PILLAR 3 Disclosures

For the year ended 31 December 2011

Bank of Ireland

Forward-Looking Statement

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934 and Section 27A of the US Securities Act of 1933 with respect to certain of the Bank of Ireland Group's (the Group) plans and its current goals and expectations relating to its future financial condition and performance, the markets in which it operates, and its future capital requirements. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts. Generally, but not always, words such as 'may,' 'could,' 'should,' 'will,' 'expect,' 'intend,' 'estimate,' 'anticipate,' 'assume,' 'believe,' 'plan,' 'seek,' 'continue,' 'target,' 'goal,' 'would', or their negative variations or similar expressions identify forward looking statements. Examples of forward looking statements include among others, statements regarding the Group's near term and longer term future capital requirements and ratios, level of ownership of the Irish Government, loan to deposit ratios, expected Impairment charges, the level of the Group's assets, the Group's financial position, future income, business strategy, projected costs, margins, future payment of dividends, the implementation of changes in respect of certain of the Group's defined benefit pension schemes, estimates of capital expenditures, discussions with Irish, UK, European and other regulators and plans and objectives for future operations.

Such forward looking statements are inherently subject to risks and uncertainties, and hence actual results may differ materially from those expressed or implied by such forward looking statements. Such risks and uncertainties include, but are not limited to, the following:

- concerns on sovereign debt and financial uncertainties in the EU and in member countries and the potential effects of those uncertainties on the Group;
- general economic conditions in Ireland, the United Kingdom and the other markets in which the Group operates;
- the ability of the Group to generate additional liquidity and capital as required;
- the effects of the 2011 PCAR (Prudential Capital Assessment Review), the 2011 PLAR (Prudential Liquidity Assessment Review) and the deleveraging reviews conducted by the Central Bank of Ireland;
- property market conditions in Ireland and the UK;
- the potential exposure of the Group to various types of market risks, such as interest rate risk, foreign exchange rate risk, credit risk and commodity price risk;
- the implementation of the Irish Government's austerity measures relating to the financial support package from the EU / IMF;
- the availability of customer deposits to fund the Group's loan portfolio;
- the outcome of the Group's participation in the ELG (Eligible Liabilities Guarantee)scheme;
- the performance and volatility of international capital markets;
- the effects of the Irish Government's stockholding in the Group (through the NPRFC (National Pension Reserve Fund Commission) and possible increases in the level of such stockholding;
- the impact of further downgrades in the Group's and the Irish Government's credit rating;
- changes in the Irish banking system;
- changes in applicable laws, regulations and taxes in jurisdictions in which the Group operates particularly banking regulation by the Irish Government;
- the outcome of any legal claims brought against the Group by third parties;
- development and implementation of the Group's strategy, including the Group's deleveraging plan, competition for customer deposits and the Group's ability to achieve estimated net interest margin increases and cost reductions; and
- the Group's ability to address information technology issues.

Analyses of asset quality and impairment in addition to liquidity and funding is set out in the Risk Management Report. Investors should read 'Principal Risks and Uncertainties' in this document beginning on page 49)

Nothing in this document should be considered to be a forecast of future profitability or financial position and none of the information in this document is or is intended to be a profit forecast or profit estimate. Any forward looking statements speak only as at the date they are made. The Group does not undertake to release publicly any revision to these forward looking statements to reflect events, circumstances or unanticipated events occurring after the date hereof. The reader should however, consult any additional disclosures that the Group has made or may make in documents filed or submitted or may file or submit to the US Securities and Exchange Commission.

Capital Requirements Directive

PILLAR 3

Risk Management Disclosures

Contents

1. INTRODUCTION 4

2. CAPITAL 10

3. RISK MANAGEMENT 16

4. CREDIT RISK 18

5. COUNTERPARTY CREDIT RISK 36

6. EQUITY HOLDINGS NOT IN THE TRADING BOOK 38

7. SECURITISATION 39

8. MARKET RISK 42

9. OPERATIONAL RISK 43

APPENDIX I 44

APPENDIX II 45

APPENDIX III 47

APPENDIX IV 48

GLOSSARY 51

1. Introduction

The Basel Capital Accord (Basel II) is a capital adequacy framework which aims to improve the way regulatory capital requirements reflect credit institutions' underlying risks. Basel II was introduced into EU law through the Capital Requirements Directive (CRD). Basel II is based around three complementary elements or "pillars".

Pillar 1 contains mechanisms and requirements for the calculation by financial institutions of their minimum capital requirements for credit risk, market risk and operational risk.

Pillar 2 is concerned with the supervisory review process. It is intended to ensure that each financial institution has sound internal processes in place to assess the adequacy of its capital, based on a thorough evaluation of its risks. Supervisors are tasked with evaluating how well financial institutions are assessing their capital adequacy needs relative to their risks. The Internal Capital Adequacy Assessment Process (ICAAP) is carried out by the Group on an annual basis in line with Pillar 2 requirements. This is a forward looking process to identify, measure and monitor the Group's risks to ensure that adequate capital is held in relation to the Group's risk profile. The ICAAP is followed by discussions between the Group and the Central Bank of Ireland (the Central Bank) on the appropriate capital levels, this second stage is called the Supervisory Review and Evaluation Process (SREP).

Pillar 3 is intended to complement Pillar 1 and Pillar 2. It requires that financial institutions disclose information annually on the scope of application of the Basel II requirements, capital requirements and resources, risk exposures and risk assessment processes.

The CRD was implemented into Irish law in 2006. The Bank of Ireland Group (the Group) is required to comply with its disclosure requirements. For ease of reference, the requirements are referred to as "Pillar 3" in this document. Pillar 3 contains both qualitative and quantitative disclosure requirements.

The Group's Pillar 3 document is a technical paper which should be read in conjunction with the Group's Annual Report for the year ended 31 December 2011 (hereafter referred to as the "Group's Annual Report 31 December 2011"), which contains some Pillar 3 qualitative information.

The Group's qualitative disclosure requirements are largely met in the Operating and Financial Review and Risk Management sections of the Group's Annual Report 31 December 2011. This document contains the Group's Pillar 3 quantitative disclosure requirements and the remainder of the qualitative disclosure requirements. This document should therefore be read in conjunction with the Group's Annual Report 31 December 2011. Copies of the Group's Annual Report 31 December 2011 can be obtained from the Group's website at www.bankofireland.com or from the Group Secretary's Office, Bank of Ireland, 40 Mespil Road, Dublin 4, Ireland.

The Group's Pillar 3 disclosures have been prepared in accordance with the CRD as implemented into Irish law and in accordance with the Group's Pillar 3 Disclosure Policy.

Information which is sourced from the Group's Annual Report is subject to audit by the Group's external auditors and is subject to internal sign-off procedures. Disclosures which cannot be sourced from the Group's Annual Report are subject to several layers of verification, in addition the Pillar 3 document is subject to a robust governance process including final approval by the Group Audit Committee.

Areas Covered

In accordance with Pillar 3 requirements, the areas covered by the Group's Pillar 3 disclosures include the Group's capital requirements and resources, credit risk, market risk, operational risk, information on securitisation activity and the Group's remuneration disclosures.

The topics covered are also dealt with in the Group's Annual Report 31 December 2011 and cross-referencing to relevant sections is provided throughout this document. In some areas more detail is provided in these Pillar 3 disclosures. For instance, the section on capital requirements includes additional information on the amount of capital held against various risks, and the section on capital resources provide details on the composition of the Group's own funds.

It should be noted that while some quantitative information in this document is based on financial data contained in the Group's Annual Report 31 December 2011, other quantitative data is sourced from the Group's regulatory reporting platform and is calculated according to a different set of rules. The difference between the financial statement data and that sourced from the Group's regulatory reporting platform is most evident for credit risk disclosures where credit exposure under Basel II (referred to as exposure at default (EAD)) is defined as the expected amount of exposure at default and is estimated under specified Basel II parameters and, unlike financial statement information, includes

potential future drawings of committed credit lines. Pillar 3 quantitative data is thus not always comparable with the quantitative data contained in the Group's Annual Report 31 December 2011.

Supervision

The Bank of Ireland Group is regulated by the Central Bank of Ireland (the Central Bank).

As at 31 December 2011, the Group held 5 separate banking licences. These are held by the Governor and Company of the Bank of Ireland, Bank of Ireland (UK) plc, ICS Building Society, Bank of Ireland Mortgage Bank and Bank of Ireland (IOM) Limited. All of these entities are regulated by the Central Bank of Ireland with the exception of Bank of Ireland (UK) plc, which is regulated by the Financial Services Authority (FSA) and Bank of Ireland (IOM) Limited which is regulated by the Isle of Man Financial Supervision Commission. By operating a branch in the United States, Bank of Ireland and its subsidiaries are subject to certain regulation by the Board of Governors of the Federal Reserve System under various laws, including the International Banking Act of 1978 and the Bank Holding Company Act of 1956. Each individual licence holder and regulated entity is required to comply with its local regulatory requirements.

The Group has included within certain licences (principally the Governor and Company of the Bank of Ireland bank licence) the capital, assets and liabilities of a range of non regulated subsidiaries domiciled in both Ireland and overseas. These included subsidiaries are not (i) credit institutions (ii) investment firms or (iii) other regulated entities that have a capital requirement driven by business activity levels.

Key capital ratios

The following table outlines the components of the Group's Risk Weighted Assets (RWA) as well as key capital ratios as at 31 December 2011 and 31 December 2010.

Table 1.1 – Risk Weighted Assets and Key Capital Ratios		
Risk Weighted Assets (RWA)	**31 December 2011 €m**	**31 December 2010 €m**
Credit Risk	61,483	71,403
Market Risk	1,122	1,964
Operational Risk	4,530	5,678
Total Risk Weighted Assets	**67,135**	**79,045**
Key Capital Ratios		
Core tier 1 capital	15.1%	9.7%
Core tier 1 capital (PCAR / EBA stress test basis)	14.3%	-
Tier 1 capital	14.4%	9.7%
Total capital	14.7%	11.0%

RWA at 31 December 2011 of €67 billion are €12 billion lower than the RWA of €79 billion at 31 December 2010. This decrease is mainly due to a reduction in loans and advances to customers, the impact of a higher level of impaired loans at 31 December 2011 as compared to 31 December 2010, lower levels of market risk and operational risk RWA partly offset by the impact of foreign exchange movements and RWA re-weighting based on credit model experience.

The Core tier 1 ratio at 31 December 2011 of 15.1% (14.3% PCAR / EBA stress test basis) compares to 9.7% at 31 December 2010. The increase in the ratio is primarily due to the Core tier 1 capital generated of €4.2 billion following the 2011 recapitalisation of the Group together with the impact of lower RWA partly offset by underlying losses in the year ended 31 December 2011.

The Core tier 1 (PCAR / EBA stress test basis) is calculated in line with the methodology used for the 2011 PCAR and EBA stress tests. As stated in the Financial Measures Programme '*The Central Bank applied capital requirement rules and a definition of Core tier 1 capital as prescribed by the Capital Requirements Directive, which is the prevailing regulatory standard in the EU. To increase conservatism, the Central Bank has included all supervisory deductions, including 50:50 deductions*'. The ratio of 14.3% exceeds the minimum Core tier 1 capital ratio of 10.5% as set by the Central Bank.

The Tier 1 ratio at 31 December 2011 of 14.4% compares to 9.7% at 31 December 2010. The increase is primarily due to the Core tier 1 capital generated of €4.2 billion following the 2011 recapitalisation of the Group together with the impact of lower RWA partly offset by underlying losses in the year ended 31 December 2011 and the exchange and repurchase of Tier 1 hybrid debt.

The Total capital ratio at 31 December 2011 of 14.7% compares to 11.0% at 31 December 2010. The increase is primarily due to the Core tier 1 capital generated of €4.2 billion following the 2011 recapitalisation of the Group together with the issue of a €1 billion Contingent Capital note to the State and lower RWA and lower regulatory deductions partly offset by underlying losses and the exchange and repurchase of Tier 1 and Tier 2 debt.

Meeting Capital Requirements

During 2011 the Group made significant progress in strengthening its equity capital position. As part of the EU / IMF programme the Central Bank undertook a Prudential Capital Assessment Review (2011 PCAR) which incorporated a Prudential Liquidity Assessment Review (2011 PLAR) in the first quarter of 2011. The PCAR is an assessment of forward-looking prudential capital requirements, arising under a base case and stress case, with potential stressed loan losses, and other financial developments, over a three year (2011 - 2013) time horizon. The PLAR is an assessment of the deleveraging measures that the Irish banking system is required to implement in order to reduce its reliance on short term wholesale funding and liquidity support from Monetary Authorities. The Group's deleveraging plan was agreed with the Central Bank as part of the PLAR exercise.

On 31 March 2011 the Central Bank announced the results of the 2011 PCAR, which required the Group to generate incremental equity capital of €4.2 billion (including a regulatory buffer of €0.5 billion).

The equity capital was set to cover:

- The higher target capital ratios set by the Central Bank of a minimum Core tier 1 ratio of 6% under the adverse stress scenario;
- A prudent regulatory buffer of €0.5 billion for additional conservatism;
- The adverse stress scenario loan loss estimates based on aggressively conservative assumptions;
- A conservative loss on disposal assumption for relevant loans previously expected to transfer to NAMA; and
- A prudent estimate of losses arising from deleveraging under an adverse stress scenario.

In addition, €1.0 billion of Contingent Capital was also required through the issue of a debt instrument which, under certain circumstances, would convert to equity capital.

The Group met the 2011 PCAR requirement in the year ended 31 December 2011 by generating €4.2 billion of equity capital, as follows:

- In July 2011 the Group completed a Rights Issue which generated €1.9 billion of equity capital.
- In July 2011 the Group issued a Contingent Capital note to the State with a nominal amount of €1 billion and a maturity of five years. This Contingent Capital note is classified as a subordinated liability and it qualifies as Tier 2 capital.
- The Group generated €2.1 billion from liability management exercises completed between June 2011 and November 2011.
- The Group incurred costs of €146 million in relation to the 2011 equity recapitalisation.
- The Group completed the 2011 PCAR capital requirement of €4.2 billion in December 2011 with the closing of the Kildare / Brunel securitisation liability management exercise and the repurchase of a number of capital securities which together generated a Core tier 1 gain of €0.35 billion.
- At 31 December 2011 the Core tier 1 ratio of the Group was 15.1% (14.3% PCAR / EBA stress test basis).
- Further information on the Group's 2011 recapitalisation is set out on pages 10 - 11 of the Group's Annual Report 31 December 2011.

