

# Annual Report

for the twelve month period ended 31 December 2010

**Bank of Ireland**





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for the twelve month period ended 31 December 2010

## Forward-Looking Statement

This document contains certain forward looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934 and Section 27A of the US Securities Act of 1933 with respect to certain of the Bank of Ireland Group's (the Group) plans and its current goals and expectations relating to its future financial condition and performance, 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. Forward looking statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', or other words of similar meaning. Examples of forward looking statements include among others, statements regarding the Group's future capital requirements and ratios, loan to deposit ratios, expected loan losses, the level of the Group's assets, the Group's financial position, payment of dividends, future income, business strategy, projected costs, projected impairment losses, estimated discounts upon transfers of assets to NAMA, margins, future payment of dividends, the implementation of proposed changes in respect of certain of the Group's defined benefit pension schemes, estimates of capital expenditures, discussions with Irish, European and other regulators and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, 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, risks and uncertainties relating to the performance of the Irish and UK economies, the ability of the Group to raise additional capital, property market conditions in Ireland and the UK, the implementation of the Irish Government's austerity measures relating to the financial support package from the EU/IMF, the availability and cost of funding sources, the performance and volatility of international capital markets, actual loan losses, the success of the Group's deleveraging plan, the impact of further changes in credit ratings of the Group's and the Irish national debt, the impact of transfers of assets to NAMA including the level of such asset transfers, the Group's ability to expand certain of its activities, development and implementation of the Group's strategy, including the ability to achieve estimated cost reductions, competition including for customer deposits, and the Group's ability to address information technology issues. Consequently, nothing in this statement should be considered to be a forecast of future profitability or financial position. None of this information 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.

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# Performance Summary

The Group changed its financial year end from 31 March to 31 December with effect from 31 December 2009. As a consequence of this change, the income statements for the Group are presented for the twelve month period ended 31 December 2010 compared to the nine month period ended 31 December 2009. The balance sheets are 31 December 2010 compared to 31 December 2009. Where it facilitates meaningful comparison, the Group's performance is also compared to the unaudited non-statutory financial information (proforma) for the twelve month period ended 31 December 2009. See page 58.

	12 months ended 31 December 2010 €m	*Restated 9 months ended 31 December 2009 €m
<b>Group performance on an Underlying ** basis</b>		
<b>Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA</b>	<b>1,017</b>	<b>1,056</b>
Impairment charges on loans and advances to customers	(1,887)	(2,371)
Impairment charges on available for sale financial assets (AFS)	(168)	(2)
Assets sold or held for sale to NAMA:		
- Impairment charges on assets sold or held for sale to NAMA	(229)	(1,684)
- Loss on sale of assets to NAMA	(2,241)	-
Share of results of associates and joint ventures (after tax)	49	35
<b>Underlying ** loss before tax</b>	<b>(3,459)</b>	<b>(2,966)</b>
Non-core items:		
- Gain on liability management exercises	1,413	1,037
- Impact of changes in pension benefits	733	-
- Gains / (charges) arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	360	(6)
- Impact of 'coupon stopper' on subordinated debt	(36)	67
- Gross-up for policyholder tax in the Life business	22	64
- Investment return on treasury stock held for policyholders	20	(6)
- Cost of restructuring programmes	(18)	-
- Gain / (loss) on disposal of business activities	15	(3)
<b>Loss before tax</b>	<b>(950)</b>	<b>(1,813)</b>
<b>Group performance (underlying **)</b>		
Net interest margin	1.46%	1.59%
Cost income ratio	63%	56%
<b>Loss per unit of €0.10 ordinary stock</b>		
Basic loss (€ cent)	(21.7)	(106.3)
Underlying ** loss (€ cent)	(83.6)	(168.9)
<b>Divisional performance</b>		
<b>Underlying ** operating profit / (loss) before impairment charges on financial assets and loss on sale of assets to NAMA (€ million)</b>		
Retail Republic of Ireland	438	314
Bank of Ireland Life	70	69
UK Financial Services	282	231
UK Financial Services (Stg£ million equivalent)	242	205
Capital Markets	641	558
Group Centre	(414)	(116)
<b>Underlying ** operating profit before impairment charges on financial assets and loss on sale of assets to NAMA</b>	<b>1,017</b>	<b>1,056</b>

\* A number of reclassifications have been made to the Income Statement for the nine month period ended 31 December 2009:

- The impairment charges on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).
- The impairment charge on intangible assets of €6 million is shown in operating expenses where previously it had been shown as a separate line item.
- The charge of €6 million arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss' has been reclassified as a non-core item.
- During 2010 the Group changed the reported presentation of the results of two of its subsidiaries such that the income and operating expenses are presented on separate line items in the Income Statement. To facilitate a more meaningful comparison a similar presentation has now been adopted in the nine month period ended 31 December 2009. This has led to a decrease in net interest income of €9 million, an increase in other income of €17 million and an increase in operating expenses of €8 million as compared with the amounts previously reported for these line items.

\*\* Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. The group has treated the following items as non-core: gain on liability management exercises, impact of changes in pension benefits, gains or charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss', impact of 'coupon stopper' on subordinated debt, gross-up for policyholder tax in the Life business, investment return on treasury stock held for policyholders, cost of restructuring programmes and gain / (loss) on disposal of business activities. See page 26 (section 1.3.9 Non-Core Items) for further information.

	12 months ended 31 December 2010 €m	*Restated 9 months ended 31 December 2009 €m
<b>Impairment charges – loans and advances to customers</b>		
Residential mortgages	407	231
Non-property SME and corporate	609	655
Property and construction	744	1,319
Consumer	127	166
<b>Impairment charges on loans and advances to customers</b>	<b>1,887</b>	<b>2,371</b>
<b>Assets held for sale to NAMA:</b>		
- Impairment charges on assets sold or held for sale to NAMA	229	1,684
- Loss on sale of assets to NAMA	2,241	-
	<b>2,470</b>	<b>1,684</b>

	31 December 2010 €bn	31 December 2009 €bn
<b>Balance sheet and funding metrics</b>		
Stockholders' equity (€ billion)	7.4	6.4
Total assets (€ billion)	167	181
Loans and advances to customers (excluding assets held for sale to NAMA) / customer deposits	175%	141%
Total loans and advances to customers (excluding assets held for sale to NAMA) (net of impairment provisions) (€ billion)	114	119
Total customer deposits (€ billion)	65	85
Assets held for sale to NAMA (net of impairment provisions) (€ billion)	1	10
Wholesale funding (€ billion)	70	61
Wholesale funding > 1 year (€ billion)	22	20
Wholesale funding > 1 year as a % of total Wholesale funding	32%	32%
Term funding > 1 year, subordinated debt and customer deposits / loans and advances to customers (excluding assets held for sale to NAMA)	79%	93%
<b>Capital</b>		
Equity tier 1 ratio (Core tier 1 less preference stock)	7.3%	5.3%
Core tier 1 ratio	9.7%	8.9%
Tier 1 ratio	9.7%	9.8%
Total capital ratio	11.0%	13.4%
Risk weighted assets (€ billion)	79	98

## Supplementary Information

The Group changed its financial year end from 31 March to 31 December with effect from 31 December 2009.

To facilitate more meaningful comparisons the following table reports the Group's performance for the twelve month period ended 31 December 2010 compared to the unaudited non-statutory financial information ('proforma') for the twelve month period ended 31 December 2009. The basis of preparation of the proforma results is in accordance with IFRS. The accounting policies are consistent with those adopted for the December 2010 financial statements. The results are presented on an underlying basis (see page 16 for further details).

### Summary Consolidated Income Statement

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
Net interest income	2,236	2,909	(23%)
Net other income	566	414	37%
<b>Operating income (net of insurance claims)</b>	<b>2,802</b>	<b>3,323</b>	<b>(16%)</b>
Operating expenses	(1,785)	(1,891)	(6%)
<b>Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA</b>	<b>1,017</b>	<b>1,432</b>	<b>(29%)</b>
Impairment charges on loans and advances to customers	(1,887)	(2,851)	(34%)
Impairment charges on loans and advances to banks	-	(2)	-
Impairment charges on available for sale financial assets (AFS)	(168)	(2)	-
Assets sold or held for sale to NAMA:			
- Impairment charges on assets sold or held for sale to NAMA	(229)	(1,892)	(88%)
- Loss on sale of assets to NAMA	(2,241)	-	-
Share of results of associates and joint ventures (after tax)	49	28	75%
<b>Underlying * loss before tax</b>	<b>(3,459)</b>	<b>(3,287)</b>	<b>5%</b>
Non-core items:			
- Gain on liability management exercises	1,413	1,037	-
- Impact of changes in pension benefits	733	-	-
- Gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	360	36	-
- Impact of 'coupon stopper' on subordinated debt	(36)	67	-
- Gross-up for policyholder tax in the Life business	22	29	-
- Investment return on treasury stock held for policyholders	20	(3)	-
- Cost of restructuring programmes	(18)	(83)	-
- Gain / (loss) on disposal of business activities	15	(3)	-
<b>Loss before tax</b>	<b>(950)</b>	<b>(2,207)</b>	<b>(57%)</b>
Tax credit	341	447	(23%)
<b>Loss for the period</b>	<b>(609)</b>	<b>(1,760)</b>	<b>(66%)</b>

\* Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. The group has treated the following items as non-core: gain on liability management exercises, impact of changes in pension benefits, gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss', impact of 'coupon stopper' on subordinated debt, gross-up for policyholder tax in the Life business, investment return on treasury stock held for policyholders, cost of restructuring programmes and gain / (loss) on disposal of business activities. See page 26 for further information.



# Chairman's Review

2010 brought many challenges to our Group. It has been a particularly difficult year for the State, for our shareholders, our customers and our staff.

We made progress against our key priorities but continued to be impacted by the severity of the economic downturn in Ireland. Our funding objectives were severely impacted by the sovereign debt concerns which arose in the second half of the year culminating in the announcement by the Government of an EU/IMF Programme of support on 28 November 2010.

During the year we significantly improved our capital position primarily through our successful capital raising exercise concluded in the first half of 2010 and further liability management exercises throughout the year. At the year end our Equity and Core tier 1 ratios were in excess of the ratios of 7% and 8% respectively set by the Central Bank of Ireland (CBI) in its March 2010 PCAR exercise and re-affirmed in September 2010.

Losses on disposal of assets to NAMA have been higher than our expectations and those anticipated by the Minister for Finance in September 2010 with respect to Bank of Ireland. Impairment provisions on our non NAMA portfolios remain high but within our expectations and we continue to be of the view that losses on our non NAMA portfolios peaked in 2009 and having reduced in 2010 will reduce further in 2011 and 2012.

We have continued to manage our costs which in 2010 were 6% lower than in the previous year. With the support of our staff, we have made major inroads into reducing the deficit in our pension funds and this should have a positive impact on pension costs in future years. We have also made significant changes to a number of infrastructure contracts and in our office premises arrangements which should benefit both efficiency and costs in future years.

Our funding plans were not achievable from the second half of 2010. The sovereign debt issues arising in that period adversely impacted our ability to term out our funding and caused significant outflows of ratings sensitive deposits. This situation has stabilised since 28 November 2010. Our core retail deposit franchise in Ireland has been robust and the achievement of our objective to incorporate in the UK with an FSA licensed banking subsidiary has underpinned our commitment to the UK, including our strategically important joint venture with the UK Post Office. Our retail deposits in the UK increased in 2010.

2010 also brought many challenges for our customers as a consequence of the difficult economic conditions in Ireland. Notwithstanding our focus on costs we have continued to invest in technologies and process changes to make it easier and more efficient for customers to avail of our services. We have continued to provide competitive products and services to our customers and have been very much open for business in our core markets, particularly in Ireland. We work with our customers facing financial difficulties and repayment challenges and encourage customers to be open with us about any issues they have in a timely manner to enable us assess and address their financial needs.

We continue to receive considerable investment and support from the State. We are grateful to the State for its support for and investment in the Group. Our goals are to reduce the risk to the State from its support, reward the investment made in the Group by the State and ultimately repay that investment. During 2010 the Group paid approximately €0.9 billion to the State including guarantee fees, fees at the time of the recapitalisation and redemption of warrants from the State. In February 2011 the Group paid in cash a coupon of €214 million on the State's preference shares in the Group.

Although the Group met the capital requirements from the March 2010 PCAR, the overall EU/IMF Programme also set out a programme which provides for a fundamental downsizing and reorganisation of the banking sector and provides for new regulatory capital targets for the Irish banking system so that it is capitalised to the highest international standards. In tandem with the announcement of the EU/IMF Programme, the CBI announced on 28 November 2010 that it had set a new minimum Core tier 1 ratio target for the Irish banking system of 10.5% on an ongoing basis (previously 8%), and that Irish banks would be required to complete a Prudential Capital Assessment Review (PCAR) to assess prudential capital requirements arising under a base case and adverse stressed loan loss scenario, over a three year (2011-2013) time horizon, together with preparing deleveraging plans in order to reduce reliance on short term wholesale funding and liquidity support from Monetary Authorities.

The results of the PCAR were announced by the CBI on 31 March 2011, requiring the Group to generate additional equity capital of €4.2 billion including a regulatory buffer of €0.5 billion. In addition, €1.0 billion contingent capital is also required through the issue of a debt instrument which under certain circumstances would convert to equity capital.

This PCAR review also included a deleveraging plan (PLAR) which anticipates a loan to deposit ratio of less than 122.5% for the Group by 31 December 2013. This augments the asset reductions contained in the Group's approved EU Restructuring and Viability Plan, thereby reducing reliance on short term wholesale funding and liquidity support from Monetary Authorities.

The Group is working with its advisors on initiatives to seek to address the revised capital requirement through a combination of capital management initiatives, other capital markets sources and support from existing shareholders in order to minimise the investment needed from the Irish taxpayers. The Minister for Finance has stated that the Group will be provided with time in order to generate as much of the capital as possible from private sources. We expect to be in a position to make an announcement on our capital plans in the coming weeks and I will be writing to you at that time to give you more details on these plans.

The Irish Government has affirmed that Bank of Ireland is a core Pillar bank in the Irish banking system and for the Irish economy. The Board, Management and Staff will continue to focus on our key objectives and priorities, the delivery of which will help to ensure a sustainable future for Bank of Ireland to the benefit of all of our stakeholders.

During 2010, there were further changes to the composition of the Board. Declan McCourt and Terence Neill retired from the board on 19 May 2010 having completed two terms as Directors. Patrick Kennedy was co-opted to the board on 6 July 2010. I thank all Directors for their continuing commitment and efforts in ensuring the stabilisation of the Group during these very difficult times and in creating a sustainable future for the Group.

I would like to express my appreciation to staff throughout the Group for their ongoing resilience, professionalism and commitment as they continue to build confidence in our business and support our customers.

Patrick J Molloy  
Chairman  
13 April 2011

# Group Chief Executive's Review

## Overview

2010 was a very challenging year for the Group. Throughout the year we continued to focus on our key priorities of strengthening the Group's capital position, funding in difficult markets, rigorously managing asset quality, reducing our costs and managing the Group's net interest margin, while continuing to support our customers. Significant progress was achieved towards these priorities including: the completion of a successful capital raising programme which exceeded the capital requirement set by the March 2010 Prudential Capital Assessment Review (PCAR), formal approval of the Group's restructuring plan by the European Commission, the establishment of a UK licensed banking subsidiary regulated by the FSA, the sale of €9.4 billion of eligible assets to NAMA, significant structural reductions in the deficits on the Group's pension schemes, further reductions in the numbers of people employed, ongoing remuneration restraint and a range of other initiatives to reduce infrastructure and other costs. We have also been consistent in our support for our core businesses, particularly in Ireland.

However, despite the progress made on these key strategic issues, intensified concerns in the second half of the year regarding the level of fiscal deficits and sovereign debt levels for peripheral Eurozone countries and the potential impact of these deficits on their economies resulted in renewed instability in financial markets. In the case of Ireland, there was a significant increase in bond yields and several downgrades of the Irish sovereign credit rating by rating agencies during August 2010 and in later months which led to corresponding downgrades for the senior ratings of domestic financial institutions, including the Group. This resulted in a significant deterioration in market conditions culminating in the announcement by the Government on 28 November 2010 of the EU/IMF Programme of support of up to €67.5 billion. The programme of support also provides for a fundamental downsizing, reorganisation, and recapitalisation of the banking sector.

## Prudential Capital Assessment Review

In tandem with the announcement of the EU/IMF Programme, the Central Bank of Ireland (CBI) announced on 28 November 2010 that it had set a new minimum capital requirement for the Irish banking system. Under these requirements the CBI required the Group to generate additional Core tier 1 capital of €2.199 billion by 28 February 2011 (this deadline was subsequently deferred) being the Central Bank's estimate, at that time, of the amount needed to achieve a pro-forma Core tier 1 capital ratio of greater than 12% and maintain a Core tier 1 ratio of greater than 10.5%. In addition, the CBI also announced that Irish banks would be required to complete a Prudential Capital Assessment Review (PCAR) which is an assessment of forward looking prudential capital requirements arising under a base case and adverse stressed loan loss scenario, over a three year (2011-2013) time horizon and a Prudential Liquidity Assessment Review (PLAR) which is an assessment of measures to be implemented with a view to deleverage the Irish banking system over time, thereby reducing reliance on short term wholesale funding and liquidity support from Monetary Authorities.

The results of the PCAR were announced by the CBI on 31 March 2011. Arising from the PCAR, the Group is required to generate additional equity capital of €4.2 billion including a regulatory buffer of €0.5 billion which supersedes the required capital as announced on 28 November 2010, leading to a very strongly capitalised Group with a proforma Core tier 1 ratio of 15.0% at 31 December 2010.

The incremental capital requirement arising from the 2011 PCAR together with the capital raised and generated by the Group over the past two years should 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 equity capital requirement has been set to cover:

- the higher target capital ratios set by the CBI 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;
- an additional regulatory buffer of €0.5 billion for additional conservatism;
- the adverse stress scenario loan loss estimates based on BlackRock Solutions ('BlackRock') methodology;
- the potential transfer of further loans 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 contingent capital is also required through the issue of a debt instrument which under certain circumstances could convert to equity capital.

The Group's approved deleveraging plan incorporated within the PCAR anticipates a loan to deposit ratio of less than 122.5% by 31 December 2013. This plan augments the Group's EU Restructuring and Viability Plan approved in July 2010. The deleveraging plan envisages portfolios of customer loans continuing to be in managed run down or disposed of on an orderly basis over a 3 year period resulting in a reduction in the Group's non-core loan portfolios by approximately €30 billion between December 2010 and December 2013, though a combination of organic deleveraging and certain asset sales. A conservative estimate of losses arising on deleveraging under an adverse stress scenario is incorporated within the PCAR capital requirement.

## Capital

During 2010 the Group made significant progress in strengthening its capital ratios. The Group exceeded the capital requirement set at the March 2010 PCAR exercise through a number of liability management exercises over the year and through its 2010 capital raising which in aggregate generated €4.1 billion in equity (net of fees and the €0.5 billion purchase and cancellation of warrants held by the State).

At 31 December 2010, the Group's Equity tier 1, Core tier 1, Tier 1 and Total Capital Ratios were 7.3%, 9.7%, 9.7% and 11.0% respectively. The Equity tier 1 and Core tier 1 ratios both improved compared to 31 December 2009 (5.3% and 8.9% respectively) while the Total tier 1 and Total capital ratios reduced compared to 31 December 2009 (9.8% and 13.4% respectively) with the differing trends reflecting reduced subordinated debt capital after the liability management initiatives.

Since the announcement of the EU/IMF Programme on 28 November 2010 which required the Group to generate additional Core tier 1 capital of €2.2 billion by 28 February 2011 (deadline subsequently deferred), the Group has generated €806 million of Core tier 1 Capital towards this target through liability management exercises and business disposals which generated €726 million and €80 million of Core tier 1 capital respectively.

The above capital generating initiatives totalling €0.8 billion that we have undertaken since 28 November 2010, towards the €2.2 billion target, are partly offset by increased losses on the sale of assets to NAMA and subordinated debt impairment of €0.2 billion. The 2011 PCAR adverse stress scenario outcome requires an incremental €2.1 billion capital requirement resulting in an overall capital requirement of €3.7 billion before the €0.5 billion regulatory buffer for additional conservatism.

The Bank is working actively, with its advisors, on initiatives with a view to meeting the €4.2 billion equity capital requirement through a combination of capital management initiatives, other capital markets sources, and support from existing shareholders, in order to minimise any investment required from the Irish taxpayer to whom we have a substantial responsibility. The Minister for Finance has stated that the Group will be provided with time in order to raise / generate the additional capital requirement from private sources. We expect to be in a position to make an announcement on our capital plans in the coming weeks.

### Funding

Despite the positive actions that we had undertaken in the first half of 2010 to improve the Group's funding position through our deleveraging initiatives, deposit gathering and extending the maturity profile of wholesale funding, the Group's funding position was adversely impacted by the sovereign ratings downgrades and uncertainty leading up to the extension of the Eligible Liabilities Guarantee (ELG) scheme in September 2010 and the further deterioration in market conditions leading up to the announcement by the Government of the EU/IMF Programme on 28 November 2010. This resulted in a shortening of the maturity profile of wholesale funding due to limited access to term funding, an increased reliance on secured borrowing primarily from Monetary Authorities and the additional liquidity facilities provided by the Central Bank and a significant outflow of ratings sensitive deposits primarily from the Group's Capital Markets business. However, throughout 2010 and despite intense competition, the Group's retail customer deposit base in Ireland remained stable. Our UK business and deposit gathering in the UK has been enhanced by our incorporation of a UK regulated banking subsidiary (which was approved by the FSA in October 2010) which will enable us to grow our business and continue to support our customers in the UK, including those of our successful joint venture with the Post Office, which has 2.3 million customers. Overall Group customer deposit volumes have remained broadly stable since 28 November 2010.

The Group's loans and advances to customers (excluding assets held for sale to NAMA) have reduced by 4% reflecting the Group's deleveraging initiatives and NAMA transfers. However, notwithstanding the reduction in loans and advances to customers, the impact of the outflow of ratings sensitive deposits resulted in a significant increase in the Group's loan to deposit ratio at 31 December 2010 to 175% from 143% at 30 June 2010.

### Financial Performance

In the twelve month period ended 31 December 2010, the Group recorded a loss before tax of €1 billion compared to a loss before tax of €2.2 billion for the comparable twelve month period ended 31 December 2009. Excluding non-core items, the underlying loss before tax was €3.5 billion (2009: €3.3 billion).

The Group's underlying operating profit (before impairment charges and loss on sale to NAMA) was €1,017 million for the twelve month period ended 31 December 2010, 29% lower than the comparable twelve month period ended 31 December 2009. This reduction reflects total income (net of insurance claims) being 16% lower than the comparable prior period primarily driven by a reduction in net interest income which continues to be adversely impacted by elevated deposit pricing, higher costs of wholesale funding and the cost of the Eligible Liabilities Guarantee (ELG) scheme partially offset by improved asset pricing and higher net other income.

Total operating expenses for the twelve month period ended 31 December 2010 were €1,785 million, 6% lower than the comparable prior period reflecting lower pension costs following the acceptance of the Group's pension proposal by staff, lower staff numbers, and continuous rigorous cost management of the Group's cost base offset somewhat by costs associated with our incorporation in the UK, enhancements to credit management systems, increases in the numbers of personnel in Credit Management and Compliance roles and investment in systems and processes designed to improve efficiencies and anticipated to bring benefits in future years.

Impairment charges on loans and advances to customers (excluding assets sold or held for sale to NAMA) were €1,887 million for the twelve month period ended 31 December 2010, which is 34% lower than the comparable prior period. In the Group's AFS portfolio, the Group incurred impairment charges of €168 million on (i) a holding of subordinated debt issued by Allied Irish Banks plc (€98 million charge) where the Group exchanged these bonds for cash in January 2011 without further loss and (ii) the NAMA subordinated bonds (€70 million charge) following the decision by NAMA not to pay a coupon on subordinated NAMA bonds due on 1 March 2011. In relation to assets sold or held for sale to NAMA, the Group incurred impairment charges of €229 million and a loss on sale of €2,241 million for assets which were sold to NAMA.

The share of results of associates and joint ventures (after tax) of €49 million for the twelve month period ended 31 December 2010 compares to €28 million for the comparable prior period.

#### Asset Quality

In advance of the March 2011 PCAR process, the Group commissioned Oliver Wyman, leading international risk consultants, to provide an independent review and challenge of the Group's base case future loan loss estimates through a detailed granular review of its customer loan books (excluding land and development assets / assets potentially eligible for sale to NAMA). This review, as detailed in Oliver Wyman's report for the Group, reflected updated economic assumptions consistent with the March 2011 PCAR process including: slower economic growth in Ireland, elevated unemployment for a prolonged period of time, and a peak to trough decline in residential house prices of 55%. We also took into consideration economic and other related forecasts as set out in the March 2011 PCAR noting that 55% of the Group's loan assets are located outside the Republic of Ireland. Arising from this review our expectation for impairment charges on Irish mortgages and business banking has increased somewhat, although this is expected to be offset by improved impairment experience in our consumer, corporate loan and UK mortgage portfolios.

The outcome of the 2011 PCAR is based on future loan loss estimates undertaken by BlackRock on behalf of the Central Bank with aggressively conservative assumptions on the performance of the Group's loan books under these stress conditions. The resulting incremental capital requirement was primarily driven by the methodology applied by BlackRock to our residential and commercial mortgage books in both the base case and adverse stress scenario. This methodology applies, in our view, a 'repossess and sale' approach under scenarios with conservative residential and commercial property values as the primary driver of loan losses in both mortgage and investment property portfolios and places less emphasis on customers' repayment capacity including contracted income streams. This approach is materially different to the methodology used in previous reviews of potential future loan losses by Bank of Ireland and other leading international risk consultants including Oliver Wyman.

As with any stress test, the adverse stress scenario is designed to cover 'what-if' situations reflecting even more stressed macroeconomic conditions than might reasonably be expected to prevail. If the additional potential loan losses in the adverse stress scenario do not materialise, the Group should significantly exceed the 10.5% minimum Core tier 1 capital ratio as required by the Central Bank.

Oliver Wyman has confirmed, that on the basis of work it has performed, it believes the Group's base case loan loss estimates for the three year period 2011 - 2013 to be reasonable as detailed in their work for the Group (excluding land and development / assets potentially eligible for transfer to NAMA which were not reviewed by Oliver Wyman). The results of this review are consistent with previous guidance to the market that loan losses (excluding assets sold or held for sale to NAMA) peaked in 2009, and reduced in 2010 with anticipated further reductions in subsequent years.

#### National Asset Management Agency (NAMA)

During the twelve month period ended 31 December 2010, the Group sold €9.4 billion of gross assets (before impairment provisions) to NAMA. The nominal consideration receivable for these assets amounted to €5.2 billion resulting in a gross discount of 44%. The gross discount on assets sold to NAMA exceeds the estimate as outlined in the Minister for Finance's Statement on Banking issued on 30 September 2010, which was based on a forecast provided to the Minister by NAMA at that time. At 31 December 2010, the Group held €0.9 billion of assets (before impairment provisions) eligible for transfer to NAMA, where the Group has an individual customer / sponsor exposure of greater than €20 million. The Group expects that the final discount on the transfer of these assets to NAMA will be less than the average discount on assets sold prior to 31 December 2010.

Based on statements made by the Government, which took office on 9 March 2011, the Group has not classified land and development loans of less than €20 million as held for sale to NAMA at 31 December 2010.

#### Cost Initiatives

Cost management is a key strategic priority for the Group and is an area where we have implemented rigorous disciplines to drive cost savings and efficiencies. Over the period from March 2008 to December 2010, the Group has reduced its workforce by approximately 2,400 staff (approximately 14% reduction) and there has been ongoing restraint on remuneration. The Group's pension proposals to address the IAS 19 deficit of €1.6 billion as at 31 December 2009 were accepted by over 99% of relevant staff resulting in a material reduction in the Group's IAS 19 net pension deficit which at 31 December 2010 was €0.4 billion, a reduction of €1.2 billion from 31 December 2009. We continue to drive efficiencies in non-staff costs and expect to generate sustainable savings from the re-negotiation / re-tender of certain major outsourcing contracts which took place in 2010 and investments which we are making in processes and systems to enhance efficiencies, productivity and the service options we provide to our customers.

#### Supporting Our Customers and the Irish Economy

Bank of Ireland remains committed to supporting our customers and contributing to the future economic recovery in Ireland which is vital for our own future. We have exceeded commitments which we made with the Irish Government in terms of the provision of lending capacity to the SME sector, complemented by delivering on our commitments for the provision of specialised loans and venture capital funds for the sector. We have also continued to provide active support for first time buyers in the mortgage market. We want to work

closely and empathetically with those of our customers who face financial difficulties in the current economic environment and we operate to the Central Bank's Code of Conduct on Mortgage Arrears and the Code of Conduct on Business Lending. Our extensive branch network and broad product offering in Ireland enables us to strongly support corporate, business and personal customers and contribute positively to economic recovery.

### EU Plan

Bank of Ireland's restructuring plan was formally approved by the European Commission in July 2010. We continue to proactively implement the plan and restructuring measures therein which are subject to independent review by a Monitoring Trustee, and we are ahead of plan on business disposals and asset deleveraging.

