

51. **Risk management** continued

Liquidity and funding risk continued

The Group evaluates its longer term liquidity mismatch or structural liquidity risk on a regular basis. The management of structural liquidity risk is important in identifying future funding requirements.

Risk mitigation

It is accepted that the current liquidity and funding risk position is significantly outside the risk appetite parameters. The Bank will continue to manage and monitor this risk, whilst acknowledging that opportunities to reduce it are limited due to the current position of the Bank.

Liquid assets

An important part of the operational and structural liquidity risk strategy is maintaining a portfolio of liquid treasury assets which are realisable for cash at short notice through sale and repurchase agreements.

The Group's portfolio of liquid assets comprises government bonds and other high quality bank paper which are liquid in the bilateral or tri-party repo market. Details of sale and repurchase agreements secured on available-for-sale financial assets are contained in note 25.

Holding a portfolio of highly liquid assets has always formed part of the Group's liquidity management policy, assisting the Group in receiving and placing cash in the repo market during periods of market volatility. Given the stressed funding and liquidity position of the Bank virtually all of the liquid asset portfolio is currently under repurchase agreements as outlined in note 25.

Stress testing

An important element in the identification, management and control of liquidity risk is the use of stress tests and scenario analyses. The stress testing results enable ALCO to analyse the effects of various scenarios on the funding and liquidity position of the Group. The suite of stress tests incorporates both market and Group specific stresses including moderate and severe events over different time horizons.

Some examples of the primary stress tests are the total closure of wholesale funding markets, two notch downgrade stress, Irish market specific stress and market risk stress. In June 2010 three additional stresses were added to the liquidity stress testing suite as part of the Committee of European Bank Supervisors ('CEBS') Guidelines on Liquidity Buffers and Survival periods. These stress test results are formally submitted to the Central Bank of Ireland on a monthly basis.

Liquidity stress testing results are regularly reviewed by ALCO with updates provided to the Board and the Risk and Compliance Committee.

Regulatory liquidity

The Central Bank of Ireland introduced regulatory liquidity requirements in 2007, replacing the liquid stock approach with a more advanced cash flow mismatch approach. Irish banks are required to report coverage in the 0 to 8 day and 9 to 30 day periods against which regulatory limits are set with conservative assumptions for certain cash flow types. In addition, the Central Bank of Ireland sets qualitative requirements regarded as best practice for liquidity risk management.

Due to the continued deterioration of its funding base, the Bank is not in full compliance with a number of regulatory liquidity requirements.

Market risk

Definition

Market risk is the risk of a potential adverse change in the Group's income or financial position arising from movements in interest rates, exchange rates or other market prices. Market risk arises from the structure of the balance sheet, the execution of customer and interbank business and from trading activities.

Objective

The Group aims to have effective systems and methodologies for the identification and measurement of market risks in its balance sheet. These risks are then managed within strict limits and in the context of a conservative risk appetite level that is consistent with the support provided to the Group by the Irish Government.

Policies

The Group's exposure to market risk is governed by policies approved by the Risk and Compliance Committee, and overseen by ALCO. All risk limits are approved by ALCO and the Risk and Compliance Committee.

Strategies and processes
Exposure to market risk is permitted only in specifically designated business units and is centrally managed by Financial Markets. In other units, market risk is eliminated by way of appropriate hedging arrangements with Financial Markets. Market risk throughout the Group is measured and monitored by Group Risk Management, operating independently of the business units.

Risk mitigation
The market risks inherent in the Group's balance sheet, and the risks arising from the flow of customer business, require management on a daily and intra-day basis. Hedging to within approved market risk limits is the overriding requirement in risk mitigation.

Trading book risk
Definition
The trading book consists of positions arising primarily from client transactions in a range of financial instruments. The interest rate trading book includes interest rate swaps, currency swaps, interest rate futures, forward rate agreements and options. Traded foreign exchange risk arises from the Group’s lending and funding activities as well as from its corporate and interbank foreign exchange business. All trading book risks are managed centrally by Financial Markets.

Objective
The Group aims to manage the risks arising from client transactions through the use of derivative instruments within a detailed framework of approved limits that reflects the orientation towards the management of risks within the existing balance sheet and those deriving from customer business.

Policies
The Bank's Group Treasury Policy prescribes valuation models and risk measurement methodologies that ensure close monitoring and clear reporting of all trading book risks.

The primary trading book market risk measure is a Value at Risk ('VaR') model that is based on a historical simulation methodology. It is implemented using a 99% confidence level and two years of historic data. The methodology takes into account inter-relationships between different market variables, for instance between interest rates and foreign exchange rates, and captures the risks associated with option positions in interest rate and foreign exchange instruments.

Although an important and industry standard measure of risk, VaR has its limitations as a result of its use of historical data, frequency of calculation and holding periods. Additionally, the use of confidence intervals does not give any information about potential losses when the confidence level is exceeded. For these reasons, the Group also uses a variety of other methodologies in measuring market risk. These include, but are not limited to, stress testing and sensitivity analysis.

Reporting and measurement systems
Group Risk Management provides daily reporting of trading book risk positions against all approved VaR, Present Value of a Basis Point ('PVBP'), option sensitivity and stop-loss limits. It provides monthly reporting to ALCO on trading book activity with analysis of all significant risk positions, including stress testing of positions against a range of extreme market scenarios. There is also monthly reporting to the Risk and Compliance Committee on compliance with risk limits.

Risk mitigation
The Group Treasury Policy outlines a rigorous control environment that includes prescribing a specific range of approved products by desk in accordance with experience and specialisation. It also provides for a structure for the management of trading book risk positions through a detailed set of limits that covers all of the risk sensitivities associated with the approved products.

51. **Risk management** continued

Market risk continued

The table below summarises the VaR levels of the Group’s trading book for the period using a 99% confidence level.

	1 Day Time Horizon		**10 Day Time Horizon**	
	31 December 2010 €m	31 December 2009 €m	**31 December 2010 €m**	31 December 2009 €m
At end of period	**0.5**	0.3	**1.7**	0.9
Average	**0.4**	0.5	**1.2**	1.6
Minimum	**0.1**	0.3	**0.4**	0.9
Maximum	**1.0**	0.8	**3.0**	2.5

The average VaR for the year ended 31 December 2010 was lower than for the previous period. Risk positioning continued to be low in 2010 in terms of interest rate and foreign exchange risk sensitivities.

Banking book risk - interest rate risk
Definition
Interest rate risk is the risk of a potential adverse change in the Group's income or financial position arising from movements in interest rates. It arises from the structure of the balance sheet and from the execution of customer and interbank business.

Banking book positions are those acquired with the intention of holding them to maturity in the normal course of business. Interest rate risk in the banking book arises from a combination of lending, funding and non-trading treasury activities. Financial Markets manages the market risk associated with all of these activities on a consolidated basis.

The Group's financial assets and liabilities have interest rates that are reset at different times or under different bases. There is a potential impact on earnings and value that could occur when liabilities cannot be repriced as quickly as assets in a falling interest rate environment or when assets cannot be repriced as quickly as liabilities in an environment of rising rates.

At 31 December 2010, the Group held a €25.3bn Irish Government promissory note. As the promissory note is a fixed rate instrument which creates significant interest rate risk exposure, which in turn leads to potential earnings volatility, the Bank has hedged a portion of the exposure. The Bank has hedged a total of €4.6bn of the note using interest rate swaps, and a further €6.1bn of economic hedges exist in the form of the Group’s capital and fixed rate debt issuance. However, significant fixed rate exposure remains, and with current market conditions there is limited capacity to hedge further amounts with market counterparties. Further details on the promissory note are set out in note 26.

As a result of the unhedged fixed interest rate exposure on the promissory note, a +/- 1% parallel shift in interest rates over a twelve month period would impact net interest income and profit before tax by -/+ €146m.

Objectives
The Group recognises that the effective management of interest rate risk is essential to the maintenance of stable earnings and the preservation of shareholder value. It aims to manage interest rate risk in its balance sheet to optimise net interest income within an acceptable loss tolerance level.

Policies
The Group Treasury Policy provides for consolidated reporting and centralised management of all banking book risk positions within the Group. The Group's exposure to interest rate risk is governed by policies approved by ALCO and the Risk and Compliance Committee. All risk limits are approved by ALCO and the Risk and Compliance Committee.

Strategies and processes
The Financial Markets division and GBSM have responsibility for the management of interest rate risk under limits approved by ALCO. ALCO reviews the Group's interest rate risk position and strategy on a monthly basis and provides analysis and reporting to the Risk and Compliance Committee and the Board. Group Risk provides daily reporting on all interest rate risk positions with monthly reporting to ALCO and the Risk and Compliance Committee.

Reporting and measurement systems
Banking book interest rate risk is measured by establishing the repricing characteristics of each non-trading asset, liability and derivative instrument. The risk is managed by Financial Markets through basis point sensitivity and nominal position limits.

Risk measurement using basis point sensitivity is supplemented with regular stress tests assessing the impact of extreme market moves on risk positions. The stress tests include measurement of the sensitivity of positions to extreme yield curve movements. There are also scenario tests based on observed historical occurrences of market volatility, for example the bond market crisis of 1998 or the credit market dislocation of 2008, as well as on a range of hypothetical combinations of market stresses.

Group Risk Management provides daily reporting of banking book risk positions against approved risk sensitivity and nominal position limits. It provides monthly reporting to ALCO and the Risk and Compliance Committee on banking book activity with analysis of all significant risk positions, including the results of stress testing.

Risk mitigation
Risk mitigation for banking book risks consists of a matching of asset and liability risk positions to the maximum extent practicable and the use of derivatives to manage duration and interest rate sensitivity within the approved limit structure.

The following table shows the sensitivity of the Group’s banking book, including non-trading book derivatives but excluding the Irish Government promissory note holding and related hedging instruments, to an assumed 100 basis point ('bp') parallel shift in interest rates in terms of the impact on net interest income and profit/(loss) before taxation over a twelve month period:

		Euro* €m	**Sterling €m**	**US Dollar €m**
At 31 December 2010	+100bp parallel move	**(38)**	**4**	**7**
	-100bp parallel move	**38**	**(4)**	**(7)**
At 31 December 2009	+100bp parallel move	(23)	(4)	9
	-100bp parallel move	23	4	(9)

* This excludes the Irish Government Promissory Note holding and related hedging instruments.

This interest rate risk sensitivity measure assumes that for each of the currencies above, interest rates for all maturities move at the same time and by the same amount. It does not incorporate the impact of management actions that, in the event of an adverse rate movement, could reduce the impact on net interest income. In practice, interest rate risk is actively managed and the impact of yield curve movements on interest income will be different from that calculated by this measure.

The exposure of equity reserves to interest rates arises from two main sources. Included in the Group's available-for-sale portfolio are fixed rate securities. A one basis point change in market interest rates would result in a change in the value of this portfolio of €0.2m (31 December 2009: €0.4m). These unrealised movements are recognised in the available-for-sale reserve, a component of other reserves. The Group has also designated interest rate swaps as cash flow hedges in various relationships (note 21). A one basis point change in market interest rates would result in a change in the cash flow hedging reserve of €0.1m (31 December 2009: €1.1m).

Banking book risk - foreign exchange risk
Market risk in the banking book arises from exposure to changes in exchange rates. Structural foreign exchange risk principally arises from the funding shortfall between the Group's sterling and US dollar lending activities and the Group's funding in those currencies. It is Group policy to mitigate this risk using forward foreign exchange hedging.

Structural foreign exchange risk also arises from the Group’s net investments in its sterling and US dollar based foreign operations. It is Group policy to mitigate this structural foreign exchange risk by hedging material foreign currency investments in operations, whose functional currency is not euro, using funding in the same currency. Structural foreign exchange exposures, net of hedging instruments, increased during the year to €1.0bn (31 December 2009: €nil) primarily as a result of the sterling funding shortfall and also due to sterling net investment hedging decisions taken in accordance with the Group’s capital ratio hedging strategy for foreign exchange movements. The foreign currency denominated funding used to hedge the net investments in the Group’s foreign operations has a carrying amount of €1.0bn (31 December 2009: €1.7bn). The ineffectiveness recognised in the income statement in respect of hedges of net investments in foreign operations was €nil (31 December 2009: €nil).

51. **Risk management** continued

Market risk continued

Banking book risk - foreign exchange risk *continued*

The Group has an earnings hedging programme that mitigates the impact of exchange rate movements as a result of foreign currency earnings or losses incurred during the period. This is done on a monthly basis and the bank does not run transactional foreign exchange risk.

A sizeable portion of the Group's total risk weighted assets, used to determine the regulatory capital position, are denominated in non-euro currencies, primarily in sterling and US dollars. As a result, the Group's regulatory capital ratios are sensitive to foreign exchange movements. Accordingly ALCO has approved an appropriate hedging policy designed to mitigate the potential impact of future foreign exchange movements on the Group's regulatory capital ratios. In accordance with the approved policy, management monitor this exposure on an ongoing basis and when required enter into foreign currency transactions which ensure that currency positions which account for more than 1% of total risk weighted assets are appropriately hedged.