Information on capital stress testing undertaken by the Group since 31 December 2010 is outlined in Appendix I and additional information on the Group's 2011 recapitalisation of the Bank can be obtained from the Group's website at http://www.bankofireland.com/about-boi-group/investor-relations/

Regulatory Capital Requirements

The minimum regulatory requirements imposed on the Group, the manner in which regulatory capital is calculated, the instruments that qualify as regulatory capital and the Capital tier to which those instruments are allocated will change in the future, which could materially adversely alter the Group's capital requirements. Details of recently enacted and upcoming regulatory changes are outlined below;

- EC Directive 2009/111/EC (CRD II): CRD II was implemented on 31 December 2010. In particular it made changes to the criteria for assessing hybrid capital eligible to be included in Tier 1 capital and requires the Group to replace, over a staged grandfathering period, existing capital instruments that do not fall within these revised eligibility criteria. Following the 2011 LME there is €92 million of hybrid debt remaining in the Group as at 31 December 2011, all of which is grandfathered as Tier 1 capital.

- The EU Capital Requirements Directive III (CRD III): CRD III, commonly known as Basel 2.5, was implemented on 1 January 2011. Key enhancements aim to:

    - increase the capital requirements for trading books to ensure that a firm's assessment of the risks connected with its trading book better reflects the potential losses from adverse market movements in stressed conditions;

    - limit investments in re-securitisations and impose higher capital requirements for re-securitisations to make sure that firms take proper account of the risks of investing in such complex financial products; and

    - increase the nature and extent of disclosure standards.

As the Group has limited re-securitisation activity and measures Market Risk under the Standardised approach the impact to the Group's capital requirements as a result of the implementation of CRD III / Basel 2.5 is negligible.

- On 20 July 2011 the European Commission proposed a legislative package to strengthen the regulation of the banking sector which replaces the current Capital Requirements Directive (2006/48 and 2006/49). The new elements of this directive (CRD IV), which implements Basel III in Europe, are:

    - an increase in the level of own funds required by banks as well as enhanced quality of the capital bases of financial institutions;

    - in order to limit an excessive build-up of leverage on credit institutions balance sheets, the Commission also propose the introduction of a leverage ratio;

    - new liquidity metrics to improve the short term resilience of the liquidity profile of credit institutions as well as encouraging the use of medium to long term funding sources;

    - capital buffers: it introduces two capital buffers on top of the minimum capital requirements: a capital conservation buffer identical for all banks in the EU and a countercyclical capital buffer to be determined at national level; and

    - enhanced governance and supervision: the Commission proposes to reinforce the supervisory regime and aims at increasing the effectiveness of risk oversight by boards, improving the status of the risk management function and ensuring effective monitoring by supervisors of risk governance.

- Basel III, the revised regulation governing how activities of credit institutions and investment firms are carried out, is to be considered together with CRD IV above. Basel III is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to:

    - improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source;

    - improve risk management and governance; and

    - strengthen banks transparency and disclosures.

CRD IV / Basel III transition rules result in certain deferred tax assets, minority interests, AFS reserves and the expected loss deduction being direct deductions from Common Equity Tier 1 Capital on a phased basis with a 20% impact in 2014, 40% in 2015 and so on until 2018.

The Group is progressing its preparations for these new measures and believes it is appropriately well-capitalised with a Core tier 1 capital ratio of 15.1% at 31 December 2011 (14.3% on a PCAR / EBA stress test basis).

Preparation and Basis of Consolidation

The Group's Pillar 3 disclosures are published on a consolidated basis for the year ended 31 December 2011. The Group is availing of the discretion provided for in Article 70 of the CRD to report on a 'solo consolidation' basis which allows for the treatment of subsidiaries as if they were, in effect, branches of the parent in their own right.

Not all legal entities are within the scope of Pillar 3. Table 1.2 below illustrates differences between the basis of consolidation for accounting purposes and the Basel II regulatory treatment.

Table 1.2 – Basis of Consolidation

Entity	Statutory Accounting Treatment	Basel II Regulatory Treatment
BOI Life	Fully Consolidated	90% of investment taken as a deduction to Total capital. Balance of the investment added to RWA.
Joint Ventures	Equity Accounting	For holdings >10% of Joint Venture's Total capital, deduction to Total capital for investment in excess of 10% of the Total capital of the Joint Venture (50% from Tier 1, 50% from Tier 2). Balance of investment added to RWA.
Associates	Equity Accounting	For holdings >10% of the associate's Total capital, deduction to Total capital for investment in excess of 10% of the Total capital of the associate (50% from Tier 1, 50% from Tier 2). Balance of the investment added to RWA.
Securitisation Vehicles	Fully Consolidated	First Loss deduction taken 50% from Tier 1 capital & 50% from Tier 2 capital for tranches retained in originated securitisations which have obtained Pillar 1 derecognition. The quantum of the deduction is set at the KIRB value of the securitised portfolios.

Distinctions between Pillar 3 and IFRS Quantitative Disclosures

There are two different types of table included in this document, those compiled based on accounting standards (sourced from the Group's Annual Report 31 December 2011) and those compiled using Basel II methodologies. Unless specified otherwise, both sets of data reflect the position as at 31 December 2011. The specific methodology used is indicated in each individual table.

It should be noted that there are fundamental differences in the basis of calculation between financial statement information based on IFRS accounting standards and Basel II Pillar 1 information based on regulatory capital adequacy concepts and rules. This is most evident for credit risk disclosures where credit exposure under Basel II (referred to as exposure at default (EAD)) is defined as the expected amount of exposure at default and is estimated under specified Basel II parameters and includes potential future drawings of committed credit lines whereas in the financial statements the Group's loans are recorded at fair value plus transaction costs when cash is advanced to the borrower. They are subsequently accounted for at amortised cost using the effective interest method and take no account of potential future drawings.

While some of the Pillar 3 quantitative disclosures based on Basel II methodologies overlap with quantitative disclosures in the Group's Annual Report 31 December 2011 in terms of disclosure topic covered, any comparison should bear these fundamental differences in mind.

The disclosures contained in this document have been reviewed internally, and this review is consistent with reviews undertaken for unaudited information published in the Group's Annual Report 31 December 2011.

2. Capital

The Group's approach to assessing the adequacy of its internal capital to support current and future activities is set out on page 121 of the Group's Annual Report 31 December 2011 under "Capital Management".

The Group uses the Foundation Internal Ratings Based (IRB) approach, IRB Retail and Standardised approaches for the calculation of its credit risk capital requirements.

The capital requirements for market risk are calculated using the Standardised approach applicable to market risk.

The capital requirements for operational risk are calculated using the Standardised approach applicable to operational risk.

There is a requirement to disclose any impediment to the prompt transfer of funds within the Group. In order to maintain capital and/or liquidity ratios at or above the levels set down by their regulators, the licensed subsidiaries would be unable to remit capital to the parent when to do so would result in such ratios being breached. Apart from this requirement there is no restriction on the prompt transfer of own funds or the repayment of liabilities between the subsidiary companies and the parent.

At 31 December 2011, the Group's actual own funds were not less than the required minimum in all subsidiaries not included in consolidation.

Capital Requirements

Table 2.1 shows the minimum amount of capital the Group would be required to set aside to meet the minimum total capital ratio of 8% of RWA set by the CRD.

Table 2.1 – Capital Requirements

		31 December 2011 €m		31 December 2010 €m	
Credit Risk & Counterparty Risk of which			**4,704**		**5,512**
IRB			3,465		4,049
of which	Central government or central banks				
	Institutions	231		214	
	Corporates	2,405		3,065	
	Retail:				
	Exposures secured by real estate collateral	594		474	
	Qualifying revolving retail exposures	43		46	
	Other retail exposures	154		189	
	Securitisation Positions	38		61	
Standardised			1,239		1,463
of which	Central government or central banks	-		-	
	Regional government or local authorities	-		-	
	Administrative bodies and non-commercial undertakings	1		1	
	Multilateral Development banks	-		-	
	International organisations	-		-	
	Institutions	-		-	
	Corporates	743		915	
	Retail	122		138	
	Secured by real estate property	-		-	
	Past Due items	351		365	
	Items belonging to regulatory high risk categories	4		3	
	Covered Bonds	-		-	
	Short term claims on institutions and corporates	14		37	
	Collective investment Undertakings	-		-	
	Others items	4		4	
	Securitisation Positions	-		-	
Market Risk			**90**		**157**
of which	FX	16		7	
Operational Risk			**362**		**454**
Other Assets			**215**		**200**
Total Capital Requirements (excluding transitional floor)			**5,371**		**6,323**

The Standardised categories included in this Table are the Exposure Classes outlined in the CRD. The Group has no exposures under the Standardised Exposure Class "Secured by real estate property" as these exposures are either measured on the IRB Approach or fall into the Exposure Class "Corporates" under the Standardised Approach. The Group's exposure to Covered Bonds are reported under IRB Institutions.

Since the Group began calculating its capital requirements under Basel II from 1 January 2008, there has been a Central Bank requirement to maintain a transitional floor. The transitional floor capital requirement, which is based on 100% of what the Group's capital requirement requirements would have been pre Basel II, was nil at 31 December 2011 and €386 million at 31 December 2010.

Breakdown of the Group's Regulatory Capital Requirement

At 31 December 2011, the Group applied the Foundation IRB and IRB Retail approaches to 74% (75% at 31 December 2010) of its credit exposures which resulted in 70% of credit RWA being based on IRB approaches (73% at 31 December 2010). The movement in EAD in the year in the Standardised and IRB approaches is primarily driven by significant deleveraging in the Group's portfolios which has been, disproportionally, from portfolios with approved IRB models.

Table 2.2 shows the Group's minimum capital requirements (based on 8% of RWA), RWA and EAD by risk type.

Table 2.2 – Breakdown of the Group's Regulatory Capital Requirement

	31 December 2011			31 December 2010		
Risk Type	Capital Requirement €m	Risk Weighted Assets €m	Exposure at Default €m	Capital Requirement €m	Risk Weighted Assets €m	Exposure at Default €m
Credit Risk - Standardised Approach	1,239	15,490	38,930	1,463	18,288	41,992
Credit Risk - Retail & Foundation IRB Approach	3,465	43,300	112,098	4,049	50,613	126,472
Market Risk	90	1,122	-	157	1,964	-
Operational Risk	362	4,530	-	454	5,678	-
Other Assets	215	2,693	-	200	2,502	-
Total	**5,371**	**67,135**	**151,028**	**6,323**	**79,045**	**168,464**

The EAD under the IRB approach at 31 December 2011 includes defaulted exposures of €10.9 billion (31 December 2010: €8.9 billion) which attracts a 0% risk weighting.

Standardised EAD includes €4.4 billion exposure to central banks (31 December 2010: €10 billion) in relation to funding repurchase agreements which attract a 0% risk weighting.

Credit Risk RWA (Standardised approach and IRB approaches) at 31 December 2011 of €58.8 billion are €10.1 billion lower than Credit Risk RWA of €68.9 billion at 31 December 2010. This decrease is mainly due to a reduction in the quantum of loans and advances to customers and the impact of a higher level of impaired loans at 31 December 2011 as compared to 31 December 2010 partly offset by the impact of foreign exchange movements and RWA re-weighting based on credit model experience.

Market Risk RWA decreased during the year due to the application of trade netting as permitted under the Standardised approach in the CRD as well as a decline in trading book interest rate risk.

Operational Risk RWA decreased during the year reflecting lower levels of operating income, using the three year average approach under the Standardised method.

Capital Resources

Table 2.3 sets out the Group's capital position as at 31 December 2011 and 31 December 2010. This table shows the amount and type of regulatory capital the Group held at that date to meet its capital requirements.

Table 2.3 – Capital Resources

		31 December 2011		31 December 2010	
Capital Base		**€m**	**€m**	**€m**	**€m**
Total Equity			10,252		7,407
Regulatory adjustments			**(146)**		**270**
Available-for-sale reserve		725		828	
Retirement benefit obligations		414		424	
Pension supplementary contributions		(117)		(174)	
Cash flow hedge reserve		(79)		235	
Other intangible assets and goodwill		(380)		(435)	
Own credit spread adjustment (net of tax)		(372)		(366)	
Dividend expected on 2009 Preference Stock		(162)		(188)	
Other adjustments		(59)		(54)	
Capital contribution on Contingent Capital		(116)		-	
Core tier 1 capital			**10,106**		**7,677**
Regulatory deductions			(498)		(580)
of which:	Expected Loss Deduction	(366)		(454)	
	Securitisation Deduction	(85)		(80)	
	Unconsolidated Investments Deduction	(47)		(46)	
Core tier 1 Capital (PCAR / EBA stress test basis)			**9,608**		**7,097**
Tier 1 hybrid debt			92		579
Total tier 1 capital			**9,700**		**7,676**
Tier 2 undated debt			94		183
Tier 2 dated debt			1,172		2,018
IBNR provisions			111		174
Revaluation reserves			6		14
Regulatory deductions			(498)		(580)
of which:	Expected Loss Deduction	(366)		(454)	
	Securitisation Deduction	(85)		(80)	
	Unconsolidated Investments Deduction	(47)		(46)	
Other adjustments			55		54
Total tier 2 capital			**940**		**1,863**
Total tier 1 and tier 2 capital			**10,640**		**9,539**
Regulatory deduction - Life business			(748)		(816)
Total capital			**9,892**		**8,723**

For more information of the components of the Group's capital structure please refer to Appendix II

Capital Resources

Key movements in Capital Resources are as follows.

Total equity increased by €2,845 million during 2011 from €7,407 million at 31 December 2010 to €10,252 million at 31 December 2011, primarily due to new equity capital issued during 2011, the profit attributable to stockholders, positive movements on the available for sale reserve, cash flow hedge reserve and foreign exchange reserve partly offset by the payment of preference stock dividends and adverse movements on the retirement benefit obligations (pensions) reserve.

The profit attributable to stockholders was €45 million for the year ended 31 December 2011. This is net of €1.8 billion of Income Statement gains realised as part of the liability management exercises completed during the year.

Net new equity capital issued totalled €2,557 million and comprised of the following elements:

- proceeds of Rights Issue €1,908 million;
- ordinary shares issued as part of debt for equity swap €665 million; and
- capital contribution on Contingent Capital note €116 million, partly offset by:
- cost of LME & Rights Issue €114 million; and
- redemption of Upper tier 2 note (US$150 million FRN) €18 million.

There were positive foreign exchange movements to reserves of €180 million during 2011 relating primarily to the translation of the Group's net investments in foreign operations arising from the 3% strengthening of sterling against the euro in the year ended 31 December 2011.

The Available for sale (AFS) reserve and Cash flow hedge reserve moved positively by a combined total of €417 million reflecting the impact of changes in interest rates on the mark to market value of cash flow hedge accounted derivatives on the cash flow hedge reserve and the tightening of credit spreads (and in particular on the portfolio of Irish Government bonds) on the available for sale reserve.