### Strategy

The Group's objective is to be the leading consumer, business and corporate bank in Ireland (currently number one or number two market share positions in each of those areas), through its extensive branch network, eBanking and telebanking platforms and distribution of life, pensions & investments products, its asset finance, treasury and corporate banking businesses. Despite the Irish economy's current difficulties, the Group believes that Ireland's core strengths of a strong export sector, favourable demographics, with a well educated, skilled workforce, and its pro-business environment will underpin a return to economic growth. In Ireland, the Group competes from a position of strength, with leading market positions across its principal product and market segments. The Group is continuing to maintain its competitive offerings in these segments and is committed to enhancing the service it provides to customers. Bank of Ireland has a strong belief in Ireland's future and has a substantial responsibility to the Irish taxpayers from whom it has had significant support and investment.

In the United Kingdom, the Group continues to grow its consumer banking franchise through its partnership with the UK Post Office. This franchise has 2.3 million customers accessing a comprehensive range of the Group's and other financial products through the 11,500 Post Office branches. The Group's positioning in the UK market has been significantly enhanced through the establishment of our UK licensed banking subsidiary which now encompasses our successful joint venture with the UK Post Office, our Northern Ireland branch network, our UK business banking and certain other lending activities. Our UK licensed banking subsidiary is a very important part of the Group's long term strategy.

We are also continuing to support and develop certain internationally based treasury and corporate lending activities where we believe we have clear competitive strengths and capabilities.

The loan portfolios / lending businesses of the Group, that are being / will be run down or disposed of over time, include:

- portfolios of UK Intermediary sourced Mortgages;
- selected international niche businesses such as project finance, asset based lending and certain previously identified international corporate banking portfolios;
- certain international commercial investment property portfolios; and
- land and development loans less than €20 million that were previously potentially transferable to NAMA.

It is envisaged that the international portfolios will be significantly wound down or sold in the period to 31 December 2013 on a basis that will balance the advantage of stronger liquidity ratios with the need to maximise value from the disposal of such assets without pressure to concede to the risk of 'fire sales'. This process is already well underway.

The combination of a very strong capital base, a deleveraging plan which will deliver a more conservative funding profile, and core businesses with strong brands, distribution and market positioning supporting our customers and actively contributing to economic growth will assist in ensuring a sustainable future for Bank of Ireland for the benefit of all our stakeholders.

### Outlook for the Group

Trading conditions in the first months of 2011 remain challenging due to higher funding costs, in particular the cost of customer deposits, and the continuing difficult liquidity environment. Operating costs remain under strict control and we maintain our expectation that the impairment charge on our non-NAMA designated loans and advances to customers peaked in 2009, reduced in 2010 with anticipated further reductions in subsequent years.

We will continue to have a very strong and disciplined focus on all of our priorities with significant emphasis in the coming months on the capital requirements which we have and on making further meaningful progress on our deleveraging initiatives whilst serving our customers through a more efficient, focused business.

Richie Boucher  
Group Chief Executive  
13 April 2011



# Operating and Financial Review

## 1.1 Basis of Presentation

The Group changed its financial year end from 31 March to 31 December with effect from 31 December 2009. As a consequence of this change, the income statements for the Group are presented for the twelve month period ended 31 December 2010 compared to the nine month period ended 31 December 2009. The balance sheets are 31 December 2010 compared to 31 December 2009. Where it facilitates meaningful comparison, the Group's performance is also compared to the unaudited non-statutory financial information (proforma) for the twelve month period ended 31 December 2009. See page 58.

A number of reclassifications have been made to the income statement for the nine month period ended 31 December 2009. The impairment charges on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge. The impairment charge on intangible assets is shown in operating expenses where previously, due to its materiality, it has been shown as a separate line item. During 2010 the Group changed the reporting presentation of the results of two of its subsidiaries such that the income and operating expenses are presented on separate line items in the Income Statement. To facilitate a more meaningful comparison a similar presentation has now been adopted in the nine month period ended 31 December 2009. Further details are set out on page 16.

This Operating and Financial Review is presented on an underlying basis. For explanation of underlying see page 16. Percentages presented throughout this document are calculated on the absolute underlying figures and so may differ from the percentage variances calculated on the rounded numbers presented.

A detailed analysis and commentary on the key risks for the Group are detailed on pages 89 to 98 in the Risk Management Report together with updates on the Group's risk management framework and the Group's principal risks and uncertainties.

## 1.2 Overview and Market Environment

Trading conditions in our core markets in Ireland and the UK in the twelve month period ended 31 December 2010 were challenging.

Ireland is experiencing a recessionary environment and period of fiscal adjustment following a prolonged period of over reliance on construction and property-related activity for generating economic growth and supporting the level of Government expenditure. The challenges facing Ireland are exacerbated by the level of State support required by the banking sector. Although the Irish export sector has been experiencing strong growth, consumption and consumer sentiment remain weak and unemployment remains at elevated levels. The unemployment rate stood at 14.7% in March 2011<sup>1</sup> and, according to the latest consensus forecast, is expected to fall to 14.2% by the end of 2011<sup>2</sup>.

The residential property market has suffered a very significant decline, with average national house prices in Ireland, in the quarter to 31 December 2010, being 38% below their peak in the fourth quarter of 2006<sup>3</sup>. Commercial property prices have fallen by 60% between September 2007 and December 2010<sup>4</sup>.

Irish GDP has experienced a severe contraction in recent years and fell by 1.0% in 2010<sup>1</sup>, after declining by 7.6% in 2009<sup>1</sup> and 3.5% in 2008<sup>1</sup>. The consensus forecast<sup>2</sup> is for Irish GDP to increase by 0.5% in 2011. The Government finances show a significant deficit with an estimated underlying \* general Government balance deficit of 11.6% of GDP in 2010<sup>5</sup>, following a deficit of 14.6% of GDP in 2009<sup>5</sup> and 7.3% in 2008<sup>5</sup>. Between July 2008 and late 2010 the Irish Government implemented significant fiscal adjustments amounting to €14.6 billion, equivalent to 9.3% of the estimated GDP for 2010. In the December 2010 Budget the Irish Government introduced further adjustments of €6 billion to be implemented during 2011 through a combination of increased taxes and a reduction in Government spending<sup>5</sup>.

Having returned to growth in the fourth quarter of 2009, GDP in the UK economy grew by 1.3% in 2010<sup>6</sup>. Despite the UK economy's improvement during 2010, the impact of austerity measures introduced in the UK national budget may dampen the economic recovery and could lead to an increase in the unemployment rate. Unemployment in the United Kingdom stood at 8% at the end of January 2011<sup>6</sup> and the consensus forecast is for an average unemployment rate of 8% in 2011<sup>2</sup> and 8.1% in 2012<sup>2</sup>. The consensus view is that the UK economy will grow by 1.6% in 2011<sup>2</sup> and by 2.2% in 2012<sup>2</sup>.

<sup>1</sup> Source: CSO

<sup>2</sup> Source: Reuters

<sup>3</sup> Source: Permanent TSB / ERSI House Price Index

<sup>4</sup> Source: IPD Irish Commercial Property Index

<sup>5</sup> Source: Department of Finance

<sup>6</sup> Source: Office for National Statistics

\* Underlying excludes the amounts relating to the recapitalisation of Anglo Irish Bank and Irish Nationwide Building Society

The UK property sectors showed some signs of recovery in 2010 although some uncertainty remains around the pace and scale of future recovery. While residential property prices softened somewhat since the middle of 2010, in February 2011 they had increased by 9.4%<sup>4</sup> from their trough in February 2009. Commercial property capital values rose by 6.9%<sup>4</sup> in 2010.

### 1.2.1 Impact of EU/IMF Programme

Heightened concerns regarding the level of fiscal deficits and sovereign debt levels for peripheral Eurozone countries and the potential impact of these deficits on their economies resulted in renewed instability in financial markets. In the case of Ireland, there was a significant increase in bond yields and several downgrades of the Irish sovereign credit rating by rating agencies since August 2010 which led to corresponding downgrades for the senior ratings of domestic financial institutions, including the Group. This resulted in a significant deterioration in market conditions culminating in the announcement by the Irish Government of the EU/IMF Programme of support of up to €67.5 billion on 28 November 2010. In addition the Irish Government committed to providing additional financial support towards the cost of bank recapitalisations of €17.5 billion from the National Pension Reserve Fund (NPRF) and other domestic cash resources. The overall EU/IMF Programme included up to €35 billion to support the banking system with €10 billion set aside for immediate recapitalisation, and up to €25 billion available on a contingency basis. It also set out a programme which provides for a fundamental downsizing and reorganisation of the banking sector and immediate and significant strengthening of the capital position of Irish banks.

As part of this programme, the Central Bank required the Group to generate additional Core tier 1 capital of €2.199 billion by 28 February 2011. On 28 November 2010 the Group announced that it intended to seek to generate the required capital through a combination of internal capital management initiatives, support from existing shareholders and other capital markets sources. The Irish Government stated that it would subscribe for the incremental capital, should the Group not be in a position to raise the required level of capital within the proposed timeframe.

Since 28 November 2010 the Group has generated €806 million of Core tier 1 capital towards this target by taking the following measures:

- On 17 December 2010, the Group completed the exchange of €1.355 billion nominal value of certain Lower tier 2 securities for €703 million of Euro and Sterling Medium Term Notes due in 2012. This generated Core tier 1 capital of €680 million (after tax) whilst reducing Total capital by €675 million;
- On 10 January 2011, the Group completed the sale of Bank of Ireland Asset Management to State Street Global Advisors for a total consideration of €57 million. This generated Core tier 1 capital of approximately €40 million;
- On 10 February 2011, the Group announced the exchange of €102 million nominal value of certain Canadian dollar Lower tier 2 securities for €56 million of euro and Canadian dollar Medium Term Notes due in 2012. This generated Core tier 1 capital of €46 million whilst reducing Total capital by €56 million; and
- On 24 February 2011, the Group announced the sale of Bank of Ireland Securities Services to Northern Trust Corporation. This sale is expected to generate Core tier 1 capital of approximately €40 million for the Group during 2011.

The Central Bank has undertaken a Prudential Capital Assessment Review (PCAR) and a Prudential Liquidity Assessment Review (PLAR) in 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 measures to be implemented with a view to deleveraging the banking system and reducing reliance on short term wholesale funding and liquidity support from Monetary Authorities.

The 2011 PCAR is based on future loan loss estimates under stress scenarios undertaken by BlackRock Solutions (BlackRock) on behalf of the Central Bank with aggressively conservative assumptions on the performance of the Group's loans under these stress conditions. The BlackRock methodology applies, in the Group's view, a 'repossess and sale' approach under stress scenarios with stressed residential and commercial property values as the primary driver of loan losses in both mortgage and investment property portfolios and places less emphasis on customers' repayment capacity including contracted income streams. The approach is materially different to the methodology used in previous reviews of potential future loan losses by the Group and other leading international risk consultants, including Oliver Wyman.

As with any stress test, the adverse stress scenario is designed to cover 'what-if' situations reflecting even more stressed macroeconomic conditions than might reasonably be expected to prevail.

<sup>4</sup> Source: IPD Irish Commercial Property Index



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 proforma Core tier 1 ratio of 15.0% at 31 December 2010.

The equity capital requirement has been 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 / sponsor exposure less than €20 million at 31 December 2010 are 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 is also required through the issue of a debt instrument which under certain circumstances would convert to equity capital.

If the additional potential loan losses in the adverse stress scenario do not materialise, the Group should significantly exceed the 10.5% minimum Core tier 1 capital ratio as required by the Central Bank.

The Group is working actively, with its advisors, on initiatives with a view to meeting the €4.2 billion equity capital requirement through a combination of capital management initiatives, other capital markets sources, and support from existing shareholders. The Minister for Finance has stated that the Group will be provided with time in order to generate / raise the additional capital requirement from private sources. Any capital that cannot be generated / raised from private sources to meet this capital requirement will be invested by the State. The Group expects to be in a position to make an announcement on its capital plans in the coming weeks.

#### Deleveraging

The 2011 PCAR incorporates a deleveraging plan (PLAR) which anticipates a loan to deposit ratio of less than 122.5% for the Group by 31 December 2013.

This plan augments the asset reductions contained in the Group's approved EU Restructuring and Viability Plan which are underway and ahead of target. The deleveraging plan envisages portfolios of customer loans continuing to be wound down or disposed of on an orderly basis over a three year period resulting in an expected reduction in the Group's non-core loan portfolios of approximately €30 billion between December 2010 and December 2013. A conservative estimate of losses arising on deleveraging under an adverse stress scenario is incorporated within the capital requirement.

The loan portfolios / lending businesses of the Group, that are being / will be run down or disposed of over time, include:

- portfolios of UK Intermediary sourced mortgages;
- selected international niche businesses such as project finance, asset based lending and certain previously identified international corporate banking portfolios;
- certain international commercial investment property portfolios; and
- land and development loans where the Group has an individual customer / sponsor exposure less than €20 million.

On a proforma basis at 31 December 2010, these portfolios are estimated at approximately €39 billion of loans and advances to customers and represent approximately €22 billion of credit risk weighted assets.

It is envisaged that the international portfolios will be significantly wound down or sold in the period to 31 December 2013 on a basis that will balance the advantage of stronger liquidity ratios with the need to maximise value from the disposal of such assets without pressure to concede to the risk of 'fire sales'.

### 1.2.2 Assets sold or held for sale to NAMA

During the twelve month period ended 31 December 2010, the Group sold €9.4 billion of assets (before impairment provisions) to NAMA. The nominal consideration receivable for these assets amounted to €5.2 billion resulting in a gross discount of 44%<sup>1</sup>. At 31 December 2010, the Group still held as eligible for sale to NAMA €0.9 billion of assets (before impairment provisions), where the Group has an individual customer / sponsor exposure of greater than €20 million. The Group expects that the final discount on the sale of these assets to NAMA will be less than the average discount on assets sold prior to 31 December 2010. See section 1.3.8 on page 25.

On 28 November 2010 the Irish Government announced, as part of the EU/IMF Programme, an amendment to the NAMA process requiring the Group (and Allied Irish Banks plc) to sell to NAMA, (following the enactment of changes to the NAMA legislation and relevant due diligence) those remaining eligible land and development loans where the Group has an individual customer / sponsor exposure of less than €20 million which at 31 December 2010, was estimated to amount to €4.1 billion (before impairment provisions). The new Irish Government, which took office on 9 March 2011, stated in its programme for government that 'it would end further asset transfers to NAMA, which are unlikely to improve market confidence in either the banks or the state'. The Group has therefore not classified these assets as held for sale to NAMA at 31 December 2010.

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

## 1.3 Group Income Statement - on an Underlying \*\* basis

### 1.3.1 Summary Consolidated Income Statement

	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
Net interest income	2,236	2,112
Net other income	566	339
<b>Operating income (net of insurance claims)</b>	<b>2,802</b>	<b>2,451</b>
Operating expenses	(1,785)	(1,395)
<b>Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA</b>	<b>1,017</b>	<b>1,056</b>
Impairment charges on loans and advances to customers	(1,887)	(2,371)
Impairment charges on available for sale financial assets (AFS)	(168)	(2)
Assets sold or held for sale to NAMA:		
- Impairment charges on assets sold or held for sale to NAMA	(229)	(1,684)
- Loss on sale of assets to NAMA	(2,241)	-
Share of results of associates and joint ventures (after tax)	49	35
<b>Underlying ** loss before tax</b>	<b>(3,459)</b>	<b>(2,966)</b>
Non-core items:		
- Gain on liability management exercises	1,413	1,037
- Impact of changes in pension benefits	733	-
- Gains / (charges) arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	360	(6)
- Impact of 'coupon stopper' on subordinated debt	(36)	67
- Gross-up for policyholder tax in the Life business	22	64
- Investment return on treasury stock held for policyholders	20	(6)
- Cost of restructuring programmes	(18)	-
- Gain / (loss) on disposal of business activities	15	(3)
<b>Loss before tax</b>	<b>(950)</b>	<b>(1,813)</b>
Tax credit	341	344
<b>Loss for the period</b>	<b>(609)</b>	<b>(1,469)</b>
Profit / (loss) attributable to non controlling interests	5	(9)
Loss attributable to stockholders	(614)	(1,460)
<b>Loss for the period</b>	<b>(609)</b>	<b>(1,469)</b>

\* A number of reclassifications have been made to the Income Statement for the nine month period ended 31 December 2009:

- The impairment charges on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).
- The impairment charge on intangible assets of €6 million is shown in operating expenses where previously it had been shown as a separate line item.
- The charge of €6 million arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss' has been reclassified as a non-core item.
- During 2010 the Group changed the reported presentation of the results of two of its subsidiaries such that the income and operating expenses are presented on separate line items in the Income Statement. To facilitate a more meaningful comparison a similar presentation has now been adopted in the nine month period ended 31 December 2009. This has led to a decrease in net interest income of €9 million, an increase in other income of €17 million and an increase in operating expenses of €8 million as compared with the amounts previously reported for these line items.

\*\* Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. The group has treated the following items as non-core: gain on liability management exercises, impact of changes in pension benefits, gains or charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss', impact of 'coupon stopper' on subordinated debt, gross-up for policyholder tax in the Life business, investment return on treasury stock held for policyholders, cost of restructuring programmes and gain / (loss) on disposal of business activities. See page 26 for further information.

### 1.3.2 Underlying loss before tax for the twelve month period ended 31 December 2010 (excluding impact of non-core items)

The Group's **underlying loss before tax** for the twelve month period ended 31 December 2010 of €3,459 million compares to an underlying loss before tax of €2,966 million for the nine month period ended 31 December 2009. This increased loss primarily reflects higher charges on assets sold or held for sale to NAMA and increased impairment charges on available for sale financial assets (AFS).

**Operating income (net of insurance claims)** of €2,802 million for the twelve month period ended 31 December 2010 is €351 million higher than the operating income (net of insurance claims) of €2,451 million for the nine month period ended 31 December 2009. The increase is primarily due to the longer reporting period, improved asset pricing and gains arising from the change in fair value of international investment properties. These increases were partly offset by the higher cost of the Government Guarantee Schemes, the increased cost of deposits in highly competitive markets, the higher cost of wholesale funding, lower average earning assets, lower fees and other income as a result of reduced business activities and the impact of business disposals.

**Operating expenses** of €1,785 million for the twelve month period ended 31 December 2010 are €390 million higher than the operating expenses of €1,395 million for the nine month period ended 31 December 2009 reflecting the longer reporting period which is partly offset by lower staff numbers, lower pension costs and continued tight management of all costs.

The **impairment charges on loans and advances to customers** of €1,887 million for the twelve month period ended 31 December 2010 has decreased by €484 million compared to the impairment charges of €2,371 million for the nine month period ended 31 December 2009. The slowdown in economic activity, high levels of unemployment, lower disposable income, poor consumer sentiment, business insolvencies, falling asset values, and low levels of transactions and illiquidity in property markets are the key drivers of impairment losses for the twelve month period ended 31 December 2010. The Group maintains its expectations that the impairment charge on the non-NAMA loans and advances to customers peaked in 2009, reduced in 2010, with anticipated further reductions in subsequent years.

In the twelve month period ended 31 December 2010, the Group incurred impairment charges of €168 million on assets in its AFS portfolio. This includes a charge of €98 million on a holding of subordinated debt issued by Allied Irish Banks plc. The Group exchanged these bonds for cash in January 2011 without further loss. In addition, the Group incurred an impairment charge of €70 million on NAMA subordinated bonds following the decision by NAMA not to pay the discretionary coupon due on 1 March 2011.

The **impairment charges on assets sold or held for sale to NAMA** of €229 million for the twelve month period ended 31 December 2010 has reduced by €1,455 million compared to the impairment charges of €1,684 million for the nine month period ended 31 December 2009. The impairment charge in the nine month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, an oversupply of residential housing stock in Ireland and generally weak economic conditions, particularly in Ireland. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to a lack of demand from investors. The impairment charges on assets sold or held for sale to NAMA of €229 million in the twelve month period ended 31 December 2010 reflects the impact of underlying economic conditions, reduced asset values and low levels of transactions and illiquidity in property markets which have continued to reduce rental flows and delay recovery prospects.

During the twelve month period ended 31 December 2010 the Group sold €9.4 billion (before impairment provisions) of assets to NAMA for which it received consideration with a nominal value of €5.2 billion in Government guaranteed bonds and non-guaranteed subordinated bonds. The loss on sale of assets to NAMA (after impairment provisions and other charges) was €2,241 million. Further details are set out on page 25.

The Group's **share of results of associates and joint ventures (after tax)** increased from €35 million for the nine month period ended 31 December 2009 to €49 million for the twelve month period ended 31 December 2010. This increase is primarily attributable to the longer reporting period.

### 1.3.3 Operating income (net of insurance claims)

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

	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
<b>Net interest income / Net interest margin</b>		
Net interest income (including cost of the ELG Scheme)	2,236	2,112
Cost of ELG Scheme <sup>1</sup>	275	-
<b>Net interest income (excluding cost of the ELG Scheme)</b>	<b>2,511</b>	<b>2,112</b>
IFRS income classifications	(175)	(71)
<b>Net interest income (excluding cost of the ELG Scheme) after IFRS income classifications</b>	<b>2,336</b>	<b>2,041</b>
<b>Average interest earning assets (€bn)</b>	<b>160</b>	<b>172</b>
<b>Net interest margin (annualised)</b>	<b>1.46%</b>	<b>1.59%</b>

\* During 2010 the Group changed the reported presentation of the results of two of its subsidiaries such that the income and operating expenses are presented on separate line items in the Income Statement. To facilitate a more meaningful comparison a similar presentation has now been adopted in the nine month period ended 31 December 2009. This has led to a decrease in net interest income of €9 million, an increase in other income of €17 million and an increase in operating expenses of €8 million as compared with the amounts previously reported for these line items.

**Net interest income (excluding cost of the Eligible Liability Guarantee (ELG) Scheme and after IFRS income classifications)** of €2,336 million for the twelve month period ended 31 December 2010 has increased by €295 million compared to €2,041 million for the nine month period ended 31 December 2009. The increase of €295 million is primarily due to the longer reporting period, partly offset by lower net interest income due to a 7% reduction in average earning assets in 2010 together with a lower net interest margin of 1.46% in the twelve month period ended 31 December 2010 compared with 1.59% (annualised) in the nine month period ended 31 December 2009.

The cost of the Eligible Liabilities Guarantee (ELG) Scheme, which the Group joined in January 2010, was €275 million in 2010.

The key drivers of the margin decrease of 13 basis points (annualised) were as follows:

- 20 basis points decrease due to margin attrition on customer deposits as a result of intense competition and the low interest rate environment;
- 12 basis points decrease due to higher costs of wholesale funding;
- 2 basis points decrease due to lower treasury income; and
- 2 basis points decrease due to balance sheet structure and lower earnings on capital partly offset by an improved asset mix.

partly offset by:

- 23 basis points increase due to higher asset pricing.

<sup>1</sup> As the fees payable under the ELG Scheme are directly attributable to and incremental to the issue of a security or the raising of a deposit, they are included in the calculation of the effective interest rate of that security or deposit and classified, under accounting rules, as part of 'Net interest income'. The fees payable under the Credit Institutions Financial Support (CIFS) Scheme relate to the average balances of covered liabilities during the period, including liabilities that may have existed at the date of the introduction of the scheme. Therefore they are not directly attributable to or incremental to the issue of a specific security or the raising of a deposit and, under accounting rules, are classified as part of 'Net other income'. The CIFS Guarantee Scheme expired 29 September 2010.

## Net other income

	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
<b>Net other income</b>		
Net other income	566	339
IFRS income classifications	175	71
<b>Net other income after IFRS income classifications</b>	<b>741</b>	<b>410</b>

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

	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m	Change €m
<b>Net other income after IFRS income classifications</b>			
Other income from Banking and Capital Markets businesses	624	532	92
Other income from Bank of Ireland Life	164	130	34
	<b>788</b>	<b>662</b>	<b>126</b>
<b>Other Items:</b>			
Change in valuation of international investment properties	26	(62)	88
European property investment provision	-	(74)	74
Gain / (loss) arising on the unwind of the fair value hedge adjustment on subordinated liabilities following liability management exercises	17	(28)	45
Government guarantee charge (CIFS) <sup>1</sup>	(68)	(105)	37
Impact of credit deterioration on the fair value of derivatives held for sale to NAMA	(31)	-	(31)
Investment variance - Bank of Ireland Life	9	23	(14)
Guggenheim / Iridian (disposed during 2009)	-	12	(12)
Other items	-	(18)	18
<b>Total other items</b>	<b>(47)</b>	<b>(252)</b>	<b>205</b>
<b>Net other income after IFRS income classifications</b>	<b>741</b>	<b>410</b>	<b>331</b>

\* A number of reclassifications have been made to the Income Statement for the nine month period ended 31 December 2009:

- During 2010 the Group changed the reported presentation of the results of two of its subsidiaries such that the income and operating expenses are presented on separate line items in the Income Statement. To facilitate a more meaningful comparison a similar presentation has now been adopted in the nine month period ended 31 December 2009. This has led to a decrease in net interest income of €9 million, an increase in other income of €17 million and an increase in operating expenses of €8 million as compared with the amounts previously reported for these line items.
- The charge of €6 million arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss' has been reclassified as a non-core item.

<sup>1</sup> The fees payable under the Credit Institutions Financial Support (CIFS) Scheme relate to the average balances of covered liabilities during the period, including liabilities that may have existed at the date of the introduction of the scheme. Therefore they are not directly attributable to or incremental to the issue of a specific security or the raising of a deposit and, under accounting rules, are classified as part of 'Net other income'. The CIFS Guarantee Scheme expired 29 September 2010.

**Net other income**, after adjusting for IFRS income classifications, for the twelve month period ended 31 December 2010 increased by €331 million compared to the nine month period ended 31 December 2009.

This increase reflects:

- lower levels of fees and charges in the Banking and Capital Markets businesses offset by the longer reporting period; and
- higher operating income in Bank of Ireland Life (BoI Life), together with the impact of the longer reporting period partly offset by the impact of economic assumption changes.

The principal other items within Net other income, after IFRS income classifications, which amount to a charge of €47 million (net) for the twelve month period ended 31 December 2010 were €205 million lower than the charge of €252 million (net) for the nine month period ended 31 December 2009, due primarily to:

- a positive movement of €88 million due to the change in value of investment properties. In the nine month period ended 31 December 2009 investment properties held on the Group's balance sheet fell in value by €62 million reflecting depressed yields in very uncertain markets. There was some recovery in the value of international investment properties in the twelve month period ended 31 December 2010 which was the principal driver of the gain of €26 million in this period;
- a provision of €74 million in the nine month period ended 31 December 2009 relating to a court hearing in connection with a European property investment;
- a gain of €17 million arose in the twelve month period ended 31 December 2010, on the unwind of the fair value hedge adjustment associated with fixed rate subordinated bonds following liability management exercises, compared to a charge of €28 million in the nine month period ended 31 December 2009;
- a charge of €68 million relating to the CIFS Guarantee Scheme in the twelve month period ended 31 December 2010. This was €37 million lower than the equivalent charge of €105 million in the nine month period ended 31 December 2009. The CIFS Guarantee Scheme expired on 29 September 2010;
- a charge of €31 million in the twelve month period ended 31 December 2010 arising from the impact of credit deterioration on the fair value of derivatives held for sale to NAMA;
- a reduction of €14 million in the investment variance in Bank of Ireland Life with investment returns at more normalised levels in the twelve month period ended 31 December 2010 compared to the strong recovery seen in world equity and investment markets in the nine month period ended 31 December 2009; and
- reduced fees from asset management activities of €12 million arising from the disposal of Guggenheim Alternative Asset Management LLC (Guggenheim) in June 2009 and Iridian Asset Management LLC (Iridian) in August 2009.

### 1.3.4 Operating expenses

**Operating expenses** of €1,785 million for the twelve month period ended 31 December 2010 were €390 million higher when compared to operating expenses of €1,395 million for the nine month period ended 31 December 2009 due to the longer reporting period partly offset by lower staff numbers, a reduction in pension costs and continued tight management of all costs.

	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
<b>Operating expenses</b>		
Staff costs (excluding pension costs)	836	640
Pension costs	174	149
Other costs	775	606
<b>Total Operating expenses</b>	<b>1,785</b>	<b>1,395</b>
<b>Average staff numbers (full time equivalents)</b>	<b>14,284</b>	<b>14,755</b>

\* A number of reclassifications have been made to the Income Statement for the nine month period ended 31 December 2009:

- The impairment charge on intangible assets of €6 million is shown in operating expenses where previously it had been shown as a separate line item.
- During 2010 the Group changed the reported presentation of the results of two of its subsidiaries such that the income and operating expenses are presented on separate line items in the Income Statement. To facilitate a more meaningful comparison a similar presentation has now been adopted in the nine month period ended 31 December 2009. This has led to a decrease in net interest income of €9 million, an increase in other income of €17 million and an increase in operating expenses of €8 million as compared with the amounts previously reported for these line items.

**Staff costs (excluding pension costs)** of €836 million for the twelve month period ended 31 December 2010 were €196 million higher when compared to €640 million for the nine month period ended 31 December 2009 as a result of the longer reporting period partly offset by lower staff numbers. Average staff numbers (full time equivalents) for the twelve month period ended 31 December 2010 were 471 lower compared to average staff numbers (full time equivalents) for the nine month period ended 31 December 2009.