Derivatives

Definition

A derivative is a financial instrument which defines certain financial rights and obligations that are contractually linked to interest rates, exchange rates or other market prices. Derivatives are an efficient and cost effective means of managing market risk. As such, they are an indispensable element of risk management for the Group.

Objectives

The Bank seeks to use derivatives to hedge risk positions efficiently where required and to ensure that the risks associated with derivatives are identified and reported within the Trading Book and Banking Book reporting frameworks as appropriate.

Policies

The Group's derivatives activities are governed by policies approved by the Risk and Compliance Committee. These policies relate to the management of the various types of risks associated with derivatives, including market risk, liquidity risk, credit risk and operational risk. It is recognised that certain forms of derivatives can introduce risks which require sophisticated measurement and control processes. For this reason it is Group policy to place clear boundaries on the nature and extent of its participation in derivatives markets and to apply industry regulatory standards to all aspects of its derivatives activities.

Strategies and processes

Derivative positions fall within the structure of approved limits for the Trading Book and Banking Book as appropriate and are used for the management of balance sheet risks and the hedging of positions arising from customer business. Where cross currency swaps and foreign exchange forwards are used to fund sterling and US dollar loan portfolios, the interest rate risks are managed within approved Banking Book limits for those currencies.

Reporting and measurement systems

The Group designates certain derivatives as either fair value hedges (where the Group hedges the changes in fair value of recognised assets or liabilities or firm commitments) or cash flow hedges (where the Group hedges the exposure to variability of cash flows attributable to recognised assets or liabilities or highly probable forecast transactions). With the exception of designated hedging derivatives, as defined by IAS 39, derivatives are treated as held for trading. The held for trading classification comprises the Group's trading book, economic hedges which do not meet the strict qualifying criteria for hedge accounting and derivatives managed in conjunction with financial instruments designated at fair value.

Further details in respect of derivatives are disclosed in note 21. The Group's accounting policy for derivatives is set out in note 1.

Operational risk

Definition

Operational risk is the risk of loss arising from inadequate controls and procedures, unauthorised activities, outsourcing, human error, systems failure and business continuity. Operational risk also includes legal risk, which is the risk of loss due to litigation arising from errors, omissions and acts by the Bank in the conduct of business. Operational risk is inherent in every business unit throughout the Group and covers a wide spectrum of issues.

Objectives

The Operational Risk Management unit aims to provide the framework and tools to identify, assess, monitor and report on operational risks within each of the business units and support functions of the Group, to minimise losses and reduce errors in line with the Group's Risk Appetite Statement.

Policies
The Group's management of its exposure to operational risk is governed by a policy approved by the Risk and Compliance Committee. The policy specifies that the Group operates such measures of risk identification, assessment, monitoring and management as are necessary to ensure that operational risk management is consistent with the strategic goals of the Group. It is designed to safeguard the Group's assets while allowing sufficient operational freedom to conduct the Group's business. The policy document also sets out the responsibilities of senior management, the requirement for reporting of operational risk incidents and the role of Group Internal Audit in providing independent assurance.

Strategies and processes
Towards the end of 2010, the Compliance and Operational Risk functions of the Bank combined into a single unit called Group Compliance and Operational Risk ('COR'). By combining them into one unit, it is envisaged that there will be opportunities for further cooperation and exchange of information. The new COR unit will continue to operate within the Risk and Compliance division of the Bank, reporting to the CRO.

The business units and support functions assess their operational risk profile on a semi-annual basis. The output of these assessments is consolidated and presented to the Risk and Compliance Committee. The process serves to ensure that key operational risks are proactively identified, evaluated, monitored and reported, and that appropriate action is taken. In addition, the Risk and Compliance Committee receives monthly information on significant operational risk incidents.

Reporting and measurement systems
The Bank uses the Standardised Approach as defined by the Capital Requirements Directive for the calculation of its capital requirements for operational risk. This approach requires the activities of the Bank to be assigned to one or more of the eight generic categories identified under the Directive, with a beta factor being applied to the three-year average gross income in each business line. Only four business lines are applicable to the Group (i.e. Commercial Banking, Trading & Sales, Asset Management and Retail Banking).

Risk mitigation
The operational risk management process consists of the setting of strategic objectives, the identification of risks and the implementation of action plans to mitigate the risks identified. Recognising that operational risk cannot be entirely eliminated, the Group implements risk mitigation controls including fraud prevention, contingency planning, information security and incident management. Where appropriate this strategy is further supported by risk transfer mechanisms such as insurance.

Reputational risk

Reputational risk is the risk of an adverse perception of the Group on the part of any stakeholder arising from an event or transaction of, or related to, the Group.

Directors and employees are made aware of the role they have in maintaining the creation of the Bank’s reputation, and of their responsibilities and duties from a customer service, regulatory and ethical perspective. In addition, independent control functions including Group Compliance, Company Secretarial, Group Finance, Group Risk Management and Group Internal Audit are resourced with appropriately experienced and qualified teams.

Legal risk

The Bank has an independent Legal Department reporting directly to the Group Chief Executive. The Bank is continuing to develop this department with a view to establishing an effective legal function to ensure that best practice in corporate governance and strict legal compliance is rigorously adhered to going forward and for the purpose of mitigating legal risk and legal costs at all levels and across all divisions of the Bank’s business and operations.

In addition to the ongoing legal risk mitigation in dealing with legal queries of a varied nature across the Bank on a day to day basis, it is sought to increasingly develop the resource capacity of the legal function to (i) effectively bring legal input to internal processes and procedures both at a strategic and practical level on a proactive and consistent basis; (ii) to ensure an awareness and translation of relevant legislation into the Bank’s business; and (iii) to promote education and training on relevant legal matters in conjunction with both the Bank’s internal and external legal advisers.

Legal risk arises generally from the potential for loss resulting from adverse claims (whether or not resulting in litigation), unenforceable or defective documents resulting in a transaction not having the intended legal effect, deficient corporate governance and internal procedures, change of law, particularly, the risk of misinterpretation and a lack of awareness of applicable legislation, all of which can disrupt or otherwise negatively affect the operations, condition or financial or reputational standing of the Group.

51. **Risk management** continued

Legal risk continued

The legal risk of adverse claims is currently monitored through a Group-wide litigation register maintained by the Legal Department with the oversight of the Risk and Compliance Committee. This facilitates the assessment of potential losses, which could arise from adverse claims, and identification of trends and recurrence with a view to preventing same by addressing weaknesses giving rise to such claims. Frequent engagement with the relevant business divisions further assists in earlier awareness at Group level of potential adverse claims.

Separately, the Legal Department plays a central role in the management of legal matters relating to certain legacy issues which previously arose in the Bank and the co-operative progression of the investigations instituted by relevant authorities in the period since December 2008.

Compliance and regulatory risk

Definition
Compliance and regulatory risk is defined as the risk of regulatory sanctions, material financial loss, or loss of reputation as a result of failure to comply with laws, regulations, rules, related standards, and codes of conduct arising from its activities as a regulated entity.

Objectives
Management and the Group Compliance and Operational Risk ('COR') function are responsible for the overall management of compliance and regulatory risk for the Group in regard to all relevant regulations and good practice guidelines in each of the jurisdictions in which the Bank operates. This includes ensuring that Group personnel are aware of, and take steps to comply with, Group policies and procedures.

As a support function, COR works closely with Group Finance, Group Risk Management, Group Company Secretarial and Group Internal Audit.

Policies
COR provides advice and guidance to staff through policies, procedures, codes of conduct and guidelines. This includes policies on anti-money laundering and data protection as well as guidance on matters such as consumer protection.

Strategies and processes
COR is charged with defining and identifying regulatory and compliance risks and developing a programme for the Group that includes the implementation and review of specific policies and procedures, and the monitoring and education of Group staff on regulatory and compliance matters. This programme is risk-based and the Head of COR is responsible for ensuring appropriate coverage and co-ordination with other Group functions. The function interacts with all relevant external supervisory bodies. The Group engages in discussions with relevant external supervisory bodies in all jurisdictions in which it operates on an ongoing basis.

Reporting and measurement systems
The Head of COR reports to the CRO, with oversight by the Risk and Compliance Committee.

COR prepares reports for each Risk and Compliance Committee meeting. The report incorporates metrics in relation to compliance such as volumes and trends in complaints and information on the extent of contact with regulatory authorities.

Risk mitigation
Non-compliance with regulatory requirements may result in actions by regulators, including sanctions. Such events in turn could have an adverse impact on the Group's results, its business and reputation.

In order to minimise risk of non-compliance, the function has adopted specific mitigant policies in relation to such matters as anti-money laundering and data protection.

52. Financial instruments

The Group uses financial instruments, including derivatives, in the normal course of its business. Net interest income is principally derived from the Group's lending activities and its holdings of promissory note and NAMA bonds. The Group accepts deposits from customers and from interbank counterparties, raises funds via the capital markets by issuing debt securities and capital instruments and also sources funding from central banks through both open market operations and other special funding facilities. These liabilities are at both fixed and variable interest rates and at various maturities from short to long term.

The accounting policies in note 1 describe how different categories of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the Group's financial assets and liabilities by measurement basis and by statement of financial position presentation.

52. Financial instruments continued

Measurement basis of financial instruments

31 December 2010

The Group	At fair value through profit or loss				At fair value through equity			
	Held for trading €m	Designated upon initial recognition €m	Fair value hedge derivatives €m	Policyholders' funds designated upon initial recognition €m	Available-for-sale * €m	Cash flow hedge derivatives €m	Loans and receivables / held at amortised cost * €m	Total €m
Assets								
Cash and balances with central banks	-	-	-	-	-	-	181	181
Financial assets at fair value through profit or loss								
- held on own account	-	13	-	-	-	-	-	13
- held in respect of liabilities to customers under investment contracts	-	-	-	237	-	-	-	237
Derivative financial instruments	1,844	-	82	-	-	10	-	1,936
Loans and advances to banks	-	-	-	-	-	-	3,525	3,525
Assets classified as held for sale	17	-	-	-	-	-	1,623	1,640
Available-for-sale financial assets	-	-	-	-	2,219	-	-	2,219
Promissory note	-	-	-	-	-	-	25,704	25,704
Government debt securities at amortised cost	-	-	-	-	-	-	10,623	10,623
Loans and advances to customers	-	-	-	-	-	-	24,364	24,364
Total financial assets	1,861	13	82	237	2,219	10	66,020	70,442
Liabilities								
Deposits from banks	-	-	-	-	-	-	46,566	46,566
Customer accounts	-	31	-	-	-	-	11,061	11,092
Derivative financial instruments	2,316	-	60	84	-	-	-	2,460
Debt securities in issue	-	-	-	-	-	-	6,912	6,912
Liabilities to customers under investment contracts	-	-	-	351	-	-	-	351
Subordinated liabilities and other capital instruments	-	-	-	-	-	-	509	509
Total financial liabilities	2,316	31	60	435	-	-	65,048	67,890

* Where relevant, carrying values include fair value hedge adjustments.

31 December 2009

The Group	At fair value through profit or loss				At fair value through equity			
	Held for trading €m	Designated upon initial recognition €m	Fair value hedge derivatives €m	Policyholders' funds designated upon initial recognition €m	Available-for-sale * €m	Cash flow hedge derivatives €m	Loans and receivables / held at amortised cost * €m	Total €m
Assets								
Cash and balances with central banks	-	-	-	-	-	-	302	302
Financial assets at fair value through profit or loss								
- held on own account	-	118	-	-	-	-	-	118
- held in respect of liabilities to customers under investment contracts	-	-	-	244	-	-	-	244
Derivative financial instruments	1,963	-	345	-	-	175	-	2,483
Loans and advances to banks	-	-	-	-	-	-	7,360	7,360
Assets classified as held for sale	410	-	-	-	-	-	25,482	25,892
Available-for-sale financial assets	-	-	-	-	7,890	-	-	7,890
Loans and advances to customers	-	-	-	-	-	-	30,852	30,852
Total financial assets	2,373	118	345	244	7,890	175	63,996	75,141
Liabilities								
Deposits from banks	-	-	-	-	-	-	32,971	32,971
Customer accounts	-	29	-	-	-	-	27,185	27,214
Derivative financial instruments	2,539	-	44	86	-	-	-	2,669
Debt securities in issue	-	-	-	-	-	-	15,148	15,148
Liabilities to customers under investment contracts	-	-	-	383	-	-	-	383
Subordinated liabilities and other capital instruments	-	-	-	-	-	-	2,383	2,383
Total financial liabilities	2,539	29	44	469	-	-	77,687	80,768

* Where relevant, carrying values include fair value hedge adjustments.

52. **Financial instruments** continued

Net trading expense includes a gain of €4m (31 December 2009: charge of €2m) in respect of changes in the value of financial liabilities designated at fair value through profit or loss. The gain/charge is largely offset by corresponding negative/positive changes in the value of matching derivative instruments. The portion of the change in value that is attributable to changes in credit risk is €nil (31 December 2009: €nil).