The Group paid dividends on preference stock of €222 million during 2011, including a payment of €214.5 million on the Government 2009 Preference Stock (€1.8 billion outstanding at 31 December 2011 and 31 December 2010).

The retirement benefit obligation (pensions) reserve declined by €117 million during 2011 primarily driven by movements in asset values and changes to key assumptions used in the calculation of the schemes' liabilities, including the discount rate, the inflation rate, the rate of increases in salaries and in pension payments.

Movements on the AFS reserve, cash flow hedge reserve and pension reserve are largely neutral to regulatory capital given the prudential filters in place to remove them - see Appendix II for further details.

There were other negative movements to Total equity totalling €15 million.

Regulatory adjustments to arrive at Core tier 1 capital totalled €146 million (negative) at 31 December 2011. Movements in the available for sale reserve, cash flow hedge reserve, retirement benefit obligation reserve and dividends payable on preference stock are outlined above.

The pension supplementary contributions deduction totalled €117 million at 31 December 2011. The decrease (in the deduction) of €57 million reflects amendments made to the defined benefit pension scheme in the year ended 31 December 2010 as well as contributions made to the schemes.

The deduction for Other intangible assets and Goodwill of €380 million at December 2011 is €55 million lower than the deduction of €435 million at December 2010 due primarily to the write off of goodwill on a business that was contracted to sell at 31 December 2011.

The own credit spread adjustment (net of tax) resulted in a deduction in arriving at Core tier 1 capital of €372 million at 31 December 2011 compared to €366 million at 31 December 2010. The marginal increase during the year is due to the widening of the Bank's credit spread during 2011 largely offset by the realisation of certain gains following the redemption of subordinated liabilities as part of the liability management exercises completed during the year ended 31 December 2011.

A capital contribution reserve was created in July 2011 following the issuance of the €1 billion contingent capital note to the State. This is recorded in Total equity from an accounting perspective as outlined above. A national prudential filter is applied by the Central Bank to remove this reserve from regulatory capital.

Regulatory deductions (50:50 deductions) total €996 million at 31 December 2011 (deducted €498 million from Tier 1 capital and €498 million from Tier 2 capital) compared to €1,160 million at 31 December 2010 (deducted €580 million from Tier 1 capital and €580 million from Tier 2 capital). The decline of €164 million is due primarily to a decrease in the total expected loss deduction of €176 million which is largely attributable to an increase in impairment provisions against IRB portfolios exceeding the increase in the IRB measurement of expected losses.

Tier 1 hybrid debt (not treated as core tier 1) at 31 December 2011 was €92 million compared to €579 million at 31 December 2010. The decline is primarily due to the repurchase of securities as part of the liability management exercises completed during 2011.

Tier 2 debt (dated and undated) totalled €1,266 million at 31 December 2011, a decrease of €935 million from the €2,201 at December 2010. The decline reflects the repurchase of debt during the year as part of the liability management exercises completed partly offset by the €1 billion contingent capital note issued to the State. This Tier 2 classified note would convert into Bank of Ireland ordinary stock on breach of a Core tier 1 or Common Equity tier 1 trigger ratio of 8.25% or on a 'Non-Viablilty event' as determined by the Central Bank.

The decline in the Life business deduction reflects a decline in the total equity of Bank of Ireland Life.

3. Risk Management

The Group follows an integrated approach to risk management to ensure that all material classes of risk are taken into account and that its risk management and capital management strategies are aligned with its overall business strategy. The Group has identified the following key risks: credit risk, liquidity risk, market risk, operational risk, pension risk, business and strategic risk, life insurance risk, model risk, reputation risk and regulatory risk. An introduction to the Group's assessment of its capital requirements for credit risk, market risk and operational risk are outlined below while detail regarding how these, and other risks are identified, managed, measured and mitigated is provided in the Risk Management report from page 48 of the Group's Annual Report 31 December 2011.

The Group's risk objectives are set out in the Risk Identity, Strategy and Appetite section on page 57 of the Group's Annual Report 31 December 2011.

Credit Risk

The Group uses the Foundation Internal Ratings Based (IRB) approach, IRB Retail and Standardised approaches for the calculation of its credit risk capital requirements. The Standardised approach involves the application of prescribed regulatory risk weights to credit exposures to calculate the capital requirement. The IRB approaches (Foundation and Retail) allow banks, subject to the approval of their regulator, to use their internal credit risk measurement models combined, where appropriate, with regulatory rules, to calculate their capital needs.

At 31 December 2011, the Group applied the Foundation IRB and IRB Retail approaches to 74% (75% at 31 December 2010) of its group exposures by EAD which resulted in 70% of credit risk weighted assets (RWA) being based on IRB approaches (73% at 31 December 2010). The movement in EAD in the year in the Standardised and IRB approaches is primarily driven by significant deleveraging in the Group's portfolios which has been, disproportionally, from portfolios with approved IRB models. The credit risk information disclosed in this document includes a breakdown of the Group's exposures by Basel exposure class, by location, sector, maturity and asset quality. Information on past due and impaired financial assets and provisions is also provided.

The Group's approach to management of balances in arrears and impaired loans is rigorous, with a focus on early intervention and active management of accounts. The Group has redeployed significant resources from loan origination into remedial management of existing loans which has further strengthened its management of past due and impaired loans.

Market Risk

The Group generates market risk in the normal course of its banking business and this risk is substantially mitigated with external counterparties. The Group engages to a limited extent in proprietary risk-taking, but does not seek to generate a material proportion of its earnings from this activity and has a low tolerance for earnings volatility arising from trading risk.

The management of market risk in the Group is governed by the Group's Risk Appetite Statement and by the statement of High Level Principles Governing Market Risk, both of which are approved by the Court and a detailed statement of policy approved by the Group Risk Policy Committee. Discretionary market risk is subject to strict controls which set out the markets and instruments in which risk can be assumed, the types of positions which can be taken and the limits which must be complied with. The Group employs a VaR approach to measure, and set limits for, proprietary market risk-taking in Bank of Ireland Global Markets. This is supplemented by a range of other measures including stress tests.

The Group uses the Standardised approach for its assessment of Pillar 1 capital requirements for Trading Book market risk, using the prescribed regulatory calculation method.

Operational Risk

The Group's operational risk framework is implemented by business units, supported by the Group Regulatory, Compliance and Operational Risk (GRCOR) function. Implementation of the operational risk framework is monitored by the Group Regulatory, Compliance and Operational Risk Committee, the Group Risk Policy Committee and the Group Audit Committee. Group and business risk exposures are assessed, appropriate controls and mitigants are put in place and appropriate loss tolerances are set and monitored. This strategy is further supported by risk transfer mechanisms such as the Group's insurance programme.

The Group uses the Standardised approach for its assessment of capital requirements for operational risk, using the prescribed regulatory calculation method.

Risk Management Structure and Organisation

Responsibilities for risk management extend throughout the organisation. Details of the risk governance structure, including risk committees, are set out on pages 58 to 59 of the Group's Annual Report 31 December 2011.

4. Credit Risk

Credit risk is defined as the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. The core values and principles governing credit risk are contained in the Statement of Group Credit Policy which is approved by the Court. Further detail regarding this policy and strategies and processes by which credit risk is managed are included in the Risk Management section from page 62 of the Group's Annual Report 31 December 2011.

The Group seeks to ensure that adequate up to date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio. Detail on the schedule and content of credit risk reporting is provided under the heading "Credit Reporting / Monitoring" on page 63 of the Group's Annual Report 31 December 2011. Disclosures relating to the active monitoring of credit risk are also included in this section. The processes by which credit risk is assessed and measured are set out in the Credit Risk Assessment and Measurement section from page 64 of the Group's Annual Report 31 December 2011.

Credit Risk Mitigation for Risk Management Purposes

Hedging and mitigation of credit risk for risk management purposes is covered in the Group's credit risk policies. The Group mitigates credit risk through the adoption of both proactive preventative measures (e.g. controls and limits) and the development and implementation of strategies to assess and reduce the impact of particular risks, should these materialise (e.g. taking collateral, securitisation, hedging). Further detail on credit risk mitigation for risk management purposes is contained on page 64 of the Group's Annual Report 31 December 2011.

Credit Risk Mitigation for Capital Requirements Calculation

For Retail IRB exposures the effect of credit risk mitigation, principally the collateral taken to secure loans, is taken into account in the development of the Group's Loss Given Default (LGD) models, which in turn are used in the calculation of the Group's regulatory capital requirements.

For non-retail Foundation IRB exposures (corporate and commercial lending) Supervisory LGDs are used for minimum capital requirements calculation purposes as is required under the CRD. These Supervisory LGDs are either applied directly to obligors, or the Supervisory LGD is reduced through the recognition of the risk-mitigating impact of qualifying collateral held as security.

Under the IRB approach, depending on the type of credit risk mitigation applied, Probability of Default (PD) or LGD may be impacted. Under the Standardised approach, credit risk mitigation impacts on the risk weight which is then subsequently applied to the exposure amount to derive the capital requirement. Therefore, the EAD amounts shown in the Standardised tables below do not alter following the application of credit risk mitigation.

Further information on credit risk mitigation is provided in the Credit Risk Mitigation section below.

Maximum Exposure to Credit Risk

Tables 4.1 and 4.2 are based on EAD and show the Group's point-in-time and average maximum exposure to credit risk.

Table 4.1 – Maximum Exposure to Credit Risk : IRB Approach

	31 December 2011		31 December 2010	
IRB Exposure Class	**Total Exposure (EAD) €m**	**Average Exposures over the year (EAD) €m**	**Total Exposure (EAD) €m**	**Average Exposures over the year (EAD) €m**
Institutions	16,487	15,886	17,440	19,651
Corporates	35,616	40,729	45,349	43,829
Retail	58,738	60,368	62,277	62,676
Securitisation Positions	1,257	1,258	1,406	1,470
Total	**112,098**	**118,241**	**126,472**	**127,626**

Table 4.2 – Maximum Exposure to Credit Risk : Standardised Approach

	31 December 2011		31 December 2010	
Standardised Exposure Class	**Total Exposure (EAD) €m**	**Average Exposures over the year (EAD) €m**	**Total Exposure (EAD) €m**	**Average Exposures over the year (EAD) €m**
Central governments or central banks	23,835	23,081	23,314	15,900
Administrative bodies and non-commercial undertakings	14	15	17	21
Corporates	9,347	10,481	12,273	20,947
Retail	2,050	2,129	2,304	2,644
Past due items	3,431	3,418	3,546	5,465
Items belonging to regulatory high risk categories	32	30	27	25
Short term claims on institutions and corporates	170	220	462	433
Other items	51	47	49	154
Total	**38,930**	**39,421**	**41,992**	**45,589**

The fall in Retail exposures under the IRB approach and the fall in exposure to Corporates under both the IRB and Standardised approaches reflects the reduction in the quantum of loans and advances to customers as well as deleveraging in certain portfolios in line with the Group's deleveraging plan.

While balances at Central governments or central banks are broadly comparable to prior year, additional purchases of government bonds and additional central bank placements have been offset by a reduction in the level of central bank repurchase agreements. Additional information on Sovereign exposure is available on pages 81 - 86 of the Group's Annual Report 31 December 2011.

Geographic Analysis of Exposures

The Group's primary markets are Ireland and the UK. Tables 4.3 and 4.4 below are based on EAD, and the geographic locations shown are based on the location of the business unit where the exposure is booked.

Table 4.3 – Geographic Analysis of Exposure : IRB Approach

	31 December 2011			31 December 2010		
IRB Exposure Class	**Ireland (EAD) €m**	**UK & Other (EAD) €m**	**Total (EAD) €m**	**Ireland (EAD) €m**	**UK & Other (EAD) €m**	**Total (EAD) €m**
Institutions	16,264	223	16,487	16,783	657	17,440
Corporates	26,178	9,438	35,616	33,726	11,623	45,349
Retail	30,909	27,829	58,738	31,545	30,732	62,277
Securitisation positions	1,152	105	1,257	1,304	102	1,406
Total	**74,503**	**37,595**	**112,098**	**83,358**	**43,114**	**126,472**

Table 4.4 – Geographic Analysis of Exposure : Standardised Approach

	31 December 2011			31 December 2010		
Standardised Exposure Class	**Ireland (EAD) €m**	**UK & Other (EAD) €m**	**Total (EAD) €m**	**Ireland (EAD) €m**	**UK & Other (EAD) €m**	**Total (EAD) €m**
Central governments or central banks	14,557	9,278	23,835	22,761	553	23,314
Administrative bodies and non-commercial undertakings	14	-	14	17	-	17
Corporates	6,599	2,748	9,347	8,834	3,439	12,273
Retail	654	1,396	2,050	863	1,441	2,304
Past due items	2,588	843	3,431	2,489	1,057	3,546
Items belonging to regulatory high risk categories	32	-	32	27	-	27
Short term claims on institutions and corporates	156	14	170	264	198	462
Other items	51	-	51	49	-	49
Total	**24,651**	**14,279**	**38,930**	**35,304**	**6,688**	**41,992**

Included under Ireland EAD are exposures originated by the Group's Corporate & Treasury division. While business units in this division are based in Ireland they will have exposures to the UK and other countries.

The increase in UK & Other Central governments or central banks exposure reflects excess liquidity placed with the Bank of England by the Group's UK subsidiary Bank of Ireland (UK) plc.

Industry Analysis of Exposures

Tables 4.5 and 4.6 are based on EAD. The industry classification below is based on the purpose of the loan. Similar industry headings to those in the industry analysis contained in the Group's Annual Report 31 December 2011 have been used, however, the values will differ as these tables are based on EAD. The distribution will differ as information on an accounting basis is used in the Group's Annual Report 31 December 2011 and exposures are thus classified using a different methodology.