During 2010, the Group completed its review of its defined benefit pension schemes and has made changes to pension benefits under these schemes. **Pension costs** of €174 million for the twelve month period ended 31 December 2010 were €25 million higher when compared to the pension costs for the nine month period ended 31 December 2009 due to the longer reporting period partly offset by the changes to the pension benefits arising from the above review.

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



### 1.3.5 Impairment Charges on Loans and Advances to Customers

The ongoing economic downturn, high levels of unemployment, lower disposable income, falling asset values, poor consumer sentiment, business insolvencies and low levels of transactions and illiquidity in property markets are the key drivers of the impairment charges across the Group's loan portfolios.

The **impairment charges on loans and advances to customers** of €1,887 million for the twelve month period ended 31 December 2010 decreased by €484 million compared to the impairment charge of €2,371 million for the nine month period ended 31 December 2009 reflecting the lower impairment charges on the Property and construction portfolio, the Non-property SME and corporate portfolio as well as the Consumer portfolio, partly offset by the higher impairment charges on Residential mortgages.

	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
<b>Impairment charge on loans and advances to customers</b>		
Residential mortgages	407	231
Non-property SME and corporate	609	655
Property and construction	744	1,319
Consumer	127	166
<b>Impairment charge on loans and advances to customers</b>	<b>1,887</b>	<b>2,371</b>

\* The impairment charge on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).

The impairment charge on Residential mortgages increased by €176 million from €231 million for the nine month period ended 31 December 2009 to €407 million for the twelve month period ended 31 December 2010. The ongoing economic slowdown in Ireland including lower levels of employment, reduced disposable income and falling house prices continued to adversely impact the level of mortgage arrears which increased significantly in 2010. In addition the buy to let element of the Irish residential investment loan book was impacted by lower demand for rental properties caused in part by net migration out of Ireland which, together with the existing levels of over supply in the housing market put downward pressure on rental income. This has led to an increase in impaired loans with a corresponding increase in the impairment charge. The housing market in Ireland is now not expected to stabilise until at least late 2012 and the Group has revised its expectation of house price decline such that it now expects prices to reduce by up to 55% (previous expectation 45%) from their peak level in the fourth quarter of 2006. In the UK the level of Residential mortgage arrears is up marginally year on year and the associated impairment charge is below expectations.

The impairment charge on the Non-property SME and corporate loan portfolio was €609 million for the twelve month period ended 31 December 2010 compared to €655 million for the nine month period ended 31 December 2009. Despite the longer reporting period the impairment charge on this portfolio has reduced. The more favourable global outlook means that larger corporate customers who are focused internationally continue to perform better. Losses in Corporate Banking in the twelve month period ended 31 December 2010 are significantly lower than in the nine month period ended 31 December 2009. In particular, the leveraged acquisition finance portfolio which is very well spread geographically and sectorally has benefitted from the global economic recovery and has achieved some provision write-backs. However the stressed economic conditions in Ireland, a continuation of poor consumer sentiment and the heightened level of business insolvencies have negatively impacted trading conditions and caused general pressure on the Non-property SME sector. Those SME sectors correlated with consumer spending are particularly impacted. As a result for these SME sectors, the level of impaired loans and the related impairment charges and impairment provisions have increased.

The impairment charge of €744 million on the Property and construction portfolio for the twelve month period ended 31 December 2010 has decreased by €575 million compared to the impairment charge of €1,319 million for the nine month period ended 31 December 2009. The Property and construction portfolio amounted to €24.4 billion at 31 December 2010 comprising of €19.8 billion of investment property loans and €4.6 billion of land and development loans.

The impairment charge on the investment property element of the Property and construction portfolio was €445 million for the twelve month period ended 31 December 2010 compared to €308 million for the nine month period ended 31 December 2009. Impairment charges on the investment property loan book have increased due to the longer reporting period and due to the impact of underlying economic conditions, reduced asset values and low levels of transactions and illiquidity in property markets which have continued, particularly in Ireland, to reduce rental flows and delay recovery prospects. There are few transactions in the Irish commercial property sector due to a lack of risk appetite among investors given the current economic downturn and the uncertainties that exist in the Irish property market.

The impairment charge on the land and development element of the Property and construction portfolio was €299 million for the twelve month period ended 31 December 2010 compared to €1,011 million for the nine month period ended 31 December 2009. The impairment charge in the nine month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, oversupply of residential housing stock in Ireland and generally weak economic conditions, particularly in Ireland. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to investor uncertainty.

The impairment charge of €127 million on the Consumer loan book for the twelve month period ended 31 December 2010 is €39 million lower compared to the impairment charge of €166 million for the nine month period ended 31 December 2009 despite the longer reporting period as the default rates are better than expected. In addition the loan book has reduced faster than expected reflecting debt repayment and a dearth of demand for new loans and other credit facilities.

The Group maintains its expectations that the impairment charges on the loans and advances to customers (excluding assets sold or held for sale to NAMA) peaked in 2009, reduced in 2010, with anticipated further reductions in subsequent years.

A detailed analysis and commentary on asset quality is set out on pages 114 to 127 of the Risk Management Report.

### 1.3.6 Impairment charge on available for sale financial assets (AFS)

In the twelve month period ended 31 December 2010, the Group incurred impairment charges of €168 million on assets in its AFS portfolio. This includes a charge of €98 million on a holding of subordinated debt issued by Allied Irish Banks plc. The Group exchanged these bonds for cash in January 2011 without further loss. In addition the Group incurred an impairment charge of €70 million on NAMA subordinated bonds following the decision by NAMA not to pay the discretionary coupon due on 1 March 2011.

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Impairment charge on available for sale financial assets</b>		
Allied Irish Banks plc subordinated bonds	98	-
NAMA subordinated bonds	70	-
Other	-	2
<b>Impairment charge on available for sale financial assets</b>	<b>168</b>	<b>2</b>

### 1.3.7 Impairment charge on assets sold or held for sale to NAMA

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

The **impairment charge on assets sold or held for sale to NAMA** of €229 million for the twelve month period ended 31 December 2010 reduced by €1,455 million compared to the impairment charge of €1,684 million for the nine month period ended 31 December 2009.

	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
<b>Impairment charge on assets sold or held for sale to NAMA</b>		
Residential mortgages	10	6
Non-property SME and corporate	14	4
Property and construction	205	1,674
<b>Impairment charge on assets sold or held for sale to NAMA</b>	<b>229</b>	<b>1,684</b>

\* The impairment charges on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).

The impairment charge of €205 million on the Property and construction portfolio held for sale to NAMA for the twelve month period ended 31 December 2010 has decreased by €1,469 million compared to the impairment charge of €1,674 million for the nine month period ended 31 December 2009. The impairment charge in the nine month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, oversupply of residential housing stock in Ireland and generally weak economic conditions, particularly in Ireland. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to investor uncertainty.

The Property and construction impairment charge of €205 million in the twelve month period ended 31 December 2010 reflects the impact of underlying economic conditions, reduced asset values and continuing low levels of transactions and illiquidity in property markets.

### 1.3.8 Loss on sale of assets to NAMA

The loss on sale of assets to NAMA reflects those assets that were sold to NAMA in the twelve month period ended 31 December 2010 as set out below.

Loss on sale of assets to NAMA	12 months ended 31 December 2010	
	€m	€m
Loans sold to NAMA (nominal value)		9,340
Derivatives sold to NAMA (fair value)		61
		9,401
<b>Nominal value of consideration</b>		
- NAMA senior bonds	(4,970)	
- NAMA subordinated debt	(262)	(5,232)
Discount on gross asset value		4,169
Impairment provisions at date of sale		(2,237)
<b>Other items</b>		
Fair value adjustments on consideration, provision for servicing liability and other related sale costs		309
<b>Loss on sale of assets to NAMA</b>		<b>2,241</b>

During the twelve month period ended 31 December 2010, the Group sold €9.4 billion of assets (before impairment provisions) to NAMA. The nominal consideration for these assets amounted to €5.2 billion resulting in a gross discount of 44%<sup>1</sup>. At 31 December 2010, the Group still held as eligible for sale to NAMA €0.9 billion of assets (before impairment provisions), where the Group has an individual customer / sponsor exposure of greater than €20 million. The Group expects that the discount on the sale of these assets to NAMA will be less than the average discount on assets sold prior to 31 December 2010.

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

### 1.3.9 Non-core items

Underlying performance excludes non-core items which are those items that the Group believe obscures the underlying performance trends in the business. The Group has treated the following items as non-core in the twelve month period ended 31 December 2010:

#### Gain on liability management exercises

Following the successful completion of liability management exercises during the twelve month period ended 31 December 2010 the Group recognised a gain of €1,413 million in its income statement as follows:

- a gain of €423 million was recognised following the completion, in February 2010, of an exchange of certain Lower tier 2 securities for a new series of longer dated Lower tier 2 securities;
- a gain of €287 million was recognised as part of the Group's capital raising initiative in 2010, arising from the Debt for Equity Exchange Offers where existing holders of eligible debt securities were offered the opportunity to exchange those securities for (a) cash proceeds raised from the allotment of ordinary stock on behalf of these bond holders in the rights issue or (b) allotment instruments which converted into ordinary stock in September 2010. Of this gain €11 million arose on the conversion of the allotment instrument into ordinary stock in September 2010, and is reported in the Income Statement as set out on page 16;
- a gain of €12 million was recognised following the completion in July 2010 of a private exchange of certain Lower tier 2 securities for a new longer dated Lower tier 2 security; and
- a gain of €691 million was recognised following the completion in December 2010 of an exchange of certain Lower tier 2 securities for a new series of senior debt securities.

In the nine month period ended 31 December 2009 the Group successfully completed a liability management exercise involving the repurchase of €1.7 billion nominal value of euro, sterling and US dollar denominated Tier 1 securities and generated a gain of €1,037 million.

Further details are set out in note 9 on page 233.

#### Impact of changes in pension benefits

At 31 December 2009, the IAS 19 deficit in the Group's defined benefit pension schemes was €1.6 billion. The most significant defined benefit pension scheme sponsored by the Group is the Bank of Ireland Staff Pensions Fund (BSPF) which accounted for approximately 80% of the total deficit across all the schemes. The Group completed a review of its defined benefit pension schemes in April 2010 and a shared solution to address the deficit in the BSPF and other defined benefit schemes, involving the members of the schemes and the Group, was developed.

By 31 December 2010, the shared solution was implemented in respect of the members of the BSPF and the active members of the Bank of Ireland Finance Limited Pension Scheme, the NIIB Group Limited (1975) Pension scheme, the Bank of Ireland (IOM) Pension Scheme and the Bank of Ireland Affiliated Pension Fund (formerly known as the Bank of Ireland Asset Management (BIAM) Pension Scheme).

Based on the status of implementation of the shared solution at 31 December 2010, the Group has recognised a reduction in the deficit of the above pension schemes of €733 million net of any directly related expenses. The Group has recognised this amount as a non-core gain in the income statement.

Further details are set out in note 45 on page 271.

#### Gains / (charges) arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'

The gain of €360 million recognised during the twelve month period ended 31 December 2010, arising from the impact of the change in credit spreads relating to the Group's issued notes and other deposits accounted for at 'fair value through profit or loss', has been classified as non-core. These liabilities consist of certain subordinated debt, certain structured senior debt and tracker deposits.

The Group has also reclassified as non-core the charge of €6 million on these liabilities arising from changes in the Group's credit spreads during the nine month period ended 31 December 2009.

**Impact of 'coupon stopper' on subordinated debt**

In January 2010 the European Commission imposed restrictions on the Group's ability to make coupon payments on certain subordinated liabilities unless under a binding legal obligation to do so (a 'coupon stopper' provision). On 31 December 2009 the Group expected that it would be precluded from making coupon payments for the two subsequent years and therefore, under the effective interest rate method of accounting, the Group recognised a gain of €67 million in its financial statements for the nine months ended 31 December 2009. The European Commission confirmed on 15 July 2010 that the 'coupon stopper' provision would cease on 31 January 2011. Consequently the Group has recognised a charge of €36 million in the twelve month period ended 31 December 2010 to reflect this change.

**Gross-up for policyholder tax in the Life business**

Accounting standards require that the income statement be grossed up in respect of the total tax payable by Bank of Ireland Life, comprising both policyholder and stockholder tax. The tax gross-up relating to policyholder tax is included within non-core items.

**Investment return on treasury stock held for policyholders**

Under accounting standards, the Group income statement excludes the impact of the change in value of Bank of Ireland stock held by Bank of Ireland Life for policyholders. The gain of €20 million reflects the impact of the stock price movement between 31 December 2009 and 31 December 2010 and the number of units of Bank of Ireland stock held by Bank of Ireland during that period. Units of stock held by Bank of Ireland Life for policyholders at 31 December 2010 were six million (31 December 2009: eleven million).

**Cost of restructuring programmes**

To support the objective to continue to become more focused and efficient the Group announced in July 2010 that, in addition to continued pay restraints, it has commenced a programme for a reduction of approximately 750 in the number of people employed by the Group primarily in areas affected by business change and lower activity levels.

On 4 November 2010, the Group announced the initial phase of this programme which included measures to consolidate and transition a number of business support activities from Belfast and London to the Group's existing operations in Dublin and Bristol which impacted approximately 270 staff. In the twelve month period ended 31 December 2010 the Group incurred costs of €18 million in relation to this restructuring.

**Gain / (loss) on disposal of business activities**

Gain or loss on disposal of business activities includes the gain or loss recognised on the disposal of those activities as well as any subsequent re-measurement of the consideration received or related liabilities.

**1.3.10 Taxation**

The taxation credit for the Group was €341 million for the twelve month period ended 31 December 2010 compared to a taxation credit of €344 million for the nine month period ended 31 December 2009 due to losses incurred in both periods together with the impact of the non-core items (see note 19 on page 241).

Excluding the impact of the non-core items, the effective tax rate for the twelve month period ended 31 December 2010 is 14% (taxation credit), compared to 16% (taxation credit) for the nine month period ended 31 December 2009.

The UK Government announced the introduction of an annual bank levy in their 2010 Budget. The introduction of this levy is not expected to result in a material charge to the Group in the year to 31 December 2011.

## 1.4 Group Balance Sheet

### 1.4.1 Summary Consolidated Balance Sheet

Summary Consolidated Balance Sheet	31 December 2010 €bn	31 December 2009 €bn	Change %
Loans and advances to customers (after impairment provisions)	114	119	(4%)
Assets held for sale to NAMA (after impairment provisions)	1	10	(92%)
Liquid assets	30	31	(3%)
Other assets	22	21	4%
<b>Total assets</b>	<b>167</b>	<b>181</b>	<b>(8%)</b>
Customer deposits	65	85	(23%)
Wholesale funding	70	61	14%
Subordinated liabilities	3	6	(54%)
Other liabilities	22	23	(6%)
<b>Total liabilities</b>	<b>160</b>	<b>175</b>	<b>(9%)</b>
Stockholders' equity	7	6	16%
<b>Total liabilities and stockholders' equity</b>	<b>167</b>	<b>181</b>	<b>(8%)</b>

### 1.4.2 Loans and advances to customers

The Group's loans and advances to customers (after impairment provisions) at 31 December 2010 of €114 billion reflects a decrease of 4% when compared to the Group's loans and advances to customers of €119 billion at 31 December 2009. On a constant currency basis the Group's loans and advances to customers (after impairment provisions) at 31 December 2010 fell by 6% when compared to the Group's loans and advances to customers of €119 billion at 31 December 2009.

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

Composition by division Loans and advances to customers	31 December 2010		31 December 2009	
	€bn	%	€bn	%
Retail Republic of Ireland	50	42%	51	42%
UK Financial Services	49	41%	49	40%
UK Financial Services (Stg£bn equivalent)	42	-	44	-
Capital Markets	20	17%	22	18%
<b>Loans and advances to customers (before impairment provisions)</b>	<b>119</b>	<b>100%</b>	<b>122</b>	<b>100%</b>
Impairment provisions	(5)		(3)	
<b>Loans and advances to customers (after impairment provisions)</b>	<b>114</b>		<b>119</b>	

Composition by portfolio Loans and advances to customers	31 December 2010		31 December 2009	
	€bn	%	€bn	%
Residential mortgages	60	51%	60	49%
- Retail Republic of Ireland	28	-	28	-
- UK Financial Services	32	-	32	-
- UK Financial Services ( <i>Stg£bn equivalent</i> )	28	-	29	-
Non-property SME and corporate	31	26%	34	28%
Property and construction	24	20%	24	19%
- Investment	20	-	21	-
- Land and development	4	-	3	-
Consumer	4	3%	4	4%
<b>Loans and advances to customers (before impairment provisions)</b>	<b>119</b>	<b>100%</b>	<b>122</b>	<b>100%</b>
Impairment provisions	(5)		(3)	
<b>Loans and advances to customers (after impairment provisions)</b>	<b>114</b>		<b>119</b>	

Residential mortgages of €60 billion (before impairment provisions) at 31 December 2010 are in line with 31 December 2009. The UK mortgage book reduced by £1 billion or 3% in the twelve month period ended 31 December 2010, reflecting the continued run off of the intermediary sourced mortgage book with some new lending taking place in POFS.

Non-property SME and corporate loans of €31 billion at 31 December 2010 have decreased by €3 billion when compared to the loan book at 31 December 2009 primarily due to muted demand for new lending, actions taken by customers to reduce their levels of debt and deleveraging initiatives undertaken by the Group.

The total Property and construction portfolio of €24 billion at 31 December 2010 remains broadly unchanged since 31 December 2009. The increase in the land and development portfolio is due to the change in the eligibility criteria for assets held for sale to NAMA, as set out in note 28. Of the total portfolio of €24 billion at 31 December 2010, investment property lending amounted to €20 billion and of this €13.1 billion is outside the Republic of Ireland. Of the land and development portfolio of €4 billion, €2.0 million is outside the Republic of Ireland.

Consumer loans of €4 billion at 31 December 2010 continue to decline, reflecting debt repayments and a dearth of demand for new loans and other credit facilities.

The stock of impairment provisions on loans and advances to customers of €5 billion at 31 December 2010 has increased by €2 billion compared to €3 billion at 31 December 2009. This reflects the impairment charge in the twelve month period ended 31 December 2010. See note 29 on page 254.



### 1.4.3 Assets held for sale to NAMA

The Group's assets held for sale to NAMA (after impairment provisions) at 31 December 2010 of €0.8 billion reflects a decrease of €8.8 billion from €9.6 billion (after impairment provisions) at 31 December 2009.

The composition of the Group's assets held for sale to NAMA by portfolio and by division at 31 December 2010 is set out in the tables below:

Composition by division Assets held for sale to NAMA	31 December 2010		31 December 2009	
	€bn	%	€bn	%
Retail Republic of Ireland	-	-	3.5	28%
UK Financial Services	0.7	78%	3.6	29%
<i>UK Financial Services (Stg£bn equivalent)</i>	0.6	-	3.2	-
Capital Markets	0.2	22%	5.3	43%
<b>Assets held for sale to NAMA (before impairment provisions)</b>	<b>0.9</b>	<b>100%</b>	<b>12.4</b>	<b>100%</b>
Impairment provisions	(0.1)	-	(2.8)	-
<b>Assets held for sale to NAMA (after impairment provisions)</b>	<b>0.8</b>	<b>-</b>	<b>9.6</b>	<b>-</b>

Composition by portfolio Assets held for sale to NAMA	31 December 2010		31 December 2009	
	€bn	%	€bn	%
Land and development	0.2	22%	8.5	69%
Associated (principally investment property)	0.7	78%	3.7	30%
Derivatives	-	-	0.2	1%
<b>Assets held for sale to NAMA (before impairment provisions)</b>	<b>0.9</b>	<b>100%</b>	<b>12.4</b>	<b>100%</b>
Impairment provisions	(0.1)	-	(2.8)	-
<b>Assets held for sale to NAMA (after impairment provisions)</b>	<b>0.8</b>	<b>-</b>	<b>9.6</b>	<b>-</b>

The movement in assets held for sale to NAMA and the related impairment provisions during the twelve month period ended 31 December 2010 is shown below:

Movement in assets sold or held for sale to NAMA	Total assets €bn	Impairment provision €bn	Carrying value €bn
Balance at 31 December 2009	12.4	(2.8)	9.6
Sale of assets to NAMA	(9.4)	2.2	(7.2)
New impairment provisions	-	(0.2)	(0.2)
Change in eligibility criteria, net	(2.1)	0.7	(1.4)
<b>Balance at 31 December 2010</b>	<b>0.9</b>	<b>(0.1)</b>	<b>0.8</b>

At 31 December 2010 the Group had assets sold or held for sale to NAMA (before impairment provisions) of €0.9 billion.

The Group expects to incur a loss on the sale of the Eligible Bank Assets<sup>1</sup> to NAMA arising from the difference between the fair value of the consideration to be received and the carrying value of the Eligible Bank Assets to be sold together with the costs of sale and any provision that may be required under accounting standards due to the ongoing cost of servicing these assets on behalf of NAMA. In accordance with accounting standards, the loss on disposal will only be recognised on the actual sale of each tranche of assets to NAMA.

The gross loss on the disposal of the Group's Eligible Bank Assets to NAMA will be a function of three factors: the quantum of those loans, the mix of those loans, as between land and development and associated loans, and the discount that would apply to those loans. Uncertainties remain as to the final discount which will be applicable. The Group estimates that the discount to gross loan value on the remaining loans held for sale to NAMA may be in a range of 20% to 30%. The Group will only be able to accurately quantify the ultimate gross loss on the sale of all the Bank of Eligible Bank Assets to NAMA on completion of the relevant due diligence and the sale of the final portfolio of Eligible Bank Assets to NAMA.

A detailed analysis and commentary on asset quality and impairment is set out on pages 114 to 127 of the Risk Management Report. Further details on assets sold or held for sale to NAMA are set out in note 28 on page 251.

<sup>1</sup> Performing and non-performing land and development loans, together with associated loans (primarily investment property loans).

#### 1.4.4 Liquid Assets

Financial assets are considered to be liquid assets if they are traded in active markets or are available to be pledged against borrowings from monetary authorities and include loans to banks and monetary authorities, available for sale financial assets, NAMA senior bonds and trading securities. The Group's holding of liquid assets at 31 December 2010 of €30 billion of which NAMA senior bonds amounts to €5.1 billion has decreased by €1 billion when compared to 31 December 2009.

As a result of challenging funding markets the Group has extended its usage of liquidity facilities provided by Monetary Authorities by means of both its pool of eligible collateral with the ECB and the additional liquidity facilities provided by the Central Bank. The Group's net funding from these sources increased to €31 billion at 31 December 2010 from €8 billion at 30 June 2010 and €8 billion at 31 December 2009.

The Group has a continuous need for liquidity to fund its business activities. The Central Bank prescribes regulatory liquidity ratios for Irish domestic financial institutions. Compliance with these regulatory liquidity ratios can be adversely impacted by a range of factors including the term of borrowings, the split between unsecured and secured funding and the mix of facilities provided by Monetary Authorities. The Group notified the Central Bank of a temporary breach of regulatory liquidity requirements in January 2011 (that breach was remediated in January 2011) and a breach in April 2011. The breaches have been associated with the contraction in unsecured wholesale funding, changes in the eligibility criteria of the ECB and increased usage of Monetary Authority funding. The Actions agreed with the Central Bank to de-lever the balance sheet post the PLAR exercise are expected to reduce the Group's funding and liquidity risk.

### 1.4.5 Customer Deposits

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

Customer deposits were €65 billion at 31 December 2010 compared to €85 billion at 31 December 2009 as set out in the table below.

Customer deposits	31 December 2010 €bn	31 December 2009 €bn
Retail Republic of Ireland	35	35
- Deposits	24	24
- Current account credit balances	11	11
UK Financial Services	21	21
UK Financial Services (Stg£bn equivalent)	18	19
- POFS	11	9
- Business Banking	7	10
Capital Markets	9	29
<b>Total customer deposits</b>	<b>65</b>	<b>85</b>

In the three months leading up to the announcement by the Irish Government of the EU/IMF Programme on 28 November 2010 there were heightened uncertainties regarding Irish sovereign debt. Customer deposits were negatively impacted during this period of uncertainty which led to significant outflows of ratings sensitive deposits primarily in the Group's Capital Markets and Business Banking UK businesses. Overall the Group's customer deposit volumes have remained broadly stable since 28 November 2010.

Throughout 2010 and despite intense competition, the Group's retail customer deposit base in Ireland has remained stable. The Group's retail deposit gathering activities in its joint venture with the UK Post Office continue to perform well and Post Office Financial Services (POFS) deposits at 31 December 2010 amounted to £11 billion which represents an increase of £2 billion or 22% since 31 December 2009. This growth has continued in the early months of 2011.

Notwithstanding a reduction in loans and advances to customers, the impact of the outflow of ratings sensitive deposits has resulted in a significant increase in the Group's loan to deposit ratio (excluding assets sold or held for sale to NAMA) at 31 December 2010 to 175% compared to 141% at 31 December 2009.

Further details on the Group's funding position are set out on pages 131 to 134 in the Group Risk Management Report.

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

### 1.4.6 Wholesale Funding

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

Wholesale funding sources	31 December 2010		31 December 2009	
	€bn	%	€bn	%
Senior Debt and Asset Covered Securities	23	33%	27	44%
Deposits from banks	41	59%	18	30%
- Secured	38	93%	14	78%
- Unsecured	3	7%	4	22%
Commercial Paper and Certificates of Deposits	1	1%	10	16%
Securitisations	5	7%	6	10%
<b>Total Wholesale Funding</b>	<b>70</b>	<b>100%</b>	<b>61</b>	<b>100%</b>
Wholesale funding > 1 year to maturity	22	32%	20	32%
Wholesale funding < 1 year to maturity	48	68%	41	68%
Drawings from Monetary Authorities (net)	31		8	

Wholesale funding increased to €70 billion at 31 December 2010 compared to €61 billion at 31 December 2009. During the twelve month period ended 31 December 2010 the Group issued €6.8 billion of term funding (funding with a maturity of greater than one year) with an average maturity of 3.3 years and an average spread of 2.4% over 3 month Euribor. At 31 December 2010, 32% of wholesale funding had a term to maturity of greater than one year which remains broadly in line with 31 December 2009.

The credit ratings of Ireland and the Group were subject to multiple notch downgrades during 2010 and in the early months of 2011 as set out in the table below:

Ireland - Senior Debt	5 April 2011	31 December 2010	31 December 2009
Standard & Poor's	BBB+ ( <i>Stable</i> )	A- ( <i>Creditwatch</i> )	AA ( <i>Stable</i> )
Moody's	Baa1 ( <i>Negative</i> )	Baa1 ( <i>Negative</i> )	Aa1 ( <i>Stable</i> )
Fitch	BBB+ ( <i>Rating Watch Negative</i> )	BBB+ ( <i>Stable</i> )	AA- ( <i>Stable</i> )
DBRS	A ( <i>Negative Trend</i> )	A (High) ( <i>Negative Trend</i> )	-
<b>BOI - Senior Debt</b>			
Standard & Poor's	BB+ ( <i>Creditwatch Negative</i> )	BBB+ ( <i>Creditwatch Negative</i> )	A- ( <i>Stable</i> )
Moody's	Ba1 ( <i>Review for possible downgrade</i> )	Baa2 ( <i>Negative</i> )	A1 ( <i>Stable</i> )
Fitch	BBB ( <i>Ratings watch Negative</i> )	BBB ( <i>Stable</i> )	A- ( <i>Stable</i> )
DBRS	BBB (High) ( <i>Negative Trend</i> )	A (High) ( <i>Negative Trend</i> )	AA (Low) ( <i>Stable</i> )

In line with other Irish domestic financial institutions, the Group has experienced a significant deterioration in funding market conditions since the credit rating of Ireland was downgraded on 24 August 2010 which has adversely affected the Group's funding position. The Group has been severely constrained in accessing the term funding markets. As a result the Group has increased its reliance on secured funding from the ECB and the Group has also accessed a range of liquidity facilities from central banks, which include certain additional market wide facilities. Total drawings from Monetary Authorities at 31 December 2010 amounted to €31 billion (net).

Further details on the Group's funding position are set out on pages 131 to 134 in the Group Risk Management Report.

### 1.4.7 Subordinated Liabilities

At 31 December 2010, the Group's subordinated liabilities amounted to €2.8 billion compared to €6.1 billion at 31 December 2009. The reduction of €3 billion during the twelve month period ended 31 December 2010 was due to a series of liability management exercises undertaken by the Group to enhance its capital position as outlined below, together with scheduled repayments.

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

In April 2010, as part of the Group's capital raising initiatives, existing holders of eligible debt securities were offered the opportunity to exchange those securities for (a) cash proceeds raised from the allotment of ordinary stock on behalf of these bond holders in the rights issue or (b) allotment instruments of up to €200 million which automatically converted into ordinary stock in September 2010. Participation in the offer was 57% resulting in a total gain of €300 million in Equity tier 1 capital. See page 37 for more details.