Fair value of financial assets and financial liabilities

The following table represents the carrying amount and the fair value of the Group's financial assets and financial liabilities at the period end. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

The concept of fair value assumes realisation of financial instruments by way of a sale. However, in many cases, particularly in respect of loans and advances to customers, the Group intends to realise assets through collection over time. Readers of these financial statements are therefore advised to use caution when using this data to evaluate the Group's financial position.

The Group	**31 December 2010**		31 December 2009	
	Carrying amount €m	**Fair value €m**	Carrying amount €m	Fair value €m
Financial assets				
Cash and balances with central banks	**181**	**181**	302	302
Financial assets at fair value through profit or loss				
- held on own account	**13**	**13**	118	118
- held in respect of liabilities to customers under investment contracts	**237**	**237**	244	244
Derivative financial instruments	**1,936**	**1,936**	2,483	2,483
Loans and advances to banks	**3,525**	**3,532**	7,360	7,365
Assets classified as held for sale	**1,640**	**1,304**	25,892	25,330
Available-for-sale financial assets	**2,219**	**2,219**	7,890	7,890
Promissory note	**25,704**	**21,905**	-	-
Government debt securities at amortised cost	**10,623**	**9,287**	-	-
Loans and advances to customers	**24,364**	**18,328**	30,852	28,558
Financial liabilities				
Deposits from banks	**46,566**	**46,579**	32,971	32,991
Customer accounts	**11,092**	**11,092**	27,214	27,377
Derivative financial instruments	**2,460**	**2,460**	2,669	2,669
Debt securities in issue	**6,912**	**5,554**	15,148	14,414
Liabilities to customers under investment contracts	**351**	**351**	383	383
Subordinated liabilities and other capital instruments	**509**	**41**	2,383	680

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The Group has estimated fair value wherever possible using quoted prices from active markets. The fair value of liquid financial assets has been determined using bid prices, while offer prices have been used to determine the fair value of financial liabilities.

For illiquid financial assets and liabilities, including loans and advances to customers, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of items not carried at fair value are as follows:

Cash and balances with central banks

The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Loans and advances to banks

The fair value of overnight placements is their carrying amount. The fair value of other loans and advances to banks is calculated by discounting expected cash flows using current market rates for placements with similar credit profiles and remaining maturities. In many cases, the carrying value is a close representation of fair value due to short term maturity profiles.

Assets classified as held for sale

Held for sale balances represent 6% of total gross loan balances and consist of the remaining NAMA bound loans of €1.1bn together with €0.7bn of US and €0.4bn of UK loans scheduled to be sold to third parties. These loans are carried at amortised cost less provisions for impairment. Derivatives associated with loans classified as held for sale are carried at fair value. The Bank has no control over the valuation of assets transferring to NAMA. These valuations will be determined based on the methodology outlined in the NAMA Act and the associated regulations. The Bank expects these assets to transfer to NAMA at a lower discount compared to the overall average haircut of 62% incurred on assets transferred to date. This is due to the high quality nature of the underlying collateral held as security on these loans. The fair value presented in the table in respect of loans is based on a discount of 40% to gross value. The US and UK assets have been valued based on bids received to purchase these assets and brokers' opinions of value.

Promissory note

The fair value of the promissory note is determined by the use of a valuation technique, based on a discounted cash flow methodology, which references observable market data. The fair value is calculated by discounting expected cash flows by reference to current observable market yields for comparable Irish government bonds.

Government debt securities at amortised cost

The fair value of NAMA senior bonds is determined by the use of a valuation technique, based on a discounted cash flow methodology, which references observable market data. This valuation technique is used due to the absence of observable market prices for these securities. The valuation approach adopted takes into consideration the coupon attaching to the notes, the yield on comparable Irish sovereign bonds, the extendible feature of the notes at the option of the issuer and the indicative repayment dates contained in the NAMA business plan. The valuation of NAMA senior bonds requires estimation and judgement and as a result it is possible that an alternative valuation approach could give rise to a range of values.

Loans and advances to customers

The estimation of fair values of loans and advances is inherently uncertain, dependent upon many unobservable factors and requires the exercise of considerable subjective judgement by management. Market conditions at 31 December 2010, particularly the lack of liquidity in the Irish commercial property market and the increased significance of counterparty credit considerations, have contributed to the uncertainty when estimating the fair values of loans and advances. The estimated fair value of loans and advances carried at amortised cost at 31 December 2010 includes an adjustment to reflect the Group's assessment of credit factors that market participants would consider in valuing such assets. Readers are advised that the Group intends to realise assets through collection over time rather than by way of sale and that the estimated fair values provided would be subject to change depending on the exact circumstances of a particular sale scenario.

Deposits from banks and customer accounts

The fair value of deposit liabilities repayable on demand is their carrying amount. The fair value of other deposits is deemed to be their carrying amount, based on the predominantly short term nature of such deposits and indicative bids received from third parties. Such bids were received as part of the process to transfer deposits held by the Bank to a third party financial institution on foot of the Direction Order made by the High Court on 8 February 2011 (note 58).

Debt securities in issue

The fair value of short term debt securities in issue is calculated using discounted cash flows. The fair value of medium term debt securities in issue is their quoted market value at period end, where available. Where quoted market values are unavailable, the fair value is determined taking into consideration the market value of similar quoted securities.

Subordinated liabilities and other capital instruments

The fair values of subordinated liabilities and other capital instruments are their indicative market levels.

52. **Financial instruments** continued

Fair value hierarchy

The following tables detail the valuation methods used for the Group's and the Bank's financial assets and liabilities carried at fair value as at 31 December 2010, other than financial assets and liabilities at fair value through profit or loss held in respect of liabilities to customers under investment contracts.

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

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

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

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

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

	The Group 31 December 2010			
	Level 1 €m	**Level 2 €m**	**Level 3 €m**	**Total €m**
Financial assets				
Financial assets at fair value through profit or loss - held on own account	**-**	**-**	**13**	**13**
Available-for-sale financial assets	**1,480**	**572**	**167**	**2,219**
Derivative financial instruments	**-**	**1,325**	**611**	**1,936**
Derivative financial instruments held for sale to NAMA	**-**	**4**	**13**	**17**
	1,480	**1,901**	**804**	**4,185**
Financial liabilities				
Derivative financial instruments	**-**	**2,453**	**7**	**2,460**
Other financial liabilities	**-**	**-**	**31**	**31**
	-	**2,453**	**38**	**2,491**

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

	The Bank 31 December 2010			
	Level 1 €m	**Level 2 €m**	**Level 3 €m**	**Total €m**
Financial assets				
Financial assets at fair value through profit or loss - held on own account	**-**	**-**	**5**	**5**
Available-for-sale financial assets	**1,434**	**567**	**167**	**2,168**
Derivative financial instruments	**-**	**1,566**	**611**	**2,177**
Derivative financial instruments held for sale to NAMA	**-**	**4**	**13**	**17**
	1,434	**2,137**	**796**	**4,367**
Financial liabilities				
Derivative financial instruments	**-**	**2,996**	**7**	**3,003**
Other financial liabilities	**-**	**-**	**31**	**31**
	-	**2,996**	**38**	**3,034**

	The Bank 31 December 2009			
	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets				
Financial assets at fair value through profit or loss - held on own account	-	70	22	92
Available-for-sale financial assets	5,109	2,590	158	7,857
Derivative financial instruments	-	2,256	388	2,644
Derivative financial instruments held for sale	-	179	231	410
	5,109	5,095	799	11,003
Financial liabilities				
Derivative financial instruments	-	3,573	11	3,584
Other financial liabilities	-	2	27	29
	-	3,575	38	3,613

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

The Group and Bank's remaining portfolio of financial assets at fair value through profit or loss held on own account consists primarily of unlisted equity shares. Fair values are determined using valuation techniques which refer to observable and non-observable market data.

Available-for-sale financial assets

The Group and Bank's portfolio of available-for-sale financial assets consists of debt securities only. The fair values of debt securities are primarily sourced from independent third party pricing service providers and prices received from dealer/brokers. NAMA subordinated bonds, which are valued using standard discounted cash flow techniques, are included in level 3. The Bank does not use models to value other AFS securities and does not adjust any external prices obtained.

Derivative financial instruments

Derivative financial instruments derive their value from the price of underlying variables such as interest rates, foreign exchange rates, credit spreads or equity or other indices. Fair values are typically estimated using industry standard valuation techniques incorporating inputs that are derived from observable market data. Derivative transactions with corporate clients which have a significant, but unobservable, counterparty credit input are classified as level 3. The Bank has observed a credit deterioration in relation to certain corporate clients during the course of the financial period.

On the initial recognition of derivative financial instruments, any difference between the transaction price and the value derived from a valuation technique incorporating information other than observable market data is deferred. During the year net gains of €9m (31 December 2009: €24m) were released to the income statement while gains of €1m (31 December 2009: €23m) were deferred. At 31 December 2010 total net unrealised gains amounted to €16m (31 December 2009: €24m).

52. **Financial instruments** continued

Other financial liabilities

Customer accounts include certain structured deposits that have embedded derivative features, typically options. Certain inputs to the valuation technique are not based on observable market data but can generally be estimated from historical data or other sources.

There were no transfers into or out of level 1 during the year. Transfers of derivative financial assets from level 2 to level 3 occurred as a result of an increase in the number of transactions with corporate clients which had significant, but unobservable, counterparty credit input as a result of credit quality deterioration during the year.

Movements in level 3 assets

	The Group 31 December 2010				
	Financial assets at fair value through profit or loss - own account €m	Available-for-sale financial assets €m	Derivative financial instruments €m	Derivative financial instruments held for sale €m	Total €m
At 1 January 2010	48	158	388	231	825
Total gains or losses					
- in profit or loss	(23)	6	174	149	306
- in other comprehensive income	-	(21)	-	-	(21)
Additions	2	237	-	-	239
Redemptions, maturities and disposals	(14)	(213)	(316)	(378)	(921)
Transfers into level 3	-	-	365	11	376
At 31 December 2010	13	167	611	13	804

	The Bank 31 December 2010				
	Financial assets at fair value through profit or loss - own account €m	Available-for-sale financial assets €m	Derivative financial instruments €m	Derivative financial instruments held for sale €m	Total €m
At 1 January 2010	22	158	388	231	799
Total gains or losses					
- in profit or loss	4	6	174	149	333
- in other comprehensive income	-	(21)	-	-	(21)
Additions	-	237	-	-	237
Redemptions, maturities and disposals	(13)	(213)	(316)	(378)	(920)
Transfers into level 3	-	-	365	11	376
At 31 December 2010	13	167	611	13	804

Redemptions, maturities and disposals of derivative financial assets include derivatives transferred to NAMA and interest settlements during the year.

Movements in level 3 liabilities

	The Group 31 December 2010		
	Derivative financial instruments €m	**Other financial liabilities €m**	**Total €m**
At 1 January 2010	**11**	**27**	**38**
Total gains or losses			
- in profit or loss	**-**	**4**	**4**
Redemptions and maturities	**(4)**	**-**	**(4)**
At 31 December 2010	**7**	**31**	**38**

	The Bank 31 December 2010		
	Derivative financial instruments €m	**Other financial liabilities €m**	**Total €m**
At 1 January 2010	**11**	**27**	**38**
Total gains or losses			
- in profit or loss	**-**	**4**	**4**
Redemptions and maturities	**(4)**	**-**	**(4)**
At 31 December 2010	**7**	**31**	**38**

Analysis of total level 3 gains/(losses) included in profit or loss

	31 December 2010	
	The Group €m	**The Bank €m**
Net trading expense	**308**	**335**
Provisions for impairment	**6**	**6**
Net change in available-for-sale reserve	**(21)**	**(21)**
	293	**320**

Analysis of level 3 gains/(losses) included in profit or loss relating to financial assets and financial liabilities held at year end

	31 December 2010	
	The Group €m	**The Bank €m**
Net trading expense	**71**	**90**
Net change in available-for-sale reserve	**(70)**	**(70)**
	1	**20**

Maturity profile of financial instruments

The following tables analyse the Group's financial assets, financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period to the contractual maturity date as at the end of the reporting period. As liquidity risk is managed on a Group basis, a similar maturity profile for the Bank would not provide meaningful information and therefore has not been presented.

As the information presented in the following tables is prepared on the basis of contractual maturity it should not be taken as an indication of the Group's liquidity risk, which is described in note 51.

Assets and related liabilities held in respect of liabilities to customers under investment contracts are separately disclosed as the underlying liquidity risk is borne by the policyholders and has no direct impact on the results of the Group.