Table 4.5 – Industry Analysis of Exposures : IRB Approach

	31 December 2011											
IRB Exposure Class	**Agri-ulture (EAD) €m**	**Business & Other Services (EAD) €m**	**Central & Local Govt. (EAD) €m**	**Construction & Property (EAD) €m**	**Distribution (EAD) €m**	**Energy (EAD) €m**	**Financial (EAD) €m**	**Manufac-turing (EAD) €m**	**Transport (EAD) €m**	**Personal Other (EAD) €m**	**Personal Residential Mortgages (EAD) €m**	**Total (EAD) €m**
Institutions	-	-	-	-	-	-	16,487	-	-	-	-	**16,487**
Corporates	727	8,122	204	15,623	2,774	820	1,219	3,968	1,497	516	146	**35,616**
Retail	543	560	-	243	238	2	-	90	-	2,967	54,095	**58,738**
Securitisation Positions	-	688	-	-	-	27	-	-	-	378	164	**1,257**
Total	**1,270**	**9,370**	**204**	**15,866**	**3,012**	**849**	**17,706**	**4,058**	**1,497**	**3,861**	**54,405**	**112,098**
IRB Exposure Class	**31 December 2010**											
Institutions	-	-	-	-	-	-	17,440	-	-	-	-	**17,440**
Corporates	758	9,790	203	19,147	3,217	1,343	2,416	5,948	1,483	1,001	43	**45,349**
Retail	557	562	-	235	236	2	-	89	-	3,433	57,163	**62,277**
Securitisation Positions	-	688	-	-	-	24	16	-	-	517	161	**1,406**
Total	**1,315**	**11,040**	**203**	**19,382**	**3,453**	**1,369**	**19,872**	**6,037**	**1,483**	**4,951**	**57,367**	**126,472**

Table 4.6 – Industry Analysis of Exposures : Standardised Approach

Standardised Exposure Class	Agri-culture (EAD) €m	Business & Other Services (EAD) €m	Central & Local Govt. (EAD) €m	Construction & Property (EAD) €m	Distribution (EAD) €m	Energy (EAD) €m	Financial (EAD) €m	Manufac-turing (EAD) €m	Transport (EAD) €m	Personal Other (EAD) €m	Personal Residential Mortgages (EAD) €m	Total (EAD) €m
	31 December 2011											
Central governments or central banks	-	-	23,835	-	-	-	-	-	-	-	-	**23,835**
Administrative bodies and non-commercial undertakings	-	-	-	-	14	-	-	-	-	-	-	**14**
Corporates	435	1,922	-	2,488	648	9	327	1,074	1,122	1,144	178	**9,347**
Retail	116	144	-	38	198	3	8	54	42	1,446	1	**2,050**
Past due items	76	321	-	2,414	40	1	5	20	27	437	90	**3,431**
Items belonging to regulatory high risk categories	-	-	-	-	-	-	32	-	-	-	-	**32**
Short term claims on institutions and corporates	23	48		37	15	-	17	13	4	11	2	**170**
Other items	-	-		-	-	-	50	1	-	-	-	**51**
Total	**650**	**2,435**	**23,835**	**4,977**	**915**	**13**	**439**	**1,162**	**1,195**	**3,038**	**271**	**38,930**
Standardised Credit Risk Exposure Class	**31 December 2010**											
Central governments or central banks	-	-	23,314	-	-	-	-	-	-	-	-	23,314
Administrative bodies and non-commercial undertakings	-	-	-	-	17	-	-	-	-	-	-	17
Corporates	477	2,490	-	3,917	642	14	1,009	1,094	913	1,709	8	12,273
Retail	138	162	-	66	298	4	11	67	55	1,502	1	2,304
Past due items	64	288	-	2,506	60	3	4	19	37	562	3	3,546
Items belonging to regulatory high risk categories	-	-	-	-	-	-	27	-	-	-	-	27
Short term claims on institutions and corporates	22	83	-	132	27	-	142	19	6	31	-	462
Other items	-	-	-	-	-	-	46	2	1	-	-	49
Total Standardised	**701**	**3,023**	**23,314**	**6,621**	**1,044**	**21**	**1,239**	**1,201**	**1,012**	**3,804**	**12**	**41,992**

Maturity Analysis of Exposures

The maturity analysis below discloses the Group's credit exposure by residual contractual maturity date. Tables 4.7 and 4.8 are based on EAD.

Table 4.7 – Maturity Analysis of Exposure : IRB Approach

	31 December 2011				31 December 2010			
IRB Exposure Class	<1 year (EAD) €m	1-5 years (EAD) €m	>5 years (EAD) €m	Total (EAD) €m	<1 year (EAD) €m	1-5 years (EAD) €m	>5 years (EAD) €m	Total (EAD) €m
Institutions	7,455	5,149	3,883	16,487	7,572	5,130	4,738	17,440
Corporates	7,907	13,584	14,125	35,616	9,113	20,275	15,961	45,349
Retail	5,685	11,447	41,606	58,738	5,526	11,421	45,330	62,277
Securitisation Positions	30	294	933	1,257	-	330	1,076	1,406
Total	**21,077**	**30,474**	**60,547**	**112,098**	**22,211**	**37,156**	**67,105**	**126,472**

Table 4.8 – Maturity Analysis of Exposures : Standardised Approach

	31 December 2011				31 December 2010			
Standardised Credit Risk Exposure Class	<1 year (EAD) €m	1-5 years (EAD) €m	>5 years (EAD) €m	Total (EAD) €m	<1 year (EAD) €m	1-5 years (EAD) €m	>5 years (EAD) €m	Total (EAD) €m
Central governments or central banks	18,953	3,751	1,131	23,835	19,307	2,663	1,344	23,314
Administrative bodies and non-commercial undertakings	-	14	-	14	-	17	-	17
Corporates	3,026	3,819	2,502	9,347	3,930	4,994	3,349	12,273
Retail	565	1,453	32	2,050	627	1,642	35	2,304
Past due items	2,249	423	759	3,431	2,512	446	588	3,546
Items belonging to regulatory high risk categories	-	-	32	32	-	-	27	27
Short term claims on institutions and corporates	168	-	2	170	462	-	-	462
Other items	-	-	51	51	-	-	49	49
Total	**24,961**	**9,460**	**4,509**	**38,930**	**26,838**	**9,762**	**5,392**	**41,992**

IRB Approach – Asset Quality

This section covers the use by the Group of its internal rating systems under the IRB approaches.

Regulatory Approval of Approach

The Bank of Ireland Group has regulatory approval to use its internal credit models in the calculation of its capital requirements for 74% of its exposures which results in 70% of credit RWA being calculated using internal credit models. This approval covers the adoption of the Foundation IRB approach for non-retail exposures and the Retail IRB approach for retail exposures.

The Structure of Internal Rating Systems

The Group divides its internal rating systems into non-retail and retail approaches. Both approaches differentiate Probability of Default (PD) estimates into 11 grades in addition to the category of default.

For both non-retail and retail internal rating systems, default is defined based on likelihood of non-payment indicators that vary between borrower types. In all cases, exposures 90 days or more past due are considered to be in default.

PD Calculation

The Group produces estimates of PD on either or both of the following bases:

1. Through-the-Cycle (TtC) estimates are estimates of default over an entire economic cycle, averaged to a 12-month basis. These are in effect averaged expectations of PD for a borrower over the economic cycle.

2. Cyclical estimates are estimates of default applicable to the next immediate 12 months. These cyclical estimates partially capture the economic cycle in that they typically rise in an economic downturn and decline in an economic upturn but not necessarily to the same degree as default rates change in the economy.

Non-Retail Internal Rating Systems

The Group has adopted the Foundation IRB approach for certain of its non-retail exposures. Under this approach, the Group calculates its own estimates for PD. The Group uses supervisory estimates of LGD, typically ranging from between 35% and 45%, and Credit Conversion Factors (CCF).

To calculate PD, the Group assesses the credit quality of borrowers and other counterparties using criteria particular to the type of borrower under consideration. With the exception of the Institutions IRB exposure class, these criteria do not include external ratings. External ratings play a role in the assessment of Institutions where they may provide an input into the Group's Institutions PD model. For exposures other than to Institutions, external ratings, when available for borrowers, play a role in the independent validation of internal estimates.

For non-retail exposures, the Group produces its own estimates of PD on a TtC basis and on a cyclical basis. The TtC estimates, which do not vary with the economic cycle, are used to calculate risk-weighted exposure amounts and to determine minimum regulatory capital requirements. The cyclical PD estimates which capture a change in borrower risk over the economic cycle, are used for internal credit management purposes. Both measures are estimated from the same borrower risk factors.

Retail Internal Rating Systems

The Group has adopted the Retail IRB approach for its retail exposures. Under this approach, the Group calculates its own estimates for PD, LGD and CCF. External ratings do not play a role within the Group's retail internal rating systems, however, external credit bureau data does play a significant role in assessing UK retail borrowers.

For retail exposures, the Group calculates PD on a single, cyclical basis. These estimates are used for both the calculation of risk-weighted exposure amounts and for internal credit management purposes.

To calculate LGD and CCF, the Group assesses the nature of the transaction and underlying collateral. Both LGD and CCF estimates are calibrated to produce estimates of behaviour characteristic of an economic downturn or long term average, whichever is the most conservative.

Other uses of Internal Estimates

Internal estimates play an essential role in risk management and decision making processes, the credit approval functions, the internal capital allocation function and the corporate governance functions of the Group. The specific uses of internal estimates differ from portfolio to portfolio, and for retail and non-retail approaches, but typically include:

- Internal Reporting
- Credit Management
- Calculation of Risk Adjusted Return on Economic Capital (RARoC)
- Credit Decisioning / Automated Credit Decisioning
- Borrower Credit Approval
- Internal Capital Allocation between businesses of the Group

For non-retail exposures, through the cycle PD estimates are used to calculate internal economic capital. For other purposes, the cyclical PD estimates are used. Both estimates feature within internal management reporting.

Association of PD Grades with External Ratings

Table 4.9 illustrates the relationship between PD grade, PD band and S&P type ratings. PD is used in the RWA calculation for IRB purposes. These PD grades differ from internal obligor grades which are used in arriving at IFRS 7 classifications, however there is a defined relationship between both sets of grades. Further information on obligor grades can be found on page 68 of the Group's Annual Report 31 December 2011.

Table 4.9 – Relationship of PD Grades with External Ratings

PD Grade	PD	S&P type ratings
1 – 4	0% ≤ PD < 0.26%	AAA, AA+, AA, AA-, A+, A, A-, BBB+
5 – 7	0.26% ≤ PD < 1.45%	BBB, BBB-, BB+, BB
8 – 9	1.45% ≤ PD < 3.60%	BB-, B+
10 – 11	3.60% ≤ PD < 100%	B, Below B
Default	100%	N/A

Control Mechanisms for Rating Systems

The control mechanisms for rating systems are set out in the Group's model risk policy. Model risk is one of the ten key risk types identified by the Group, the governance of which is outlined in the Group's Risk Framework.

A sub-committee of the Group Risk Policy Committee (GRPC), the Risk Measurement Committee (RMC), approves all risk rating models, model developments, model implementations and all associated policies. The Group mitigates model risk through different layers as follows:

- *Model Development Standards:* The Group adopts centralised standards and methodologies over the operation and development of models. The Group has specific policies on documentation, data quality and management, conservatism and validation. This mitigates model risk at model inception.

- *Model Governance*: The Group adopts a uniform approach to the governance of all model related activities. This ensures the appropriate involvement of stakeholders ensuring responsibilities and accountabilities are clear. The Measurement Strategy Team acts on behalf of the RMC as the governance body overseeing these activities.

- *Model Performance Monitoring*: All models are subject to regular testing on a monthly basis and formal review on a quarterly basis. The findings are reported to the RMC and appropriate actions, when necessary are approved. The Group has a specific policy on model performance monitoring.

- *Independent Validation*: All models are subject to in-depth analysis typically annually. This analysis is carried out by a dedicated unit (the Independent Control Unit – ICU) which is part of Risk Strategy, Analysis and Reporting (RSAR). It is independent of credit origination and management functions. The ICU's report is considered by the RMC in approving models for use in the business and for capital requirements calculation purposes.

In addition to these model risk mitigants, Group Internal Audit regularly reviews the risk control framework including policies and standards to ensure that these are being adhered to, meet industry good practices and are compliant with regulatory requirements. The ICU function is independently audited on an annual basis.

Where models are found to be inadequate, they are remediated on a timely basis or are replaced.

The Internal Ratings Process by Exposure Class

Details on how the internal ratings process is applied to each individual IRB exposure class are given below. Departures from Group standards outlined above are not permitted.

— **Institutions**

Institutions are rated by a single dedicated model. This is an internally-built scorecard and the output from this model is a single PD estimate that is fully TtC.

— **Corporate**

Corporate entities, including SMEs and specialised lending are rated using a number of models. This suite of models typically incorporates scorecard-based calibrated PD outputs (both TtC and cyclical PD estimates).

The Group does not rate purchased corporate receivables under the IRB approach.

— **Retail**

Retail exposures, including retail SME, retail Real Estate and Qualifying Revolving Retail exposures, are rated on a number of models based on application and behavioural data that is then calibrated to a PD. This PD estimate typically varies with the economic cycle.

The Group also generates LGD and CCF estimates for its retail exposures. These estimates are calibrated to produce estimates of behaviour characteristic of an economic downturn or long term average, whichever is the most conservative. These estimates do not vary with the economic cycle.

Securitised positions are dealt with in section 7 on Securitisation.

Analysis of Credit Quality for Institutions and Corporates IRB exposure classes

Table 4.10 is based on EAD and shows the breakdown of the IRB Institutions and Corporates exposure classes by PD Grade.

Table 4.10 – Analysis of Credit Quality for Foundation IRB exposure classes

	31 December 2011				31 December 2010			
	Institutions		Corporates		Institutions		Corporates	
PD Grade	Total Exposures (EAD) €m	Exposure-weighted Average Risk Weight %	Total Exposures (EAD) €m	Exposure-weighted Average Risk Weight %	Total Exposures (EAD) €m	Exposure-weighted Average Risk Weight %	Total Exposures (EAD) €m	Exposure-weighted Average Risk Weight %
1 – 4	15,693	15%	2,671	35%	16,174	12%	6,365	27%
5 – 7	686	45%	10,852	89%	902	47%	15,326	86%
8 – 9	25	152%	8,331	113%	161	105%	11,757	116%
10 –11	62	200%	7,130	141%	48	281%	6,654	147%
Default	21	0%	6,632	0%	155	0%	5,247	0%
Total	**16,487**	**18%**	**35,616**	**84%**	**17,440**	**15%**	**45,349**	**84%**

The EAD under the Foundation IRB approach at 31 December 2011 includes defaulted exposures of €6.6 billion (31 December 2010: €5.4 billion) which attracts a 0% risk weighting.

Analysis of Credit Quality – IRB Retail

Table 4.11 is based on EAD and shows the breakdown of the Retail sub-exposure classes by PD Grade.