In September 2010, the Group offered holders the opportunity to exchange its outstanding Canadian dollar 400 million fixed / floating dated subordinated notes due in September 2015 for Canadian dollar denominated fixed / floating dated subordinated notes due in September 2018. Participation in the offer was 45% resulting in a total gain of €24 million (net) in Equity tier 1 capital. See page 37 for more details.

In December 2010, the Group completed the exchange of certain Lower tier 2 securities for a new series of senior debt. Approximately €1.4 billion in nominal value of Lower tier 2 securities were exchanged at an average discount of 48% for €0.7 billion in nominal value of the new series of senior debt. This generated Core tier 1 capital of €680 million (after tax) whilst reducing Total capital by €675 million.

On 10 February 2011, the Group announced the exchange of €102 million nominal value of certain Canadian dollar Lower tier 2 securities for €56 million of euro and Canadian dollar medium term notes due in 2012. This generated Core tier 1 capital of €46 million whilst reducing Total capital by €56 million.

### 1.4.8 Stockholders' Equity

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Movements in Stockholders' Equity</b>		
<b>Stockholders' equity at beginning of period</b>	<b>6,387</b>	<b>6,852</b>
Movements:		
Loss attributable to stockholders	(614)	(1,460)
<b>Capital Raising</b>		
- Net new equity capital raised from public markets	1,006	-
Foreign exchange movements	157	117
Cash flow hedge reserve movement	275	82
Pension fund obligations	391	(74)
Available for sale (AFS) reserve movements	(220)	924
Reissue of stock / treasury stock	(7)	(7)
Other movements	(24)	(47)
<b>Stockholders' equity at end of period</b>	<b>7,351</b>	<b>6,387</b>

Stockholders equity increased from €6,387 million at 31 December 2009 to €7,351 million at 31 December 2010.

The loss attributable to stockholders of €614 million for the twelve month period ended 31 December 2010 shows a decrease of €846 million compared to the loss attributable to stockholders of €1,460 million in the nine month period ended 31 December 2009 as set out in section 1.3.1.

During 2010 the Group successfully completed a series of capital raising initiatives which increased its stockholders equity by €1,006 million (net). Further details are set out in section 1.4.11.

Foreign exchange movements relate primarily to the impact on the translation of the Group's net investments in foreign operations arising primarily from the 3.08% weakening of the euro against sterling in the twelve month period ended 31 December 2010.

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

The movement in pension fund obligations is primarily as a result of changes in key assumptions used in the calculation of the schemes' liabilities, including the inflation rate, the discount rate, the rate of increase in salaries and in pensions in payment and the level of commutations, in addition to the increase in asset values resulting from the continued recovery of the global economy.

The AFS reserve movement in the twelve month period ended 31 December 2010 is driven by the impact of wider credit spreads and interest rate changes on the value of the AFS portfolio, partly offset by the transfer of €168 million to the income statement arising on impairment of Allied Irish Bank plc's subordinated debt and the NAMA subordinated bonds. The AFS reserve is expected to reverse as the underlying financial assets mature. See section 1.3.6.

On 21 February 2011 the Group paid the dividends due on its euro and sterling Preference Stock totalling €3.7 million. In addition, on 21 February 2011 the Group paid a dividend totalling €214.5 million on the 2009 Preference Stock (€1.8 billion outstanding) held by the National Pensions Reserve Fund Commission (NPRFC).

### 1.4.9 Other Assets and Other Liabilities

	31 December 2010 €bn	31 December 2009 €bn
<b>Other assets and other liabilities</b>		
Other assets	22	21
Other liabilities	22	23

Other assets, at 31 December 2010, include derivative financial instruments with a positive fair value of €6.4 billion compared to a positive fair value of €5.8 billion at 31 December 2009. The increase of €0.5 billion in the fair value of derivative assets is due to the impact of the movement in interest rates and foreign exchange rates (particularly the Eur / Sterling£ rate) on the positive fair value of derivatives during the twelve month period ended 31 December 2010.

Other liabilities, at 31 December 2010, include derivative financial instruments with a negative fair value of €5.4 billion compared to a negative fair value of €6.0 billion at 31 December 2009. The decrease of €0.6 billion in the fair value of derivative liabilities is due to the impact of the movement in foreign exchange rates (particularly the Eur / Sterling£ rate) and interest rates on the negative fair value of the derivatives during the year ended 31 December 2010.

At 31 December 2010 Bank of Ireland Life assets and liabilities were €12.5 billion, an increase of €0.8 billion compared to €11.7 billion at 31 December 2009, primarily due to favourable returns on policyholder managed funds in the period.

At 31 December 2010, the Group considered that it was likely that the businesses outlined below would be disposed of within the next twelve months and accordingly, the assets and liabilities of these businesses have been reclassified as assets and liabilities held for sale and therefore included within other assets and other liabilities. For further details see page 261.

- Bank of Ireland Asset Management (BIAM) which is an asset management business included within the Capital Markets Division. The sale of BIAM to State Street Global Advisors was concluded in January 2011.
- Bank of Ireland Securities Services (BoISS) which is a securities services business included within the Capital Markets Division. The sale of BoISS to Northern Trust Corporation was announced on 24 February 2011.

- Paul Capital Investments LLC (a private equity fund of funds manager) which is included within the Capital Markets Division.
- Foreign Currency Exchange Corporation which is a US based foreign exchange business included within the Retail Republic of Ireland Division.
- The Group's stake in the Irish Credit Bureau Limited which provides credit assessment services to domestic financial institutions and which is included within the Retail Republic of Ireland Division.

#### 1.4.10 Capital

	31 December 2010 €m	31 December 2009 €m
<b>Risk Weighted Assets (RWA) – Basel II</b>		
<b>Risk Weighted Assets</b>		
Credit risk	71,403	89,785
Market risk	1,964	2,133
Operational risk	5,678	6,415
<b>Total risk weighted assets</b>	<b>79,045</b>	<b>98,333</b>

	31 December 2010 % of RWA €bn	31 December 2009 % of RWA €bn
<b>Key Capital Ratios</b>		
Equity tier 1 (Core tier 1 less preference stock)	7.3% 5.8	5.3% 5.3
Core tier 1	9.7% 7.7	8.9% 8.8
Tier 1	9.7% 7.7	9.8% 9.7
Total capital	11.0% 8.7	13.4% 13.2

Risk Weighted Assets at 31 December 2010 of €79 billion are €19 billion lower than the Risk Weighted Assets of €98 billion at 31 December 2009. This decrease is mainly due to a reduction in the quantum of loans and advances to customers (see section 1.4.2), the impact of the sale of loans to NAMA during the twelve month period ended 31 December 2010 (see section 1.3.8), the impact of the higher level of impaired loans and the increased impairment provisions at 31 December 2010 as compared to 31 December 2009 together with a series of RWA optimisation initiatives partly offset by the impact of a stronger sterling exchange rate.

The Equity tier 1 ratio at 31 December 2010 of 7.3% compares to 5.3% at 31 December 2009. The increase in the ratio is primarily as a result of the capital generating initiatives that were completed during 2010 and the reduction in RWA, partly offset by the loss after tax incurred during the twelve month period ended 31 December 2010.

The Core tier 1 ratio at 31 December 2010 of 9.7% compares to 8.9% at 31 December 2009. The increase in the ratio is primarily as a result of the net capital generating initiatives that were completed during 2010 and the reduction in RWA, partly offset by the loss after tax incurred during the twelve month period ended 31 December 2010.

The Tier 1 ratio at 31 December 2010 of 9.7% compares to 9.8% at 31 December 2009. The reduction in the ratio is primarily due to the loss after tax incurred during the twelve month period ended 31 December 2010, the increase in the expected loss adjustment at 31 December 2010 as compared with 31 December 2009 and the net reduction in subordinated liabilities due to the liability management exercise completed and scheduled repayments during the twelve month period ended 31 December 2010, partly offset by the additional Core tier 1 capital generated during 2010 and the reduction in RWA at 31 December 2010 as compared to 31 December 2009.

The Total capital ratio at 31 December 2010 of 11.0% compares to 13.4% at 31 December 2009. The reduction in the ratio is primarily due to the loss after tax incurred during the twelve month period ended 31 December 2010, the increase in the expected loss adjustment at 31 December 2010 as compared with 31 December 2009 and the net reduction in subordinated liabilities due to the liability management exercise completed and scheduled repayments during the twelve month period ended 31 December 2010, partly offset by the additional Core tier 1 capital generated during 2010 and the reduction in RWA at 31 December 2010 as compared to 31 December 2009.

Further details are set out on pages 145 to 150.

### 1.4.11 Capital raising initiatives

#### Debt for debt exchanges

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

In July 2010 the Group recognised a gain of €12 million following the completion of a private exchange of certain Lower tier 2 securities for a new longer dated Lower tier 2 security.

In December 2010 the Group completed the exchange of certain Lower tier 2 securities for a new series of subordinated notes. Approximately €1.4 billion in nominal value of Lower tier 2 securities were exchanged at an average discount of 48% for €0.7 billion in nominal value of the new series of subordinated notes. This yielded a net gain to Equity tier 1 capital of €680 million (after tax).

#### Payment in kind coupon on the 2009 Preference Stock

In January 2010 the European Commission imposed restrictions on the Group's ability to make coupon payments on its Tier 1 and Upper tier 2 securities unless under a binding legal obligation to do so. The Group announced that the non-cumulative distribution on the LP2 Securities and the LP3 Securities, which would otherwise have been payable on 1 February 2010 and 4 February 2010 respectively, would not be paid. The effect of this decision by the Group was to trigger the 'dividend stopper' provisions of the LP2 Securities. Under the 'dividend stopper', the Group was precluded, for a period of one calendar year, from and including 1 February 2010, from declaring and making any distribution or dividend payments on its Ordinary Stock, the 1992 Preference Stock, the 2009 Preference Stock, the Hybrid / Preferred Securities and the Asset Covered Security Mortgages (ACSM) Hybrids.

As a consequence of this, on 22 February 2010 the Group issued 184,394,378 units of Ordinary Stock to the National Pension Reserve Fund Commission (NPRFC) in lieu of the cash dividend otherwise due on the 2009 Preference Stock. Further details are set out in note 49 on page 254.

#### 2010 Capital raising

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

On 9 September 2010 the allotment instruments issued as a part of Debt for Equity exchange converted into 71,990,958 shares at a conversion price of 85.1103 cent which generated an increase in Total capital of €59 million.

The table below sets out the Equity capital raising completed in the twelve month period ended 31 December 2010. In addition to the €2.9 billion capital raising, the Group also generated a further €1.1 billion as a result of debt for debt exchanges during the twelve month period ended 31 December 2010, as set out above.

Capital raised	Private sources €m	Government sources <sup>1</sup> €m	Equity tier 1 capital raised €m	Net impact on stockholders equity (excluding amounts recognised in the income statement) €m
Placing	500	1,036 <sup>1</sup>	1,536	500
Rights Issue	1,099	627 <sup>1</sup>	1,726	1,099
Gain on Debt for Equity Offers	300 <sup>2</sup>	-	300	24 <sup>2</sup>
Redemption of floating rate notes (see note 9)	(53) <sup>2</sup>	-	(53)	(53)
Conversion of Allotment instruments to equity	59 <sup>3</sup>	-	59	48
	<b>1,905</b>	<b>1,663</b>	<b>3,568</b>	<b>1,618</b>
Less:				
Warrant Cancellation	-	(491) <sup>4</sup>	(491)	(491)
Fees and other costs	(78)	(52)	(130) <sup>5</sup>	(121)
<b>Net additional total / equity capital raised</b>	<b>1,827</b>	<b>1,120</b>	<b>2,947</b>	<b>1,006</b>

<sup>1</sup> The Irish Government subscribed for the new ordinary equity by converting at par a portion of its holding of the 2009 Preference Stock.

<sup>2</sup> Of this gain of €300 million, €276 million was recognised in the income statement in the twelve month period ended 31 December 2010 and €24 million was recognised directly in equity. The amount recognised in equity related to the net gain after transaction costs on the debt for equity offer on the floating rate notes, being the fair value of the consideration paid of €29 million less the carrying value of the notes of €53 million.

<sup>3</sup> Of this amount of €59 million, €11 million was recognised in the income statement in the twelve month period ended 31 December 2010 and €48 million was recognised directly in equity.

<sup>4</sup> Warrants held by the NPRFC were cancelled in return for the payment of €491 million in cash by the bank to the NPRFC. See note 49.

<sup>5</sup> Of the total fees and other costs of €130 million, €9 million was recognised in the income statement and €121 million was recognised directly in equity.



In addition to the above capital raising initiatives completed in 2010, the following initiatives have been completed in 2011:

- On 10 January 2011, the Group completed the sale of Bank of Ireland Asset Management to State Street Global Advisors for a total consideration of €57 million. This generated Core tier 1 capital of approximately €40 million.
- On 10 February 2011, the Group announced the exchange of €102 million nominal value of certain Canadian dollar Lower tier 2 securities for €56 million of euro and Canadian dollar Medium Term Notes due in 2012. This generated Core tier 1 capital of €46 million whilst reducing Total capital by €56 million.
- On 24 February 2011, the Group announced the sale of BoISS to Northern Trust Corporation. This sale is expected to generate Equity tier 1 capital of approximately €40 million for the Group in 2011.

For information in relation to the impact of 2011 PCAR on the Group, please see section 1.2.1.

## 1.5 Divisional Performance - on an Underlying \*\* basis

	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
<b>Underlying ** loss before tax</b>		
Retail Republic of Ireland	(1,467)	(1,514)
Bank of Ireland Life	70	69
UK Financial Services	(558)	(805)
UK Financial Services (Stg£ million equivalent)	(480)	(720)
Capital Markets	(973)	(600)
Group Centre	(531)	(116)
<b>Underlying ** Loss before tax</b>	<b>(3,459)</b>	<b>(2,966)</b>
Non-core items	2,509	1,153
<b>Loss Before Tax</b>	<b>(950)</b>	<b>(1,813)</b>

\* A number of reclassifications have been made to the Income Statement for the nine month period ended 31 December 2009:

- The impairment charges on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).
- The impairment charge on intangible assets of €6 million is shown in operating expenses where previously it had been shown as a separate line item.
- The charge of €6 million arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss' has been reclassified as a non-core item.

\*\* Underlying excludes the impact of non-core items (see page 16).

### 1.5.1 Retail Republic of Ireland

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

The twelve month period ended 31 December 2010 remained particularly difficult for the Retail businesses in Ireland which continued to be adversely impacted by the ongoing economic downturn. The current economic environment together with lower disposable incomes has resulted in subdued demand for lending and other financial services products. Intense competition for deposits and the low interest rate environment resulted in a significant reduction in deposit margins. The impairment charge on loans and advances to customers remains elevated due to the economic downturn, high levels of unemployment and low levels of transactions in both the residential and commercial property markets.

	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
<b>Retail Republic of Ireland: Income statement</b>		
Net interest income	1,010	879
Net other income	347	129
<b>Operating income</b>	<b>1,357</b>	<b>1,008</b>
Operating expenses	(919)	(694)
<b>Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA</b>	<b>438</b>	<b>314</b>
Impairment charge on loans and advances to customers	(1,157)	(1,272)
Assets sold or held for sale to NAMA:		
- Impairment charge on assets sold or held for sale to NAMA	(85)	(564)
- Loss on sale of assets to NAMA	(675)	-
Share of results of associates and joint ventures (after tax)	12	8
<b>Underlying ** loss before tax</b>	<b>(1,467)</b>	<b>(1,514)</b>
<b>Cost / income ratio</b>	<b>67%</b>	<b>68%</b>

\* A number of reclassifications have been made to the Income Statement for the nine month period ended 31 December 2009:

- The impairment charges on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).
- The impairment charge on intangible assets of €6 million is shown in operating expenses where previously it had been shown as a separate line item.
- During 2010 the Group changed the reported presentation of the results of two of its subsidiaries such that the income and operating expenses are presented on separate line items in the Income Statement. To facilitate a more meaningful comparison a similar presentation has now been adopted in the nine month period ended 31 December 2009. This has led to a decrease in net interest income of €9 million, an increase in other income of €17 million and an increase in operating expenses of €8 million as compared with the amounts previously reported for these line items.

\*\* Underlying excludes the impact of non-core items (see page 16)

Retail Republic of Ireland incurred an underlying loss before tax of €1,467 million for the twelve month period ended 31 December 2010 compared to an underlying loss before tax of €1,514 million for the nine month period ended 31 December 2009.

**Net interest income** of €1,010 million for the twelve month period ended 31 December 2010 is €131 million higher than the Net interest income of €879 million for the nine month period ended 31 December 2009. The increase is due to the longer reporting period, improved asset pricing partly offset by the higher cost of deposits arising from intense competition, the low interest rate environment and the higher cost of wholesale funding.

**Net other income** of €347 million for the twelve month period ended 31 December 2010 is €218 million higher than Net other income of €129 million for the nine month period ended 31 December 2009. This increase arises primarily as a result of the longer reporting period, changes in the market values of some international investment properties together with a provision of €74 million required in the nine month period ended 31 December 2009. In the nine month period ended 31 December 2009, the investment properties fell in value by €52 million while there was a partial recovery of €31 million in the value of certain of these investment properties in the twelve month period ended 31 December 2010.

**Operating expenses** of €919 million for the twelve month period ended 31 December 2010 have increased by €225 million compared to €694 million for the nine month period ended 31 December 2009. This increase is due to the longer reporting period and is partly offset by reduced staff costs and continued tight management of all other costs.

**Operating profit** (before impairment charges on financial assets and loss on sale of assets to NAMA) of €438 million for the twelve month period ended 31 December 2010 increased by €124 million compared to the operating profit (before impairment charges on financial assets and loss on sale of assets to NAMA) of €314 million for the nine month period ended 31 December 2009.

**Impairment charges on loans and advances to customers** of €1,157 million for the twelve month period ended 31 December 2010 is €115 million lower compared to the impairment charges of €1,272 million for the nine month period ended 31 December 2009. Impairment charges remain elevated due to the economic downturn, high levels of unemployment and low levels of transactions in both the residential and commercial property markets.

	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
<b>Impairment charge on loans and advances to customers</b>		
Residential mortgages	344	159
Non-property SME and corporate	291	339
Property and construction	432	633
Consumer	90	141
<b>Impairment charge on loans and advances to customers</b>	<b>1,157</b>	<b>1,272</b>

\* The impairment charges on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Residential mortgages impairment charges*</b>		
Owner-occupied mortgages	176	101
Buy to let mortgages	178	64
<b>Residential mortgages</b>	<b>354</b>	<b>165</b>

\* Including impairment charge on residential mortgages held for sale to NAMA.

The impairment charge on Residential mortgages of €344 million for the twelve month period ended 31 December 2010 is €185 million higher compared to the impairment charge of €159 million for the nine month period ended 31 December 2009. The ongoing economic slowdown in Ireland including lower levels of employment, reduced disposable income and falling house prices continued to adversely impact the level of mortgage arrears which increased significantly in 2010. In addition the buy to let element of the Irish residential mortgage book is impacted by lower demand for rental properties caused in part by net migration out of Ireland which, together with the existing levels of over supply in the housing market has put downward pressure on rental income. This has led to an increase in impaired loans with a corresponding increase in impairment charges. The housing market in Ireland is now not expected to stabilise until at least late 2012 and the Group has revised its expectation of house price decline such that it now expects prices to reduce by up to 55% (previous expectation 45%) from their peak level in the fourth quarter of 2006.

Mortgage details are as follows:

	31 December 2010 €bn	31 December 2009 €bn
<b>Residential mortgage loan book (before impairment provisions)</b>		
Owner-occupied mortgages	20.8	20.3
Buy to let mortgages	7.3	7.9
<b>Residential mortgages</b>	<b>28.1</b>	<b>28.2</b>

Arrears of more than 90 days on owner-occupied mortgages increased from 2.61% at 31 December 2009 to 3.76% at 31 December 2010, compared to the Central Bank national statistics of 3.61% at 31 December 2009 and 5.66% at 31 December 2010 in respect of owner-occupied mortgages across all of the financial institutions which provide relevant information on this matter to the Central Bank.

	31 December 2010 %	30 June 2010 %	31 December 2009 %
<b>Mortgage Arrears - more than 90 days</b>			
Owner-occupied mortgages	3.76%	3.23%	2.61%
Buy to let mortgages	5.91%	4.55%	3.40%
<b>Residential mortgages</b>	<b>4.17%</b>	<b>3.49%</b>	<b>2.76%</b>

The impairment charge on Non-property SME and corporate loans was €291 million for the twelve month period ended 31 December 2010 compared to €339 million for the nine month period ended 31 December 2009. While the impairment charge on this portfolio reduced the stressed economic conditions particularly in Ireland, a continuation of poor consumer sentiment and the heightened level of business insolvencies have negatively impacted trading conditions and caused general pressure on the SME sector.

The impairment charge on the Property and construction portfolio of €432 million for the twelve month period ended 31 December 2010 is €201 million lower compared to the impairment charge of €633 million for the nine month period ended 31 December 2009. The impairment charge in the nine month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, oversupply of residential housing stock in Ireland and generally weak economic conditions, particularly in Ireland. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to investor uncertainty.

The impairment charge on the Consumer loan book of €90 million for the twelve month period ended 31 December 2010 is €51 million lower compared to the impairment charge of €141 million for the nine month period ended 31 December 2009 despite the longer reporting period as the default rates are better than expected. In addition the loan book has reduced faster than expected reflecting debt repayment and a dearth of demand for new loans and other credit facilities.

**The impairment charge on assets sold or held for sale to NAMA** of €85 million for the twelve month period ended 31 December 2010 is €479 million lower compared to the impairment charge of €564 million for the nine month period ended 31 December 2009.

In the twelve month period ended 31 December 2010 Retail Republic of Ireland sold loans and associated derivatives to NAMA of €2.6 billion (before impairment provisions), resulting in a **loss on sale of assets to NAMA** of €675 million (see section 1.3.8 for further details).

	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
<b>Assets held for sale to NAMA</b>		
Impairment charge on assets sold or held for sale to NAMA	85	564
Loss on sale of assets to NAMA	675	-

\* The impairment charges on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).

The impairment charges on assets sold or held for sale to NAMA of €85 million for the twelve month period ended 31 December 2010 is €479 million lower compared to the impairment charges of €564 million for the nine month period ended 31 December 2009. The impairment charges in the nine month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, an oversupply of residential housing stock in Ireland and the generally weak economic conditions. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to a lack of demand from investors. In the twelve month period ended 31 December 2010, lower house prices, an over supply of residential housing stock and illiquid property markets continue to adversely impact asset quality and led to an impairment charge of €85 million.

**Share of results of associates and joint ventures (after tax)** of €12 million for the twelve month period ended 31 December 2010 compares to €8 million for the nine month period ended 31 December 2009 with the increase primarily attributable to the longer reporting period.

	31 December 2010 €bn	31 December 2009 €bn	Change %
<b>Customer Deposits and Advances Analysis</b>			
<b>Customer Deposits</b>			
Deposits	24	24	(1%)
Current account credit balances	11	11	4%
<b>Total Customer Deposits</b>	<b>35</b>	<b>35</b>	<b>1%</b>
<b>Advances</b>			
Loans and advances to customers	50	51	(2%)
Assets held for sale to NAMA	-	3	-
Total loans (before impairment provisions)	50	54	(8%)
Impairment provisions	(3)	(3)	7%
<b>Total loans (after impairment provisions)</b>	<b>47</b>	<b>51</b>	<b>(9%)</b>
<b>Risk Weighted Assets (RWA)</b>	<b>27</b>	<b>32</b>	<b>(15%)</b>

The competition for deposits in the Republic of Ireland continues to be intense. While the Group took action during the twelve month period ended 31 December 2010 to try to lower deposit pricing, the current level of pricing across the market continues to be elevated and unsustainable. Throughout 2010 and despite intense competition, the Group's retail deposit base in Ireland has remained stable. The Group has maintained its level of deposits at €35 billion at 31 December 2010 which is the same as at 31 December 2009.

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

As a consequence of the weak economic environment, demand for new loans and other credit facilities in the twelve month period ended 31 December 2010 remains weak. Total loans, before impairment provisions, were €50 billion at 31 December 2010 compared to €54 billion at 31 December 2009, a reduction of 8% (a decline of 9% after impairment provisions). This reduction is due to the sale of assets to NAMA and also reflects the impact of the reduction in personal indebtedness and of businesses devoting cash flow to reducing borrowings and not taking on new or increased financial commitments in the current difficult economic environment.

Risk Weighted Assets as at 31 December 2010 amounted to €27 billion as compared to €32 billion as at 31 December 2009. This decrease is mainly due to a reduction in the quantum of loans and advances to customers, an increase in impaired loans, the impact of the sale of assets to NAMA during the twelve month period ended 31 December 2010 together with a series of RWA optimisation initiatives completed during the twelve month period ended 31 December 2010.

### 1.5.2 Bank of Ireland Life

Bank of Ireland Life comprises the life assurer, New Ireland Assurance Company plc, and the business unit which distributes New Ireland investment and insurance products through the Group's branch network. New Ireland offers protection, investment and pension products to the Irish market through the Group's branch network, independent brokers and its direct sales force. Under the terms of the Group's EU restructuring plan, the Group has committed to dispose of its shareholding in New Ireland prior to 31 December 2012, but retains the ability to distribute life, pensions and investment products.

<b>Bank of Ireland Life: Income Statement (IFRS performance)</b>	<b>12 months ended 31 December 2010 €m</b>	<b>9 months ended 31 December 2009 €m</b>
Operating income	178	125
Operating expenses	(103)	(82)
<b>Operating profit</b>	<b>75</b>	<b>43</b>
Investment variance	9	23
Economic assumption changes	(14)	3
<b>Underlying * profit before tax</b>	<b>70</b>	<b>69</b>
 <b>Cost / income ratio</b>	 <b>58%</b>	 <b>66%</b>

\* Underlying performance excludes the impact of non-core items (see page 16).

**Underlying profit before tax** of €70 million for the twelve month period ended 31 December 2010 increased by €1 million compared to underlying profit before tax of €69 million for the nine month period ended 31 December 2009. The underlying profit for the nine month period ended 31 December 2009 included an investment variance gain of €23 million due to a strong performance in investment markets which was not repeated to the same extent in the twelve month period ended 31 December 2010.

Annual Premium Equivalent (APE) sales for the twelve month period ended 31 December 2010 were 2% ahead of the twelve month period ended 31 December 2009 with modest growth in single premium business. This represents a strong sales performance relative to the market which decreased by 6% in the twelve month period ended 31 December 2010 due primarily to reduced consumer confidence and pressure on affordability. While policy persistency levels remain below long term trends, reflecting affordability issues amongst customers, due to actions taken during 2009 and 2010, persistency levels during the twelve month period ended 31 December 2010 have seen a steady improvement across most product lines and distribution channels.

Bank of Ireland Life has continued its focus on cost management with operating expenses of €103 million for the twelve month period ended 31 December 2010. This represents an increase of €21 million as compared with the nine month period ended 31 December 2009, primarily due to the longer reporting period offset by some cost reductions.

The performance of investment markets, in 2010, in excess of the unit growth assumption has given rise to a positive investment variance of €9 million. This compares to a positive investment variance of €23 million in the nine month period ended 31 December 2009 due to the strong performance of investment markets in that period.

The impact of economic assumption changes including changes to the discount and other rate assumptions gave rise to a charge of €14 million for the twelve month period ended 31 December 2010, compared to a gain of €3 million for the nine month period ended 31 December 2009. The discount rate applied to future cashflows was decreased from 8.25% at 31 December 2009 to 7.75% at 31 December 2010. The unit growth assumption was decreased from 6.5% at 31 December 2009 to 5.75% at 31 December 2010.

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

### Embedded Value Performance

#### Bank of Ireland Life: Income Statement (Embedded value performance)

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
New business profits	13	9
Existing business profits	65	20
• <i>Expected return</i>	81	55
• <i>Experience variance</i>	(12)	(29)
• <i>Assumption changes</i>	(4)	(6)
Inter company payments	(12)	(9)
<b>Operating profit</b>	<b>66</b>	<b>20</b>
Investment variance	16	62
Economic assumption changes	(12)	-
<b>Underlying * profit before tax</b>	<b>70</b>	<b>82</b>

\* Underlying performance excludes the impact of non-core items (see page 16).

The alternative method of presenting the performance of the Life business is on an Embedded Value basis. This method is widely used in the life assurance industry.

Under this approach, **operating profit** for the twelve month period ended 31 December 2010 of €66 million compares to an operating profit of €20 million for the nine month period ended 31 December 2009. New business profits were €13 million for the twelve month period ended 31 December 2010 compared to €9 million for the nine month period ended 31 December 2009. Existing business profits were €65 million for the twelve month period ended 31 December 2010 compared to €20 million for the nine month period ended 31 December 2009. Whilst policy persistency levels were lower than long term assumptions, they improved in the twelve month period ended 31 December 2010 with stabilisation returning to the existing business book relative to the nine month period ended 31 December 2009.

As a result of the above **underlying profit before tax** of €70 million for the twelve month period ended 31 December 2010 compares to an underlying profit of €82 million for the nine month period ended 31 December 2009.

The key assumptions used in the Embedded Value methodology are consistent with those used under the IFRS methodology, being a discount rate of 7.75% (31 December 2009: 8.25%), future growth rate on unit linked assets of 5.75% (31 December 2009: 6.5%) and the rate of tax to be levied on shareholders profits of 12.5% (31 December 2009: 12.5%).