52. Financial instruments continued

Maturity profile of financial instruments

31 December 2010

The Group	Current			Non-current				
	Demand €m	Not more than three months €m	Over three months but not more than one year €m	Over one year but not more than five years €m	Over five years €m	Equity shares €m	Policy-holders' funds €m	Total €m
Financial assets								
Cash and balances with central banks	181	-	-	-	-	-	-	181
Financial assets at fair value through profit or loss								
- held on own account	-	-	-	-	-	13	-	13
- held in respect of liabilities to customers under investment contracts	-	-	-	-	-	-	237	237
Derivative financial instruments	-	192	255	1,064	425	-	-	1,936
Loans and advances to banks	1,967	1,479	-	20	46	-	13	3,525
Assets classified as held for sale	781	16	131	578	149	-	(15)	1,640
Available-for-sale financial assets	-	169	695	1,167	188	-	-	2,219
Promissory note	-	2,187	-	5,174	18,343	-	-	25,704
Government debt securities at amortised cost	-	-	-	-	10,623	-	-	10,623
Loans and advances to customers	6,622	973	2,755	11,549	3,214	-	(749)	24,364
Total financial assets	9,551	5,016	3,836	19,552	32,988	13	(514)	70,442
Financial liabilities								
Deposits from banks	1,695	44,517	55	-	-	-	299	46,566
Customer accounts	3,771	4,553	2,491	354	15	-	(92)	11,092
Derivative financial instruments	-	102	284	1,413	577	-	84	2,460
Debt securities in issue	-	827	1,291	4,777	17	-	-	6,912
Liabilities to customers under investment contracts	-	-	-	-	-	-	351	351
Subordinated liabilities and other capital instruments*	-	-	-	124	385	-	-	509
Total financial liabilities	5,466	49,999	4,121	6,668	994	-	642	67,890

* Undated subordinated liabilities and other capital instruments have been included in amounts maturing over five years.

31 December 2009

The Group

	Current			Non-current				
	Demand €m	Not more than three months €m	Over three months but not more than one year €m	Over one year but not more than five years €m	Over five years €m	Equity shares €m	Policy-holders' funds €m	Total €m
Financial assets								
Cash and balances with central banks	302	-	-	-	-	-	-	302
Financial assets at fair value through profit or loss								
- held on own account	-	3	-	37	36	42	-	118
- held in respect of liabilities to customers under investment contracts	-	-	-	-	-	-	244	244
Derivative financial instruments	-	172	666	1,204	441	-	-	2,483
Loans and advances to banks	2,029	4,320	840	68	85	-	18	7,360
Assets classified as held for sale	11,789	3,426	4,239	4,876	1,562	-	-	25,892
Available-for-sale financial assets	-	1,176	2,245	3,555	914	-	-	7,890
Loans and advances to customers	4,120	1,644	6,432	13,664	5,763	-	(771)	30,852
Total financial assets	18,240	10,741	14,422	23,404	8,801	42	(509)	75,141
Financial liabilities								
Deposits from banks	11,866	10,062	10,782	3	-	-	258	32,971
Customer accounts	7,852	12,668	6,322	475	26	-	(129)	27,214
Derivative financial instruments	-	133	429	1,468	553	-	86	2,669
Debt securities in issue	-	2,228	8,962	3,922	36	-	-	15,148
Liabilities to customers under investment contracts	-	-	-	-	-	-	383	383
Subordinated liabilities and other capital instruments*	-	-	-	325	2,058	-	-	2,383
Total financial liabilities	19,718	25,091	26,495	6,193	2,673	-	598	80,768

* Undated subordinated liabilities and other capital instruments have been included in amounts maturing over five years.

The Amount due from Shareholder is not included in the table above as it does not meet the definition of a financial instrument.

53. Capital resources

The Bank's regulatory capital resources at 31 December 2010 consist of both Tier 1 and Tier 2 capital. Tier 1 capital includes equity (comprising ordinary share capital, share premium, capital reserve and other eligible reserves), deductions for intangible assets and prudential adjustments. Prudential adjustments include the reversal of movements on available-for-sale and cash flow hedging reserves. Tier 2 capital includes subordinated debt and collective impairment provisions. Specific prudential limits apply to the amount of subordinated debt and collective provisions eligible as regulatory capital. Total capital is further reduced by supervisory deductions.

Losses incurred by the Bank during the year to 31 December 2010 have placed significant stress on the Bank's regulatory capital resources and resulted in the Minister for Finance, as the sole shareholder, providing €17.0bn of additional capital contributions during the year. These capital contributions have restored the Bank's regulatory capital position resulting in a Tier 1 Capital ratio of 10.9% and a Total Capital ratio of 12.4% as at 31 December 2010. The additional capital contributions bring the total amount contributed by the Shareholder to date to €29.3bn, which the Central Bank of Ireland has confirmed qualifies as Core Tier 1 regulatory capital.

The most recent promissory note issued by the Minister in December 2010 was valued at €6.4bn and settled an Amount due from Shareholder which was recognised at 30 November 2010. Details of promissory notes received during the year are provided in note 26.

During November and December 2010 the Bank successfully executed a Liability Management Exercise ('LME') whereby the majority of outstanding Lower Tier 2 subordinated debt was bought back at a significant discount to par. The holders of the Bank's remaining perpetual preferred securities voted, in December 2010, to insert a call option which the Bank exercised in March 2011. As a result of this call feature these instruments were no longer eligible as regulatory capital at 31 December 2010. Further details regarding the LME are included in notes 7 and 43.

The Bank benefited from derogations from certain regulatory capital requirements granted on a temporary basis by the Central Bank of Ireland. These derogations lapsed on 31 August 2010. Therefore the regulatory capital position as at 31 December 2010 does not include any derogations from regulatory capital requirements. Derogations did apply as at 31 December 2009 and comparative data is provided showing the 31 December 2009 regulatory capital position with and without the benefit of derogations. On 21 October 2010 the Central Bank of Ireland reduced the Bank's required minimum total capital ratio from 9.5% to 8.0%.

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

During the year to 31 December 2010 the Bank transferred €21.9bn of assets to NAMA (net of specific impairment charges) which reduced total risk weighted assets significantly. Primarily due to the promissory notes issued by the Minister for Finance and senior NAMA floating rate notes, which are guaranteed by the Irish Government, the Bank has €39bn of exposure to the Irish Government at 31 December 2010. This exposure is risk weighted at 0% in line with the requirements of the Capital Requirements Directive ('CRD') and guidance from the Central Bank of Ireland.

Regulatory capital		The Group		
		31 December 2010 €m Without derogations	31 December 2009 €m Without derogations	31 December 2009 €m With derogations
Tier 1 capital				
Equity	(a)	**3,535**	4,170	4,170
Prudential filters and regulatory adjustments	(b)	**111**	65	65
Non-cumulative preference shares		**346**	334	334
Core Tier 1 capital		**3,992**	4,569	4,569
Perpetual preferred securities	(c)	**-**	271	271
Total Tier 1 capital		**3,992**	4,840	4,840
Tier 2 capital				
Collective provisions	(d)	**458**	939	1,277
Subordinated perpetual debt	(e)	**-**	47	47
Subordinated term debt	(e)	**125**	1,649	1,649
Total Tier 2 capital		**583**	2,635	2,973
Tier 1 and Tier 2 capital		**4,575**	7,475	7,813
Capital deductions	(f)	**(12)**	(181)	(12)
Total capital		**4,563**	7,294	7,801
Risk weighted assets	(g)	**36,668**	75,112	73,055
Tier 1 capital ratio		**10.9%**	6.4%	6.6%
Total capital ratio		**12.4%**	9.7%	10.7%

(a) The level of Core Tier 1 capital is impacted by the significant losses incurred during the year to 31 December 2010 which includes €11.5bn of a loss on transfer to NAMA and €7.8bn of impairment charges. The loss for the year has been largely offset in Core Tier 1 capital by the €17.0bn additional capital contributions provided by the Minister during the year.

(b) Prudential filters and regulatory adjustments primarily comprise the reversal of movements on available-for-sale and cash flow hedging reserves and the deduction of intangible assets.

(c) In December 2010, the holders of the Bank's remaining perpetual preferred securities voted to insert a call option, which the Bank exercised in March 2011. These instruments did not therefore qualify as regulatory capital at 31 December 2010. Further details on the LME of November and December 2010 are provided in notes 7 and 43.

(d) The maximum amount of collective provisions eligible as Tier 2 capital is limited to 1.25% of risk weighted assets. Accordingly, the amount of eligible collective provisions at 31 December 2010 has reduced in line with the reduction in risk weighted assets.

(e) During November and December 2010, the Bank successfully executed a LME whereby the majority of Tier 2 subordinated debt was bought back at a significant discount to par. Further details on the LME are provided in notes 7 and 43.

(f) On 30 November 2010, the Central Bank of Ireland confirmed that the Bank was no longer required to make a deduction of €169m from Total Own Funds.

(g) Risk weighted assets are calculated in line with the Standardised Approach to Basel II which the Bank has adopted since 1 January 2008. The level of risk weighted assets has reduced significantly due to the transfer of assets to NAMA during the year. Further increases in specific impairment charges incurred in the year to 31 December 2010 have also reduced the level of risk weighted assets. The Bank has €39bn of exposure to the Irish Government at 31 December 2010 which is risk weighted at 0% in line with the requirements of the CRD and guidance from the Central Bank of Ireland.

53. Capital resources continued

Derogations from regulatory capital requirements

The Bank's regulatory capital position during the year has benefited from the following derogations from certain regulatory capital requirements granted, following requests from the Bank, on a temporary basis by the Central Bank of Ireland. These derogations lapsed on 31 August 2010.

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

Full details of the Central Bank of Ireland's derogations applicable until 31 August 2010 are as follows:

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

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

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

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

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

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

54. Report on Directors' remuneration and interests

This report on Directors' remuneration and interests has been prepared by the Remuneration Committee on behalf of the Board of Directors (the 'Board'). In keeping with best practice and where relevant, in accordance with accounting standards, the Bank has provided information comparable to that provided by listed companies.

Remuneration Committee

All members of the Remuneration Committee are Non-executive Directors. Its current members are Dr. Noel Cawley (Chairman), Alan Dukes, Aidan Eames, Maurice Keane and Gary Kennedy. This committee is responsible for the formulation of the Group's remuneration policy in relation to the Group Chief Executive, who is the only Executive Director of the Bank, and other senior executives. The Chairman's and the Group Chief Executive's remuneration is determined by the Board on the recommendation of the Remuneration Committee.

Remuneration policy

The Group's remuneration policy, which has been framed in accordance with the Combined Code on Corporate Governance, is to reward its Group Chief Executive competitively having regard to comparable companies and the need to ensure that he is properly rewarded and motivated to perform in the best interests of the Shareholder. This policy is in accordance with the recommendations of the Covered Institutions Remuneration Oversight Committee ('CIROC'). The remuneration package consists primarily of a base salary with additional benefits including monthly contributions to a defined contribution pension scheme, a car allowance, a temporary rent allowance, agreed travel expenses and agreed relocation related expenses.

Remuneration for the Non-executive Directors is in accordance with the fee levels as agreed with the Minister for Finance in consultation with the Bank in 2009. Neither the Chairman nor the Group Chief Executive participate in decisions relating to their own remuneration; this is a matter for the Remuneration Committee in consultation with the Shareholder.

In accordance with a request from the Minister for Finance, following a recommendation from CIROC, the base salary of the Group Chief Executive is capped at €500,000.

Annual performance bonuses

The Bank does not operate a performance-related bonus scheme for executives hence no annual performance bonus has been paid or awarded to the Group Chief Executive during the year ended 31 December 2010 or the fifteen months ended 31 December 2009.

Share options

There are no rights outstanding under any share option plans.

Loans to Directors

At 31 December 2010 there are no loans to Directors, see note 55.

Directors' interests in contracts

The Bank and its subsidiary undertakings did not have any material contracts or arrangements during the year in which a Director of the Bank was materially interested, other than in the Bank's normal business. Details of related party transactions are included in note 55.

Service contracts

In order to secure the services of the new Group Chief Executive and in the context of the circumstances surrounding the Bank, the Group Chief Executive's contract includes an initial guarantee of employment for two years from September 2009. Thereafter a notice period of twelve months applies.

Other than the Group Chief Executive, there are no provisions for pre-determined compensation on termination in existence for any Director.

Pensions

The Group Chief Executive is entitled to monthly contributions to a defined contribution scheme. All pension benefits are determined solely in relation to basic salary. Fees paid to Non-executive Directors are not pensionable.

Under the defined contribution pension scheme, a set percentage of salary is paid into the scheme each year and is invested for the benefit of the member. At retirement, the accumulated value of the investments made is available to purchase retirement benefits for the member. Under this scheme, once the contributions have been paid the Group has no further obligation.

54. Report on Directors' remuneration and interests continued

Directors' and Secretary's interests

At 31 December 2010 the Directors and Secretary in office, and their spouses and minor children, had no beneficial interests in the shares of the Bank.