Table 4.11 – Analysis of Credit Quality of IRB Retail sub-exposure classes

PD Grade	31 December 2011					31 December 2010				
	Total Exposures (EAD)	Exposure-weighted Average Risk Weight	Exposure-weighted Average LGD	Amount of Undrawn Commitments	Weighted Average CCF	Total Exposures (EAD)	Exposure-weighted Average Risk Weight	Exposure-weighted Average LGD	Amount of Undrawn Commitments	Weighted Average CCF
	€m	%	%	€m	%	€m	%	%	€m	%
Qualifying Revolving										
1 – 4	256	5%	43%	562	34%	317	4%	40%	707	33%
5 – 7	882	13%	46%	1,525	37%	851	13%	47%	1,434	38%
8 – 9	282	35%	48%	247	45%	292	35%	48%	262	45%
10 – 11	356	88%	45%	237	38%	394	89%	45%	252	39%
Default	185	0%	45%	16	47%	175	0%	47%	16	45%
Total	**1,961**	**27%**	**45%**	**2,587**	**37%**	**2,029**	**29%**	**46%**	**2,671**	**37%**
Real Estate										
1 – 4	18,739	4%	11%	387	45%	20,406	3%	10%	408	46%
5 – 7	22,791	13%	14%	508	49%	24,273	10%	10%	770	56%
8 – 9	4,389	27%	13%	14	64%	5,395	21%	10%	31	74%
10 – 11	4,611	57%	13%	12	74%	4,353	42%	10%	18	64%
Default	3,565	0%	14%	-	-	2,736	0%	10%	-	91%
Total	**54,095**	**14%**	**13%**	**921**	**48%**	**57,163**	**10%**	**10%**	**1,227**	**53%**
Other Retail										
1 – 4	65	14%	42%	144	40%	26	19%	43%	53	41%
5 – 7	371	55%	60%	344	51%	295	48%	59%	395	48%
8 – 9	884	87%	61%	64	62%	1,170	91%	63%	85	59%
10 – 11	833	114%	64%	37	64%	983	116%	64%	50	64%
Default	529	0%	65%	6	59%	611	0%	67%	6	58%
Total	**2,682**	**72%**	**62%**	**595**	**50%**	**3,085**	**76%**	**63%**	**589**	**51%**

The EAD for Retail IRB obligor credit grades is based primarily on account arrears performance. PD grades, while partly driven by arrears, behaviour status and history, are also derived from other obligor and transaction characteristics such as loan-to-value ratios, employment type, etc. A new Retail Ireland Mortgage LGD model was built and implemented in 2011. This has resulted in an increase in the weighted average Real Estate LGD during 2011.

Standardised Approach – Asset Quality

The Standardised approach applies where exposures do not qualify for use of an IRB approach and/or where an exemption from IRB has been granted. It is less sophisticated than the IRB approach for regulatory capital calculations. Under this approach credit risk is measured by applying risk weights outlined in the CRD based on the exposure class to which the exposure is allocated.

Where a counterparty is rated by External Credit Assessment Institutions ('ECAIs') or Export Credit Agencies ('ECAs'), the Standardised approach permits banks to use these ratings to determine the risk weighting applicable to exposures to that counterparty. This is done by firstly mapping the rating to a Pillar 1 credit quality step, which in turn is then mapped to a risk weight.

The Group uses Fitch Ratings, Moody's Investors Service and Standard & Poor's as its nominated ECAIs for its sovereign exposures and applies the mapping tables published by the Central Bank to map these ECAI ratings to credit quality steps and then risk weights. The Group has not nominated any ECA.

Standardised Approach – Analysis of Credit Quality

Exposure values in Table 4.12 are broken down by risk weight.

Table 4.12 – Analysis of Credit Quality : Standardised Approach

	31 December 2011							
Risk Weight	**Central Governments or Central Banks (EAD) €m**	**Administrative Bodies and Non-Commercial Undertakings (EAD) €m**	**Corporate (EAD) €m**	**Retail (EAD) €m**	**Past Due Items (EAD) €m**	**Items belonging to Regulatory High Risk Categories (EAD) €m**	**Short Term claims on Institutions and Corporates (EAD) €m**	**Other (EAD) €m**
0%	23,835	-	-	-	-	-	-	-
10%	-	-	-	-	-	-	-	-
20%	-	-	220	13	-	-	-	-
35%	-	-	-	-	-	-	-	-
50%	-	-	1	-	-	-	-	-
75%	-	-	-	2,037	-	-	-	-
100%	-	14	8,896	-	1,511	-	168	51
150%	-	-	230	-	1,920	32	2	-
200%	-	-	-	-	-	-	-	-
Deducted	-	-	-	-	-	-	-	-
Total	**23,835**	**14**	**9,347**	**2,050**	**3,431**	**32**	**170**	**51**

Table 4.12 – Analysis of Credit Quality : Standardised Approach								
31 December 2010								
Risk Weight	Central Governments or Central Banks (EAD) €m	Administrative Bodies and Non-Commercial Undertakings (EAD) €m	Corporate (EAD) €m	Retail (EAD) €m	Past Due Items (EAD) €m	Items belonging to Regulatory High Risk Categories (EAD) €m	Short Term claims on Institutions and Corporates (EAD) €m	Other (EAD) €m
0%	23,314	-	-	-	-	-	-	-
10%	-	-	-	-	-	-	-	-
20%	-	-	510	14	1	-	-	-
35%	-	-	-	-	-	-	-	-
50%	-	-	37	-	-	-	-	-
75%	-	-	1,822	2,290	-	-	39	-
100%	-	17	9,814	-	1,519	-	411	49
150%	-	-	90	-	2,026	27	12	-
200%	-	-	-	-	-	-	-	-
Deducted	-	-	-	-	-	-	-	-
Total	**23,314**	**17**	**12,273**	**2,304**	**3,546**	**27**	**462**	**49**

Loan Loss Experience in the year ended 31 December 2011

A discussion on the factors which impacted the loan loss experience in the year ended 31 December 2011 is included in the Risk Management Report of the Group's Annual Report 31 December 2011 (Challenging Economic Environment from page 49, Credit Risk from page 62 and Asset Quality – Financial Assets from page 68).

Past Due and Impaired Exposures

Past due exposures are loans where repayment and/or principle are overdue by at least one day but which are not impaired.

Impaired loans are loans with a specific impairment provision attaching to them together with loans (excluding residential mortgages) which are more than 90 days in arrears.

For additional information on past due and impaired exposures please refer to page 71 of the Group's Annual Report 31 December 2011.

Past Due and Impaired Exposures by Industry

Table 4.13 is based on financial statement information and discloses past due but not impaired and impaired balances by industry class.

Table 4.13 – Past Due and Impaired Exposures by Industry

	31 December 2011			31 December 2010		
Industry Class	**Past Due Exposures €m**	**Impaired Exposures €m**	**Total €m**	**Past Due Exposures €m**	**Impaired Exposures €m**	**Total €m**
Residential Mortgages	4,520	1,474	5,994	3,614	1,077	4,691
Consumer	158	338	496	209	371	580
Property & Construction	1,042	7,623	8,665	1,590	6,279	7,869
Business & Other Services	223	2,343	2,566	268	1,804	2,072
Manufacturing	31	580	611	28	535	563
Distribution	111	694	805	127	700	827
Transport	19	140	159	8	151	159
Financial	2	65	67	2	299	301
Agriculture	44	170	214	57	145	202
Energy	-	51	51	-	23	23
Total	**6,150**	**13,478**	**19,628**	**5,903**	**11,384**	**17,287**

Past Due and Impaired Exposures by Geography

Table 4.14 is based on financial statement information and discloses past due but not impaired and impaired balances by geographic location, which are based on the location of the business unit where the exposure is booked.

Table 4.14 – Past Due and Impaired Exposure by Geography

	31 December 2011			31 December 2010		
Geographic Breakdown	**Past Due Exposures €m**	**Impaired Exposures €m**	**Total €m**	**Past Due Exposures €m**	**Impaired Exposures €m**	**Total €m**
Ireland	3,697	9,274	12,971	2,451	7,796	10,247
United Kingdom & Other	2,453	4,204	6,657	3,452	3,588	7,040
Total	**6,150**	**13,478**	**19,628**	**5,903**	**11,384**	**17,287**

Provisioning

The Loan Loss provisioning methodology used by the Group is set out on page 66 of the Group's Annual Report 31 December 2011. This includes:

- a description of the type of provisions; and
- a description of the approaches and methods adopted for determining provisions.

Provisions by Industry and Geography

Table 4.15 shows the balance sheet specific provision, specific provision charges and amounts written off on specific provisions by industry classification. It is based on financial statement information.

Table 4.15 – Provisions by Industry

Industry Class	31 December 2011			31 December 2010		
	Total Specific Provisions €m	Specific Provision Charges €m	Amounts Written Off €m	Total Specific Provisions €m	Specific Provision Charges €m	Amounts Written Off €m
Residential Mortgages	663	260	49	440	326	44
Consumer	235	95	147	263	143	202
Property & Construction	2,936	921	166	2,286	1,353	201
Business & Other Services	859	270	138	715	385	98
Manufacturing	235	88	52	194	87	141
Distribution	354	114	57	289	126	40
Agriculture	61	21	5	44	17	8
Energy	23	15	1	8	-	-
Total	**5,366**	**1,784**	**615**	**4,239**	**2,437**	**734**

Table 4.16 shows the Group's provisions on loans and advances to customers split between specific and IBNR provisions on a geographic basis. The geographic locations shown are based on the location of the business unit where the exposure is booked. It is based on financial statement information.

Table 4.16 – Provisions by Geography

Geographic Breakdown	31 December 2011		31 December 2010	
	Specific Provisions €m	IBNR Provisions €m	Specific Provisions €m	IBNR Provisions €m
Ireland	3,963	752	3,015	535
United Kingdom & Other	1,403	247	1,224	276
Total	**5,366**	**999**	**4,239**	**811**

Provisions by Provision Type

Table 4.17 shows the Group's provisions against loans and advances to customers split between specific and IBNR provisions. It is based on financial statement information.

Table 4.17 – Provision by Provision Type

	31 December 2011		31 December 2010	
	Total Balance Sheet Provisions €m	**Provision Charges €m**	**Total Balance Sheet Provisions €m**	**Provision Charges €m**
Total Specific Provisions	5,366	1,784	4,239	2,437
Total IBNR Provisions	999	199	811	(321)
Total Group Provisions	**6,365**	**1,983**	**5,050**	**2,116**

Provisioning Charges during the Year

Table 4.18 below shows the movement in the provision on loans and advances to customers during the year ended 31 December 2011. It is based on financial statement information.

Table 4.18 – Provisioning Charges during the Year

	31 December 2011	31 December 2010
Reconciliation	**Provisions €m**	**Provisions €m**
Opening Balance	5,050	5,775
Amount charged during the year	1,983	2,116
Amounts written off, reversed, set aside and other adjustments	(668)	(2,841)
Of which recoveries recorded directly to income statement	*7*	*5*
Closing Balance	**6,365**	**5,050**

Credit Risk Mitigation

The Credit Risk section commencing on page 64 of the Group's Annual Report 31 December 2011 contains information relating to:

- on and off-balance sheet netting;
- the policies and processes for collateral valuation and management;
- a description of the main types of collateral taken by the Group;
- market or credit risk concentrations within the credit risk mitigation taken; and
- the use of credit derivatives.

Collateral used to mitigate risk, both for mortgage and other lending is diversified.

The main types of guarantors are corporates, individuals, financial institutions and sovereigns. Their credit-worthiness is assessed on a case-by-case basis.

Credit Risk Mitigation for Regulatory Capital Requirements Calculation

Tables 4.19 and 4.20 show the volume of exposures against which collateral and guarantees, which have been used in the calculation of the Group's capital requirements, are held. The focus of these tables is narrow, being limited to certain specific types of collateral and guarantees which meet CRD definitions. These tables are not reflective of the volume of exposures against which collateral and guarantees are actually held across the Group, nor do they reflect the range of credit risk mitigation taken. The increase in the volume of Foundation IRB exposures secured by collateral follows a CRM initiative incorporating a review and revaluation of property collateral. The information in tables 4.19 and 4.20 is based on EAD (after the application of netting and volatility adjustments).

Table 4.19 – Credit Risk Mitigation : IRB Approach

	31 December 2011				31 December 2010			
IRB Exposure Class	Covered by Eligible Financial Collateral (EAD) €m	Covered by Other Eligible Collateral (EAD) €m	Covered by Guarantees / Credit Derivatives (EAD) €m	Total (EAD) €m	Covered by Eligible Financial Collateral (EAD) €m	Covered by Other Eligible Collateral (EAD) €m	Covered by Guarantees / Credit Derivatives (EAD) €m	Total (EAD) €m
Institutions	81	20	-	101	1	11	-	12
Corporates	42	10,257	-	10,299	47	10,215	-	10,262
Total	**123**	**10,277**	**-**	**10,400**	**48**	**10,226**	**-**	**10,274**

Table 4.20 – Credit Risk Mitigation : Standardised Approach

	31 December 2011	31 December 2010
	Total Exposure after netting covered by Guarantees / Credit Derivatives (EAD) €m	Total Exposure after netting covered by Guarantees / Credit Derivatives (EAD) €m
Corporates	5,109	5,114
Retail	-	-
Past due items	-	-
Total	**5,109**	**5,114**

Corporates in Table 4.20 mainly represents senior NAMA bonds obtained by the Group in return for the transfer of assets to NAMA. Senior NAMA bonds are guaranteed by the Irish government. These exposures are categorised as Central governments in the credit risk tables in this document.

For Retail IRB exposures the effect of credit risk mitigation, principally the collateral taken to secure loans, is taken into account in the development of the Group's Loss Given Default (LGD) models, which in turn are used in the calculation of the Group's regulatory capital requirements. As a result, the tables above do not include Retail IRB exposures.

Comparison of Expected versus Actual Loss

Tables 4.21 and 4.22 are based on a comparison of regulatory Expected Loss (EL) of the performing loan portfolio as at 31 December 2010 with actual loss (specific provision charge incurred) in the year ended 31 December 2011.

The EL underlying parameters PD, LGD and EAD represent through the cycle estimations, i.e. they reflect and estimate the average outcomes for an entire economic cycle. To meaningfully validate EL, these estimates would need to be compared to all realised losses which may have materialised after all the assets have gone through their life cycle. However, such information cannot be provided and disclosed since life cycles could last for a significant number of years. Using actual accounting loss information does not provide a suitable alternative, because – unlike EL estimates – accounting loss information is measured at point in time.

The following tables should therefore be read bearing in mind these significant limitations.