### 1.5.3 UK Financial Services (Sterling)

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

On 1 November 2010, the Group transferred a substantial part of its UK banking business to a UK, wholly owned licensed banking subsidiary, Bank of Ireland (UK) plc. The main businesses that transferred were Business Banking UK, a portion of the UK residential and commercial mortgage books, together with selected Bank of Ireland branded deposits, Post Office branded deposits and the joint ventures with the UK Post Office. The results of the businesses which have transferred to Bank of Ireland (UK) plc continue to be reported within the UKFS Division.

The establishment of Bank of Ireland (UK) plc has been noted by the UK Government who announced on 9 November 2010 that 'Post Office Ltd's relationship with the Bank of Ireland has been strengthened considerably by the Bank of Ireland's recent creation of a separate subsidiary in the UK with depositors covered by the UK Financial Services Compensation Scheme.'

	12 months ended 31 December 2010 £m	* Restated 9 months ended 31 December 2009 £m
<b>UK Financial Services: Income Statement</b>		
Net interest income	507	411
Net other income	54	61
<b>Operating income</b>	<b>561</b>	<b>472</b>
Operating expenses	(319)	(267)
<b>Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA</b>	<b>242</b>	<b>205</b>
Impairment charge on loans and advances to customers	(396)	(638)
Assets sold or held for sale to NAMA:		
- Impairment charge on assets sold or held for sale to NAMA	(12)	(310)
- Loss on sale of assets to NAMA	(346)	-
Share of results of associates and joint ventures (after tax)	32	23
<b>Underlying ** loss before tax</b>	<b>(480)</b>	<b>(720)</b>
<b>Underlying ** loss before tax (£m equivalent)</b>	<b>(558)</b>	<b>(805)</b>
<b>Cost / income ratio</b>	<b>54%</b>	<b>54%</b>

\* The impairment charges on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).

\*\* Underlying performance excludes the impact of non-core items (see page 16).

UK Financial Services incurred an **underlying loss before tax** of £480 million for the twelve month period ended 31 December 2010 compared to an underlying loss before tax of £720 million for the nine month period ended 31 December 2009.

**Net interest income** of £507 million for the twelve month period ended 31 December 2010 is £96 million higher than the nine month period ended 31 December 2009 due primarily to the longer reporting period and improved asset pricing on the Residential mortgage loan book, partly offset by the increased cost of wholesale funding together with the impact on liability spreads of the continuing intense competition for deposits.

**Net other income** of £54 million for the twelve month period ended 31 December 2010 was £7 million lower as compared to Net other income of £61 million for the nine month period ended 31 December 2009 reflecting lower levels of new business activity, and a charge in the twelve month period ended 31 December 2010 arising from the impact of credit deterioration on the fair value of derivatives held for sale to NAMA, partly offset by the longer reporting period.

**Operating expenses** for the twelve month period ended 31 December 2010 of £319 million are £52 million higher than operating expenses of £267 million for the nine month period ended 31 December 2009 primarily as a result of the longer reporting period, partially offset by continued savings following the restructuring of both the Residential mortgage and Business Banking operations and continued tight management of costs.



**Operating profit** (before impairment charges on financial assets and loss on sale of assets to NAMA) of £242 million for the twelve month period ended 31 December 2010 was £37 million higher than the nine month period ended 31 December 2009.

**Impairment charge on loans and advances to customers** of £396 million for the twelve month period ended 31 December 2010 compares to impairment charges of £638 million for the nine month period ended 31 December 2009.

	12 months ended 31 December 2010 £m	* Restated 9 months ended 31 December 2009 £m
<b>Impairment charge on loans and advances to customers</b>		
Residential mortgages	54	64
Non-property SME and corporate	109	43
Property and construction	202	510
Consumer	31	21
<b>Impairment charge on loans and advances to customers</b>	<b>396</b>	<b>638</b>

\* The impairment charges on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).

The impairment charge on Residential mortgages decreased by £10 million from £64 million for the nine month period ended 31 December 2009 to £54 million for the twelve month period ended 31 December 2010. Despite the longer reporting period and the marginal increase in the level of residential mortgage arrears, the impairment charge on this portfolio has reduced reflecting more stable house prices and unemployment levels.

The impairment charge on the Non-property SME and corporate portfolio was £109 million for the twelve month period ended 31 December 2010 compared to £43 million for the nine month period ended 31 December 2009. The increase of £66 million in the impairment charge is primarily as a result of the longer reporting period and impairment charges on a small number of large individual cases in Business Banking. In Northern Ireland, the stressed economic conditions have negatively impacted trading conditions and caused general pressure on the SME sector.

The impairment charge of £202 million on the Property and construction portfolio for the twelve month period ended 31 December 2010 has reduced by £308 million compared to the impairment charge of £510 million for the nine month period ended 31 December 2009. The impairment charge in the nine month period ended 31 December 2009 reflected the continuing underlying economic conditions, reduced asset values and low levels of transactions and illiquidity in property markets.

The impairment charge of £31 million on the Consumer loan book for the twelve month period ended 31 December 2010 has increased by £10 million compared to the impairment charge of £21 million for the nine month period ended 31 December 2009, primarily due to the longer reporting period.

**Impairment charge on assets sold or held for sale to NAMA** of £12 million for the twelve month period ended 31 December 2010 compares to an impairment charge of £310 million for the nine month period ended 31 December 2009.

In the twelve month period ended 31 December 2010, UK Financial Services sold assets to NAMA of £1.7 billion (before impairment provisions), resulting in a **loss on sale of assets to NAMA** of £346 million (see section 1.3.8 for further details).

	12 months ended 31 December 2010 £m	* Restated 9 months ended 31 December 2009 £m
<b>Assets held for sale to NAMA</b>		
Impairment charge on assets sold or held for sale to NAMA	12	310
Loss on sale of assets to NAMA	346	-

\* The impairment charges on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).

The impairment charge on assets sold or held for sale to NAMA in the nine month period ended 31 December 2009 reflected the sharp deterioration in the property market, which was significantly impacted by falling property prices, a negative outlook for asset values and generally weak economic conditions. The twelve month period ended 31 December 2010 saw a reduction of 96% in the impairment charge on assets sold or held for sale to NAMA, however conditions remain challenging in the construction and property market, particularly in the more peripheral regions of the UK.

UK Financial Services **share of results of associates and joint ventures (after tax)** increased from £23 million for the nine month period ended 31 December 2009 to £32 million for the twelve month period ended 31 December 2010. This increase is attributable to First Rate Exchange Services (FRES), a joint venture with the UK Post Office, which generated higher profits in the twelve month period ended 31 December 2010 compared to the nine month period ended 31 December 2009 due to higher commissions.

	12 months ended 31 December 2010 £m	9 months ended 31 December 2009 £m
<b>Business Unit performance :</b>		
<b>Underlying * (Loss) / profit before tax</b>		
Residential mortgages	88	39
Business Banking	(526)	(729)
Consumer Financial Services	38	20
Division Centre	(80)	(50)
<b>Underlying * loss before tax</b>	<b>(480)</b>	<b>(720)</b>

\* Underlying excludes the impact of non-core items (see page 16).

### Residential mortgages

The **underlying profit before tax** of £88 million in the twelve month period ended 31 December 2010 is £49 million higher than the nine month period ended 31 December 2009. This increase is primarily due to the longer reporting period, improved asset pricing, lower operating expenses and a lower impairment charge partly offset by lower income as a result of the higher cost of wholesale funding.

	31 December 2010 £bn	31 December 2009 £bn
<b>Residential mortgage volumes</b>		
Standard mortgages	13.2	13.6
Buy to let mortgages	10.2	10.5
Self Certified mortgages	4.3	4.6
<b>UKFS total mortgages</b>	<b>27.7</b>	<b>28.7</b>

	31 December 2010 %	30 June 2010 %	31 December 2009 %
<b>Mortgage Arrears - more than 90 days</b>			
Standard mortgages	1.27%	1.21%	0.97%
Buy to let mortgages	1.92%	1.81%	1.85%
Self Certified mortgages	5.45%	5.20%	4.54%
<b>UKFS total mortgages</b>	<b>1.99%</b>	<b>1.89%</b>	<b>1.71%</b>

	12 months ended 31 December 2010 £m	9 months ended 31 December 2009 £m
<b>Impairment charges</b>		
Standard mortgages	8	15
Buy to let mortgages	39	34
Self Certified mortgages	7	15
<b>UKFS total mortgages</b>	<b>54</b>	<b>64</b>

### Business Banking

The underlying loss before tax of £526 million in the twelve month period ended 31 December 2010 is £203 million lower compared to the nine month period ended 31 December 2009. This is primarily due to a significantly lower impairment charge as a result of loans sold to NAMA and partly offset by lower interest income as a result of the higher wholesale funding costs.

### Consumer Financial Services

The underlying profit before tax of £38 million in the twelve month period ended 31 December 2010 is £18 million higher compared to the nine month period ended 31 December 2009 primarily due to the longer reporting period, higher profits in FRES partly offset by lower net commissions receivable.

### Division Centre

The underlying loss before tax in Division Centre of £80 million for the twelve month period ended 31 December 2010 compares to an underlying loss before tax of £50 million for the nine month period ended 31 December 2009 due mainly to the longer reporting period and costs associated with the incorporation of Bank of Ireland (UK) plc.

Customer Deposits and Advances Analysis	31 December 2010 £bn	31 December 2009 £bn	Change %
<b>Customer Deposits</b>			
POFS	11	9	33%
Business Banking - Great Britain / Northern Ireland	7	10	(34%)
<b>Total Customer Deposits</b>	<b>18</b>	<b>19</b>	<b>(5%)</b>
<b>Advances</b>			
Loans and advances to customers	42	44	(4%)
Assets held for sale to NAMA	1	3	(82%)
Total loans (before impairment provisions)	43	47	(9%)
Impairment provisions (including assets held for sale to NAMA)	(1)	(1)	-
<b>Total loans (after impairment provisions)</b>	<b>42</b>	<b>46</b>	<b>(9%)</b>
<b>Risk Weighted Assets (RWA)</b>	<b>17</b>	<b>23</b>	<b>(26%)</b>
<b>Risk Weighted Assets (€bn equivalent)</b>	<b>20</b>	<b>26</b>	

UKFS deposits at 31 December 2010 decreased by 5% when compared to deposits at 31 December 2009. Deposits sourced through the Group's joint venture with the UK Post Office grew by 33% during the twelve month period ended 31 December 2010 reflecting strong product development, competitive pricing and strong customer retention together with the incorporation of UK plc whereby depositors are covered under the UK Financial Services Compensation Scheme.

In the three months leading up to the announcement by the Irish Government of the EU/IMF Programme on 28 November 2010, there were heightened uncertainties regarding Irish sovereign debt. Ratings sensitive Business Banking deposits in Great Britain were negatively impacted in this period and declined by £3 billion in the twelve month period ended 31 December 2010.

Total loans (after impairment provisions) amounted to £42 billion at 31 December 2010 which reflects a reduction of £4 billion or 9% as compared to £46 billion at 31 December 2009 due to subdued demand for new lending in Business Banking, the sale of assets to NAMA, together with the continued rundown of the intermediary sourced mortgage book. This deleveraging of the UK residential mortgage book has been slower than originally expected as a result of lower re-mortgage activity in the UK market. The intermediary sourced UK mortgage book of £25 billion at 31 December 2010 is 7% lower when compared to 31 December 2009.

During 2010, UK Financial Services sold £1.7 billion (before impairment provisions) of assets to NAMA on which the Group incurred a loss of £346 million. Further details are available on page 47.

Risk Weighted Assets at 31 December 2010 amounted to £17 billion compared to £23 billion at 31 December 2009. This decrease is mainly due to a reduction in the quantum of loans and advances to customers, an increase in impaired loans, the impact of the sale of assets to NAMA during the twelve month period ended 31 December 2010 together with a series of RWA optimisation initiatives completed during the twelve month period ended 31 December 2010.

### 1.5.4 Capital Markets

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

	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
<b>Capital Markets: Income Statement</b>		
Net interest income	885	705
Net other income	43	83
<b>Operating income</b>	<b>928</b>	<b>788</b>
Operating expenses	(287)	(230)
<b>Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA</b>	<b>641</b>	<b>558</b>
Impairment charge on loans and advances to customers	(266)	(389)
Impairment charge on available for sale financial assets (AFS)	(98)	(2)
Assets sold or held for sale to NAMA:		
- Impairment charge on assets sold or held for sale to NAMA	(129)	(768)
- Loss on sale of assets to NAMA	(1,121)	-
Share of results of associates and joint ventures (after tax)	-	1
<b>Underlying ** loss before tax</b>	<b>(973)</b>	<b>(600)</b>
<b>Cost / income ratio</b>	<b>31%</b>	<b>29%</b>

\* The impairment charges on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).

\*\* Underlying excludes the impact of non-core items (see page 16)

Capital Markets reported an **underlying loss before tax** of €973 million for the twelve month period ended 31 December 2010 compared with an underlying loss before tax of €600 million for the nine month period ended 31 December 2009.

The change in 'net interest income' and 'net other income' is impacted by IFRS income classifications between the two income categories (see page 18).

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Net interest income</b>		
Net interest income	885	705
IFRS income classifications	(165)	(67)
<b>Net interest income after IFRS income classifications</b>	<b>720</b>	<b>638</b>

**Net interest income** after IFRS income classifications amounted to €720 million for the twelve month period ended 31 December 2010 and has increased by €82 million compared to €638 million for the nine month period ended 31 December 2009 due primarily to the longer reporting period and increased asset pricing which have been partly offset by lower net interest income due to a 13% reduction in average earning assets together with the increased cost of wholesale funding.

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Net other income</b>		
Net other income	43	83
IFRS income classifications	165	67
<b>Net other income after IFRS income classifications</b>	<b>208</b>	<b>150</b>

**Net other income** after IFRS classifications amounted to €208 million for the twelve month period ended 31 December 2010 and increased by €58 million compared to €150 million for the nine month period ended 31 December 2009. This increase primarily reflects the longer reporting period, higher other income in the asset management businesses and in IBI Corporate Finance partly offset by reduced fees arising from the disposal of Iridian and Guggenheim together with the impact of credit deterioration on the fair value of derivative assets sold or held for sale to NAMA.

**Operating expenses** of €287 million for the twelve month period ended 31 December 2010 are €57 million higher compared to operating expenses of €230 million for the nine month period ended 31 December 2009, primarily due to the longer reporting period partly offset by lower staff costs and continued tight management of costs.

**Operating profit** (before impairment charges on financial assets and loss on sale of assets to NAMA) of €641 million for the twelve month period ended 31 December 2010 has increased by €83 million compared to an operating profit of €558 million for the nine month period ended 31 December 2009.

**Impairment charge on loans and advances to customers** of €266 million for the twelve month period ended 31 December 2010 reduced by €123 million compared to the impairment charge of €389 million for the nine month period ended 31 December 2009.

	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
<b>Impairment charge on loans and advances to customers</b>		
Non-property SME and corporate	192	270
Property and construction	74	119
<b>Impairment charge on loans and advances to customers</b>	<b>266</b>	<b>389</b>

\* The impairment charges on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).

Impairment charge on the Non-property SME and corporate portfolio was €192 million for the twelve month period ended 31 December 2010. Despite the longer reporting period the impairment charge on this portfolio has reduced. The more favourable global outlook means that larger corporate customers who are focused internationally continue to perform better. In particular, the leveraged acquisition finance portfolio which is very well spread geographically and sectorally has benefitted from the global economic recovery and has achieved some provision write-backs.

Impairment charge on the Property and construction portfolio was €74 million for the twelve month period ended 31 December 2010 compared to an impairment charge of €119 million for the nine month period ended 31 December 2009 due to a continued recovery in certain international investment property markets and a lower level of tenant defaults than expected. Market conditions remain weak in the secondary / regional locations across all geographic locations with continued low levels of investor activity.

An **impairment charge on available for sale financial assets (AFS)** portfolio of €98 million was incurred in the twelve month period ended 31 December 2010 compared to a €2 million charge in the nine month period ended 31 December 2009. This impairment charge of €98 million relates to a holding of subordinated debt issued by Allied Irish Banks plc. The Group exchanged these bonds for cash in January 2011 without further loss to the Group.

An **impairment charge on assets sold or held for sale to NAMA** of €129 million was incurred in the twelve month period ended 31 December 2010 compared to €768 million for the nine month period ended 31 December 2009.

In addition Capital Markets incurred a **loss on sale of assets to NAMA** of €1,121 million in the twelve month period ended 31 December 2010 arising from the sale of €4.9 billion (before impairment provisions) of assets to NAMA (see section 1.3.8 for further details).

	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
<b>Available for sale financial assets</b>		
Impairment charge on available for sale financial assets	98	2

	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
<b>Assets held for sale to NAMA</b>		
Impairment charge on assets sold or held for sale to NAMA	129	768
Loss on sale of assets to NAMA	1,121	-

\* The impairment charges on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).

The impairment charge in the nine month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, an oversupply of residential housing stock in Ireland and generally weak economic conditions, particularly in Ireland. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to a lack of demand from investors. In the twelve month period ended 31 December 2010, lower house prices, an oversupply of residential housing stock and illiquid residential and commercial property markets, particularly in Ireland, continue to adversely impact asset quality and led to an impairment charge of €129 million.

Business Unit Performance	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
Corporate Banking	488	410
Global Markets	121	128
Asset Management Services	28	22
Division Centre	4	(2)
<b>Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA</b>	<b>641</b>	<b>558</b>
Impairment charge on loans and advances to customers	(266)	(389)
Impairment charge on available for sale financial assets (AFS)	(98)	(2)
Assets sold or held for sale to NAMA:		
- Impairment charge on assets sold or held for sale to NAMA	(129)	(768)
- Loss on sale of assets to NAMA	(1,121)	-
Share of results of associates and joint ventures (after tax)	-	1
<b>Underlying ** loss before tax</b>	<b>(973)</b>	<b>(600)</b>

\* The impairment charges on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 20 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).

\*\* Underlying excludes the impact of non-core items (see page 16)

**Corporate Banking** operating profit (before impairment charges on financial assets and loss on sale to NAMA) was €488 million for the twelve month period ended 31 December 2010 compared to €410 million for the nine month period ended 31 December 2009. The increase of €78 million was due to the longer reporting period, increased asset pricing across most portfolios and a gain of €14 million arising on equity investments. These were partly offset by higher wholesale funding costs, reduced lending volumes as a result of the sale of €4.9 billion (before impairment provisions) of assets to NAMA and other customer deleveraging together with a charge of €12 million arising from the impact of credit deterioration on the fair value of derivatives held for sale to NAMA.

Despite the longer reporting period to 31 December 2010, **Global Markets** operating profit (before impairment charges on available for sale financial assets) was €121 million for the twelve month period ended 31 December 2010 compared to €128 million for the nine month period ended 31 December 2009. The nine month period ended 31 December 2009 was positively impacted by gains arising as a result of good positioning in a falling interest rate environment.

**Asset Management Services** operating profit of €28 million for the twelve month period ended 31 December 2010 compares to €22 million for the nine month period ended 31 December 2009. The increase was due to the longer reporting period, higher assets under management in BIAM, increased fee income in BoISS together with lower costs, partly offset by lower fee income during the twelve month period ended 31 December 2010 as a result of the disposal of the US asset management businesses, Iridian and Guggenheim, in 2009.

Since 31 December 2010, the Group has disposed of BIAM and BoISS. (See note 61).

**Division Centre** includes central management costs and IBI Corporate Finance.



	31 December 2010 €bn	31 December 2009 €bn	Change %
<b>Customer Deposits and Advances Analysis</b>			
<b>Customer Deposits</b>	<b>9</b>	<b>29</b>	<b>(69%)</b>
<b>Advances</b>			
Loans and advances to customers	20	22	(8%)
Loans held for sale to NAMA	-	5	-
Total loans (before impairment provisions)	20	27	(26%)
Impairment provisions	-	(2)	(100%)
<b>Total loans (after impairment provision)</b>	<b>20</b>	<b>25</b>	<b>(20%)</b>
<b>Risk Weighted Assets (RWA)</b>	<b>32</b>	<b>40</b>	<b>(20%)</b>

Customer deposits of €9 billion at 31 December 2010 were €20 billion lower than Customer deposits of €29 billion at 31 December 2009. In the three months leading up to the announcement by the Irish Government of the EU/IMF Programme on 28 November 2010, there were heightened uncertainties regarding Irish sovereign debt leading to rating downgrades of both the sovereign and the Group. These resulted in significant outflows of ratings sensitive deposits from the Group's capital markets business. The level of customer deposits has been broadly stable since 31 December 2010.

Total loans (after impairment provisions) amounted to €20 billion at 31 December 2010 compared to €25 billion at 31 December 2009. The reduction of €5 billion was due primarily to the sale of €4.9 billion of assets to NAMA (before impairment provisions) and customer deleveraging, partly offset by the impact of exchange rate movements.

Risk Weighted Assets at 31 December 2010 amounted to €32 billion compared to €40 billion at 31 December 2009. The reduction of €8 billion is primarily due to the sale of assets to NAMA, an increase in impaired loans, customer deleveraging together with a series of RWA optimisation initiatives.

### 1.5.5 Group Centre

Group Centre comprises capital management activities and unallocated group support costs.

	12 months ended 31 December 2010 €m	* 9 months ended 31 December 2009 €m
<b>Group Centre: Income Statement</b>		
Net interest income (excluding ELG guarantee fees)	26	65
Net other income (excluding CIFS guarantee fees)	7	9
Government guarantee fees:		
- ELG (classified as net interest expense)	(275)	-
- CIFS (classified as net other expense)	(68)	(105)
<b>Operating loss</b>	<b>(310)</b>	<b>(31)</b>
Operating expenses	(104)	(85)
<b>Operating loss before impairment charges on financial assets and loss on sale of assets to NAMA</b>	<b>(414)</b>	<b>(116)</b>
Impairment charge on available for sale financial assets (AFS)	(70)	-
Charges arising on the sale of assets to NAMA	(47)	-
<b>Underlying ** loss before tax</b>	<b>(531)</b>	<b>(116)</b>

\* The charge of €6 million arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss' has been reclassified as a non-core item.

\*\* Underlying performance excludes the impact of non-core items (see page 16)

Group Centre reported an **underlying loss before tax** of €531 million for the twelve month period ended 31 December 2010 compared to an underlying loss before tax of €116 million for the nine month period ended 31 December 2009.

**Net interest income** (excluding ELG guarantee fees) was €26 million for the twelve month period ended 31 December 2010 compared to €65 million for the nine month period ended 31 December 2009. This decrease is primarily due to lower earnings on capital in Group Centre.

**Net other income** (excluding CIFS guarantee fees) was €7 million for the twelve month period ended 31 December 2010 compared to €9 million for the nine month period ended 31 December 2009. This decrease was primarily due to higher insurance claims paid.

The Group has incurred higher **Government guarantee fees** in the twelve month period ended 31 December 2010 compared to the nine month period ended 31 December 2009. On 11 January 2010, the relevant deposit taking entities within the Group were accepted as participating financial institutions in the ELG Scheme. In the twelve month period ended 31 December 2010 the Group incurred fees of €275 million under the ELG scheme. The Group incurred CIFS fees of €68 million in the twelve month period ended 31 December 2010 compared to €105 million incurred in the nine month period ended 31 December 2009. The decrease reflects the expiry of the CIFS scheme in September 2010 together with the lower volume of liabilities covered by the CIFS scheme as new liabilities issued since 11 January 2010 were covered by the ELG scheme.

**Operating expenses** were €104 million for the twelve month period ended 31 December 2010 compared to €85 million for the nine month period ended 31 December 2009. The increase is due primarily to the longer reporting period partly offset by the tight management of costs.

The **impairment charge on AFS** reflects a charge of €70 million arising on the Group's holding of NAMA subordinated bonds following the decision by NAMA not to pay the discretionary coupon due on 1 March 2011.

The **charges arising on the sale of assets to NAMA** of €47 million includes a provision required under accounting standards in relation to the ongoing costs to the Group of servicing the assets sold to NAMA during the twelve month period ended 31 December 2010 together with the costs associated with the sale of those assets (see section 1.3.8 for further details).

## Income Statement – Operating Segments

12 month period ended  
31 December 2010

	Net interest income €m	Insurance premium income €m	Other income €m	Total operating income €m	Insurance contract liabilities and claims paid €m	Total operating income net of insurance claims €m	Operating expenses €m	Operating profit before impairment charges on financial assets €m	Impairment charges on loans and advances to customers €m	Impairment charges on available assets for sale €m	Impairment charges on assets held for sale to NAMA €m	Loss on sale of assets to NAMA €m	Share of results of associates and joint ventures (after tax) €m	Profit / (loss) before taxation €m
Retail Republic of Ireland	1,010	-	347	1,357	-	1,357	(919)	438	(1,157)	-	(85)	(675)	12	(1,467)
Bank of Ireland Life	(2)	949	476	1,423	(1,250)	173	(103)	70	-	-	-	-	-	70
UK Financial Services	592	-	62	654	-	654	(372)	282	(464)	-	(15)	(398)	37	(558)
Capital Markets	885	-	43	928	-	928	(287)	641	(266)	(98)	(129)	(1,121)	-	(973)
Group Centre	(249)	20	(63)	(292)	(18)	(310)	(104)	(414)	-	(70)	-	(47)	-	(531)
<b>Group – underlying*</b>	<b>2,236</b>	<b>969</b>	<b>865</b>	<b>4,070</b>	<b>(1,268)</b>	<b>2,802</b>	<b>(1,785)</b>	<b>1,017</b>	<b>(1,887)</b>	<b>(168)</b>	<b>(229)</b>	<b>(2,241)</b>	<b>49</b>	<b>(3,459)</b>
Non-core items:														
- Gain on liability management exercises	3	-	1,410	1,413	-	1,413	-	1,413	-	-	-	-	-	1,413
- Impact of changes in pension benefits	-	-	-	-	-	-	733	733	-	-	-	-	-	733
- Gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	-	-	360	360	-	360	-	360	-	-	-	-	-	360
- Impact of 'coupon stopper' on certain subordinated debt	(35)	-	(1)	(36)	-	(36)	-	(36)	-	-	-	-	-	(36)
- Gross-up of policyholder tax in the Life Business	-	-	22	22	-	22	-	22	-	-	-	-	-	22
- Investment return on treasury stock held for policyholders in the Life Business	-	-	20	20	-	20	-	20	-	-	-	-	-	20
- Cost of restructuring programmes	-	-	-	-	-	-	(18)	(18)	-	-	-	-	-	(18)
- Gain on disposal of business activities	15	-	-	15	-	15	-	15	-	-	-	-	-	15
<b>Group total</b>	<b>2,219</b>	<b>969</b>	<b>2,676</b>	<b>5,864</b>	<b>(1,268)</b>	<b>4,596</b>	<b>(1,070)</b>	<b>3,526</b>	<b>(1,887)</b>	<b>(168)</b>	<b>(229)</b>	<b>(2,241)</b>	<b>49</b>	<b>(950)</b>

\* Underlying performance excludes the impact of non-core items (see page 16).

## Income Statement – Operating Segments

* Restated 9 month period ended 31 December 2009	Net interest income €m	Insurance premium income €m	Other income €m	Total operating income €m	Insurance contract liabilities and claims paid €m	Total operating income net of insurance claims €m	Operating expenses €m	Operating impairment charges on financial assets €m	Impairment charges on assets held for sale to NAMA €m	Share of results of associates and joint ventures (after tax) €m	Disposal of business activities €m	Profit / (loss) before taxation €m
Retail Republic of Ireland	879	-	129	1,008	-	1,008	(694)	314	(564)	8	-	(1,514)
Bank of Ireland Life	(2)	643	952	1,593	(1,442)	151	(82)	69	-	-	-	69
UK Financial Services	465	-	70	535	-	535	(304)	231	(352)	26	-	(805)
Capital Markets	705	-	83	788	-	788	(230)	558	(768)	1	-	(600)
Group Centre	65	22	(98)	(11)	(20)	(31)	(85)	(116)	-	-	-	(116)
<b>Group – underlying**</b>	<b>2,112</b>	<b>665</b>	<b>1,136</b>	<b>3,913</b>	<b>(1,462)</b>	<b>2,451</b>	<b>(1,395)</b>	<b>1,056</b>	<b>(1,684)</b>	<b>35</b>	<b>-</b>	<b>(2,966)</b>
Non-core items:												
- Gain on liability management exercises	-	-	1,037	1,037	-	1,037	-	1,037	-	-	-	1,037
- Charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	-	-	(6)	(6)	-	(6)	-	(6)	-	-	-	(6)
- Impact of 'coupon stopper' on certain subordinated debt	58	-	9	67	-	67	-	67	-	-	-	67
- Gross-up of policyholder tax in the Life Business	-	-	64	64	-	64	-	64	-	-	-	64
- Investment return on treasury stock held for policyholders in the Life Business	-	-	(6)	(6)	-	(6)	-	(6)	-	-	-	(6)
- Loss on disposal of business activities	-	-	-	-	-	-	-	-	-	-	(3)	(3)
<b>Group total</b>	<b>2,170</b>	<b>665</b>	<b>2,234</b>	<b>5,069</b>	<b>(1,462)</b>	<b>3,607</b>	<b>(1,395)</b>	<b>2,212</b>	<b>(1,684)</b>	<b>35</b>	<b>(3)</b>	<b>(1,813)</b>

\* A number of reclassifications have been made to the Income Statement for the nine month period ended 31 December 2009:

- The impairment charges on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria with no change to the total impairment charge for loans sold to NAMA during 2010 (further details are set out in note 15 on page 240).
- The impairment charge on intangible assets of €6 million is shown in operating expenses where previously, it had been shown as a separate line item.
- The charge of €6 million arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss' has been reclassified as a non-core item.
- During 2010 the Group changed the reported presentation of the results of two of its subsidiaries such that the income and operating expenses are presented on separate line items in the Income Statement. To facilitate a more meaningful comparison a similar presentation has now been adopted in the nine month period ended 31 December 2009. This has led to a decrease in net interest income of €9 million, an increase in other income of €17 million and an increase in operating expenses of €8 million as compared to the amounts previously reported for these line items. While this change has been reflected in the Operating Financial Review for the nine month period ended 31 December 2009, it has not been reflected in the statutory financial statements for the nine month period ended 31 December 2009.