Directors' remuneration - 2010

	Year ended 31 December 2010				
	Salary €'000	Fees ^ €'000	Benefits # €'000	Pension * €'000	Total €'000
Executive Director					
A.M.R. (Mike) Aynsley	500	-	341	133	974
Non-executive Directors					
Alan Dukes (1)	-	127	-	-	127
Dr. Noel Cawley (2)	-	52	-	-	52
Aidan Eames (2)	-	52	-	-	52
Maurice Keane	-	112	-	-	112
Gary Kennedy (2)	-	59	-	-	59
Donal O'Connor (3)	-	114	-	-	114
Total	500	516	341	133	1,490

^ Fees to Non-executive Directors comprise a basic fee for Board membership and additional fees paid to the Chairmen of each of the Board Committees.

Comprises the gross value, before deduction of tax, of any benefits received in the year that are subject to income tax. Benefits include a car allowance, a temporary rent allowance, agreed travel expenses, agreed relocation related expenses and club subscriptions.

* Comprises employer contributions to pension funds.

(1) Appointed as Chairman on 14 June 2010. The Chairman has decided to take an annual fee of €150,000 which is €100,000 lower than the agreed contractual fee of €250,000, effective as and from his date of appointment as Chairman.

(2) Co-opted on 24 May 2010.

(3) Resigned as Chairman and as a Director on 14 June 2010.

Board member expenses

During 2010, the following business expenses were reimbursed to, or paid on behalf of, Board members: €25k for travel and subsistence expenses, €5k for telephone expenses, €5k for entertainment, €6k for relocation expenses and €5k for other expenses.

Essentially all of the above expenses relate to the Group Chief Executive both in his capacity as Group Chief Executive and as a Board member. Business expenses for other Board members are de minimis.

Directors' remuneration - 2009

	15 months ended 31 December 2009				
	Salary €'000	Fees ^ €'000	Benefits # €'000	Pension * €'000	Total €'000
Executive Director/Chairman					
A.M.R. (Mike) Aynsley (1)	160	-	137	32	329
Donal O'Connor (2)	273	-	21	54	348
Non-executive Directors					
Donal O'Connor (2)	-	171	-	-	171
Alan Dukes (3)	-	102	-	-	102
Maurice Keane (4)	-	94	-	-	94
Former Executive Directors					
David Drumm (5)	400	-	15	239	654
William McAteer (6)	175	-	19	46	240
Declan Quilligan (7)	533	-	5	214	752
Pat Whelan (8)	195	-	17	65	277
Former Non-executive Directors					
Frank Daly (9)	-	98	-	-	98
Noël Harwerth (10)	-	27	-	-	27
Anne Heraty (10)	-	32	-	-	32
Michael Jacob (10)	-	27	-	-	27
Gary McGann (10)	-	36	-	-	36
Ned Sullivan (10)	-	43	-	-	43
Lar Bradshaw (11)	-	31	-	-	31
Sean FitzPatrick (11)	-	131	-	-	131
Total	1,736	792	214	650	3,392

^ Fees to Non-executive Directors comprise a basic fee for Board membership and additional fees paid to the Chairmen of each of the Board Committees as well as to the Senior Independent Director.

Comprises the gross amount of any benefits received in the period that are subject to income tax.

* Comprises employer contributions to pension funds and amounts in lieu of accrued benefits. Contributions to the Group defined benefit scheme represent payments made, in accordance with actuarial advice, to provide post-retirement pensions from expected retirement age.

(1) Co-opted on 7 September 2009. Benefits comprise a car allowance, a temporary rent allowance and agreed travel expenses.

(2) Donal O'Connor was a Non-executive Director until his appointment as Non-executive Chairman on 18 December 2008. He was subsequently appointed Executive Chairman on 19 February 2009 and reverted to the role of Non-executive Chairman on 7 September 2009. While acting as Executive Chairman he received a salary, car allowance and monthly contributions to a defined contribution pension plan. In his roles as a Non-executive Director and as Non-executive Chairman he received fees of €19,500 and €151,949 respectively. Donal O'Connor is a Non-executive Director of Elan Corporation plc and Readymix plc and retains the fees paid to him in this respect. While acting as Executive Chairman he received fees from these companies totalling €40,916.

(3) Co-opted on 18 December 2008.

(4) Co-opted on 21 January 2009.

54. Report on Directors' remuneration and interests continued

(5) Resigned on 19 December 2008. In addition, on 12 December 2008 David Drumm received €659,400 in respect of a deferred performance bonus which had previously been expensed and disclosed by the Bank in the year to 30 September 2005. David Drumm is currently in dispute regarding non-payment of a deferred performance bonus of €669,300 which had previously been expensed and disclosed by the Bank in the year to 30 September 2006.

(6) Resigned on 7 January 2009. In addition, on 12 December 2008 William McAteer received €439,600 in respect of a deferred performance bonus which had previously been expensed and disclosed by the Bank in the year to 30 September 2005. A subsequent deferred performance bonus of €446,200, which had previously been expensed and disclosed by the Bank in the year to 30 September 2006, has not been paid. This was due to be paid in December 2009.

(7) Resigned as an Executive Director on 7 September 2009. In addition, from 8 September 2009 until 31 December 2009 Declan Quilligan earned a salary of €178,863 and was entitled to related pension scheme contributions of €80,309. On 15 March 2010 he left the employment of the Bank and received a voluntary redundancy payment inclusive of pay in lieu of notice, tax, legal and actuarial fees of €884,222, a payment in lieu of outstanding holidays of €65,417 and an actuarially calculated gross payment of €1,980,000 before tax in lieu of pension related benefits. An after tax sum of €915,625 from this payment was set-off against outstanding loan balances with the Bank. A further after tax sum of €439,829 was placed on deposit with the Bank and used to service the remaining loans outstanding. He also received €219,800 on 12 December 2008 and €262,223 in March 2010 for deferred performance bonuses, to which he had a contractual entitlement. These awards were in respect of the financial years to 30 September 2005 and 30 September 2006 and were expensed, and disclosed where appropriate, in the years in which they were awarded. In addition in 2010 the Bank settled amounts totalling €409,205 in respect of taxes owing for previous years, however the majority of this amount has already been repaid to the Bank.

(8) Resigned as an Executive Director on 19 February 2009. In addition, from 20 February 2009 until 8 December 2009 Pat Whelan earned a salary of €399,932, other benefits of €33,784 and was entitled to related pension scheme contributions of €179,570. On leaving service in December 2009 he received a voluntary redundancy payment including pay in lieu of notice of €635,042 and a payment in lieu of outstanding holidays of €15,385. An after tax sum of €275,194 from the payments he received was placed on deposit with the Bank and will be used to service outstanding loan balances. He also received €192,325 on 12 December 2008 and €223,100 in December 2009 for deferred performance bonuses, to which he had a contractual entitlement. These awards were in respect of the financial years to 30 September 2005 and 30 September 2006 and were expensed, and disclosed where appropriate, in the years in which they were awarded.

(9) Co-opted on 18 December 2008. Resigned on 22 December 2009.

(10) Noël Harwerth, Anne Heraty, Michael Jacob, Gary McGann and Ned Sullivan resigned on 19 January 2009.

(11) Sean FitzPatrick and Lar Bradshaw resigned on 18 December 2008.

55. Related party transactions

Irish Government

Parties are considered to be related if one party has the ability to control, or exercise significant influence over, another party's financial or operational decision making, or when both parties are under common control. During the period ended 31 December 2009 the Group was taken into State ownership and, as a result, the Irish Government is considered a related party.

On 30 September 2008 the Irish Government introduced the Credit Institutions (Financial Support) Scheme 2008 (the 'CIFS scheme') under which the Minister for Finance guaranteed certain liabilities of covered institutions, including the Bank, until 29 September 2010.

On 9 December 2009 the Government introduced the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the 'ELG scheme') which provides a guarantee for relevant customer deposits and provides flexibility to issue certain debt securities in both unguaranteed and guaranteed form (up to a maximum maturity of 5 years). The Bank became a participating institution in the ELG scheme on 28 January 2010. The legislation to extend the ELG scheme to 31 December 2011 (subject to EU State Aid approval) was signed into law on 19 November 2010. EU State Aid approval for the extension of the ELG scheme for the initial period to 30 June 2011 issued on 10 November 2010 for all liabilities under the scheme.

Fees payable under the ELG and the CIFS schemes are set out in notes 3 and 4 respectively.

On 9 February 2010 the Bank applied to be designated as a participating institution in NAMA. This application was accepted by the Minister for Finance on 12 February 2010. During the year ended 31 December 2010 the Bank transferred loans and related derivatives with a carrying value of €21.9bn to NAMA. In return, the Bank received NAMA senior floating rate notes and subordinated bonds with initial fair values of €10.5bn and €0.2bn respectively (note 13).

On 31 March 2010 a €8.3bn capital contribution from the Bank's Shareholder, which was a receivable at 31 December 2009, was settled via receipt of a promissory note. The Bank received a further €2.0bn capital contribution on 28 May 2010 in the form of an adjustment instrument to the original promissory note. On 23 August 2010 a capital contribution of €8.58bn, which was a receivable at 30 June 2010, was settled through receipt of a further adjustment instrument to the original promissory note. On 30 September 2010, following an assessment of the Bank's capital requirements by the Central Bank of Ireland, the Minister announced the State's intention to provide additional capital by increasing the promissory note to meet the expected base case requirement of €29.3bn. In fulfilment of this undertaking, on 22 December 2010 the Bank, at the request of the Shareholder agreed to return the initial promissory note and the two adjustment instruments totalling €18.88bn to the Minister in exchange for a single promissory note of €25.3bn. The revised promissory note comprises four tranches. Tranches 1 to 3 correspond to the initial promissory note and the two adjustment instruments. Tranche 4 was settled on 31 December 2010 and amounts to €6.42bn. For more information see note 26.

The financial support provided by the Government to the Group referred to above is subject to review by the European Commission ('EC') under EU State Aid rules. A plan for the Bank's restructuring was submitted to the EC in May 2010 and given changing circumstances in the broader economy and financial sector in Ireland, it was revised in October. The speed of deterioration in the economy and the banking sector since has culminated with the Government, the International Monetary Fund ('IMF') and the EC agreeing a substantial assistance package for the country. The Credit Institutions (Stabilisation) Act, enacted on 21 December 2010, provides the legislative basis for the reorganisation and restructuring of the banking system agreed in the joint EU/IMF Programme of Financial Support for Ireland. It will facilitate the planned restructuring of the Bank as set out in the programme agreement and consistent with EU State Aid requirements. The Irish Government and the EC may therefore exert significant influence which could impact the Group's future results and financial condition.

In November 2010 the Minister for Finance put in place a guarantee for the Bank which covered amounts payable in relation to derivative and certain other interbank transactions. The Bank may now only enter into derivative transactions for specified purposes, including balance sheet management. As the guarantee is for contractual performance only, no fee is payable. The guarantee was agreed after the Bank had its key credit rating cut to below investment grade by Standard and Poors amid concerns over the Government's support for the Bank.

55. **Related party transactions** continued

Irish Government continued

On 8 February 2011 the Bank received a Direction Order from the High Court to:

(i) Begin a process, in accordance with EU State Aid rules, to transfer deposits and assets held by the Bank to a third-party financial institution or institutions; and

(ii) Take the initial steps to implement the restructuring plan as submitted to the EC at the end of January 2011.

This Direction Order, which facilitates the Minister's plan to restructure the Bank, and which is in accordance with the provisions of the EU/IMF Programme of Financial Support for Ireland was issued under the Credit Institutions (Stabilisation) Act 2010.

On 24 February 2011, under a Transfer Order made by the High Court, the Bank transferred the majority of its Irish and UK deposits and certain NAMA bonds (with the exception of certain excluded liabilities) to Allied Irish Banks, p.l.c. (note 58).

Placings with and deposits from the Central Bank of Ireland are detailed in notes 19, 22 and 38. In addition, in the normal course of business and on arm's length terms, the Group has entered into transactions with Government-related entities, which include financial institutions in which the State has significant influence. The principal banking transactions include taking deposits, investing in Government bonds and debt securities in issue, and providing loans. At 31 December 2010 normal banking transactions outstanding between the Group and such entities amounted to: deposits of €540m (31 December 2009: €436m), Government bonds of €278m (31 December 2009: €1,118m), debt securities issued by State-owned financial institutions of €383m (31 December 2009: €232m), loans and advances to banks of €365m (31 December 2009: €356m) and customer loans of €nil (31 December 2009: €173m). The customer loans at 31 December 2009, which represented amounts advanced to Becbay Limited (a joint venture entity involving the Dublin Docklands Development Authority) on arm's length terms, were transferred to NAMA during the year.

In addition, at 31 December 2010, the Bank held a Government guaranteed promissory note with a nominal value of €25,300m (note 26), NAMA Government Guaranteed Floating Rate Notes with a nominal value of €12,275m (note 27), and NAMA Callable Perpetual Subordinated Fixed Rate Bonds with a nominal value of €645m (note 25). Revenues from transactions with the Government and entities under the control of the Government amounted to 10% or more of the Group's revenues and included interest on the promissory note of €433m and interest on Government debt securities at amortised cost of €146m (note 3).