Table 4.21 – Expected versus Actual Loss : Foundation IRB Approach

IRB Exposure Class	Expected Loss calculated on 31 December 2010 €m	Specific Provision Charge to 31 December 2011 €m	Expected Loss calculated on 31 December 2009 €m	Specific Provision Charge to 31 December 2010 €m
Institutions	10	20	5	98
Corporates	370	884	441	1,309
Securitisation Positions	-	-	-	-
Total	**380**	**904**	**446**	**1,407**

Table 4.22 – Expected versus Actual Loss : IRB Retail Approach

Retail IRB Exposure Class		Expected Loss calculated on 31 December 2010 €m	Specific Provision Charge to 31 December 2011 €m	Expected Loss calculated on 31 December 2009 €m	Specific Provision Charge to 31 December 2010 €m
	Retail exposures secured by real estate collateral	150	260	144	326
	Qualifying revolving and other retail	124	126	120	181
Total		**274**	**386**	**264**	**507**

Under the Foundation IRB approach, rating agency ratings rather than EL are used to calculate the capital requirements for securitisation positions. Therefore the Group does not calculate EL for securitisation positions.

5. Counterparty Credit Risk

Details on how counterparty credit risk is managed are outlined on page 62 of the Group's Annual Report 31 December 2011.

Limits, policies and collateral

Counterparty credit limits are based primarily on the counterparty credit rating but also taking into account historic limit usage and requirements from the business. The capital calculation uses PDs assigned to counterparties based on their ratings and the PDs are then used to calculate EL and RWA.

Policies are in place for securing collateral and establishing credit reserves. Legal agreements giving effect to collateral arrangements (ISDA, GMRA and CSA) are negotiated and put in place with interbank and other wholesale financial counterparties. Based on these agreements, collateral calls are agreed with the counterparty. In the vast majority of cases collateral is cash and the agreed amount is either transferred by the counterparty to the Group or paid by the Group to the counterparty. At 31 December 2011 in excess of 98% of the Group's derivative interbank counterparty credit risk is collateralised.

When Credit Support Annexes (CSAs) are signed, a threshold amount is agreed, below which collateral will not be exchanged. This effectively limits the Group's counterparty exposure to the amount of the threshold (plus a buffer to allow for movements in market rates between collateral calls). Thresholds are generally quite low with virtually all being nil. There is scope in some agreements to reduce the threshold if a bank's rating falls, which has the impact of reducing exposure.

The Group recognises the potential for "wrong-way" exposure in derivatives re-writing risk. This occurs where the potential market-driven exposure on the contract is likely to be positively correlated with the counterparty because both are linked to a common factor such as a commodity price or an exchange rate. Most corporate interest rate hedging is potentially wrong-way exposure because, in a cyclical downturn, swap rates decline while defaults go up. This risk is inherent in providing risk management services to corporate clients. At a specific level, the Group allows for the potential impact of wrong-way exposure qualitatively in assessing individual credits.

Regulatory Disclosure

As at 31 December 2011, the maximum impact of a two notch downgrade by either S&P or Moody's on the Group's CSAs covering its interbank derivative positions, is that legally the Group could not be asked to post additional collateral in respect of its existing trades as in all relevant cases the threshold is already zero (€25 million as at 31 December 2010). However it is possible that the Group could be asked to post additional amounts in order to obtain credit limits to enter into new trades.

The measure for exposure value used for counterparty credit risk exposures is the Mark-to-Market method.

Counterparty Credit Exposure

The tables below reflect the Group's counterparty credit exposures, including the impact of netting. Current credit exposures consist of the replacement cost of contracts together with potential future credit exposure.

Table 5.1 – Contract Values

	Balance as at 31 December 2011 €m	Balance as at 31 December 2010 €m
Gross Positive Fair Value of Contracts	6,375	6,494
Potential Future Credit Exposure	2,435	3,114
Total Current Credit Exposure	8,810	9,608
Netting Benefits	(5,246)	(5,625)
Netted Current Credit Exposures	3,564	3,983
Collateral Held	-	-
Net Derivative Credit Exposure	**3,564**	**3,983**

Table 5.2 – Current Credit Exposure

	Current Credit Exposure as at 31 December 2011 €m	Current Credit Exposure as at 31 December 2010 €m
Interest Rate	1,380	1,218
FX	55	113
Equity	98	48
Netted agreements Credit Exposure	2,021	2,591
Credit Derivatives	-	-
Commodity Contracts	10	13
Total	**3,564**	**3,983**

Capital requirements for counterparty credit risk are reflected as exposures to both Institutions and Corporates.

6. Equity Holdings not in the Trading Book

The CRD permits non-disclosure where the information to be provided is not regarded as material. Information is deemed to be material under the CRD if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purposes of making an economic decision.

The Group's total exposure to non-trading book equities had a balance sheet value at 31 December 2011 of €53 million (€76 million at 31 December 2010). The Group considers its exposure to non-trading book equities not to be material within the context of the CRD's definition of materiality and the Group will not be disclosing further quantitative information required to be disclosed with respect to non-trading book equity holdings.

As Bank of Ireland Life is not a credit institution for the purposes of the CRD, its equity holdings (which are held on behalf of policy holders) fall outside the scope of the Group's Pillar 3 disclosures.

Nature and Objectives of the Group's non-Trading Book Equity Holdings

The Group's non-trading book equity holdings primarily constitute direct equity fund investments and equity co-investments, and investments in venture capital funds. The investments are undertaken to achieve strategic objectives and support venture capital transactions.

Investment in new funds or increases in commitments to existing funds are subject to the approval of the Private Equity Governance Committee which is a GRPC appointed committee.

Accounting Treatment & Valuation

Direct private equity fund investments and equity co-investments are accounted for in the same manner – i.e. both are treated as Available for sale (AFS) assets on the Group's Balance Sheet. Given the absence of an active market or a reliable measure of fair value, they are held at cost.

An impairment charge is recognised when the Group believes the expected future cashflows from the asset will no longer support the carrying amount on the Balance Sheet. Impairment on equity instruments cannot be reversed and as such this permanent diminution in value cannot be reversed in the income statement unless an actual recovery has occurred.

The Group's venture capital investments are accounted for as Investments in Associates and are measured at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss in the period of the change.

CRD Treatment

The Group's non-trading book equities are treated under the Standardised approach for credit risk exposures.

7. Securitisation

The Group has acted as originator with respect to a number of securitisations. The purpose of these securitisations is to diversify the sources of funding for the Group and to increase the proportion of funding that is long-term, as well as to achieve capital improvements. Information on the exposures securitised under these transactions is provided in the tables below.

The Group also has purchased positions in securitised transactions. These positions have been purchased in transactions where the individual notes were highly rated and benefited from strong credit enhancement provided by lower ranking notes. The purchased positions cover a broad range of asset classes including CMBS, RMBS, consumer loans, auto loans, trade receivables and equipment leases.

In addition, the Group has transacted a number of internal securitisations for funding purposes. These do not qualify for derecognition under Pillar 1 and the exposures securitised under them are included in the credit risk tables in Section 4. These securitisations are outside the scope of this section.

The Group has not acted as sponsor in any securitisation transactions.

Calculation of Risk Weighted Exposure Amounts

Certain securitisations originated by the Group, where the bonds issued by the securitisation vehicle have been sold to third party investors, qualify for derecognition under Pillar 1. The Group has retained positions in these securitisations and the KIRB value of these 'first loss' positions is deducted from capital (50% from Tier 1 and 50% from Tier 2).

The risk weighted exposure amounts for the Group's purchased positions are calculated using the IRB ratings based approach. The Group's purchased positions are held in the Banking Book.

A supervisory deduction is taken for purchased positions which otherwise would have attracted a 1250% risk weight under the Ratings Based Approach.

Accounting Policies for Securitisation Activities

All financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction, unless:

- the rights to the cash flows have expired or have been transferred;
- substantially all the risks and rewards associated with the financial instruments have been transferred outside the Group, in which case the assets are derecognised in full; or
- a significant portion, but not all, of the risks and rewards have been transferred outside the Group. The asset is derecognised entirely if the transferee has the ability to sell the financial asset, otherwise the asset continues to be recognised only to the extent of the Group's continuing involvement.

Where any of the above conditions applies to a fully proportionate share of all or specifically identified cashflows, the relevant accounting treatment is applied to that proportion of the asset.

While originated mortgage backed securitisations where the bonds issued by the securitisation vehicles have been sold to third party investors have been derecognised for Pillar 1 purposes, they have not been derecognised for accounting purposes. The exposures securitised under these securitisations are therefore treated as credit risk exposures under IFRS 7.

The Group's purchased positions are classified as both available for sale and loans and receivables from an accounting perspective.

Use of External Credit Assessment Institutions

For the purpose of the RWA calculation, ECAIs are used for the Group's purchased securitisation positions. The following ECAIs are used: Fitch Ratings, Moody's Investors Service and Standard & Poor's. These are used for all exposure types, though the securitisations may not have been rated by all three agencies.

Total Outstanding Amount of Exposures Securitised

Table 7.1 below is based on financial statement information and shows the total outstanding amount of exposures securitised by the Group in its role as originator.

Table 7.1 – Outstanding Amount of Exposures Securitised		
Exposure Type	**Traditional Outstanding Exposures 31 December 2011 €m**	**Traditional Outstanding Exposures 31 December 2010 €m**
Residential Mortgages	**4,123**	**4,421**

Losses Recognised, Past Due and Impaired Securitised Exposures

Table 7.2 below is based on financial statement information and again relates to securitisations originated by the Group. Pillar 1 is concerned with exposures that are greater than 90 days past due, the table below, however, interprets past due in accordance with the relevant accounting standards as one cent, one day past due.

Table 7.2 – Losses Recognised, Past Due and Impaired Securities Exposures						
Exposure Type	**Past Due Exposures 31 Dec 2011 €m**	**Impaired Exposures 31 Dec 2011 €m**	**Losses Recognised 31 Dec 2011 €m**	**Past Due Exposures 31 Dec 2010 €m**	**Impaired Exposures 31 Dec 2010 €m**	**Losses Recognised 31 Dec 2010 €m**
Residential Mortgages	192	36	1	170	31	1

Summary of Securitisation Activity

There have been no new securitisations originated by the Group which qualify for derecognition under Pillar 1 in the year ended 31 December 2011.

Securitisation Positions Retained and Purchased

Retained positions refer to positions retained by the Group with respect to the securitisations originated by the Group. Purchased positions are positions purchased by the Group in external securitisations.

Securitisation Positions Retained and Purchased by Exposure Type

Table 7.3 – Retained and Purchased Securitised Positions by Exposure Type

Exposure Type	Retained or Purchased 31 December 2011 (EAD) €m	Retained or Purchased 31 December 2010 (EAD) €m
Residential Mortgages	387	471
Commercial Mortgages	546	559
Credit Card Receivables	-	-
Leasing	-	-
Loans to Corporates or SMEs	209	200
Consumer Loans	83	85
Trade Receivables	-	10
Other Assets	32	81
Total	**1,257**	**1,406**

Securitisation Positions Retained and Purchased by Risk Weight

Table 7.4 – Retained and Purchased Securitised Positions by Risk Weight

Risk Weight Band	Retained or Purchased 31 December 2011 (EAD) €m	Retained or Purchased 31 December 2010 (EAD) €m
10%	361	483
18%	24	59
35%	475	479
75%	137	117
100%	29	29
250%	36	27
425%	25	31
650%	-	-
1250%	-	20
Deducted	170	161
Total	**1,257**	**1,406**

8. Market Risk

Market Risk

Market risk is the risk of loss arising from movements in interest rates, foreign exchange rates or other market prices. Market risk arises from the structure of the balance sheet, the Group's business mix and discretionary risk taking.

The management of market risk in the Group is governed by the Group's Risk Appetite Statement and by the Statement of High Level Principles, both of which are approved by the Court and a detailed statement of policy approved by the GRPC. Market risk limits and other controls are set by the Asset and Liability Committee (ALCO) which has primary responsibility for the oversight of market risk.

The Group's approach to the measurement, management and control of market risk is set out in pages 111 to 114 of the Group's Annual Report 31 December 2011. This section also outlines the extent to which the Group assumes market risk to generate earnings.

From a regulatory capital perspective the Group's Pillar 1 capital charge is calculated under the Standardised approach for market risk, using the prescribed regulatory calculation methodology. It primarily applies to interest rate risk in the trading book.

Discretionary Risk

BoIGM is the sole Group business permitted to take discretionary market risk on behalf of the Group. The major part of BoIGM's discretionary risk is interest rate risk in euro, sterling and US dollar markets. The Group does not seek to generate a material proportion of its earnings through assuming market risk and it has a low tolerance for earnings volatility arising from this area of risk.

Discretionary risk is taken in both the Trading and Banking Books in BoIGM. Positions are allocated to the Trading Book in line with the criterion of 'intent to trade' as set out in the CRD and are marked to market for financial reporting purposes.

The Group employs a Value at Risk (VaR) approach to measure, and set limits on, discretionary market risk in BoIGM. This applies to both the Trading and Banking Books. The Group measures VaR for a 1 day horizon at the 99% level of statistical confidence. VaR reporting is conducted daily.

For the nature of the risks assumed by the Group, VaR remains a relatively reliable basis of risk measurement. Nonetheless, VaR limits are supplemented by a range of controls that include position limits and loss tolerances. In addition, scenario based stress tests and long run historic simulations, taking in past periods of market stress, are used to assess and manage discretionary market risk.

Customer and Structural Risk

Market risk arises in customer facing business units mainly on the asset side of the balance sheet through fixed rate lending. These books are hedged with maturity matched funding from Bank of Ireland Global Markets (BoIGM). This exposure is, in turn, substantially eliminated by BoIGM through external hedges. In the case of business lines that are subject to prepayment – which is largely confined to UK mortgage lending – these books are hedged net of expected prepayment and assumptions with respect to prepayment are reviewed regularly.

Market risk also arises where variable rate assets and liabilities re-price at different frequencies (monthly, quarterly, semi annually) and where lending re-prices with changes in central bank rates but is funded at short dated market rates. This is termed balance sheet basis risk and this is mainly managed as a structural treasury risk.

The presence of non-interest bearing liabilities on the balance sheet – principally equity and non-interest bearing non-maturity customer deposits – exposes Group earnings to changes in interest rates. This structural risk is mitigated over the cycle by investing these liabilities in a portfolio of fixed rate assets only a proportion of which are re-invested in any given year. The Group applies the same investment convention to all non-interest bearing liabilities, and the average life of the asset book takes account, inter alia, of potential behavioural changes in non-maturity deposits.

Structural risk is measured in terms of basis point sensitivities and scenario analysis and the frequency of reporting is monthly.

9. Operational Risk

Operational risks are present in the Group's business, through inadequate or failed internal processes (including financial reporting and risk monitoring processes), Information Technology (IT) or equipment failures or the failure of external systems and controls including those of the Group's suppliers or counterparties (supplier and counterparty systems, controls and processes) or from people related or external events, including the risk of fraud and other criminal acts carried out against the Group. In the case of legal and contractual risk, this includes the risk of loss due to litigation arising from errors, omissions, and acts by the Group in the conduct of its business.