\*\* Underlying performance excludes the impact of non-core items (see page 16).



# Supplementary Information

The Group changed its financial year end from 31 March to 31 December with effect from 31 December 2009.

To facilitate more meaningful comparisons the following section reports the Group's performance for the twelve month period ended 31 December 2010 compared to the unaudited non-statutory financial information ('proforma') for the twelve month period ended 31 December 2009. The basis of preparation of the proforma results is in accordance with IFRS. The accounting policies are consistent with those adopted for the December 2010 financial statements. The results are presented on an underlying basis (see page 59 for further details).

## 1.6 Group Income Statement - on an Underlying \* Basis

### 1.6.1 Summary Consolidated Income Statement

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
Net interest income	2,236	2,909	(23%)
Net other income	566	414	37%
<b>Operating income (net of insurance claims)</b>	<b>2,802</b>	<b>3,323</b>	<b>(16%)</b>
Operating expenses	(1,785)	(1,891)	(6%)
<b>Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA</b>	<b>1,017</b>	<b>1,432</b>	<b>(29%)</b>
Impairment charges on loans and advances to customers	(1,887)	(2,851)	(34%)
Impairment charges on loans and advances to banks	-	(2)	-
Impairment charges on available for sale financial assets (AFS)	(168)	(2)	-
Assets sold or held for sale to NAMA:			
- Impairment charges on assets sold or held for sale to NAMA	(229)	(1,892)	(88%)
- Loss on sale of assets to NAMA	(2,241)	-	-
Share of results of associates and joint ventures (after tax)	49	28	75%
<b>Underlying * loss before tax</b>	<b>(3,459)</b>	<b>(3,287)</b>	<b>5%</b>
Non-core items:			
- Gain on liability management exercises	1,413	1,037	
- Impact of changes in pension benefits	733	-	
- Gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	360	36	
- Impact of 'coupon stopper' on subordinated debt <sup>1</sup>	(36)	67	
- Gross-up for policyholder tax in the Life business <sup>2</sup>	22	29	
- Investment return on treasury stock held for policyholders <sup>3</sup>	20	(3)	
- Cost of restructuring programmes	(18)	(83)	
- Gain / (loss) on disposal of business activities	15	(3)	
<b>Loss before tax</b>	<b>(950)</b>	<b>(2,207)</b>	<b>(57%)</b>
Tax credit	341	447	(23%)
<b>Loss for the period</b>	<b>(609)</b>	<b>(1,760)</b>	<b>(66%)</b>

\* Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. The group has treated the following items as non-core: gain on liability management exercises, impact of changes in pension benefits, gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss', impact of 'coupon stopper' on subordinated debt, gross-up for policyholder tax in the Life business, investment return on treasury stock held for policyholders, cost of restructuring programmes and gain / (loss) on disposal of business activities. See page 69 for further information.

### 1.6.2 Underlying loss before tax for the twelve month period ended 31 December 2010 (excluding impact of non-core items)

The Group's **underlying loss before tax** for the twelve month period ended 31 December 2010 of €3,459 million compares to an underlying loss before tax of €3,287 million for the twelve month period ended 31 December 2009. This increased loss primarily reflects lower operating profit before impairment charges on financial assets and loss on sale of assets to NAMA.

**Operating income (net of insurance claims)** of €2,802 million for the twelve month period ended 31 December 2010 is €521 million or 16% lower than the total income (net of insurance claims) of €3,323 million for the twelve month period ended 31 December 2009. The decrease was due to lower average earning assets, the higher cost of the Government Guarantee Schemes, the increased cost of deposits in highly competitive markets, the higher cost of wholesale funding, lower fees and other income as a result of reduced business activities and the impact of business disposals. This decrease was partly offset by improved asset pricing and gains arising from the change in fair value of international investment properties.

**Operating expenses** of €1,785 million for the twelve month period ended 31 December 2010 are €106 million or 6% lower than operating expenses of €1,891 million for the twelve month period ended 31 December 2009 reflecting lower staff numbers, lower pension costs and continued tight management of costs.

The **impairment charges on loans and advances to customers** of €1,887 million for the twelve month period ended 31 December 2010 has reduced by €964 million or 34% compared to the impairment charges of €2,851 million for the twelve month period ended 31 December 2009. The slowdown in economic activity, high levels of unemployment, lower disposable income, poor consumer sentiment, business insolvencies, falling asset values, and low levels of transactions and illiquidity in property markets are the key drivers of impairment losses for the twelve month period ended 31 December 2010. The Group maintains its expectations that the impairment charge on the non-NAMA loans and advances to customers peaked in 2009, reduced in 2010, with anticipated reductions in subsequent years.

In the twelve month period ended 31 December 2010, the Group incurred impairment charges of €168 million on assets in its AFS portfolio. This includes a charge of €98 million on a holding of subordinated debt issued by Allied Irish Banks plc. The Group exchanged these bonds for cash in January 2011 without further loss. In addition, the Group incurred an impairment charge of €70 million on NAMA subordinated bonds following the decision by NAMA not to pay the discretionary coupon due on 1 March 2011.

The **impairment charges on assets sold or held for sale to NAMA** of €229 million for the twelve month period ended 31 December 2010 has reduced by €1,663 million or 88% compared to the impairment charges of €1,892 million for the twelve month period ended 31 December 2009. The impairment charge in the twelve month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, an oversupply of residential housing stock in Ireland and generally weak economic conditions, particularly in Ireland. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to a lack of demand from investors. The impairment charges on assets sold or held for sale to NAMA of €229 million in the twelve month period ended 31 December 2010 reflects the impact of underlying economic conditions, reduced asset values and low levels of transactions and illiquidity in property markets which have continued to reduce rental flows and delay recovery prospects.

During the twelve month period ended 31 December 2010 the Group sold €9.4 billion (before impairment provisions) of assets to NAMA for which it received consideration with a nominal value of €5.2 billion in Government guaranteed bonds and non-guaranteed subordinated bonds. The **loss on sale of assets to NAMA** (after impairment provisions and other charges) was €2,241 million. Further details are set out on page 25.

The Group's **share of results of associates and joint ventures (after tax)** increased from €28 million for the twelve month period ended 31 December 2009 to €49 million for the twelve month period ended 31 December 2010. This increase is primarily due to an impairment charge in the twelve month period ended 31 December 2009 and to the Group's share of First Rate Exchange Services (FRES), a joint venture with the UK Post Office, which increased to €37 million for the twelve month period ended 31 December 2010 from €27 million for the twelve month period ended 31 December 2009.

### 1.6.3 Operating income (net of insurance claims)

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

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
<b>Net interest income / Net interest margin</b>			
Net interest income (including cost of the ELG Scheme)	2,236	2,909	(23%)
Cost of ELG Scheme	275	-	
<b>Net interest income (excluding cost of the ELG Scheme)</b>	<b>2,511</b>	<b>2,909</b>	<b>(14%)</b>
IFRS income classifications	(175)	(79)	122%
<b>Net interest income (excluding cost of the ELG Scheme) after IFRS income classification</b>	<b>2,336</b>	<b>2,830</b>	<b>(17%)</b>
<b>Average interest earning assets (€bn)</b>	<b>160</b>	<b>173</b>	<b>(7%)</b>
<b>Net interest margin</b>	<b>1.46%</b>	<b>1.64%</b>	<b>(18 bps)</b>

**Net interest income (excluding cost of the Eligible Liability Guarantee (ELG) Scheme and after IFRS income classifications)** of €2,336 million for the twelve month period ended 31 December 2010 has reduced by €494 million or 17% compared to €2,830 million for the twelve month period ended 31 December 2009. Of the €494 million decrease, €207 million is due to a reduction of 7% in average earning assets from €173 billion in the twelve month period ended 31 December 2009 to €160 billion in the twelve month period ended 31 December 2010 together with a lower interest margin of 1.46% in the twelve month period ended 31 December 2010 compared with 1.64% in the twelve month period ended 31 December 2009.

The cost of the Eligible Liabilities Guarantee (ELG) Scheme, which the Group joined in January 2010, was €275 million in 2010.

The key drivers of the margin decrease of 18 basis points were as follows:

- 24 basis points decrease due to margin attrition on customer deposits as a result of intense competition and the low interest rate environment;
- 11 basis points decrease due to higher costs of wholesale funding;
- 3 basis points decrease due to lower treasury income; and
- 2 basis points decrease due to balance sheet structure and lower earnings on capital partly offset by an improved asset mix.

Partly offset by:

- 22 basis points increase due to higher asset pricing.



**Net other income**

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
<b>Net other income</b>			
Net other income	566	414	37%
IFRS income classifications	175	79	122%
<b>Net other income after IFRS income classifications</b>	<b>741</b>	<b>493</b>	<b>50%</b>

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

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change €m
<b>Net other income after IFRS income classifications</b>			
Other income from Banking and Capital Markets businesses	624	721	(97)
Other income from Bank of Ireland Life	164	158	6
	<b>788</b>	<b>879</b>	<b>(91)</b>
<b>Other Items:</b>			
Change in valuation of international investment properties	26	(99)	125
European property investment provision	-	(93)	93
Gain / (loss) arising on the unwind of the fair value hedge adjustment on subordinated liabilities following liability management exercises	17	(29)	46
Government guarantee charge (CIFS)	(68)	(139)	71
Impact of credit deterioration on the fair value of derivatives held for sale to NAMA	(31)	-	(31)
Investment variance - Bank of Ireland Life	9	(8)	17
Guggenheim / Iridian (disposed during 2009)	-	21	(21)
Other items	-	(39)	39
<b>Total other items</b>	<b>(47)</b>	<b>(386)</b>	<b>339</b>
<b>Net other income after IFRS income classifications</b>	<b>741</b>	<b>493</b>	<b>248</b>

**Net other income** of €741 million, after adjusting for IFRS income classifications, for the twelve month period ended 31 December 2010 increased by €248 million compared to €493 million for the twelve month period ended 31 December 2009.

This increase reflects:

- lower levels of fees and charges in the Banking and Capital Markets businesses; and
- higher operating income in Bank of Ireland Life.

The principal other items within Net other income, after IFRS income classifications, which amount to a charge of €47 million (net) for the twelve month period ended 31 December 2010 were €339 million lower than the charge of €386 million (net) for the twelve month period ended 31 December 2009, due primarily to:

- a positive movement of €125 million due to the change in value of investment properties. In the twelve month period ended 31 December 2009 investment properties held on the Group's balance sheet fell in value by €99 million reflecting depressed yields in very uncertain markets. There was some recovery in the value of international investment properties in the twelve month period ended 31 December 2010 which was the principal driver of the gain of €26 million in this period;
- a one-off provision of €93 million in the twelve month period ended 31 December 2009 relating to a court hearing in connection with a European property investment;
- a gain of €17 million arose in the twelve month period ended 31 December 2010, on the unwind of the fair value hedge adjustment associated with fixed rate subordinated bonds following liability management exercises, compared to a charge of €29 million in the twelve month period ended 31 December 2009;
- a charge of €68 million relating to the CIFS Guarantee Scheme in the twelve month period ended 31 December 2010. This was €71 million lower than the equivalent charge of €139 million in the twelve month period ended 31 December 2009. The CIFS Guarantee Scheme expired on 29 September 2010;
- a charge of €31 million in the twelve month period ended 31 December 2010 arising from the impact of credit deterioration on the fair value of derivatives held for sale to NAMA;
- a positive movement of €17 million in the investment variance in Bank of Ireland Life reflecting positive investment variance €9 million in 2010 compared to an under performance of investment markets in 2009 which gave rise to a negative investment variance of €8 million; and
- reduced fees from asset management activities of €21 million arising from the disposal of Guggenheim Alternative Asset Management LLC (Guggenheim) in June 2009 and Iridian Asset Management LLC (Iridian) in August 2009.

### 1.6.4 Operating expenses

**Operating expenses** of €1,785 million for the twelve month period ended 31 December 2010 were €106 million or 6% lower than operating expenses of €1,891 million for the twelve month period ended 31 December 2009 primarily due to lower staff numbers, a reduction in pension costs and continued tight management of costs.

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
<b>Operating expenses</b>			
Staff costs (excluding pension costs)	836	872	(4%)
Pension costs	174	195	(11%)
Other costs	775	824	(6%)
<b>Total Operating expenses</b>	<b>1,785</b>	<b>1,891</b>	<b>(6%)</b>
<b>Average staff numbers (full time equivalents)</b>	<b>14,284</b>	<b>14,947</b>	<b>(663)</b>

**Staff costs (excluding pension costs)** of €836 million for the twelve month period ended 31 December 2010 were €36 million lower compared to €872 million for the twelve month period ended 31 December 2009 as a result of lower staff numbers. Average staff numbers (full time equivalents) for the twelve month period ended 31 December 2010 were 663 lower compared to average staff numbers (full time equivalents) for the twelve month period ended 31 December 2009.

During 2010, the Group completed its review of its defined benefit pension schemes and has made changes to pension benefits under these schemes. **Pension costs** of €174 million for the twelve month period ended 31 December 2010 were €21 million or 11% lower when compared to the pension costs for the twelve month period ended 31 December 2009 due to the changes to the pension benefits arising from the above review.

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

### 1.6.5 Impairment Charges on Loans and Advances to Customers

The ongoing economic downturn, particularly in Ireland, high levels of unemployment, lower disposable income, falling asset values, poor consumer sentiment, business insolvencies and low levels of transactions and illiquidity in property markets are the key drivers of the impairment charges across the Group's loan portfolios.

The **impairment charges on loans and advances to customers** of €1,887 million for the twelve month period ended 31 December 2010 reduced by €964 million or 34% compared to the impairment charge of €2,851 million for the twelve month period ended 31 December 2009 reflecting the lower impairment charges on the Property and construction portfolio, the Non-property SME and corporate portfolio as well as the Consumer portfolio, partly offset by the higher impairment charges on Residential mortgages.

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
<b>Impairment charge on loans and advances to customers</b>			
Residential mortgages	407	296	38%
Non-property SME and corporate	609	891	(32%)
Property and construction	744	1,430	(48%)
Consumer	127	234	(46%)
<b>Impairment charge on loans and advances to customers</b>	<b>1,887</b>	<b>2,851</b>	<b>(34%)</b>

The impairment charge on Residential mortgages increased by €111 million or 38% from €296 million for the twelve month period ended 31 December 2009 to €407 million for the twelve month period ended 31 December 2010. The ongoing economic slowdown in Ireland including lower levels of employment, reduced disposable income and falling house prices continued to adversely impact the level of mortgage arrears which increased significantly in 2010. In addition the buy to let element of the Irish residential mortgage book is impacted by lower demand for rental properties caused in part by net migration out of Ireland which, together with the existing levels of over supply in the housing market has put downward pressure on rental income. This has led to an increase in impaired loans with a corresponding increase in the impairment charge. The housing market in Ireland is now not expected to stabilise until at least late 2012 and the Group has revised its expectation of house price decline such that it now expects prices to reduce by up to 55% (previous expectation 45%) from their peak level in the fourth quarter of 2006. In the UK the level of Residential mortgage arrears is up marginally year on year and the associated impairment charge is below expectations.

The impairment charge on the Non-property SME and corporate loan portfolio was €609 million for the twelve month period ended 31 December 2010 compared to €891 million for the twelve month period ended 31 December 2009. The more favourable European and global outlook means that larger corporate customers who are focused internationally continue to perform better. Losses in Corporate Banking in the twelve month period ended 31 December 2010 are significantly lower than in the twelve month period ended 31 December 2009. In particular, the leveraged acquisition finance portfolio which is very well spread geographically and sectorally has benefitted from the global economic recovery and has achieved some provision write-backs. However the stressed economic conditions particularly in Ireland, a continuation of poor consumer sentiment and the heightened level of business insolvencies have negatively impacted trading conditions and caused general pressure on the SME sector. Those SME sectors correlated with consumer spending are particularly impacted. As a result, for the SME sectors, the level of impaired loans and the related impairment charges and impairment provisions have increased.

The impairment charge of €744 million on the Property and construction portfolio for the twelve month period ended 31 December 2010 has decreased by €686 million or 48% compared to the impairment charge of €1,430 million for the twelve month period ended 31 December 2009. The Property and construction portfolio amounted to €24.4 billion at 31 December 2010 comprising of €19.8 billion of investment property loans and €4.6 billion of land and development loans.

The impairment charge on the investment property element of the Property and construction portfolio was €445 million for the twelve month period ended 31 December 2010 compared to €375 million for the twelve month period ended 31 December 2009. Impairment charges on the investment property loan book have increased due to the impact of underlying economic conditions, reduced asset values and low levels of transactions and illiquidity in property markets which have continued, particularly in Ireland, to reduce rental flows and delay recovery prospects. There are few transactions in the Irish commercial property sector due to a lack of risk appetite among investors given the current economic downturn and the uncertainties that exist in the Irish property market.

The impairment charge on the land and development element of the Property and construction portfolio was €299 million for the twelve month period ended 31 December 2010 compared to €1,055 million for the twelve month period ended 31 December 2009. The impairment charge in the twelve month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, oversupply of residential housing stock in Ireland and generally weak economic conditions, particularly in Ireland. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to investor uncertainty.

The impairment charge of €127 million on the Consumer loan book for the twelve month period ended 31 December 2010 is €107 million lower compared to the impairment charge of €234 million for the twelve month period ended 31 December 2009 as default rates are better than expected. In addition, the loan book has reduced faster than expected reflecting debt repayment and a dearth of demand for new loans and other credit facilities.

The Group maintains its expectations that the impairment charges on loans and advances to customers (excluding assets sold or held for sale to NAMA) peaked in 2009, reduced in 2010, with anticipated further reductions in subsequent years.

A detailed analysis and commentary on asset quality is set out on pages 14 to 127 of the Risk Management Report.

### 1.6.6 Impairment charge on available for sale financial assets (AFS)

In the twelve month period ended 31 December 2010, the Group incurred impairment charges of €168 million on assets in its AFS portfolio. This includes a charge of €98 million on a holding of subordinated debt issued by Allied Irish Banks plc. The Group exchanged these bonds for cash in January 2011 without further loss. In addition the Group incurred an impairment charge of €70 million on NAMA subordinated bonds following the decision by NAMA not to pay the discretionary coupon due on 1 March 2011.

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m
<b>Impairment charge on available for sale financial assets</b>		
Allied Irish Banks plc	98	-
NAMA subordinated bonds	70	-
Other	-	2
<b>Impairment charge on available for sale financial assets</b>	<b>168</b>	<b>2</b>

### 1.6.7 Impairment charge on assets sold or held for sale to NAMA

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

The **impairment charge on assets sold or held for sale to NAMA** of €229 million for the twelve month period ended 31 December 2010 reduced by €1,663 million or 88% compared to the impairment charge of €1,892 million for the twelve month period ended 31 December 2009.

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
<b>Impairment charge on assets sold or held for sale to NAMA</b>			
Residential mortgages	10	8	25%
Non-property SME and corporate	14	4	250%
Property and construction	205	1,880	(89%)
<b>Impairment charge on assets sold or held for sale to NAMA</b>	<b>229</b>	<b>1,892</b>	<b>(88%)</b>

The impairment charge of €205 million on the Property and construction portfolio held for sale to NAMA for the twelve month period ended 31 December 2010 has decreased by €1,675 million compared to the impairment charge of €1,880 million for the twelve month period ended 31 December 2009. The impairment charge in the twelve month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, oversupply of residential housing stock in Ireland and generally weak economic conditions, particularly in Ireland. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to investor uncertainty.

The Property and construction impairment charge of €205 million in the twelve month period ended 31 December 2010 reflects the impact of underlying economic conditions, reduced asset values and continuing low levels of transactions and illiquidity in property markets.

### 1.6.8 Loss on sale of assets to NAMA

The loss on sale of assets to NAMA reflects those assets that were sold to NAMA in the twelve month period ended 31 December 2010 as set out below.

Loss on sale of assets to NAMA	12 months ended 31 December 2010	
	€m	€m
Loans sold to NAMA (nominal value)		9,340
Derivatives sold to NAMA (fair value)		61
		9,401
<b>Nominal value of consideration</b>		
- NAMA senior bonds	(4,970)	
- NAMA subordinated debt	(262)	(5,232)
Discount on gross asset value		4,169
Impairment provisions at date of sale		(2,237)
<b>Other items</b>		
Fair value adjustments on consideration, provision for servicing liability and other related sale costs		309
<b>Loss on sale of assets to NAMA</b>		<b>2,241</b>

During the twelve month period ended 31 December 2010, the Group sold €9.4 billion of assets (before impairment provisions) to NAMA. The nominal consideration for these assets amounted to €5.2 billion resulting in a gross discount of 44%<sup>1</sup>. At 31 December 2010, the Group still held as eligible for sale to NAMA €0.9 billion of assets (before impairment provisions), where the Group has an individual customer / sponsor exposure of greater than €20 million. The Group expects that the discount on the sale of these assets to NAMA will be less than the average discount on assets sold prior to 31 December 2010.

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

### 1.6.9 Non-core items

Underlying performance excludes non-core items which are those items that the Group believe obscures the underlying performance trends in the business. The Group has treated the following items as non-core in the twelve month period ended 31 December 2010:

#### Gain on liability management exercises

Following the successful completion of liability management exercises during the twelve month period ended 31 December 2010 the Group recognised a gain of €1,413 million in its income statement as follows:

- a gain of €423 million was recognised following the completion, in February 2010, of an exchange of certain Lower tier 2 securities for a new series of longer dated Lower tier 2 securities;
- a gain of €287 million was recognised as part of the Group's capital raising initiative in May 2010, arising from the Debt for Equity Exchange Offers where existing holders of eligible debt securities were offered the opportunity to exchange those securities for (a) cash proceeds raised from the allotment of ordinary stock on behalf of these bond holders in the rights issue or (b) allotment instruments which converted into ordinary stock in September 2010. Of this gain €11 million arose on the conversion of the allotment instrument into ordinary stock in September 2010, and is reported in the Income Statement as set out on page 16;
- a gain of €12 million was recognised following the completion in July 2010 of a private exchange of certain Lower tier 2 securities for a new longer dated Lower tier 2 security; and
- a gain of €691 million was recognised following the completion in December 2010 of an exchange of certain Lower tier 2 securities for a new series of senior debt securities.

In the twelve month period ended 31 December 2009 the Group successfully completed a liability management exercise involving the repurchase of €1.7 billion nominal value euro, sterling and US dollar denominated Tier 1 securities and generated a gain of €1,037 million.

Further details are set out in note 9 on page 233.

#### Impact of changes in pension benefits

At 31 December 2009, the IAS 19 deficit in the Group's defined benefit pension schemes was €1.6 billion. The most significant defined benefit pension scheme sponsored by the Group is the Bank of Ireland Staff Pensions Fund ('BSPF') which accounted for approximately 80% of the total deficit across all the schemes. The Group completed a review of its defined benefit pension schemes in April 2010 and a shared solution to address the deficit in the BSPF and other defined benefit schemes, involving the members of the schemes and the Group, was developed.

By 31 December 2010, the shared solution was implemented in respect of the members of the BSPF and the active members of the Bank of Ireland Finance Limited Pension Scheme, the NIIB Group Limited (1975) Pension Scheme, the Bank of Ireland (IOM) Pension Scheme and the Bank of Ireland Affiliated Pension Fund (formerly known as the BIAM Pension Scheme).

Based on the status of implementation of the shared solution at 31 December 2010, the Group has recognised a reduction in the deficit of the above pension schemes of €733 million net of any directly related expenses. The Group has recognised this amount as a non-core gain in the income statement.

Further details are set out in note 45 on page 271.

#### Gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'

The gain of €360 million recognised during the twelve month period ended 31 December 2010, arising from the impact of the change in credit spreads relating to the Group's issued notes and other deposits accounted for at 'fair value through profit or loss', has been classified as non-core. These liabilities consist of certain subordinated debt, certain structured senior debt and tracker deposits.

The Group has also reclassified as non-core the gain of €36 million on these liabilities arising from changes in the Group's credit spreads during twelve month period ended 31 December 2009.



**Impact of 'coupon stopper' on subordinated debt**

In January 2010 the European Commission imposed restrictions on the Group's ability to make coupon payments on certain subordinated liabilities unless under a binding legal obligation to do so (a 'coupon stopper' provision). On 31 December 2009 the Group expected that it would be precluded from making coupon payments for the two subsequent years and therefore, under the effective interest rate method of accounting, the Group recognised a gain of €67 million in the twelve month period ended 31 December 2009. The European Commission confirmed on 15 July 2010 that the 'coupon stopper' provision would cease on 31 January 2011. Consequently the Group has recognised a charge of €36 million in the twelve month period ended 31 December 2010 to reflect this change.

**Gross-up for policyholder tax in the Life business**

Accounting standards require that the income statement be grossed up in respect of the total tax payable by Bank of Ireland Life, comprising both policyholder and stockholder tax. The tax gross-up relating to policyholder tax is included within non-core items.

**Investment return on treasury stock held for policyholders**

Under accounting standards, the Group income statement excludes the impact of the change in value of Bank of Ireland stock held by Bank of Ireland Life for policyholders. The gain of €20 million reflects the impact of the stock price movement between 31 December 2009 and 31 December 2010 and the number of units of Bank of Ireland stock held by Bank of Ireland during that period. Units of stock held by Bank of Ireland Life for policyholders at 31 December 2010 were six million (31 December 2009: eleven million).

**Cost of restructuring programmes**

To support the objective to continue to become more focused and efficient, the Group announced in July 2010 that, in addition to continued pay restraints, it anticipates a reduction of approximately 750 in the number of people employed by the Group over a two year period primarily in areas affected by business change and lower activity levels.

On 4 November 2010, the Group announced the initial phase of this programme which included measures to consolidate and transition a number of business support activities from Belfast and London to the Group's existing operations in Dublin and Bristol which impacted approximately 270 jobs. In the twelve month period ended 31 December 2010 the Group incurred costs of €18 million in relation to this restructuring.

**Gain / (loss) on disposal of business activities**

Gain or loss on disposal of business activities includes the gain or loss recognised on the disposal of those activities as well as any subsequent re-measurement of the consideration received or related liabilities.

**1.6.10 Taxation**

The taxation credit for the Group was €341 million for the twelve month period ended 31 December 2010 compared to a taxation credit of €447 million for the twelve month period ended 31 December 2009 due to losses incurred in both periods together with the impact of the non-core items (see note 19 on page 241).

Excluding the impact of the non-core items, the effective tax rate for the twelve month period ended 31 December 2010 is 14% (taxation credit), compared to 16% (taxation credit) for the twelve month period ended 31 December 2009).

The UK Government announced the introduction of an annual bank levy in their 2010 Budget. The introduction of this levy is not expected to result in a material charge to the Group in the year to 31 December 2011.

## 1.7 Divisional Performance - on an Underlying \* basis

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
<b>Underlying * loss before tax</b>			
Retail Republic of Ireland	(1,467)	(1,727)	(15%)
Bank of Ireland Life	70	39	79%
UK Financial Services	(558)	(873)	(36%)
<i>UK Financial Services (Stg£ million equivalent)</i>	<i>(480)</i>	<i>(780)</i>	<i>(38%)</i>
Capital Markets	(973)	(517)	88%
Group Centre	(531)	(209)	154%
<b>Underlying * loss before tax</b>	<b>(3,459)</b>	<b>(3,287)</b>	<b>5%</b>
Non-core items	2,509	1,080	132%
<b>Loss before tax</b>	<b>(950)</b>	<b>(2,207)</b>	<b>(57%)</b>

\* Underlying excludes the impact of non-core items (see page 16)

### 1.7.1. Retail Republic of Ireland

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

The twelve month period ended 31 December 2010 remained particularly difficult for the Retail businesses in Ireland which continued to be adversely impacted by the ongoing economic downturn. The current economic environment together with lower disposable incomes has resulted in subdued demand for lending and other financial services products. Intense competition for deposits and the low interest rate environment resulted in a significant reduction in deposit margins. The impairment charge on loans and advances to customers remains elevated due to the economic downturn, high levels of unemployment and low levels of transactions in both the residential and commercial property markets.