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

Pension funds

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

Subsidiary undertakings

Anglo Irish Bank Corporation Limited (the 'Bank') is the ultimate parent of the Group. Banking transactions are entered into by the Bank with its subsidiaries in the normal course of business. Balances between the Bank and its subsidiaries are detailed in notes 21, 22, 23, 25, 28, 38, 39 and 41. Details of significant subsidiary undertakings are shown in note 31.

During the year ended 31 December 2010, the Bank waived certain loans due to it from the following subsidiary undertakings: Anglo Irish Asset Finance plc, Anglo Irish Property Lending Limited and Anglo Irish Commercial Properties (No. 1) Limited. As a result of the loan waivers the Bank has increased its investments in these subsidiaries.

Joint ventures and associate

The Group provides certain banking and financial services to its joint ventures and associate. Details of loans to and deposits from these entities are shown in notes 28 and 39 respectively. Details of significant joint ventures are shown in note 30.

In August 2010, the EU Commission granted approval for the Bank and Ulster Bank to assume control of Arnotts Holdings Ltd ('Arnotts') as agreed with shareholders in a loan restructuring agreement in February 2010. The value of the Bank's interest in Arnotts is included in financial assets at fair value through profit or loss.

Key management personnel

Key management personnel comprise persons who, at any time during the year ended 31 December 2010, were members of the Board of Directors (the 'Board') together with the Group Secretary and any other persons having authority and responsibility for planning, directing and controlling the activities of the Bank.

Changes to the Board since 31 December 2009

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

Remuneration for the Non-executive Directors is in accordance with the fee levels as agreed with the Minister for Finance in consultation with the Bank in 2009.

Key management compensation

The following disclosures are made in accordance with the provisions of IAS 24 'Related Party Disclosures'. These disclosures cover the Board of Directors (Executive and Non-executive) and other key management personnel. The amounts presented below include the figures separately reported in the Report on Directors' remuneration and interests in note 54.

	Year ended 31 December 2010* €m	15 months ended 31 December 2009# €m
Salaries and short term employee benefits (1)	**5**	7
Directors' fees	**1**	1
Post employment benefits (2)	**1**	2
Other long term benefits (3)	**-**	2
Termination benefits (4)	**1**	1
Equity compensation benefits (5)	**-**	6
	8	19

(1) Includes salaries and short term employee benefits for fourteen persons (2009: eighteen), two of whom had left the Bank by 31 December 2010. In addition, to ensure compliance with Irish Revenue tax rules, the Bank also provides assistance in the preparation of tax returns for certain key management personnel.

(2) Comprises employer contributions to pension funds and, in the prior period also includes amounts in lieu of accrued pension benefits.

(3) In the prior period, other long term benefits include €1.9m in relation to relocation costs incurred by the Bank in respect of the foreign assignment of a former key manager.

(4) Represents termination benefits paid to two former members of key management who left the Bank in 2010 (2009: three).

(5) During the year the actual benefit to key management was €nil in respect of share options. Following the Bank's nationalisation in January 2009 any rights outstanding were extinguished for zero benefit. The expense of €6m in the prior period is an accounting charge determined by reference to the fair value of options or share awards calculated on the date of grant.

* A deferred bonus of €0.1m, which had previously been awarded and expensed in respect of the financial year to 30 September 2006 and which represented a contractual obligation, was paid to one key manager in the year.

Prior to the nationalisation of the Bank a total of €1.8m in deferred bonuses were paid to six former key managers in December 2008. In December 2009 €614k in deferred bonuses, representing contractual obligations, were paid to three former key managers. All of these amounts had been awarded and appropriately expensed in respect of previous financial periods.

55. Related party transactions continued

Loans to key management personnel

Loan balance movements during the year and the aggregate amounts outstanding at year end to persons who, at any time during the year, were key management personnel were:

	Year ended 31 December 2010		15 months ended 31 December 2009	
	Directors €m	**Other key management * €m**	Directors €m	Other key management * €m
At beginning of period	**46**	**11**	179	7
Loan advances during the period	**-**	**-**	41	-
Loan repayments during the period	**-**	**-**	(28)	-
Other movements (1)	**(46)**	**(10)**	(37)	4
At end of period (2)	**-**	**1**	155	11
Provisions for impairment	**-**	**-**	(109)	-
At end of period after provisions for impairment	**-**	**1**	46	11
Number of persons (3)	**-**	**2**	10	7

* Excludes Executive Directors

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

(1) The reduction in Directors' loans in 2010 of €46m represents the opening loan balances, after provisions for impairments, in respect of nine former Executive and Non-executive Directors who either resigned from the Board or the Bank in the fifteen month period ended 31 December 2009. A full analysis of the closing balance at 31 December 2009 is presented in note 55 to the 2009 Annual Report and Accounts.

The reduction in loans to other key management of €10m primarily represents the opening loan balances, after provisions for impairment, in respect of three former key managers who were no longer employed by the Bank at 31 December 2010.

(2) Loans and advances at 31 December 2010 include €1m (31 December 2009: €1m) to two individuals who are currently key management personnel. There are no provisions in respect of any failure or anticipated failure to repay any of these loans or interest thereon.

(3) This includes key management personnel who held balances at any time during the year.

Transactions with former key management personnel

During the year, a former Director, who left the Bank on 15 March 2010, received a voluntary redundancy payment inclusive of pay in lieu of notice and tax, legal and actuarial fees of €884,222, a payment in lieu of outstanding holidays of €65,417 and an actuarially calculated gross payment of €1,980,000 before tax in lieu of pension related benefits. An after tax sum of €915,625 from this payment was set-off against outstanding loan balances with the Bank. A further after tax sum of €439,829 was placed on deposit with the Bank and used to service the remaining loans outstanding. The former Director also received €219,800 on 12 December 2008 and €262,223 in March 2010 for deferred performance bonuses, to which he had a contractual entitlement. These awards were in respect of the financial years to 30 September 2005 and 30 September 2006 and were expensed, and disclosed where appropriate, in the years in which they were awarded. In addition, in 2010 the Bank settled amounts totalling €409,205 in respect of taxes owing for previous years, however, the majority of this amount has already been repaid to the Bank.

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

Loans to related parties (other than Group subsidiary undertakings, joint ventures, associate and State controlled entities)

In addition to loans to key management personnel, loans and advances to customers as at 31 December 2009 also included loans to related parties. An entity is considered a related party where, in line with IAS 24, key management personnel exercise control or significant influence over the operating and financial policies of that entity. All loans are made to such related parties at commercial interest rates.

All of the loans to related parties outstanding at 31 December 2009 of €27m relate to former key management personnel of the Bank. There were no loans advanced to entities considered to be related parties during the year.

Deposits and investments by key management personnel

Deposit balance movements during the year and the aggregate amounts outstanding at year end from persons who, at any time during the year, were key management personnel were:

	Year ended 31 December 2010		15 months ended 31 December 2009	
	Directors €m	**Other key management * €m**	Directors €m	Other key management * €m
At beginning of period	**8**	**1**	10	1
Deposits received during the period	**-**	**-**	38	1
Deposits withdrawn during the period	**-**	**-**	(38)	(2)
Other movements (1)	**(8)**	**(1)**	(2)	1
At end of period	**-**	**-**	8	1
Number of persons (2)	**1**	**1**	10	8

* Excludes Executive Directors

(1) Other movements include changes to the composition of the Board and other key management personnel. One Non-executive Director had deposits with the Bank at the end of the year totalling €0.2m. One member of key management, who left the Bank during the year, had deposits totalling €0.1m at the end of the year. These deposits were taken on an arm's length basis on normal commercial terms.

(2) This includes key management personnel who held balances at any time during the year.

Deposits by key management personnel are at commercial interest rates. The Group incurred interest of €1.2m during the period ended 31 December 2009 on these deposits.

The Group's Private Bank offers a range of products to its clients. Key management personnel have invested in these products on which the Group has earned fees, charged at commercial rates, of €nil (31 December 2009: €0.2m). At 31 December 2010 3 persons, inclusive of Directors, (31 December 2009: 20) who were key management personnel during the year held investments totalling €0.1m (31 December 2009: €22m). Investments held by Directors remaining in office at 31 December 2010 totalled €nil (31 December 2009: €nil).

55. **Related party transactions** continued

Loans to connected persons

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

Guarantees

The counter indemnity in relation to a partnership structure for which the Bank was liable at 31 December 2009 of €20,000 related to a member of former key management personnel of the Bank. There were no counter indemnities or guarantees issued to entities considered to be related parties during the year. No liability was incurred by the Bank during the year for the purpose of fulfilling the guarantee.

Other related party transactions

No other related party transactions, arrangements or agreements of the type referred to in section 31 of the Companies Act, 1990 (as amended) existed at any time during the year in respect of any current Director of the Bank.

56. Parent Bank information on credit risk

Market, liquidity and funding, and operational risks are managed on a Group basis. A description of these risks, along with relevant financial information, is set out in note 51. Equivalent information in respect of the Bank would not be meaningful and therefore has not been provided. While credit risk is managed on a consistent basis throughout the Group, asset quality information is relevant for both the Group and the Bank. As a result, the following tables have been presented.

The information contained in this note in respect of loans and advances to customers and loans classified as held for sale relates only to third party exposures arising within the parent Bank. There is no net exposure in the Bank that is not in the Group.

Maximum exposure to credit risk

The following table presents the Bank's maximum exposure to credit risk before collateral or other credit enhancements. Included below are contingent liabilities and commitments to lend, which are not recognised in the statement of financial position, which the Bank does not expect to be fully drawn.

	The Bank	
	31 December 2010 €m	31 December 2009 €m
Exposures in the statement of financial position		
Cash and balances with central banks	**181**	302
Financial assets at fair value through profit or loss - held on own account *	**-**	76
Derivative financial instruments	**2,177**	2,644
Loans and advances to banks	**2,900**	6,304
Assets classified as held for sale	**1,364**	21,828
Available-for-sale financial assets *	**2,168**	7,857
Loans and advances to customers	**21,319**	26,947
Exposures not recognised in the statement of financial position		
Contingent liabilities	**304**	393
Commitments to lend	**551**	1,668
Maximum exposure to credit risk	**30,964**	68,019

* Excludes equity shares

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

Loans and advances to customers and assets classified as held for sale include €749m (31 December 2009: €771m) and €15m (31 December 2009: €nil) respectively lent to fund assets held in respect of liabilities to customers under investment contracts.

Contingent liabilities includes €266m (31 December 2009: €330m) in respect of financial guarantees.

56. Parent Bank information on credit risk continued

Additional information for loans and advances to customers

Asset quality - profile of loans and advances to customers

	The Bank 31 December 2010				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
Good quality	4,706	351	428	219	5,704
Satisfactory quality	895	21	79	-	995
Lower quality but not past due or impaired	3,515	362	73	40	3,990
Total neither past due or impaired	9,116	734	580	259	10,689
Past due but not impaired	2,483	363	386	1,224	4,456
Impaired loans	9,924	1,401	2,436	1,452	15,213
	21,523	2,498	3,402	2,935	30,358
Provisions for impairment	(5,260)	(596)	(1,865)	(1,318)	(9,039)
Total	16,263	1,902	1,537	1,617	21,319
Less:					
Lending to policyholders in respect of investment contracts (note 41)					(749)
Total					20,570

Provisions for impairment on loans and advances to customers

	The Bank 31 December 2010				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
At beginning of year	2,606	296	734	922	4,558
Charge against profits	2,463	279	1,682	414	4,838
Write-offs	(156)	(10)	(193)	(4)	(363)
Unwind of discount	(106)	(17)	(24)	(7)	(154)
Exchange movements	35	(13)	4	37	63
Net transfers from/(to) assets classified as held for sale and sectoral reclassification	418	61	(338)	(44)	97
At end of year	5,260	596	1,865	1,318	9,039
Specific	4,588	533	1,694	1,045	7,860
Collective	672	63	171	273	1,179
Total	5,260	596	1,865	1,318	9,039

The charge against profits includes collective provisions for impairment analysed on a portfolio basis.

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

	The Bank 31 December 2009				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
Good quality	9,819	926	1,440	1,366	13,551
Satisfactory quality	557	79	77	6	719
Lower quality but not past due or impaired	3,917	60	536	25	4,538
Total neither past due or impaired	14,293	1,065	2,053	1,397	18,808
Past due but not impaired	2,062	644	331	809	3,846
Impaired loans	5,641	523	1,626	1,061	8,851
	21,996	2,232	4,010	3,267	31,505
Provisions for impairment	(2,606)	(296)	(734)	(922)	(4,558)
	19,390	1,936	3,276	2,345	26,947
Less:					
Lending to policyholders in respect of investment contracts (note 41)					(771)
Total					26,176

Provisions for impairment on loans and advances to customers

	The Bank 31 December 2009				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
At beginning of period	377	276	31	48	732
Charge against profits	7,558	2,583	904	2,212	13,257
Write-offs	(15)	(13)	(15)	(34)	(77)
Unwind of discount	(109)	(61)	(5)	(24)	(199)
Exchange movements	(13)	(12)	(1)	5	(21)
Transfers to assets classified as held for sale	(5,192)	(2,477)	(180)	(1,285)	(9,134)
At end of period	2,606	296	734	922	4,558
Specific	1,895	157	650	752	3,454
Collective	711	139	84	170	1,104
Total	2,606	296	734	922	4,558

The charge against profits includes collective provisions for impairment analysed on a portfolio basis.