The Head of Group Operational Risk is a member of the Group Regulatory, Compliance and Operational Risk (GRCOR) senior management team and leads the Group Operational Risk function, which oversees effective implementation of Group operational risk policy. Each business unit has an embedded Operational Risk Officer, responsible within the business unit for ensuring the policy is understood and promulgated, and that the business unit's reporting and certification obligations are met.

Further detail on management of operational risk within the Group is provided in the Regulatory Compliance and Operational Risk section of the Risk Management Report of the Group's Annual Report 31 December 2011 (page 116). Operational Risk loss tolerance is set at Group level by the Group Regulatory, Compliance and Operational Risk Committee (GRCORC) and approved by GRPC. Loss events are reported monthly by all business units, GRCOR provides summary information on overall losses and details on significant loss events to GRCORC. Further detail on risk mitigation and risk reporting is provided in the Operational Risk section on pages 116 to 117 of the Group's Annual Report 31 December 2011.

The Group uses the Standardised approach for the calculation of its capital requirements for operational risk, using the prescribed regulatory calculation methodology.

The strategies and processes by which Operational Risk is managed are set out in the Regulatory and Operational Risk section on pages 116 to 117 of the Group's Annual Report 31 December 2011.

Appendix I

2011 PCAR

On 31 March 2011 the Central Bank announced the results of the 2011 PCAR. The incremental capital requirement arising from the 2011 PCAR together with the capital raised and generated by the Group over the past two years will ensure a sustainable, robust future for Bank of Ireland as a systemically important bank, continuing to support our customers, and contributing to economic growth, thereby benefiting all our stakeholders.

The key highlights of the 2011 PCAR results for the Group are as follows: a requirement to generate incremental equity capital of €4.2 billion including a regulatory buffer of €0.5 billion, leading to a very strongly capitalised Group with a Core tier 1 ratio at 31 December 2011 of 15.1% (14.3% under PCAR / EBA stress test basis).

The equity capital requirement was set to cover:

- the higher target capital ratios set by the Central Bank of a minimum Core tier 1 ratio of 10.5% on an ongoing basis and a Core tier 1 ratio of 6% under the adverse stress scenario;
- a prudent regulatory buffer of €0.5 billion for additional conservatism;
- the adverse stress scenario loan loss estimates based on aggressively conservative assumptions;
- notwithstanding that the land and development loans of the Group where an individual customer or sponsor exposure is less than €20 million at 31 December 2010 were not expected to transfer to NAMA, the 2011 PCAR process was prepared under an assumption that the relevant loans would transfer to NAMA using conservative loss on disposal assumptions; and a conservative estimate of losses arising from deleveraging under an adverse stress scenario. In addition €1.0 billion of Contingent Capital was also required through the issue of a debt instrument which under certain circumstances would convert to equity capital.

European Banking Authority (EBA) stress testing

The European Banking Authority (EBA) was established on 1 January 2011 with a broad remit that includes safeguarding the stability of the EU financial system. The EBA is required, in cooperation with the European Systemic Risk Board (ESRB), to initiate and coordinate EU-wide stress tests to assess the resilience of financial institutions to adverse market developments. Building on experience of two previous EU-wide stress tests undertaken by the EBA's predecessor, the Committee of European Banking Supervisors (CEBS), the EBA is conducted a stress test on a wide sample of banks (including the Group) in the first half of 2011. This exercise was undertaken in coordination with national supervisory authorities, the ESRB, the European Central Bank (ECB) and the European Commission.

The EBA stress test was carried out across 91 banks, covering over 65% of the EU banking system total assets, it sought to assess the resilience of European banks to severe shocks and their specific solvency to hypothetical stress events under certain restrictive conditions.

The methodology applied in the EBA stress test incorporated a number of differences to that applied in the Prudential Capital Assessment Review ('PCAR') which assessed the capital requirements of Irish banks under a base and adverse stress scenario as well as including specific deleveraging objectives for Irish banks in order to reduce their reliance on short term wholesale funding and achieve a loan to deposit ratio of 122.5% by 31 December 2013. The EBA stress test set a 5% Core tier 1 capital requirement in the adverse stress scenario over a two year time frame (2011 to 2012) whereas PCAR applied a 6% Core tier 1 requirement under the adverse stress scenario over a three year timeframe (2011 – 2013). In addition, the EBA methodology also applied a significantly different approach in relation to future changes in the balance sheet, the calculation of loan losses, the application of funding constraints, and the treatment of Sovereign and bank credit losses.

On 15 July 2011 the EBA announced the results of the 2011 stress test. The Group passed the stress test, where under the stress scenario, the Group's Core tier 1 ratio would be 7.1% at 31 December 2012, which is 2.1% or €1.3 billion in excess of the 5% Core tier 1 capital requirement in the adverse stress scenario. The result confirmed the adequacy of the Group capital raising proposals and the ability of the Group to remain above the required minimum capital ratio under the EBA severe adverse stress scenario. Furthermore, the proposed €1 billion of Contingent Capital would, if required, add a further 1.6% to the Group's Core tier 1 ratio, bringing it up to 8.7% under the EBA adverse stress scenario at 31 December 2012.

On 8 December 2011 the EBA announced the results of its capital exercise incorporating a capital buffer against sovereign debt exposures. Bank of Ireland passed the capital exercise with a Core tier 1 ratio of 12.9% which was 3.9% or €2.7 billion in excess of the 9% Core tier 1 requirement set by the EBA.

Appendix II

Core tier 1 capital

Core tier 1 capital comprises total accounting equity per the Group's consolidated balance sheet as adjusted for prudential filters, regulatory adjustments and instruments that do not meet the criteria for inclusion in Core tier 1 capital. These components, as set out in Table 2.3, are outlined below:

Total equity

Total equity represents accounting Equity and comprises Capital stock (including related share premium), Retained earnings, Foreign exchange reserve, Available for sale reserve, Cash flow hedging reserve, Capital contribution and Other reserves. A consolidated statement of changes in these reserves is outlined on pages 177 to 179 of the Group's Annual Report 31 December 2011. Total equity includes preference stock, primarily the balance on the 2009 Preference Stock invested by the Irish government, of which there is €1.8 billion outstanding at 31 December 2011.

Available for sale reserve and Cashflow hedge reserve adjustment

While the Available for sale (AFS) and Cash flow hedge reserves are included in accounting equity they are removed from the regulatory capital base through the application of a prudential filter as fair value gains and losses are required to be eliminated. The AFS reserve is negative at 31 December 2011 hence the filter results in an add back to Total equity. The Cash flow reserve is positive at 31 December 2011 hence the filter results in a deduction from Total equity.

Retirement benefit obligations adjustment

A prudential filter is applied in relation to the Group's defined benefit pension schemes resulting in a reversal of the accounting deficits and an add back to Total equity. The prudential filter requires that any surpluses arising under IFRS in the defined benefit pension scheme should be reversed for capital adequacy purposes, as they cannot give rise to a future cash inflow.

Pension supplementary contributions deduction

Under local supervisory rules credit institutions are required to deduct three years supplementary contributions from capital. As a result, the accounting deficit, which is reversed from capital as outlined above, is replaced with an amount required over a three year period towards the elimination of a pension deficit.

Other intangible assets and goodwill

Goodwill and Intangible assets are taken as a deduction in line with CRD requirements. The deduction is made at the level of Core tier 1.

Own credit spread adjustment (net of tax)

Under CRD rules credit institutions shall not include in own funds gains recognised on their liabilities accounted for at fair value that are attributable to changes in the credit institutions' own credit standing. Cumulative post tax gains recognised in revenue reserves are reversed for regulatory capital purposes.

Dividend expected on 2009 Preference Stock

The coupon on the 2009 Preference Stock is reflected in accounting equity when paid in line with accounting standards. For regulatory purposes the coupon is accrued if expected to be paid.

Capital contribution on Contingent Capital

A capital contribution reserve was created in July 2011 following the issuance of the €1 billion Contingent capital note to the State. A national prudential filter is applied by the Central Bank to remove this reserve from regulatory capital. This Tier 2 classified note would convert into Bank of Ireland ordinary stock on a breach of the Core tier 1 or Common Equity tier 1 trigger ratio of 8.25% or on a 'Non-Viability event' as determined by the Central Bank.

Core tier 1 capital (PCAR / EBA stress test basis)

Core tier 1 (PCAR / EBA stress test basis) is calculated in line with methodology used for the 2011 PCAR and EBA stress test. As stated in the Financial Measures Programme 'The Central Bank applied capital requirement rules and a definition of Core tier 1 capital as prescribed by the Capital Requirements Directive, which is the prevailing regulatory standard in the EU. To increase conservatism, the Central Bank has included all supervisory deductions, including 50:50 deductions'. The supervisory (50:50) deductions for the Group are as follows;

a) Expected loss deduction

The shortfall of accounting provisions on the Group's IRB portfolios to the expected loss calculated for these portfolios (LGD x PD x EAD) is taken as a supervisory deduction.

b) Securitisation deduction

The Group has retained first loss tranches in certain externally originated securitisation transactions. The KIRB value of these portfolios is taken as a supervisory deduction.

Separately a supervisory deduction is taken for purchased positions which otherwise would have attracted a 1250% risk weight under the Ratings Based Approach.

c) Deduction for unconsolidated investments

Holdings in other credit and financial institutions amounting to more than 10% of their capital is deducted from regulatory own funds. This deduction primarily applies to investments in Group entities that are not consolidated for regulatory purposes.

Total tier 1 capital

Total tier 1 capital is Core tier 1 capital as adjusted for the supervisory deductions and the inclusion of certain hybrid instruments that do not qualify as Core tier 1 capital.

Tier 1 hybrid debt

Hybrid instruments are subordinated securities with some equity like features but that can not be included as core tier 1 capital. Such securities do not generally carry voting rights and rank higher than ordinary shares for coupon payments in the event of a winding-up. These include securities that may be called and redeemed by the issuer, subject to the prior approval of the Central Bank.

Tier 2 capital

Tier 2 capital comprises certain qualifying subordinated liabilities, IBNR provisions against standardised portfolios, supervisory deductions (as outlined above) and other regulatory deductions.

Tier 2 undated debt

Undated subordinated loan capital that does not have a stated maturity date but may be called and redeemed by the issuer, subject to the prior approval of the Central Bank.

Tier 2 dated debt

Dated subordinated loan capital is repayable at par on maturity and has an original maturity of at least five years. Some subordinated loan capital may be called and redeemed by the issuer, subject to the prior approval of the Central Bank. For regulatory purposes, it is a requirement that Lower tier 2 securities be amortised on a straight-line basis in their final five years of maturity thus reducing the amount of capital that is recognised for regulatory purposes.

Total capital

Total capital comprises Total tier 1 and Tier 2 capital as outlined above as adjusted for a supervisory deduction in relation to participations that the Group has in insurance undertakings. The Group's deduction represents 90% of the equity of Bank of Ireland Life.

Appendix III

Tables 1 and 2 show the capital resources and risk weighted assets of the Group's subsidiary, Bank of Ireland UK plc, which is fully consolidated. For local capital adequacy reporting (FSA) RWA in Bank of Ireland (UK) plc is calculated under the Standardised approach.

Table 1 – Capital Resources and Risk Weighted Assets

Capital base	Bank of Ireland (UK) plc 31 December 2011 €m	Bank of Ireland (UK) plc 31 December 2010 €m
Ordinary share capital, capital contribution and reserves	1,257	1,042
Available for sale reserve	1	-
Core tier 1 capital	**1,258**	1,042
Non-cumulative callable preference shares	359	348
Total tier 1 capital	**1,617**	**1,390**
Dated loan capital	626	607
IBNR provisions	102	94
Total tier 2	**728**	**701**
Total tier 1 and tier 2 capital before deductions	**2,345**	**2,091**
Regulatory Deductions	(123)	(101)
Total capital	**2,222**	**1,990**
Credit Risk	11,493	11,721
Operational Risk	734	799
Market Risk	-	1
Total risk weighted assets	**12,227**	**12,521**
Total capital ratio	**18.17%**	**15.90%**

Table 2 – Breakdown of Credit Risk Weighted Assets

	Bank of Ireland (UK) plc 31 December 2011 €m	Bank of Ireland (UK) plc 31 December 2010 €m
Institutions	2	68
Corporates	4,723	5,423
Retail - Secured on real estate property	4,082	3,859
Retail - Other	342	363
Past due items	2,137	1,775
Short Term Claims on institutions and corporates	197	198
Other Items	10	35
Total	**11,493**	**11,721**

Appendix IV

Remuneration at Bank of Ireland

This section of the Group's Pillar 3 document should be read in conjunction with the Group's Annual Report for the year ended 31 December 2011, in particular the Remuneration Report on pages 157 to 169 Copies of the Group's Annual Report 31 December 2011 can be obtained from our website www.bankofireland.com.

This section summarises remuneration for Code Staff in respect of 2011 and provides brief information on the decision-making policies for remuneration and the links between pay and performance. These disclosures reflect the requirements set out in the European Banking Authority Remuneration Guidelines which came into effect from 1 January 2011.

Decision-making process for remuneration policy

The Group Remuneration Committee (GRC) holds delegated responsibility from the Court of Directors for the oversight of Group-wide Remuneration Policy with specific reference to the Governor, Directors and senior management across the Group, and those employees whose activities have a material impact on the Group's risk profile.

Terms of reference for the GRC, and details on its composition are available at http://www.bankofireland.com/about-boi-group/corporate-governance/court-committees/.

During 2011 the GRC received independent remuneration advice from a number of external advisors on a range of issues relating to remuneration.

Code staff

The Group completed a rigorous process through which, over the course of 2011, an aggregate of 121 employees were identified as Code Staff on the basis that their professional activities were deemed to have a material impact on the Group's risk profile. As at 31 December 2011 there were 116 Code Staff.

Remuneration restrictions

The Group is currently operating under a number of remuneration restrictions which cover all Directors, Senior Executives, Employees and Service Providers across the Group. These restrictions were contained within the 'Subscription Agreement' with the Irish Government (March 2009) and subsequently in the Minister's Letter, under which the Group gave a number of commitments and undertakings to the Minister for Finance in respect of remuneration practices. The Minister's Letter was a condition of the Transaction Agreement with the Irish Government (July 2011) which was part of the 2011 Recapitalisation of the Bank.

The Group is in compliance with the remuneration restrictions contained within both of these documents.

Link between pay and performance

Individual performance measures and targets are agreed for each employee using a Balanced Scorecard approach through the Group performance management process. One of the Key Result Areas as captured in the balanced scorecard covers all aspects of credit, regulatory, operational and other risks as well as compliance with internal procedures. Information on Performance Management in the Group (including our Balanced Scorecard) is available in the Group Remuneration Report.