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
<b>Retail Republic of Ireland: Income statement</b>			
Net interest income	1,010	1,214	(17%)
Net other income	347	168	106%
<b>Operating income</b>	<b>1,357</b>	<b>1,382</b>	<b>(2%)</b>
Operating expenses	(919)	(925)	1%
<b>Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA</b>	<b>438</b>	<b>457</b>	<b>(4%)</b>
Impairment charge on loans and advances to customers	(1,157)	(1,505)	(23%)
Assets sold or held for sale to NAMA:			
- Impairment charge on assets sold or held for sale to NAMA	(85)	(679)	(87%)
- Loss on sale of assets to NAMA	(675)	-	-
Share of results of associates and joint ventures (after tax)	12	-	-
<b>Underlying * loss before tax</b>	<b>(1,467)</b>	<b>(1,727)</b>	<b>(15%)</b>
<b>Cost / income ratio</b>	<b>67%</b>	<b>68%</b>	

\* Underlying excludes the impact of non-core items (see page 16)

Retail Republic of Ireland incurred an underlying loss before tax of €1,467 million for the twelve month period ended 31 December 2010 compared to an underlying loss before tax of €1,727 million for the twelve month period ended 31 December 2009.

**Net interest income** of €1,010 million for the twelve month period ended 31 December 2010 is €204 million or 17% lower than the Net interest income of €1,214 million for the twelve month period ended 31 December 2009. This reduction is a result of the higher cost of deposits arising from intense competition, the low interest rate environment and the higher cost of wholesale funding partly offset by improved asset pricing.

**Net other income** of €347 million for the twelve month period ended 31 December 2010 is €179 million higher than Net other income of €168 million for the twelve month period ended 31 December 2009. This increase arises primarily as a result of the changes in the market values of some international investment properties together with a provision of €93 million required in the twelve month period ended 31 December 2009 relating to a court hearing in connection with a European property investment. In the twelve month period ended 31 December 2009, the investment properties fell in value by €74 million while there was a partial recovery of €31 million in the value of certain of these investment properties in the twelve month period ended 31 December 2010.

**Operating expenses** of €919 million for the twelve month period ended 31 December 2010 have decreased by €6 million compared to €925 million for the twelve month period ended 31 December 2009. This decrease is due to reduced staff costs and continued tight management of all other costs.

**Operating profit** (before Impairment charges on financial assets and loss on sale of assets to NAMA) of €438 million for the twelve month period ended 31 December 2010 decreased by €19 million or 4% compared to the operating profit (before impairment charges on financial assets or loss on sale of assets to NAMA) of €457 million for the twelve month period ended 31 December 2009.

**Impairment charge on loans and advances to customers** of €1,157 million for the twelve month period ended 31 December 2010 is €348 million or 23% lower compared to the impairment charge of €1,505 million for the twelve month period ended 31 December 2009. The impairment charges remain elevated due to the economic downturn, high levels of unemployment and low levels of transactions in both the residential and commercial property markets.

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
<b>Impairment charge on loans and advances to customers</b>			
Residential mortgages	344	193	78%
Non-property SME and corporate	291	464	(37%)
Property and construction	432	657	(34%)
Consumer	90	191	(53%)
<b>Impairment charge on loans and advances to customers</b>	<b>1,157</b>	<b>1,505</b>	<b>(23%)</b>

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m
<b>Residential mortgages impairment charges*</b>		
Owner-occupied mortgages	176	109
Buy to let mortgages	178	92
<b>Residential mortgages</b>	<b>354</b>	<b>201</b>

\* Including impairment charge on residential mortgages held for sale to NAMA.

The impairment charge on Residential mortgages of €344 million for the twelve month period ended 31 December 2010 is €151 million or 78% higher compared to the impairment charge of €193 million for the twelve month period ended 31 December 2009. The ongoing economic slowdown in Ireland including lower levels of employment, reduced disposable income and falling house prices continued to adversely impact the level of mortgage arrears which increased significantly in 2010. In addition the buy to let element of the Irish residential mortgage book is impacted by lower demand for rental properties caused in part by net migration out of Ireland which, together with the existing levels of over supply in the housing market has put downward pressure on rental income. This has led to an increase in impaired loans with a corresponding increase in impairment charges. The housing market in Ireland is now not expected to stabilise until at least late 2012 and the Group has revised its expectation of house price decline such that it now expects prices to reduce by up to 55% (previous expectation 45%) from their peak level in the fourth quarter of 2006.

Mortgage details are as follows:

	31 December 2010 €bn	31 December 2009 €bn
<b>Residential mortgage loan book (before impairment provisions)</b>		
Owner-occupied mortgages	20.8	20.3
Buy to let mortgages	7.3	7.9
<b>Residential mortgages</b>	<b>28.1</b>	<b>28.2</b>

	31 December 2010	30 June 2010	31 December 2009
<b>Mortgage arrears - number of cases more than 90 days in arrears</b>			
Owner-occupied mortgages	3.76%	3.23%	2.61%
Buy to let mortgages	5.91%	4.55%	3.40%
<b>Residential mortgages</b>	<b>4.17%</b>	3.49%	<b>2.76%</b>

Arrears of more than 90 days on owner occupied mortgages increased from 2.61% at 31 December 2009 to 3.76% at 31 December 2010, compared to the Central Bank national statistics of 3.61% at 31 December 2009 and 5.66% at 31 December 2010 in respect of owner occupied mortgages.

The impairment charge on Non-property SME and corporate loans of €291 million for the twelve month period ended 31 December 2010 is €173 million or 37% lower compared to €464 million for the twelve month period ended 31 December 2009. While the impairment charge on this portfolio reduced the stressed economic conditions particularly in Ireland, a continuation of poor consumer sentiment and the heightened level of business insolvencies continue to negatively impact trading conditions and cause general pressure on the SME sector. Those sectors correlated with consumer spending are particularly impacted. As a result, the level of impaired loans and related impairment charges and impairment provisions have increased.

The impairment charge on the Property and construction portfolio of €432 million for the twelve month period ended 31 December 2010 is €225 million or 34% lower compared to the impairment charge of €657 million for the twelve month period ended 31 December 2009. The impairment charge in the twelve month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, oversupply of residential housing stock in Ireland and generally weak economic conditions, particularly in Ireland. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to investor uncertainty.

The impairment charge on the Consumer loan books of €90 million for the twelve month period ended 31 December 2010 is €101 million or 53% lower compared to the impairment charge of €191 million for the twelve month period ended 31 December 2009 as default rates are better than expected. In addition the loan book has reduced faster than expected reflecting debt repayment and a dearth of demand for new loans and other credit facilities.

The **impairment charge on assets sold or held for sale to NAMA** of €85 million for the twelve month period ended 31 December 2010 is €594 million or 87% lower compared to the impairment charge of €679 million for the twelve month period ended 31 December 2009.

In the twelve month period ended 31 December 2010 Retail Republic of Ireland sold loans and associated derivatives to NAMA of €2.6 billion (before impairment provisions), resulting in a **loss on sale of assets to NAMA** of €675 million (see section 1.3.8 for further details).

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
<b>Assets held for sale to NAMA</b>			
Impairment charge on assets sold or held for sale to NAMA	85	679	(87%)
Loss on sale of assets to NAMA	675	-	

The impairment charge on assets sold or held for sale to NAMA of €85 million for the twelve month period ended 31 December 2010 is €594 million lower compared to the impairment charges of €679 million for the twelve month period ended 31 December 2009. The impairment charges in the twelve month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, an oversupply of residential housing stock in Ireland and the generally weak economic conditions. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to a lack of demand from investors. In the twelve month period ended 31 December 2010, lower house prices, an over supply of residential housing stock and illiquid property markets continue to adversely impact asset quality and led to an impairment charge of €85 million.

**Share of results of associates and joint ventures (after tax)** of €12 million for the twelve month period ended 31 December 2010 compares to €nil for the twelve month period ended 31 December 2009.

### 1.7.2 Bank of Ireland Life

Bank of Ireland Life comprises the life assurer, New Ireland Assurance Company plc, and the business unit which distributes New Ireland investment and insurance products through the Group's branch network. New Ireland offers protection, investment and pension products to the Irish market through the Group's branch network, independent brokers and its direct sales force. Under the terms of the Group's EU restructuring plan, the Group has committed to dispose of its shareholding in New Ireland prior to 31 December 2012, but retains the ability to distribute life, pensions and investment products.

<b>Bank of Ireland Life: Income Statement (IFRS performance)</b>	<b>12 months ended 31 December 2010 €m</b>	<b>Proforma 12 months ended 31 December 2009 €m</b>	<b>Change %</b>
Operating income	178	169	5%
Operating expenses	(103)	(109)	(6%)
<b>Operating profit</b>	<b>75</b>	<b>60</b>	<b>25%</b>
Investment variance	9	(8)	(213%)
Economic assumption changes	(14)	(13)	(8%)
<b>Underlying * profit before tax</b>	<b>70</b>	<b>39</b>	<b>79%</b>
<b>Cost / income ratio</b>	<b>58%</b>	<b>66%</b>	

\* Underlying performance excludes the impact of non-core items (see page 16).

**Underlying profit before tax** of €70 million for the twelve month period ended 31 December 2010 increased by €31 million compared to underlying profit before tax of €39 million for the twelve month period ended 31 December 2009. The underlying profit for the twelve month period ended 31 December 2009 included an investment variance loss of €8 million due to the poor performance in investment markets in early 2009.

Annual Premium Equivalent (APE) sales for the twelve month period ended 31 December 2010 were 2% ahead of the twelve month period ended 31 December 2009 with modest growth in single premium business. This represents a strong sales performance relative to the market which decreased by 6% in the twelve month period ended 31 December 2010 due primarily to reduced consumer confidence and pressure on affordability. While policy persistency levels remain below long term trends, reflecting affordability issues amongst customers, due to actions taken during 2009 and 2010, persistency levels during the twelve month period ended 31 December 2010 have seen a steady improvement across most product lines and distribution channels.

Bank of Ireland Life has continued its focus on cost management with operating expenses of €103 million for the twelve month period ended 31 December 2010. This represents an decrease of €6 million as compared with the twelve month period ended 31 December 2009, primarily due to continued tight management of costs.

The performance of investment markets, in 2010, in excess of the unit growth assumption has given rise to a positive investment variance of €9 million. This compares to an underperformance of investment markets in the twelve month period ended 31 December 2009, which gave rise to a negative investment variance of €8 million.

The impact of economic assumption changes including changes to the discount and other rate assumptions gave rise to a charge of €14 million for the twelve month period ended 31 December 2010, compared to a charge of €13 million for the twelve month period ended 31 December 2009. The discount rate applied to future cashflows was decreased from 8.25% at 31 December 2009 to 7.75% at 31 December 2010. The unit growth assumption was decreased from 6.5% at 31 December 2009 to 5.75% at 31 December 2010.

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

## Embedded Value Performance

Bank of Ireland Life: Income Statement (Embedded value performance)	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
New business profits	13	7	86%
Existing business profits	65	18	261%
• Expected return	81	73	11%
• Experience variance	(12)	(38)	(68%)
• Assumption changes	(4)	(17)	(76%)
Inter company payments	(12)	(9)	33%
<b>Operating profit</b>	<b>66</b>	<b>16</b>	<b>313%</b>
Investment variance	16	23	(30%)
Economic assumption changes	(12)	(17)	(29%)
<b>Underlying * profit before tax</b>	<b>70</b>	<b>22</b>	<b>218%</b>

\* Underlying performance excludes the impact of non-core items (see page 16).

The alternative method of presenting the performance of the Life business is on an Embedded Value basis. This method is widely used in the life assurance industry.

Under this approach, **operating profit** for the twelve month period ended 31 December 2010 of €66 million compares to an operating profit of €16 million for the twelve month period ended 31 December 2009. New business profits were €13 million for the twelve month period ended 31 December 2010 compared to €7 million for the twelve month period ended 31 December 2009. Existing business profits were €65 million for the twelve month period ended 31 December 2010 compared to €18 million for the twelve month period ended 31 December 2009. Whilst policy persistency levels were lower than long term assumptions, they improved in the twelve month period ended 31 December 2010 with stabilisation returning to the existing business book relative to the twelve month period ended 31 December 2009.

As a result of the above **underlying profit before tax** of €70 million for the twelve month period ended 31 December 2010 compares to an underlying profit of €22 million for the twelve month period ended 31 December 2009.

The key assumptions used in the Embedded Value methodology are consistent with those used under the IFRS methodology, being a discount rate of 7.75% (31 December 2009: 8.25%), future growth rate on unit linked assets of 5.75% (31 December 2009: 6.5%) and the rate of tax to be levied on shareholders profits of 12.5% (31 December 2009: 12.5%).

### 1.7.3 UK Financial Services (Sterling)

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

On 1 November 2010, the Group transferred a substantial part of its UK banking business to a UK, wholly owned licensed banking subsidiary, Bank of Ireland (UK) plc. The main businesses that transferred were Business Banking UK, a portion of the UK residential and commercial mortgage books, together with selected Bank of Ireland branded deposits, Post Office branded deposits and the joint ventures with the UK Post Office. The results of the businesses which have transferred to Bank of Ireland (UK) plc continue to be reported within the UKFS Division.

The establishment of Bank of Ireland (UK) plc has been noted by the UK Government who announced on 9 November 2010 that 'Post Office Ltd's relationship with the Bank of Ireland has been strengthened considerably by the Bank of Ireland's recent creation of a separate subsidiary in the UK with depositors covered by the UK Financial Services Compensation Scheme.'

UK Financial Services: Income Statement	12 months ended 31 December 2010 £m	Proforma 12 months ended 31 December 2009 £m	Change %
Net interest income	507	581	(13%)
Net other income	54	103	(48%)
<b>Operating income</b>	<b>561</b>	<b>684</b>	<b>(18%)</b>
Operating expenses	(319)	(361)	(12%)
<b>Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA</b>	<b>242</b>	<b>323</b>	<b>(25%)</b>
Impairment charge on loans and advances to customers	(396)	(752)	(47%)
Assets sold or held for sale to NAMA:			
- Impairment charge on assets sold or held for sale to NAMA	(12)	(375)	(97%)
- Loss on sale of assets to NAMA	(346)	-	-
Share of results of associates and joint ventures (after tax)	32	24	33%
<b>Underlying * loss before tax</b>	<b>(480)</b>	<b>(780)</b>	<b>(38%)</b>
<b>Underlying * loss before tax (£m equivalent)</b>	<b>(558)</b>	<b>(873)</b>	<b>(36%)</b>
<b>Cost / income ratio</b>	<b>54%</b>	<b>51%</b>	

\* Underlying excludes the impact of non-core items (see page 16)

UK Financial Services incurred an **underlying loss before tax** of £480 million for the twelve month period ended 31 December 2010 compared to an underlying loss before tax of £780 million for the twelve month period ended 31 December 2009.

**Net interest income** of £507 million for the twelve month period ended 31 December 2010 is £74 million lower than the twelve month period ended 31 December 2009 due primarily to increased cost of wholesale funding together with the impact on liability spreads of the continuing intense competition for deposits partly offset by improved asset pricing.

**Net other income** of £54 million for the twelve month period ended 31 December 2010 was £49 million or 48% lower compared to Net other income of £103 million for the twelve month period ended 31 December 2009. This decrease is primarily due to lower levels of new business activity, and a charge in the twelve month period ended 31 December 2010 arising from the impact of credit deterioration on the fair value of derivatives held for sale to NAMA.

**Operating expenses** for the twelve month period ended 31 December 2010 of £319 million are £42 million or 12% lower than operating expenses of £361 million for the twelve month period ended 31 December 2009, as a result of continued savings following the restructuring of both the Residential mortgage and Business Banking operations and continued tight management of costs.



**Operating profit** (before impairment charges on financial assets and loss on sale of assets to NAMA) of £242 million for the twelve month period ended 31 December 2010 was £81 million or 25% lower than the twelve month period ended 31 December 2009.

**Impairment charge on loans and advances to customers** of £396 million for the twelve month period ended 31 December 2010 compares to impairment charges of £752 million for the twelve month period ended 31 December 2009.

	12 months ended 31 December 2010 £m	Proforma 12 months ended 31 December 2009 £m	Change %
<b>Impairment charge on loans and advances to customers</b>			
Residential mortgages	54	92	(41%)
Non-property SME and corporate	109	71	54%
Property and construction	202	563	(64%)
Consumer	31	26	19%
<b>Impairment charge on loans and advances to customers</b>	<b>396</b>	<b>752</b>	<b>(47%)</b>

The impairment charge on Residential mortgages decreased by £38 million or 41% from £92 million for the twelve month period ended 31 December 2009 to £54 million for the twelve month period ended 31 December 2010. Despite the marginal increase in the level of residential mortgage arrears, the impairment charge on this portfolio has reduced reflecting more stable house prices and unemployment levels.

The impairment charge on the Non-property SME and corporate portfolio was £109 million for the twelve month period ended 31 December 2010 compared to £71 million for the twelve month period ended 31 December 2009. The increase of £38 million in the impairment charge is primarily as a result of impairment charges on a small number of large individual cases in Business Banking. In Northern Ireland, the stressed economic conditions have negatively impacted trading conditions and caused general pressure on the SME sector. As a result, the level of impaired loans, the related impairment charges and the level of impairment provisions have increased.

The impairment charge of £202 million on the Property and construction portfolio for the twelve month period ended 31 December 2010 has reduced by £361 million compared to the impairment charge of £563 million for the twelve month period ended 31 December 2009. The impairment charge in the twelve month period ended 31 December 2010 reflects the continuing underlying economic conditions.

The impairment charge of £31 million on the Consumer loan books for the twelve month period ended 31 December 2010 has increased by £5 million or 19% compared to the impairment charge of £26 million for the twelve month period ended 31 December 2009.

**Impairment charge on assets sold or held for sale to NAMA** of £12 million for the twelve month period ended 31 December 2010 compares to an impairment charge of £375 million for the twelve month period ended 31 December 2009.

In the twelve month period ended 31 December 2010, UK Financial Services sold assets to NAMA of £1.7 billion (before impairment provisions), resulting in a **loss on sale of assets to NAMA** of £346 million (see section 1.3.8 for further details).

	12 months ended 31 December 2010 £m	Proforma 12 months ended 31 December 2009 £m	Change %
<b>Assets held for sale to NAMA</b>			
Impairment charge on assets sold or held for sale to NAMA	12	375	(97%)
Loss on sale of assets to NAMA	346	-	-

The **impairment charge on assets sold or held for sale to NAMA** in the twelve month period ended 31 December 2009 reflected the sharp deterioration in the property market, which was significantly impacted by falling property prices, a negative outlook for asset values and generally weak economic conditions. The twelve month period ended 31 December 2010 saw a reduction of 97% in the impairment charge on assets sold or held for sale to NAMA, however conditions remain challenging in the construction and property market, particularly in the more peripheral regions of the UK.

UK Financial Services **share of results of associates and joint ventures (after tax)** increased from £24 million for the twelve month period ended 31 December 2009 to £32 million for the twelve month period ended 31 December 2010. This increase is attributable to First Rate Exchange Services (FRES), a joint venture with the UK Post Office, which generated higher profits in the twelve month period ended 31 December 2010 compared to the twelve month period ended 31 December 2009 due to higher commissions.

	12 months ended 31 December 2010 £m	Proforma 12 months ended 31 December 2009 £m	Change %
<b>Business Unit performance:</b>			
<b>Underlying * (Loss) / profit before tax</b>			
Residential mortgages	88	67	31%
Business Banking	(526)	(819)	(36%)
Consumer Financial Services	38	40	(5%)
Division Centre	(80)	(68)	18%
<b>Underlying * loss before tax</b>	<b>(480)</b>	<b>(780)</b>	<b>(38%)</b>

\* Underlying excludes the impact of non-core items (see page 16).

### Residential mortgages

The **underlying profit before tax** of £88 million in the twelve month period ended 31 December 2010 is £21 million or 31% higher than the twelve month period ended 31 December 2009. This increase is primarily due to improved asset pricing, lower operating expenses and a lower impairment charge partly offset by lower income as a result of the higher cost of wholesale funding.

	31 December 2010 £bn	31 December 2009 £bn
<b>Residential mortgage loan book (before impairment provisions)</b>		
Standard mortgages	13.2	13.6
Buy to let mortgages	10.2	10.5
Self Certified mortgages	4.3	4.6
<b>UKFS total mortgages</b>	<b>27.7</b>	<b>28.7</b>

	31 December 2010	30 June 2010	31 December 2009
<b>Mortgage Arrears - number of cases more than 90 days in arrears</b>			
Standard mortgages	1.27%	1.21%	0.97%
Buy to let mortgages	1.92%	1.81%	1.85%
Self Certified mortgages	5.45%	5.20%	4.54%
<b>UKFS total mortgages</b>	<b>1.99%</b>	<b>1.89%</b>	<b>1.71%</b>

	12 months ended 31 December 2010 £m	Proforma 12 months ended 31 December 2009 £m
<b>Impairment charges</b>		
Standard mortgages	8	19
Buy to let mortgages	39	49
Self Certified mortgages	7	24
<b>UKFS total mortgages</b>	<b>54</b>	<b>92</b>

### Business Banking

The underlying loss before tax of £526 million in the twelve month period ended 31 December 2010 is £293 million or 36% lower compared to the twelve month period ended 31 December 2009. This is primarily due to lower interest income as a result of higher wholesale funding costs together with a significantly lower impairment charge as a result of the loans sold to NAMA.

### Consumer Financial Services

The underlying profit before tax of £38 million in the twelve month period ended 31 December 2010 is £2 million or 5% lower compared to the twelve month period ended 31 December 2009 due to lower net commissions receivable partly offset by higher profits in FRES.

### Division Centre

The underlying loss before tax of £80 million in the twelve month period ended 31 December 2010 is £12 million or 18% higher compared to the twelve month period ended 31 December 2009 primarily due to the impact of interest rate changes on the fair value of economic hedging instruments and costs associated with the incorporation of Bank of Ireland (UK) plc.

### 1.7.4 Capital Markets

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

Capital Markets: Income Statement	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
Net interest income	885	985	(10%)
Net other income	43	130	(67%)
<b>Operating income</b>	<b>928</b>	<b>1,115</b>	<b>(17%)</b>
Operating expenses	(287)	(328)	(13%)
<b>Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA</b>	<b>641</b>	<b>787</b>	<b>(19%)</b>
Impairment charge on loans and advances to customers	(266)	(512)	(48%)
Impairment charge on loans and advances to banks	-	(2)	-
Impairment charge on available for sale financial assets (AFS)	(98)	(2)	-
Assets sold or held for sale to NAMA:			
- Impairment charge on assets sold or held for sale to NAMA	(129)	(789)	(84%)
- Loss on sale of assets to NAMA	(1,121)	-	
Share of results of associates and joint ventures (after tax)	-	1	
<b>Underlying * loss before tax</b>	<b>(973)</b>	<b>(517)</b>	<b>88%</b>
<b>Cost / income ratio</b>	<b>31%</b>	<b>29%</b>	

\* Underlying excludes the impact of non-core items (see page 16)

Capital Markets reported an **underlying loss before tax** of €973 million for the twelve month period ended 31 December 2010 compared with an underlying loss before tax of €517 million for the twelve month period ended 31 December 2009.

The change in 'net interest income' and 'net other income' is impacted by IFRS income classifications between the two income categories (see page 18).

Net interest income	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
Net interest income	885	985	(10%)
IFRS income classifications	(165)	(68)	-
<b>Net interest income after IFRS income classifications</b>	<b>720</b>	<b>917</b>	<b>(21%)</b>

**Net interest income** after IFRS income classifications amounted to €720 million for the twelve month period ended 31 December 2010 and has decreased by €197 million or 21% compared to €917 million for the twelve month period ended 31 December 2009 due to lower net interest income arising from a 16% reduction in average earning assets together with the increased cost of wholesale funding, reduced income in Global Markets, partly offset by increased asset pricing.

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 March 2009 €m	Change %
<b>Net other income</b>			
Net other income	43	130	(67%)
IFRS income classifications	165	68	-
<b>Net other income after IFRS income classifications</b>	<b>208</b>	<b>198</b>	<b>5%</b>

Net other income after IFRS income classifications amounted to €208 million for the twelve month period ended 31 December 2010 and has increased by €10 million or 5% compared to €198 million for the twelve month period ended 31 December 2009. This increase is primarily due to higher income in the asset management businesses, IBI Corporate Finance, partly offset by reduced fees arising from the disposal of Iridian and Guggenheim together with the impact of credit deterioration on the fair value of derivative assets sold or held for sale to NAMA.

**Operating expenses** of €287 million for the twelve month period ended 31 December 2010 have decreased by €41 million or 13% compared to €328 million for the twelve month period ended 31 December 2009, primarily due to lower staff costs and continued tight management of costs.

**Operating profit** (before impairment charges on financial assets and loss on sale of assets to NAMA) of €641 million for the twelve month period ended 31 December 2010 has decreased by €146 million or 19% compared to €787 million for the twelve month period ended 31 December 2009.

The **impairment charge on loans and advances to customers** of €266 million for the twelve month period ended 31 December 2010 reduced by €246 million or 48% compared to €512 million for the twelve month period ended 31 December 2009.

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
<b>Impairment charge on loans and advances to customers</b>			
Non-property SME and corporate	192	354	(46%)
Property and construction	74	158	(53%)
<b>Impairment charge on loans and advances to customers</b>	<b>266</b>	<b>512</b>	<b>(48%)</b>

The impairment charge on the Non-property SME and corporate portfolio was €192 million for the twelve month period ended 31 December 2010, a reduction of €162 million or 46% compared to €354 million for the twelve month period ended 31 December 2009. The more favourable European and global economic outlook means that larger corporate customers who are focused internationally continue to perform better. In particular, the leveraged acquisition finance portfolio which is very well spread geographically and sectorally has benefitted from the global economic recovery and has achieved some provision write-backs.

The impairment charge on the Property and construction portfolio was €74 million for the twelve month period ended 31 December 2010 compared to €158 million for the twelve month period ended 31 December 2009 due to a continued recovery in certain international investment property markets and a lower level of tenant defaults than expected. Market conditions remain weak in the secondary / regional locations across all geographic locations with continued low levels of investor activity.

An **impairment charge on available for sale financial assets (AFS)** portfolio of €98 million was incurred in the twelve month period ended 31 December 2010, compared to a €2 million charge in the twelve month period ended 31 December 2009. This impairment charge of €98 million relates to a holding of subordinated debt issued by Allied Irish Banks plc. The Group exchanged these bonds for cash in January 2011 without further loss to the Group.

An **impairment charge on assets sold or held for sale to NAMA** of €129 million was incurred in the twelve month period ended 31 December 2010 compared to €789 million for the twelve month period ended 31 December 2009.

In addition Capital Markets incurred a **loss on sale of assets to NAMA** of €1,121 million in the twelve month period ended 31 December 2010 arising from the sale of €4.9 billion of assets to NAMA (before impairment provisions). (See sections 1.3.8 and 1.6.8 for further details).

	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
<b>Available for sale financial assets</b>			
Available for sale financial assets	98	2	-
<b>Assets held for sale to NAMA</b>			
Impairment charge on assets sold or held for sale to NAMA	129	789	(84%)
Loss on sale of assets to NAMA	1,121	-	-

The impairment charge in the twelve month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, an oversupply of residential housing stock in Ireland and generally weak economic conditions, particularly in Ireland. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to a lack of demand from investors. In the twelve month period ended 31 December 2010, lower house prices, an oversupply of residential housing stock and illiquid residential and commercial property markets, particularly in Ireland, continue to adversely impact asset quality and led to an impairment charge of €129 million.

Business Unit Performance	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
Corporate Banking	488	559	(13%)
Global Markets	121	204	(41%)
Asset Management Services	28	27	4%
Division Centre	4	(3)	233%
<b>Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA</b>	<b>641</b>	<b>787</b>	<b>(19%)</b>
Impairment charge on loans and advances to customers	(266)	(512)	(48%)
Impairment charge on loans and advances to banks	-	(2)	-
Impairment charge on available for sale financial assets (AFS)	(98)	(2)	-
Assets sold or held for sale to NAMA:			
- Impairment charge on assets sold or held for sale to NAMA	(129)	(789)	(84%)
- Loss on sale of assets to NAMA	(1,121)	-	-
Share of results of associates and joint ventures (after tax)	-	1	-
<b>Underlying * loss before tax</b>	<b>(973)</b>	<b>(517)</b>	<b>88%</b>

\* Underlying excludes the impact of non-core items (see page 16).

**Corporate Banking** operating profit (before impairment charges on financial assets and loss on sale to NAMA) was €488 million for the twelve month period ended 31 December 2010 compared to €559 million for the twelve month period ended 31 December 2009. The decrease of €71 million was due to higher wholesale funding costs, reduced lending volumes as a result of the sale of €4.9 billion (before impairment provisions) of assets to NAMA and other customer deleveraging together with the charge of €12 million arising from the impact of credit deterioration on the fair value of derivatives held for sale to NAMA. This was partly offset by increased asset pricing across most portfolios and a gain of €14 million arising on equity investments.

**Global Markets** operating profit (before impairment charges on available for sale financial assets) was €121 million for the twelve month period ended 31 December 2010 compared to €204 million for the twelve month period ended 31 December 2009. The twelve month period ended 31 December 2009 was positively impacted by gains arising as a result of good positioning in a falling interest rate environment.