56. Parent Bank information on credit risk continued

Aged analysis of financial assets past due but not impaired

The following tables present an analysis of financial assets, other than those carried at fair value, and excluding loans classified as held for sale, where contractual interest or principal payments are past due but impairment is not appropriate as the level of collateral and the present value of estimated future cash flows available to the Bank is sufficient.

	The Bank 31 December 2010					
	Commercial €m	**Residential €m**	**Business Banking €m**	**Other Lending €m**	**Other Financial Assets €m**	**Total €m**
Past due 1 to 30 days	**855**	**123**	**287**	**57**	**-**	**1,322**
Past due 31 to 60 days	**391**	**3**	**1**	**6**	**-**	**401**
Past due 61 to 90 days	**180**	**18**	**4**	**26**	**-**	**228**
Past due 91 days and over	**1,057**	**219**	**94**	**1,135**	**-**	**2,505**
Total	**2,483**	**363**	**386**	**1,224**	**-**	**4,456**

	The Bank 31 December 2009					
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Other Financial Assets €m	Total €m
Past due 1 to 30 days	660	67	197	192	-	1,116
Past due 31 to 60 days	443	318	9	57	-	827
Past due 61 to 90 days	225	19	8	57	-	309
Past due 91 days and over	734	240	117	503	-	1,594
Total	2,062	644	331	809	-	3,846

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

	31 December 2010				
	Ireland €m	**United Kingdom €m**	**USA €m**	**Total €m**	%
Retail	**1,765**	**874**	**1,491**	**4,130**	**14%**
Office	**1,722**	**1,652**	**2,192**	**5,566**	**18%**
Mixed use	**595**	**1,027**	**469**	**2,091**	**7%**
Industrial	**251**	**475**	**548**	**1,274**	**4%**
Residential investment	**447**	**351**	**1,166**	**1,964**	**6%**
Residential development	**380**	**35**	**119**	**534**	**2%**
Business banking	**3,359**	**36**	**7**	**3,402**	**11%**
Personal	**2,433**	**32**	**43**	**2,508**	**8%**
Leisure	**2,139**	**3,329**	**1,080**	**6,548**	**22%**
Commercial development	**271**	**94**	**480**	**845**	**3%**
Other property investment	**897**	**124**	**48**	**1,069**	**4%**
Fund Investment	**390**	**3**	**-**	**393**	**1%**
Unzoned land	**31**	**3**	**-**	**34**	**0%**
Total loans and advances to customers	**14,680**	**8,035**	**7,643**	**30,358**	**100%**

	31 December 2009				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	1,716	1,635	1,409	4,760	15%
Office	1,518	1,878	2,242	5,638	18%
Mixed use	626	1,255	492	2,373	8%
Industrial	221	515	525	1,261	4%
Residential investment	429	338	1,165	1,932	6%
Residential development	175	34	91	300	1%
Business banking	3,893	115	2	4,010	13%
Personal	2,773	28	64	2,865	9%
Leisure	2,016	3,274	1,032	6,322	20%
Commercial development	189	86	185	460	1%
Other property investment	849	264	69	1,182	4%
Fund Investment	394	3	-	397	1%
Unzoned land	3	2	-	5	0%
Total loans and advances to customers	14,802	9,427	7,276	31,505	100%

Geographical location is based on the location of the office recording the transaction.

Total loans and advances to customers are stated gross of provisions and include €749m (31 December 2009: €771m) lent to fund assets held in respect of liabilities to customers under investment contracts.

56. Parent Bank information on credit risk continued

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

	31 December 2010				
	Ireland €m	**United Kingdom €m**	**USA €m**	**Total €m**	%
Retail	**504**	**103**	**100**	**707**	**9%**
Office	**433**	**117**	**262**	**812**	**10%**
Mixed use	**146**	**90**	**97**	**333**	**4%**
Industrial	**89**	**78**	**60**	**227**	**3%**
Residential investment	**115**	**11**	**136**	**262**	**3%**
Residential development	**232**	**20**	**19**	**271**	**3%**
Business banking	**1,693**	**1**	**-**	**1,694**	**22%**
Personal	**914**	**3**	**18**	**935**	**12%**
Leisure	**899**	**281**	**359**	**1,539**	**20%**
Commercial development	**166**	**19**	**100**	**285**	**4%**
Other property investment	**683**	**1**	**1**	**685**	**9%**
Fund Investment	**87**	**1**	**-**	**88**	**1%**
Unzoned land	**20**	**2**	**-**	**22**	**0%**
Total specific provisions on loans and advances to customers	**5,981**	**727**	**1,152**	**7,860**	**100%**

	31 December 2009				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	221	88	21	330	9%
Office	169	64	71	304	9%
Mixed use	47	58	16	121	3%
Industrial	32	63	6	101	3%
Residential investment	42	1	57	100	3%
Residential development	36	21	-	57	2%
Business banking	648	2	-	650	19%
Personal	680	1	4	685	20%
Leisure	362	223	143	728	21%
Commercial development	52	13	5	70	2%
Other property investment	241	-	-	241	7%
Fund Investment	63	1	-	64	2%
Unzoned land	3	-	-	3	0%
Total specific provisions on loans and advances to customers	2,596	535	323	3,454	100%

Geographical location is based on the location of the office recording the transaction.

Additional information for loans classified as held for sale

Asset quality - profile of loans classified as held for sale

	The Bank 31 December 2010				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
Good quality	166	13	-	2	181
Satisfactory quality	-	-	-	-	-
Lower quality but not past due or impaired	321	46	-	-	367
Total neither past due or impaired	487	59	-	2	548
Past due but not impaired	351	10	3	34	398
Impaired loans	616	235	-	54	905
	1,454	304	3	90	1,851
Provisions for impairment	(346)	(127)	-	(46)	(519)
	1,108	177	3	44	1,332
Less:					
Lending to policyholders in respect of investment contracts (note 41)					(15)
Total					1,317

Provisions for impairment on loans classified as held for sale

	The Bank 31 December 2010				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
At beginning of period	5,192	2,477	180	1,285	9,134
Charge against profits	1,630	643	11	343	2,627
Write-offs	(6)	(11)	-	-	(17)
Unwind of discount	(131)	(59)	(2)	(18)	(210)
Exchange movements	31	15	9	9	64
Net transfers (to)/from loans and advances to to customers and sectoral reclassification	(72)	(65)	(22)	62	(97)
Released on disposal of assets to NAMA (note 13)	(6,298)	(2,873)	(176)	(1,635)	(10,982)
At end of period	346	127	-	46	519
Specific	346	127	-	46	519
Total	346	127	-	46	519

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

56. Parent Bank information on credit risk continued

Asset quality - profile of loans classified as held for sale *continued*

	The Bank 31 December 2009				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
Good quality	3,199	704	11	160	4,074
Satisfactory quality	115	157	-	22	294
Lower quality but not past due or impaired	657	132	-	28	817
Total neither past due or impaired	3,971	993	11	210	5,185
Past due but not impaired	2,393	404	19	401	3,217
Impaired loans	13,991	5,574	277	2,308	22,150
	20,355	6,971	307	2,919	30,552
Provisions for impairment	(5,192)	(2,477)	(180)	(1,285)	(9,134)
Total	15,163	4,494	127	1,634	21,418

Provisions for impairment on loans classified as held for sale	The Bank 31 December 2009				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
At beginning of period	-	-	-	-	-
Transfers from loans and advances to customers	5,192	2,477	180	1,285	9,134
At end of period	5,192	2,477	180	1,285	9,134
Specific	5,192	2,477	180	1,285	9,134
Total	5,192	2,477	180	1,285	9,134

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

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

	The Bank 31 December 2010				
	Commercial €m	**Residential €m**	**Business Banking €m**	**Other Lending €m**	**Total €m**
Past due 1 to 30 days	**8**	**1**	**3**	**-**	**12**
Past due 31 to 60 days	**15**	**-**	**-**	**-**	**15**
Past due 61 to 90 days	**21**	**-**	**-**	**-**	**21**
Past due 91 days and over	**307**	**9**	**-**	**34**	**350**
Total	**351**	**10**	**3**	**34**	**398**

	The Bank 31 December 2009				
	Commercial €m	Residential €m	Business Banking €m	Other Lending €m	Total €m
Past due 1 to 30 days	496	161	3	167	827
Past due 31 to 60 days	180	9	-	2	191
Past due 61 to 90 days	540	38	-	21	599
Past due 91 days and over	1,177	196	16	211	1,600
Total	2,393	404	19	401	3,217

56. Parent Bank information on credit risk continued

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

	31 December 2010				
	Ireland €m	**United Kingdom €m**	**USA €m**	**Total €m**	%
Retail	**283**	**268**	**21**	**572**	**31%**
Office	**127**	**45**	**-**	**172**	**9%**
Mixed use	**31**	**30**	**80**	**141**	**8%**
Industrial	**-**	**27**	**8**	**35**	**2%**
Residential investment	**46**	**23**	**110**	**179**	**10%**
Residential development	**38**	**-**	**87**	**125**	**7%**
Business banking	**3**	**-**	**-**	**3**	**0%**
Personal	**78**	**1**	**-**	**79**	**4%**
Leisure	**148**	**-**	**44**	**192**	**10%**
Commercial development	**13**	**1**	**309**	**323**	**17%**
Other property investment	**19**	**-**	**-**	**19**	**1%**
Fund Investment	**-**	**-**	**-**	**-**	**0%**
Unzoned land	**11**	**-**	**-**	**11**	**1%**
Total loans classified as held for sale	**797**	**395**	**659**	**1,851**	**100%**

	31 December 2009				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	3,671	620	142	4,433	15%
Office	2,046	475	157	2,678	9%
Mixed use	1,873	335	233	2,441	8%
Industrial	186	276	34	496	2%
Residential investment	691	252	155	1,098	4%
Residential development	5,120	540	213	5,873	19%
Business banking	292	9	6	307	1%
Personal	1,798	8	23	1,829	6%
Leisure	2,558	193	362	3,113	10%
Commercial development	5,746	324	678	6,748	22%
Other property investment	411	35	-	446	1%
Fund investment	88	8	6	102	0%
Unzoned land	984	4	-	988	3%
Total loans classified as held for sale	25,464	3,079	2,009	30,552	100%

Geographical location is based on the location of the office recording the transaction.

Total loans classified as held for sale are stated gross of provisions and include €15m (31 December 2009: €nil) lent to fund assets held in respect of liabilities to customers under investment contracts.

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

	31 December 2010				
	Ireland €m	**United Kingdom €m**	**USA €m**	**Total €m**	**%**
Retail	**-**	**-**	**15**	**15**	**3%**
Office	**-**	**9**	**-**	**9**	**2%**
Mixed use	**-**	**6**	**58**	**64**	**12%**
Industrial	**-**	**-**	**6**	**6**	**1%**
Residential investment	**-**	**-**	**47**	**47**	**9%**
Residential development	**23**	**-**	**57**	**80**	**15%**
Business banking	**-**	**-**	**-**	**-**	**0%**
Personal	**46**	**-**	**-**	**46**	**9%**
Leisure	**75**	**-**	**28**	**103**	**20%**
Commercial development	**11**	**-**	**138**	**149**	**29%**
Other property investment	**-**	**-**	**-**	**-**	**0%**
Fund Investment	**-**	**-**	**-**	**-**	**0%**
Unzoned land	**-**	**-**	**-**	**-**	**0%**
Total specific provisions on loans classified as held for sale	**155**	**15**	**349**	**519**	**100%**

	31 December 2009				
	Ireland €m	United Kingdom €m	USA €m	Total €m	%
Retail	875	34	-	909	10%
Office	259	49	28	336	4%
Mixed use	522	35	33	590	6%
Industrial	41	1	-	42	0%
Residential investment	159	2	32	193	2%
Residential development	1,945	236	103	2,284	25%
Business banking	171	9	-	180	2%
Personal	900	1	4	905	10%
Leisure	678	33	76	787	9%
Commercial development	2,024	135	170	2,329	26%
Other property investment	167	32	-	199	2%
Fund investment	29	1	3	33	0%
Unzoned land	345	2	-	347	4%
Total specific provisions on loans classified as held for sale	8,115	570	449	9,134	100%

Geographical location is based on the location of the office recording the transaction.