Group Remuneration Strategy

The Group's Remuneration Strategy aims to support the Group's objectives of long term sustainability and success, sound and responsible risk management and good corporate governance. The application of this strategy is done in consideration of and in alignment with the Group's Risk Strategy and Appetite Statement.

In addition the strategy seeks to ensure that:

- our efforts are aligned with and contribute to the long term sustainability, value creation and success of the Group;
- as far as possible, we have the necessary platform to attract, retain and motivate high calibre employees;
- as far as possible, we offer a competitive remuneration package across all markets, in a cost effective manner;

- remuneration practices are simple, transparent, easy to understand and implement;
- sound and effective risk management is reflected in performance management and remuneration structures and their alignment to performance targets and governance structures;
- remuneration is applied in consideration of and in alignment with the Group's Risk Strategy and Appetite Statement and overall risk governance framework;
- risk adjusted financial performance is an important measure when evaluating performance;
- business and individual performance measures and targets are aligned with business objectives at either a Group or local business level, ensuring alignment with business strategy, risk measures and priorities and is based on a balanced scorecard approach;
- all remuneration practices are subject to appropriate governance; and
- we are compliant with all applicable regulatory remuneration requirements as they relate to the Group.

Remuneration Expenditure

The following tables show the remuneration awards made by the Group to Code Staff in 2011.

Table 1 – Aggregate 2011 Remuneration Expenditure by Business Area

	Corporate & Treasury	Group Non-Core	Credit & Market Risk	Governor & NEDS	Group Support Functions – CEO, Finance, HR	Group Governance Risk	Group Manufacturing	Retail ROI & UK	Grand Total
Number of Code Staff	20	4	12	15	13	5	8	44	121
2011 Remuneration Expenditure €m	6.76	1.59	2.70	1.56	4.00	1.28	1.97	9.20	29.06

Includes Fees, Salaries and variable payments (including any deferred elements) made in 2011 and other cash benefits payable e.g. car allowance.

Table 2 – Analysis of 2011 Remuneration between Fixed and Variable Amounts (actually paid in 2011)

	Governor & NEDS	Group Executive Committee	Key Control Function Roles	Key Front Line Roles	Other Key Roles with Impact on Risk	Grand Total
Number of Code Staff	15	8	27	63	8	121
Fixed (cash based)	- Fixed payments 2010 include fees, salaries, car allowances and other payments					
Fixed (cash based) €m	1.56	4.44	5.26	14.21	1.81	27.28
Total Fixed €m	**1.56**	**4.44**	**5.26**	**14.21**	**1.81**	**27.28**
Variable	- Variable payments 2010 include guaranteed bonus / contractual guarantees, cash LTIPs / deferred bonuses, retention payments and commissions.					
Non-Deferred Cash €m	-	-	-	0.07	-	0.07
Deferred Cash €m	-		0.30	1.41	-	1.71
Total Variable €m	**-**	**-**	**0.30**	**1.48**	**-**	**1.78**
Variable Recipients	-	-	3	10	-	13
Fixed & Variable €m	**1.56**	**4.44**	**5.56**	**15.69**	**1.81**	**29.06**

Non Deferred cash payments referenced in Table 2 above refers to cash awards made and paid in 2011.

Deferred cash payments referenced in Table 2 above refer to those payments awarded prior to 2011 and paid in 2011

Table 1 – Aggregate 2010 Remuneration Expenditure by Business Area								
	Capital Markets	**Credit & Market Risk**	**Governor & NEDS**	**Group Support Functions – CEO, Finance, HR**	**Group Governance Risk**	**Group Manufacturing**	**Retail ROI & UK**	**Grand Total**
Number of Code Staff	20	14	15	11	7	7	42	116
2010 Remuneration Expenditure €m	8.99	2.90	1.55	3.64	1.51	1.69	9.76	30.04

Includes Fees, Salaries and variable payments (including any deferred elements) made in 2010 and other cash benefits payable e.g. car allowance.

Table 2 – Analysis of 2010 Remuneration between Fixed and Variable Amounts (actually paid in 2010)						
	Governor & NEDS	**Group Executive Committee**	**Key Control Function Roles**	**Key Front Line Roles**	**Other Key Roles with Impact on Risk**	**Grand Total**
Number of Code Staff	15	8	24	61	8	116
Fixed (cash based)	- Fixed payments 2010 include fees, salaries, car allowances and other payments					
Fixed (cash based) €m	1.55	4.22	4.64	11.88	1.73	24.02
Total Fixed €m	**1.55**	**4.22**	**4.64**	**11.88**	**1.73**	**24.02**
Variable	- Variable payments 2010 include guaranteed bonus / contractual guarantees, cash LTIPs / deferred bonuses, retention payments and commissions.					
Non-Deferred Cash €m	-	-	0.03	1.88	-	1.91
Deferred Cash €m	-	-	0.47	3.64	-	4.11
Total Variable €m	**-**	**-**	**0.50**	**5.52**	**-**	**6.02**
Variable Recipients	-	-	5	20	-	25
Fixed & Variable €m	**1.55**	**4.22**	**5.14**	**17.40**	**1.73**	**30.04**

Non Deferred cash payments referenced in Table 2 above refers to cash awards made and paid in 2010.
Deferred cash payments referenced in Table 2 above refer to those payments awarded prior to 2010 and paid in 2010.

2011 New sign-on and severance payments

- No new hire (Code Staff) received a sign-on payment during the relevant year, 2011, relating to their commencement of employment.
- No severance payments were made during the relevant year, 2011, to this population.

Glossary

Advanced IRB	Advanced Internal Ratings Based approach. The approach which allows banks to calculate their capital requirement for credit risk for their retail and wholesale portfolios using their own internally generated estimates of PD, LGD and CCF. These variables are then fed into a standard formula to produce the capital requirement for the asset. Referred to as retail IRB in this document.
Banking Book	The Banking Book consists of all banking assets, liabilities and derivatives other than those held with trading intent and booked on this basis in the Trading Book.
Basel II	The New Capital Adequacy Framework issued in June 2004 by the Basel Committee, and implemented into EU law by Directive 2006/48/EC and Directive 2006/49/EC.
Capital Requirements Directive (CRD)	Directive 2006/48/EC of the European Parliament and the Council of 14 June 2006 together, relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions.
Central Bank	The Central Bank of Ireland.
Collateral	Property or assets made available by a borrower as security against a loan. Under a collateralisation arrangement, a party who has an obligation to another party posts collateral (typically consisting of cash or securities) to secure the obligation. In the event that the counterparty defaults on the obligation, the secured party may seize the collateral.
Credit Conversion Factor (CCF)	An estimate of the proportion of undrawn commitments expected to be drawn down at the point of default. The CCF is expressed as a percentage and is used in the calculation of exposure at default (EAD).
Credit Risk Standardised Approach	A method for calculating risk capital requirements using ECAI ratings (where available) and supervisory risk weights.
Credit Risk Mitigation	A technique to reduce the credit risk associated with an exposure by the application of credit risk mitigants such as collateral, guarantees and credit protection.
CSA	Credit Support Annex. This is an annex to an ISDA agreement which allows the exchange of collateral (usually cash) based on Mark to Market movements on derivative contracts between counterparties.
Derecognition	The removal of a previously recognised financial asset or financial liability from an entity's balance sheet.
EBA	The European Banking Authority, formerly CEBS (the Committee of European Banking Supervisors).
Expected Loss (EL)	A regulatory calculation of the amount expected to be lost on an exposure using a twelve month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).
Export Credit Agency (ECA)	An Export Credit Agency is an agency in a creditor country that provides insurance, guarantees, or loans for the export of goods and services. The CRD limits the use of ECA credit assessments to exposures to central governments and central banks. Therefore, credit institutions are allowed to use ECA credit assessments to calculate the risk weight of their exposures to central governments and central banks, in addition to ECAIs' credit assessments for other types of exposures.
External Credit Assessment Institution (ECAI)	An eligible External Credit Assessment Institution (ECAI) is an entity, other than an Export Credit Agency, that issues external credit assessments, and that has been determined by the competent authorities to meet the eligibility requirements set out in the Capital Requirements Directive. The credit assessment provided by the ECAI is used to provide a basis for capital requirement calculations in the Standardised approach for securitisation positions.
Exposure at Default (EAD)	The value of the bank's exposure at the moment of the borrower's default. EAD can be different from the initial exposure of the bank, it can be less than the full face value because, for example, a part of the loan commitment has not been drawn, special collateral is present, or some derivative operation has been undertaken.
Exposure Weighted	Average risk weighting of exposures. Calculating the exposure weighted average risk weight involves

Average Risk Weight	multiplying the exposure values by the relevant risk weight, summing the answers and dividing by the total exposure values.
Exposure Weighted Average LGD	Calculating the exposure weighted average LGD involves multiplying the exposure values by the relevant LGD, summing the answers and dividing by the total exposure values.
Foundation IRB	The approach where institutions use their own estimates of PD to calculate risk weights for each exposure. Supervisory estimates of LGDs and EADs are used.
GMRA	Global Master Repurchase Agreements, are standard industry agreements that permit the netting and the collateralisation of repo type transactions.
IBNR	Incurred but not reported.
IFRS	International Financial Reporting Standards.
IRB Exposure Classes	• *Institutions:* Exposures to Financial Institutions authorised and supervised by the competent authorities and subject to prudential requirements. Includes exposure to Covered Bonds. • *Corporates:* The CRD does not provide a definition of the corporate exposure class; it simply provides that any exposure not falling into any of the other exposure classes will be allocated to the corporate exposure class. • *Exposures secured by real estate collateral:* Residential mortgages. • *Qualifying revolving:* The exposures (to individuals) are revolving, unsecured, and to the extent they are not retail exposures drawn immediately and unconditionally, cancellable by the credit institution. • *Securitisation positions:* Exposures belonging to a pool - as defined below under securitisation.
ISDA	ISDA is the International Swaps and Derivatives Association. ISDA Agreements are standard industry agreements issued by ISDA which permit the netting of derivative transactions.
Internal Ratings Based Approach (IRB)	Approach to credit risk under which a bank may use internal estimates to generate risk components for use in the calculation of their credit risk regulatory capital requirements. There are two approaches: Foundation and Advanced (including Retail).
KIRB	8% of the risk-weighted exposure amounts that would be calculated under Articles 84 to 89 of the CRD in respect of the securitised exposures, had they not been securitised, plus the amount of expected loss associated with those exposures as calculated under those articles.
Loss Given Default (LGD)	The likely financial loss associated with the 'default', net of collections / recovery costs and realised security.
Mark to Market (MTM)	The act of recording the price or value of a security, portfolio or account to reflect its current market value rather than its book value.
Market Risk Standardised Approach	The Standardised approach to the determination of Pillar 1 capital for market risk in the Trading Book involves estimating a minimum required capital charge based on the difference in the re-pricing periods for assets, liabilities and derivatives (treated as equivalent on-balance sheet assets and liabilities). In addition, depending on the nature of the positions, it also provides for a specific risk charge. The total minimum capital charge is converted to a risk weighted asset equivalent for the Trading Book which is summed with other risk weighted assets in determining overall regulatory capital ratios.
Monetary Authorities	The European Central Bank, the Central Bank of Ireland, the Bank of England, the Financial Services Authority and the US Federal Reserve.
NAMA	The National Asset Management Agency and, where the context permits, other members of NAMA's group including subsidiaries and associated companies.

National Pensions Reserve Fund Commission (NPRFC)

The NPRFC controls and manages the National Pensions Reserve Fund ("the Fund"). The Fund was established in April 2001 with the stated objective of meeting as much as possible of the costs of Ireland's social welfare and public service pensions from 2025 onwards when these costs are projected to increase dramatically due to the ageing of the population. In February 2009 the Minister for Finance announced that the Fund would finance a €7 billion bank recapitalisation programme. On 31 March 2009, the NPRFC completed the recapitalisation of the Group through their investment of €3.5 billion in new preference stock and warrants to subscribe for up to 25% of the enlarged ordinary stock in the Group.

Operational Risk Standardised Approach

The Pillar 1 approach which allows banks to calculate their capital requirement in respect of operational risk by multiplying the gross income from each business line by the relevant factor specified in respect of that business line (as set out in Basel II).

Originator

An entity which, either itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure being securitised; or an entity which purchases a third party's exposures onto its balance sheet and then securitises them.

PCAR

Prudential Capital Assessment Review. These are local stress tests performed by the Irish Central Bank to assess the Bank's capital adequacy over a future horizon.

Probability of Default (PD)

The likelihood that a debt instrument will default within a stated timeframe (For Basel this is a twelve month time horizon). For example, the probability of default of a certain loan is 2%; this means that there are 2 chances out of 100 that the borrower will default in the next 12 months.

Risk Weighted Assets (RWA)

Used in the calculation of risk-based capital ratios. Total assets are calculated by applying predetermined risk-weight factors (set by the regulators) to the nominal outstanding amount of each on-balance sheet asset and the notional principal amount of each off-balance sheet item.

Securitisation

Converting an asset such as a loan into a marketable commodity by turning it into securities. Assets are pooled and sold, often in unitised form, enabling the lender to reliquify the asset. Any asset that generates an income stream can be securitised – i.e. mortgages, car loans, credit-card receivables.

Standardised Exposure Classes

- *Regulatory Retail:* Exposures must be to an individual person or person or to a small or medium sized entity.

  It must be one of a significant number of exposures with similar characteristics such that the risks associated with such lending are substantially reduced and, the total amount owed, shall not, to the knowledge of the credit institution, exceed €1 million.
- *Administrative Bodies:* Exposures to Administrative bodies and non-commercial undertakings.
- *Corporates:* In general, a corporate exposure is defined as a debt obligation of a corporate, partnership or proprietorship – CRD Annex VII.
- *Past due items* Where the exposure is past due more than 90 days.
- *Items belonging to regulatory high risk categories:* Exposures associated with particularly high risks such as investments in venture capital firms and private equity investments.
- *Short term claims on Institutions and Corporates:* Short term exposures to an Institution or Corporate.
- *Other items:* Exposures not falling into the other exposure classes outlined.

Trading Book

A trading book consists of positions in financial instruments and commodities held either with intent to trade, or in order to hedge other elements of the trading book. To be eligible for trading book capital treatment, financial instruments must either be free of any restrictive covenants on their tradability, or able to be hedged completely.

Through-the-Cycle PD (TtC PD)

A version of the Probability of Default measure engineered to estimate the average one-year probability of default over an economic cycle. For example, if the TtC PD of a certain loan is 2% this means that there is, on average over an economic cycle, a 2 in 100 chance that the borrower will default in any given year.