56. **Parent Bank information on credit risk** continued

Available-for-sale financial assets

The external ratings profile of the Bank's available-for-sale financial assets, excluding equity shares, is as follows:

	The Bank 31 December 2010					
	Sovereign €m	**Financial Institutions €m**	**Residential Mortgage Securities €m**	**Asset Backed Securities €m**	**NAMA Subordinated Bonds €m**	**Total €m**
AAA / AA	**72**	**418**	**-**	**-**	**-**	**490**
A	**-**	**684**	**-**	**-**	**-**	**684**
BBB+ / BBB / BBB-	**279**	**548**	**-**	**-**	**-**	**827**
Sub investment grade	**-**	**-**	**-**	**-**	**-**	**-**
Unrated	**-**	**-**	**-**	**-**	**167**	**167**
	351	**1,650**	**-**	**-**	**167**	**2,168**

	The Bank 31 December 2009					
	Sovereign €m	Financial Institutions €m	Residential Mortgage Securities €m	Asset Backed Securities €m	NAMA Subordinated Bonds €m	Total €m
AAA / AA	3,164	1,984	781	258	-	6,187
A	6	1,282	10	61	-	1,359
BBB+ / BBB / BBB-	-	132	13	61	-	206
Sub investment grade	-	13	17	75	-	105
	3,170	3,411	821	455	-	7,857

57. Trust activities

The Group provides custody, investment management and advisory services to third parties which involve the Group making allocation, purchase and sale decisions in relation to a wide range of assets. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the end of the reporting period the Group had the following assets under management:

	31 December 2010 €m	31 December 2009 €m
Equities and investment properties	**179**	190
Managed cash and other assets	**28**	67
	207	257

On 19 December 2008 the Group completed the sale of Anglo Irish Bank (Austria) A.G.

58. Events after the reporting period

Legal claims

On 14 February 2011 the Bank received notice that holders of certain subordinated loan notes, having an aggregate par value of US$200m, filed a claim for relief seeking a restraining order and injunction against the Bank in the United States. The proceedings relate to alleged breaches of certain covenants and agreements contained in the documentation governing the loan notes in question. The Bank has raised a full defence in response to the claim. No additional information in respect of the dispute is being provided, as to do so could prejudice the position of the Group in relation to the proceedings.

Transfer Order

On 24 February 2011, under powers granted by the Credit Institutions (Stabilisation) Act 2010, the Minister for Finance, in consultation with the Central Bank of Ireland, announced the immediate transfer of the majority of the Irish and UK deposits (with the exception of certain excluded liabilities) and €12.2bn nominal of senior NAMA bonds at a price of 98.5% from the Bank to Allied Irish Banks, p.l.c. ('AIB'). The Transfer Order was made by the Irish High Court and facilitates the Minister’s plan to restructure the Bank.

This follows on from the Direction Order made by the High Court on 8 February 2011, which directed the NTMA to begin a process, in accordance with State Aid rules, to transfer deposits and assets held by the Bank to a third-party financial institution or institutions.

The Bank's Isle of Man subsidiary, Anglo Irish Bank Corporation (International) PLC, has been transferred to AIB by way of a share sale with the consent, as required, of the Financial Supervision Commission in the Isle of Man.

In return for transferring its Irish and UK deposits the Bank was required to pay AIB €1.6bn in excess of book value. In addition the Bank sold its shareholding in its Isle of Man deposit taking subsidiary to AIB at net asset value. The total net loss on disposal before tax arising from the transaction in 2011, including the transfer of senior NAMA bonds, is approximately €0.2bn. This transfer reduced the balance sheet by approximately €11bn.

From 24 February 2011 the legal effect of the transfer is that the vast majority of customer deposit accounts held with the Bank's Irish branches are now held with AIB and in the case of the UK are now held with its subsidiary AIB Group (UK) p.l.c.

Deposits introduced through the Bank's branches in Vienna, Dusseldorf and Jersey remain unaffected by the Transfer Order and as such have not been transferred.

In branches impacted by the deposit transfer, deposits have been transferred to AIB with no immediate operational impact on customers. The Bank will continue to supply support services to AIB until the operational aspects of the transfer process have been completed. Depositors continue to have access to their funds as normal.

The existing position of depositors remains fully secure and AIB will maintain the existing deposit terms and conditions. Transferred deposits will benefit from the Irish Deposit Protection Scheme which covers amounts up to €100,000 per depositor and, where applicable, the Irish Eligible Liabilities Guarantee Scheme which covers amounts over €100,000.

58. Events after the reporting period continued

Transfer Order continued

AIB Group (UK) p.l.c. is a member of the UK Financial Services Compensation Scheme. This provides eligible customers a guarantee of up to £85,000, in addition to the protection provided, where applicable, by the Eligible Liabilities Guarantee Scheme.

Under the terms of the Transfer Order, certain employees of the Bank associated with the deposit business have automatically transferred to AIB with their terms and conditions of employment safeguarded in accordance with applicable employment legislation.

Disposal of loan assets

In March 2011 the Bank disposed of UK loan assets to a third party which had a nominal value at 31 December 2010 of €327m (before provisions for impairment of €53m). These assets were included in the Consolidated statement of financial position at 31 December 2010 as assets classified as held for sale (note 23). The loss on sale will be recognised in the six months to 30 June 2011.

Call notice

In March 2011, in accordance with the amended terms of various undated loan capital instruments included in the Bank's liability management exercise carried out during the year (note 43), call notices were issued in respect of the following securities, redeeming each at 1p/1c per £1,000/€1,000 nominal on 16 March 2011.

- Stg£200m Step-up Callable Perpetual Capital Securities;
- Stg£250m Tier One Non-Innovative Capital Securities;
- €600m Perpetual Preferred Securities;
- €600m Fixed/Floating Perpetual Preferred Securities; and
- Stg£350m Fixed/Floating Perpetual Preferred Securities.

US dollar cross currency swap traded with the NTMA

In March 2011 the Bank entered into a cross currency swap with the NTMA on market terms. The principal amounts of the swap are €2.3bn / $3.2bn and these amounts were exchanged between the parties. The Bank paid the euro nominal amount to the NTMA in return for the receipt of US dollars. The swap has an amortising profile and contractual maturity of 2021. The interest rates on the swap are market-based plus an agreed spread. The Bank remains in discussions with the NTMA to complete a similar cross currency swap for an amount of €645m / £554m. This swap allows the Bank to cover its currency requirements whilst the NTMA has entered into this trade to cover its currency requirements to cover the repayment of the first disbursement of IMF lending to Ireland.

Defined benefit pension scheme update

A recent actuarial review, carried out on the statutory Minimum Funding Standard basis, indicates that the Bank’s two defined benefit pension schemes are in deficit. In order to reduce the current deficits and to safeguard the future of the schemes the Trustees have commenced a consultation process with the members and stakeholders.

Restructuring

On 8 February 2011 a Direction Order made by the High Court, under Part 2 of the Credit Institutions (Stabilisation) Act 2010, directed the Bank to formulate detailed steps plans for the implementation of certain aspects of the restructuring plan submitted to the EC on 31 January 2011, subject to final agreement of this plan by the EC. Detailed plans relating to various aspects of this proposed restructuring, including the disposal of the Bank’s Wealth Management Division and an amalgamation of the Bank with Irish Nationwide Building Society are due to be submitted to the NTMA on 31 March 2011.

59. Approval of financial statements

The Group financial statements were authorised for issue by the Board of Directors on 30 March 2011.

Supplementary information

Consolidated income statement

For the year ended 31 December 2010

	$m	£m
Interest and similar income	3,079	1,983
Interest expense and similar charges	(2,087)	(1,344)
Net interest income	992	639
Fee and commission income	63	40
Fee and commission expense	(77)	(50)
Net trading expense	(55)	(35)
Financial assets designated at fair value	(31)	(20)
Gain on repurchase of financial liabilities measured at amortised cost	2,123	1,368
Other operating expense	(139)	(90)
Other income	1,884	1,213
Total operating income	2,876	1,852
Administrative expenses	(437)	(281)
Depreciation	(21)	(14)
Amortisation of intangible assets - software	(14)	(9)
Total operating expenses	(472)	(304)
Operating profit before loss on disposal to NAMA and provisions for impairment	2,404	1,548
Loss on disposal of assets to NAMA	(15,429)	(9,939)
Provisions for impairment	(10,378)	(6,685)
Operating loss	(23,403)	(15,076)
Share of results of associate and joint ventures	(139)	(89)
Loss before taxation	(23,542)	(15,165)
Taxation	(43)	(28)
Loss for the period	(23,585)	(15,193)
Attributable to:		
Owners of the parent	(23,585)	(15,193)
Non-controlling interests	-	-
	(23,585)	(15,193)

Exchange rates used at 31 December 2010
€1 = $1.3362 / £0.86075

Supplementary information

Consolidated statement of financial position

As at 31 December 2010

	$m	£m
Assets		
Cash and balances with central banks	**242**	**156**
Financial assets at fair value through profit or loss		
- held on own account	**17**	**11**
- held in respect of liabilities to customers under investment contracts	**317**	**204**
Derivative financial instruments	**2,587**	**1,666**
Loans and advances to banks	**4,710**	**3,034**
Assets classified as held for sale	**2,192**	**1,412**
Available-for-sale financial assets	**2,965**	**1,910**
Promissory note	**34,346**	**22,125**
Government debt securities at amortised cost	**14,194**	**9,144**
Loans and advances to customers	**32,555**	**20,971**
Interests in joint ventures	**56**	**36**
Intangible assets - software	**21**	**14**
Investment property		**-**
- held on own account	**290**	**187**
- held in respect of liabilities to customers under investment contracts	**1,594**	**1,027**
Property, plant and equipment	**25**	**16**
Current taxation	**122**	**78**
Retirement benefit assets	**1**	**1**
Deferred taxation	**62**	**40**
Other assets	**116**	**75**
Prepayments and accrued income	**39**	**25**
Total assets	**96,451**	**62,132**
Liabilities		
Deposits from banks	**62,222**	**40,082**
Customer accounts	**14,821**	**9,547**
Derivative financial instruments	**3,287**	**2,118**
Debt securities in issue	**9,236**	**5,950**
Liabilities to customers under investment contracts	**469**	**302**
Current taxation	**64**	**41**
Other liabilities	**768**	**495**
Accruals and deferred income	**180**	**116**
Subordinated liabilities and other capital instruments	**680**	**438**
Total liabilities	**91,727**	**59,089**
Share capital	**5,509**	**3,549**
Share premium	**1,545**	**995**
Capital reserve	**33,806**	**21,777**
Other reserves	**(172)**	**(111)**
Retained earnings	**(35,965)**	**(23,168)**
Shareholders' funds	**4,723**	**3,042**
Non-controlling interests	**1**	**1**
Total equity	**4,724**	**3,043**
Total equity and liabilities	**96,451**	**62,132**

Exchange rates used at 31 December 2010

€1 = $1.3362 / £0.86075

Anglo Irish Bank locations

Dublin

Head Office
Stephen Court
18/21 St Stephen's Green
Dublin 2
Tel: +353 1 616 2000
Fax: +353 1 616 2411
www.angloirishbank.com

Registrar Correspondence
Computershare Investor Services (Ireland) Limited
Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18
Tel: +353 1 216 3100
(Shareholder enquiries)
www.computershare.com

Private Banking
Connaught House
1 Burlington Road
Dublin 4
Tel: +353 1 631 0000
Fax: +353 1 631 0098

Cork

Anglo Irish Bank House
11 Anglesea Street
Cork
Tel: +353 21 453 7300
Fax: +353 21 453 7399

Galway

Anglo Irish Bank House
Forster Street
Galway
Tel: +353 91 536 900
Fax: +353 91 536 931

Limerick

Anglo Irish Bank House
98 Henry Street
Limerick
Tel: +353 61 461 800
Fax: +353 61 461 899

Waterford

Anglo Irish Bank House
Maritana Gate
Canada Street
Waterford
Tel: +353 51 849 300
Fax: +353 51 849 399

London

10 Old Jewry
London EC2R 8DN
Tel: +44 207 710 7000
Fax: +44 207 710 7050

Belfast

14/18 Great Victoria Street
Belfast BT2 7BA
Tel: +44 2890 333 100
Fax: +44 2890 269 090

Manchester

1 Marsden Street
Manchester M2 1HW
Tel: +44 161 214 3020
Fax: +44 161 214 3030

Jersey

31 The Parade
St Helier
Jersey JE2 3QQ
Tel: +44 1534 611 500
Fax: +44 1534 605 055

Düsseldorf

Ernst - Schneider - Platz 1
40212 Düsseldorf
Tel: +49 211 550 4480
Fax: +49 211 550 44888

Vienna

Zedlitzgasse 7
A-1010 Vienna
Tel: +43 1 890 0254
Fax: +43 1 890 025499

Boston

(Representative Office)
265 Franklin Street
Boston MA 02110
Tel: +1 617 720 2577
Fax: +1 617 720 6099

New York

(Representative Office)
222 East 41st Street
New York NY 10017
Tel: +1 212 503 3000
Fax: +1 212 503 3033

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

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For further information, please email: enquiries@angloirishbank.ie

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