**Asset Management Services** operating profit of €28 million for the twelve month period ended 31 December 2010 compares to €27 million for the twelve month period ended 31 December 2009. The increase was due to higher assets under management in BIAM, increased fee income in BoISS together with lower costs, partly offset by lower fee income during the twelve month period ended 31 December 2010 as a result of the disposal of the US asset management businesses, Iridian and Guggenheim, in 2009.

Since 31 December 2010, the Group has disposed of BIAM and BoISS. (See note 61).

**Division Centre** includes central management costs and IBI Corporate Finance.

### 1.7.5 Group Centre

Group Centre comprises capital management activities and unallocated Group support costs.

Group Centre: Income Statement	12 months ended 31 December 2010 €m	Proforma 12 months ended 31 December 2009 €m	Change %
Net interest income (excluding ELG guarantee fees)	26	62	(58%)
Net other income / (expense) (excluding CIFS guarantee fees)	7	(9)	178%
Government guarantee fee:			
- ELG (classified as net interest expense)	(275)	-	-
- CIFS (classified as net other expense)	(68)	(139)	(51%)
<b>Operating loss</b>	<b>(310)</b>	<b>(86)</b>	<b>260%</b>
Operating expenses	(104)	(123)	(15%)
<b>Operating loss before impairment charge on financial assets and loss on sale of assets to NAMA</b>	<b>(414)</b>	<b>(209)</b>	<b>98%</b>
Impairment charge on available for sale financial assets (AFS)	(70)	-	-
Charges arising on the sale of assets to NAMA	(47)	-	-
<b>Underlying * loss before tax</b>	<b>(531)</b>	<b>(209)</b>	<b>154%</b>

\* Underlying performance excludes the impact of non-core items (see page 16)

Group Centre reported an **underlying loss before tax** of €531 million for the twelve month period ended 31 December 2010, compared to an underlying loss before tax of €209 million for the twelve month period ended 31 December 2009.

**Net interest income** (excluding ELG guarantee fees) of €26 million for the twelve month period ended 31 December 2010 is €36 million lower compared to the twelve month period ended 31 December 2009. This decrease is primarily due to lower earnings on capital in Group Centre.

**Net other income** (excluding CIFS guarantee fees) was €7 million for the twelve month period ended 31 December 2010 compared to a €9 million cost in the twelve month period ended 31 December 2009. This increase is mainly due to favourable movements on fair value hedges offset by higher insurance liabilities and claims paid.

The Group has incurred higher **Government guarantee fees** in the twelve month period ended 31 December 2010 compared to the twelve month period ended 31 December 2009. On 11 January 2010, the relevant deposit taking entities within the Group were accepted as participating financial institutions in the ELG Scheme and the Group incurred fees of €275 million under the ELG Scheme in 2010. The CIFS scheme expired in September 2010 and the Group incurred CIFS fees of €68 million in the twelve month period ended 31 December 2010 compared to €139 million in the twelve month period ended 31 December 2009. The decrease reflects the expiry of the CIFS scheme in September 2010 together with the lower volume of liabilities covered by the CIFS scheme as new liabilities issued since 11 January 2010 were covered by the ELG scheme.

**Operating expenses** of €104 million for the twelve month period ended 31 December 2010 are €19 million or 15% lower compared to €123 million for the twelve month period ended 31 December 2009 primarily as a result of tight management of costs.

The **impairment charge on AFS** reflects a charge of €70 million arising on the Group's holding of NAMA subordinated bonds following the decision by NAMA not to pay the discretionary coupon due on 1 March 2011.

The **charges arising on the sale of assets to NAMA** of €47 million include the provision required under accounting standards in relation to the ongoing costs to the Group of servicing the assets sold to NAMA during the twelve month period ended 31 December 2010 together with the costs associated with the sale of those assets (see sections 1.3.8 and 1.6.8 for further details).



## Income Statement – Operating Segments

Proforma 12 month period ended  
31 December 2009

	Net interest income €m	Insurance premium income €m	Other income €m	Total operating income €m	Insurance contract liabilities and claims paid €m	Total operating income €m	Operating expenses €m	Operating profit before impairment charges on financial assets €m	Impairment charges on financial assets held for sale to NAMIA €m	Share of results of associates and joint ventures (after tax) €m	Disposal of business activities €m	Profit / (loss) before taxation €m
Retail Republic of Ireland	1,214	-	168	1,382	-	1,382	(925)	457	(1,505)	-	-	(1,727)
Bank of Ireland Life	(2)	786	560	1,344	(1,196)	148	(109)	39	-	-	-	39
UK Financial Services	650	-	114	764	-	764	(406)	358	(834)	27	-	(873)
Capital Markets	985	-	130	1,115	-	1,115	(328)	787	(516)	1	-	(517)
Group Centre	62	16	(135)	(57)	(29)	(86)	(123)	(209)	-	-	-	(209)
<b>Group – underlying*</b>	<b>2,909</b>	<b>802</b>	<b>837</b>	<b>4,548</b>	<b>(1,225)</b>	<b>3,323</b>	<b>(1,891)</b>	<b>1,432</b>	<b>(2,855)</b>	<b>28</b>	<b>-</b>	<b>(3,287)</b>
Non-core items:												
- Gain on liability management exercises	-	-	1,037	1,037	-	1,037	-	1,037	-	-	-	1,037
- Gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	-	-	36	36	-	36	-	36	-	-	-	36
- Impact of 'coupon stopper' on certain subordinated debt	58	-	9	67	-	67	-	67	-	-	-	67
- Gross-up of policyholder tax in the Life Business	-	-	29	29	-	29	-	29	-	-	-	29
- Investment return on treasury stock held for policyholders in the Life Business	-	-	(3)	(3)	-	(3)	-	(3)	-	-	-	(3)
- Cost of restructuring programmes	-	-	-	-	-	-	(83)	(83)	-	-	-	(83)
- Loss on disposal of business activities	-	-	-	-	-	-	-	-	-	-	(3)	(3)
<b>Group total</b>	<b>2,967</b>	<b>802</b>	<b>1,945</b>	<b>5,714</b>	<b>(1,225)</b>	<b>4,489</b>	<b>(1,974)</b>	<b>2,515</b>	<b>(2,855)</b>	<b>28</b>	<b>(3)</b>	<b>(2,207)</b>

\* Underlying performance excludes the impact of non-core items (see page 16)

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# Risk Management Report

## Principal Risks and Uncertainties

Set out below are the key risk factors which could impact the Group's future results and financial position in the next twelve months. The factors discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties because there may be risks and uncertainties of which the Group is not aware or which the Group does not consider significant but which in the future may become significant.

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

### The Irish banking system and Credit Institutions (Stabilisation) Act, 2010

The EU/IMF Programme required that a fundamental downsizing and reorganisation of the banking system in Ireland take place. The strategy for the future structure, functioning and viability of Irish credit institutions is to be developed and agreed with the European Commission and the IMF in consultation with the ECB. As part of this process, the Central Bank has set target loan to deposit ratios for each bank of 122.5% to be achieved by 31 December 2013 which is likely to result in significant restructuring of the Irish banking system over the next few years.

The Government has already taken significant steps to support or recapitalise a number of domestic Irish banks and building societies and in doing so has taken significant equity positions, in some cases amounting to majority voting control or nationalisation.

On 21 December 2010, the Credit Institutions (Stabilisation) Act, 2010 (the Stabilisation Act) was signed into law. This Act provides extensive powers to recapitalise and restructure the Irish banking industry as set out in note 56 (a) to the financial statements. In exercising these powers, the Minister can apply to the High Court, following consultation with the Governor of the Central Bank and a relevant financial institution, to seek formal orders and directions which could impose certain onerous requirements on the financial institution, including the Group. The introduction of the Stabilisation Act has created a mechanism for State intervention in the banking industry to an unprecedented degree which could have a significant adverse impact on the Group's operations. In addition the Minister can apply to the High Court to seek a Subordinated Liabilities Order which, if granted, could have a significant adverse impact on the holders of these liabilities. This legislation will cease to have effect on 31 December 2012, by which time it is anticipated that a 'resolution regime' will be in place. For further information see note 56 (a).

On 28 February 2011 the Central Bank and Credit Institutions (Resolution) Bill (the Resolution Bill) was published. This draft legislation is expected to eventually supersede the Stabilisation Act.

Under the new Resolution Bill the Central Bank will receive the authority to take over, run and break up troubled financial institutions (domestic and foreign, including IFSC banks), as it seeks to minimise the cost of a bank failure for taxpayers (this power rests with the Minister for Finance under the Stabilisation Act until the end of 2012). A special resolution fund is also to be set up, with a levy to be placed on banks to cover the cost of the Central Bank assuming control of a financial institution. The Central Bank will also receive the power to make an application to the High Court to appoint a special manager to run troubled banks and is also allowed to remove any staff, Directors or consultants. It can also create 'bridge banks' to take control of deposits and loans of a failed institution pending their transfer to another bank. The enactment of the new Resolution Bill could have a significant adverse impact on the Group's operations.

A foreign owned bank with stronger credit ratings than the Group could acquire one of the Group's principal competitors in the Irish banking market. This could have an adverse impact on the Group's funding profile if a significant number of depositors transferred their deposits from the Group to the competitor due to the new owner's stronger credit ratings. In addition, the competitor could be in a position to lend to the Group's customers at lower rates due to access to cheaper funding with a consequent adverse impact on the Group's financial condition and prospects.

### Liquidity Risk

Liquidity risk is the risk that the Group will experience difficulty in financing its assets and / or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds. This risk is inherent in banking operations and the Group's liquidity may be impacted as a result of a reluctance of the Group's counterparties or the market to finance the Group's operations due to actual or perceived weaknesses in the Group's businesses. Such impacts can also arise from circumstances unrelated to the Group's businesses and outside its control, such as, but not limited to sovereign credit ratings, disruptions in the financial markets, negative developments concerning other financial institutions, negative views on the financial services industry in general, disruptions in the markets for any specific class of assets or major events or disasters of global significance. Negative perceptions concerning the Group's business and prospects could develop as a result of material unanticipated losses, changes in its credit ratings, general decline in the level of business activity in the financial services sector, regulatory action as well as many other reasons. The risk can be heightened by an over-reliance on a particular source of funding (including, for example, short-term and overnight funding).

The Group is and will continue to be subject to the risk of deterioration of the commercial soundness or perceived soundness of other financial services institutions within and outside the main markets in which the Group operates. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions because the commercial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. This risk is sometimes referred to as 'systemic risk' and could have an adverse effect on the Group's ability to raise new funding and on the Group's results, financial condition and prospects.

The heightened concerns regarding European sovereign debt experienced in May and June 2010 resulted in renewed instability in financial markets adversely impacting market sentiment, restricting access to wholesale funding markets for financial institutions across Europe and increasing the market cost of funding. These concerns resurfaced during the third quarter of 2010 for peripheral eurozone countries, and particularly Ireland, due to heightened concerns in international debt markets about the level of fiscal deficits and evolving debt levels in these countries and the potential impact of these deficits on their economies. These conditions were exacerbated by, amongst other things, the downgrading of the Irish sovereign credit rating in August and the corresponding downgrades for senior ratings of domestic financial institutions and uncertainty in relation to whether the ELG Scheme would be extended. Following the downgrades of the Irish sovereign credit ratings in August 2010 and the consequent downgrades of the Group, the Group has experienced a material deterioration in funding market conditions.

Customer deposits, which are the Group's largest single source of funding, amounted to €65 billion at 31 December 2010 compared to €85 billion at 31 December 2009. Medium term growth in the Group's lending activities will depend, in part, on the availability of customer deposits on appropriate terms (consistent with applicable regulatory constraints), for which there is vigorous competition.

The ongoing availability of these deposits to fund the Group's loan portfolio is subject to potential changes in certain factors outside the Group's control, such as a loss of confidence of depositors in either the economy in general, the financial services industry or the Group specifically, further credit ratings downgrades for the Group or the Irish sovereign, significant further deterioration in economic conditions and the availability and extent of deposit guarantees. These factors could lead to a further reduction in the Group's ability to access customer deposit funding on appropriate terms in the future and to sustained deposit outflows, both of which would impact on the Group's ability to fund its operations.

Following the rating agency downgrades of the State in August 2010 and the Group in October 2010 and in line with many other financial institutions, the Group has experienced a deterioration in funding market conditions. This has resulted in a shortening of the maturity profile of wholesale funding due to limited access to term funding markets and an increased reliance on secured borrowing. As a result, the Group has extended its usage of liquidity facilities made available by Monetary Authorities by means of both its pool of eligible collateral with the ECB and the additional liquidity facilities introduced by the Central Bank.

As at 5 April 2011 the long-term (outlook) / short-term (outlook) of the Group's credit ratings are BB+ (CreditWatch negative) / B (CreditWatch negative) from Standard & Poor's. Other ratings are set out on page 33. The current ratings are the result of a number of downgrades, the most recent of which occurred in April 2011. Further downgrades in the credit ratings of the Group could have a materially negative impact on the volume and pricing of its funding and its financial position, limit the Group's access to capital and funding markets, trigger termination events in derivative contracts, lead to a requirement for the Group to give additional collateral under derivative contracts or other secured-funding arrangements and reduce further the level of customer deposits which are dependent on credit ratings.

The Central Bank prescribes regulatory liquidity ratios for Irish domestic financial institutions. Compliance with these ratios can be adversely impacted by a range of factors including the term of borrowings, the split between unsecured and secured funding and the mix of liquidity facilities made available by Monetary Authorities and the Central Bank. The Group notified the Central Bank of a temporary breach of regulatory liquidity requirements in January 2011 (that breach was remediated in January 2011) and a breach in April 2011. The breaches have been associated with the contraction in unsecured wholesale funding, changes in the eligibility criteria of the ECB and increased usage of Monetary Authority funding. The Actions agreed with the Central Bank to de-lever the balance sheet post the PLAR exercise are expected to reduce the Group's funding and liquidity risk.

The Central Bank completed a Prudential Liquidity Assessment Review (PLAR) with the results issued on 31 March 2011. The PLAR is an assessment of measures to be implemented with a view to steadily deleveraging the banking system and reducing reliance on short term wholesale funding and liquidity support from Monetary Authorities. The outcome of this review is set out in section 1.2.1 of the Operating and Financial Review.

Additional deleveraging of the Group's balance sheet, the acceleration of time frames for deleveraging or the disposal of assets in the deleveraging plan at 'fire sale' prices could have an adverse impact on the Group's business, results of operations and financial condition.

### Sovereign Risk

As at 5 April 2011 the long-term (outlook) / short-term sovereign credit ratings for Ireland were A- (CreditWatch Negative) / A-2 from Standard & Poor's. Other ratings are set out on page 33. The current ratings are the result of a number of downgrades of the sovereign since early 2009 when Standard & Poor's had rated Ireland as AAA (CreditWatch Stable). Further downgrades would be likely to further delay a return to normal market funding for the State. As the guarantor of certain liabilities of the Group under the ELG Scheme, further sovereign downgrades are also likely to impact adversely on the Group's credit rating and cost of funding for certain securities guaranteed under this scheme and are likely to restrict refinancing of wholesale funding and could also result in the withdrawal of deposits from the Group.

In addition, as a Participating Institution in NAMA, the Group has received Government guaranteed bonds and non-guaranteed subordinated bonds issued by NAMA as consideration for the sale of assets to NAMA. In the normal course of business, the Group also has holdings of Irish Government bonds separate from those issued under NAMA, further details are set out on page 126. A downgrade or series of downgrades in the credit rating of the Government debt or the Government guaranteed bonds could adversely impact the extent to which the Group can use these bonds as collateral for the purposes of accessing liquidity. Notwithstanding the support made available to the State by the EU/IMF Programme, an Irish sovereign default on its liabilities would lead to a loss on outstanding holdings of Irish government and NAMA bonds, materially impair the Group's access to funding, trigger additional collateral requirements and weaken its competitive position.

### Government Guarantee Scheme

The ELG Scheme facilitates participating institutions, including the Group, in issuing debt securities and taking deposits. On 11 January 2010, the relevant deposit taking entities within the Group were accepted as participating institutions in the ELG Scheme.

On 10 November 2010 the Minister for Finance announced that he would be seeking European Commission approval for an extension of a modified ELG Scheme to enable the issuance period to extend to 31 December 2011 subject to six-monthly State aid approval by the European Commission. The extension of the ELG Scheme is currently approved by the European Commission until 30 June 2011 (debt securities and deposits issued under the ELG Scheme before 30 June 2011 will be covered up to maturity, subject to a maximum maturity of five years).

In advance of the 30 June 2011 expiry date, the ELG Scheme will be subject to a review by the European Commission. Arising from this review, the European Commission could require the amendment or cessation of the ELG Scheme. The cancellation or material amendment of the ELG Scheme prior to, or on the scheduled expiry date of the issuance window on 30 June 2011, or non-renewal of the ELG Scheme on 30 June 2011 could introduce further systemic weakness to the Irish banking sector and remove an important element of liquidity support for the sector as a whole. The cancellation or material amendment of the ELG Scheme or the removal of the Group from the ELG Scheme could adversely affect the terms on which the Group would be able to access funding. The Group's financial position may also be impacted by material changes to the cost of participating in the ELG Scheme, which may be changed at the discretion of the Minister for Finance and the European Commission.

### Capital Management

Capital adequacy and its effective management, is critical to the Group's ability to operate its businesses and to pursue its strategy. The Group's business and financial condition could be affected if the amount of capital is insufficient due to a materially worse than expected financial performance (including, for example, reductions in earnings as a result of impairment charges, increases in risk weighted assets and delays in the disposal of certain assets).

The minimum regulatory requirements imposed on the Group, the manner in which the existing regulatory capital is calculated, the instruments that qualify as regulatory capital and the capital tier to which those instruments are allocated, could be subject to change in the future.

A number of regulatory initiatives have recently been proposed or enacted, which could significantly alter the Group's capital requirements.

These initiatives include:

- 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. It is noted that the Capital Requirements Directive IV (CRD IV) is expected to further define the treatment of existing capital instruments.
- The EU Capital Requirements Directive III (CRD III): CRD III was implemented on 1 January 2011 with some specific items being phased in over the next two years. It introduces a number of changes in response to the recent and current market conditions, which may:
  - 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.

On 16 December 2010 the Basel Committee on Banking Supervision, a forum for regular co-operation on banking supervisory matters, published a paper entitled Basel III: A global regulatory framework for more resilient banks and banking systems. The paper, which follows earlier proposals on Basel III, contains proposals to strengthen the global capital framework by, among other things, raising the quality of the Core tier 1 capital base in a harmonised manner (including through changes to the items which give rise to adjustments to that capital base), strengthening the risk coverage of the capital framework, promoting the build up of capital buffers and introducing a global minimum liquidity standard for the banking sector. These proposals are to be phased in from 1 January 2013 to 1 January 2018.

On 26 February 2010, the European Commission issued a public consultation document on further possible changes to the CRD (CRD IV) which is closely aligned with the initial proposals of 16 December 2009 from the Basel Committee (Basel III). Final changes in CRD IV are expected during the second quarter of 2011.

The Solvency II Directive (Directive 2009/138/EC), adopted by the European Parliament on 22 April 2009 and endorsed by the Council of Ministers on 5 May 2009, is a fundamental review of the capital adequacy regime for the European insurance industry. When implemented (required by 31 October 2012) the capital structure and overall governance of the Group's life assurance business will alter significantly to the extent that New Ireland Assurance Company plc has not been disposed of in accordance with the terms of the EU Restructuring Plan and this may have an impact on the capital structure of the Group.

The changes proposed by the Basel Committee and the CRD IV consultation document relating to the definition of instruments that are eligible to be included within Core tier 1 capital and the other tiers of regulatory capital will have an impact on the capital and asset and liability management of the Group, which in turn will have an impact on the Group's results, financial condition and prospects.

The Central Bank completed a revised Prudential Capital Assessment Review (PCAR) in 2011 with the results issued on 31 March 2011. The 2011 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.

As announced on 31 March 2011 the outcome of this review is that the Central Bank has determined that the Group needs to generate / raise incremental equity capital of €4.2 billion including a regulatory buffer of €0.5 billion. In addition, €1.0 billion of contingent capital is also required via the issue of a debt instrument which under certain circumstances would convert to equity capital. Further information on 2011 PCAR is set out in section 1.2.1 of the Operating and Financial Review.

The Group's plans to raise additional capital are in accordance with the Central Bank's requirements. To the extent that the Group is not able to raise the planned amount of additional equity capital from existing ordinary stockholders, the holdings of those stockholders are at risk of further dilution.

### Challenging Economic Environment

The Group's businesses are subject to inherent risks arising from macroeconomic conditions in the Group's main markets, particularly in Ireland and the UK. Adverse developments, such as the continued downturn in economic conditions particularly in Ireland has resulted in a decline in demand for business products and services, weak business and consumer confidence, lower personal expenditure and consumption, increases in the debt service burden of consumers and businesses and limitations on the general availability of credit. These factors have significantly affected, and may continue to affect, the Group's customers and, as a consequence, the demand for, and supply of, the Group's products and services and in turn the Group's results, financial condition and prospects.

The magnitude of the fiscal adjustment agreed under the EU/IMF Programme, in addition to the low level of consumer and business confidence resulting from the economic downturn, unemployment, decreases in asset values and declining business activity, is likely to have a significant impact on economic activity in Ireland.

The downward pressure on firms' profitability and household disposable incomes from the austerity measures as well as the high level of private sector debt and the resulting deterioration in the business environment against a backdrop of tighter credit conditions are likely to further impact demand for loans. In addition, the Group's customers may further significantly decrease their risk appetite for non-deposit investments such as stocks and bonds, which could adversely affect the Group's fee and commission income.

The precise nature of all the risks and uncertainties the Group faces as a result of the economic outlook is difficult to predict, in view of uncertainty regarding the scale and pace of economic recovery. Accordingly, the Group may experience further reductions in business activity, increased funding costs, decreased asset values, additional impairment charges with consequent adverse impacts on its financial condition. Moreover, any worsening of the global economic environment could impact on one or more countries that are significant to the Group's business and could further adversely impact the Group's results, financial condition and prospects.

### Credit Risk

Credit risk is the risk of loss arising from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. This risk includes concentration risk and country risk. Risks arising from changes in credit quality and the recoverability of both secured and unsecured loans and amounts due from counterparties are inherent in a wide range of the Group's businesses. Adverse changes in the credit quality or behaviour of the Group's borrowers, counterparties and their guarantors, or adverse changes arising from a general deterioration in global economic conditions or systemic risks in the financial system, have reduced, and are expected to continue to reduce, the recoverability and value of the Group's assets. These circumstances have caused a significant increase in, and could cause further significant increases in, impaired loans and impairment provisions.

The Group's primary markets are Ireland and the UK. At 31 December 2010, 45% of the Group's loans and advances to customers (excluding loans held for sale to NAMA and impairment provisions) were in Ireland and 55% were in the UK and other jurisdictions. Exposures originated and managed in Ireland and the UK represent a material concentration of credit risk. The Group has exposures to residential mortgages and to a range of corporate customers in different sectors, in particular exposures to investors in commercial property and residential property. Residential property prices continue to be under pressure in Ireland with some weakness re-emerging in the UK market. Economic conditions may deteriorate and interest rates are likely to rise in the Group's main markets, which may lead to, amongst other things, further declines in values of collateral and investments, increased unemployment, weakened consumer and corporate spending, declining corporate profitability, declining equity markets and bond markets and an increase in corporate insolvencies.

Many borrowers in Ireland and the UK borrow on short-term fixed or discounted floating rates and when such rates expire the continued reduced supply and stricter terms of lending together with the potential for higher borrowing rates has led, and may continue to lead, to higher loan default rates.

The Group has also been exposed to increased counterparty risk as a result of financial institution and corporate failures and will continue to be exposed to the risk of loss if counterparty financial institutions or other corporate borrowers fail or are otherwise unable to meet their obligations.

### NAMA

The final NAMA due diligence process is still in progress for some loans greater than €20 million that have already been sold and for other loans expected to be transferred to NAMA. As a result there is continuing uncertainty around the final consideration for these loans.

If NAMA makes a loss, the shortfall up to the value of the non-guaranteed subordinated bonds issued by NAMA will be shared by the participating institutions, including the Group, in proportion to each institution's share of the total non-guaranteed subordinated bonds issued by NAMA. Such a shortfall could occur if the ultimate sales proceeds and income generated on the Eligible Bank Assets transferred to NAMA fail to cover the initial consideration paid and interest costs and expenses incurred by NAMA. As such, in the event that NAMA makes a loss on its operations, these subordinated bonds could ultimately prove to be of little or no value to the Group, which could have an adverse impact on the Group's results, financial condition and prospects.



Furthermore, if after the sharing of losses up to the value of the non-guaranteed subordinated bonds with the participating institutions, NAMA makes an underlying loss at the conclusion of its operations calculated by reference to the Eligible Bank Assets it acquires from all the participating institutions, the Group may be required to pay a tax surcharge to the Government which, depending on the quantum of underlying loss, may be significant and could have an adverse impact on the Group's results, financial condition and prospects. The tax surcharge payable to the Government will be apportioned to each participating institution on the basis of the book value of the Eligible Bank Assets acquired by NAMA from each participating institution concerned as a proportion of the total book value of the Eligible Bank Assets acquired by NAMA from all of the participating institutions.

The Group has obligations in relation to the accuracy of information which it has supplied, and continues to supply, to NAMA in relation to assets potentially eligible for transfer to NAMA and assets already sold to NAMA. Should it be established that information given by the Group to NAMA is inaccurate, the Group could be subject to a claim in damages and the Group and its officers could be subject to penalties which could adversely impact the Group's business, reputation and financial condition.

#### **A change in Irish Government Policy**

Irish Government policy in respect of the banking system, including its supervision, regulation, recapitalisation and structure, has had, and will continue to have a major impact on the Group. The Irish Government can implement its policy by utilising its extensive powers under existing legislation, the introduction of new or amended legislation or, in the Group's case, the exercise of its stockholder and other rights pursuant to the NPRFC's stockholding in the Bank and the powers included in the Stabilisation Act.

Implementation of Government policy and other requirements arising from the EU/IMF Programme, in particular those that may impact banks in Ireland, could give rise to policies and changes that may not be aligned with the interests of the Group or its stockholders.

A new Government was appointed into office on 9 March 2011. The introduction of new Government policies or the amendment of existing policies by the new Government or any future Government could have a significant impact on the Group's results, financial condition and prospects.

#### **Change of Control**

The Bank and its subsidiaries are parties to joint ventures, contracts and other agreements containing change of control provisions that may be triggered in the event of a change of control of the relevant Group entity for example as a result of a major stockholder, such as the NPRFC, obtaining a majority of the Group's issued ordinary stock. These include business activities between the Group and the UK Post Office.

Agreements with change of control provisions typically provide for, or permit, the termination of the agreement upon the occurrence of a change of control of one of the parties or if the new controlling party does not satisfy certain criteria. The crystallisation of change of control provisions could also result in the loss of contractual rights and benefits, as well as the termination of joint venture agreements. On a change of control of the relevant Group entity, the exercise of such rights or the decision by a counterparty not to waive or vary its rights on a change of control could have a material impact on the Group's results, financial condition and prospects.

#### **The Government (through the NPRFC) shareholding in the Group**

The NPRFC could exercise its voting rights in a manner which is not aligned with the interests of the Group or its other stockholders. The Government (through the NPRFC) is currently the largest holder of Ordinary Stock, holding approximately 35.97%. The NPRFC also holds all of the 2009 Preference Stock. Under the terms of the 2009 Preference Stock, if the Bank does not pay the cash dividend otherwise due on the 2009 Preference Stock, payable annually on 20 February, it may issue units of Ordinary Stock to the NPRFC in lieu of the relevant cash dividend. This could arise if the Bank was precluded from paying dividends or by having inadequate distributable reserves at the relevant dividend declaration date.

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

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

## EU Restructuring Plan

On 15 July 2010 the European Commission gave its final approval under the State aid rules to the Group's EU Restructuring Plan.

The Group could be subject to a variety of risks as a result of implementing the EU Restructuring Plan. If the Group fails to comply with commitments contained in the EU Restructuring Plan or if the Group materially deviates from the EU Restructuring Plan or needs additional State aid not foreseen in the Commission's decision approving the EU Restructuring Plan, the Commission may reopen the State aid control procedure and / or open a new procedure and reassess the aid measures in their entirety. This may result in an adverse outcome for the Group such as the requirement to complete a new or revised plan and the imposition of additional divestiture obligations or behavioural restrictions going beyond the ones contained in the current EU Restructuring Plan.

In implementing the EU Restructuring Plan, the Group will lose existing customers, deposits and other assets through the sale of businesses and potentially suffer damage to the rest of the Group's business arising from implementing the final EU Restructuring Plan regarding both the divestment and behavioural commitments and the potential for realising additional associated revenues and margins that it otherwise might have achieved in the absence of such measures may be inhibited. Such implementation may also result in disruption to the retained business impacting on customers, and could result in separation costs which could potentially be substantial. There is no assurance that the price that the Group receives or any assets sold pursuant to the final EU Restructuring Plan will be at a level that the Group considers adequate or which it could obtain in circumstances in which the Group was not required to sell the assets in order to implement the EU Restructuring Plan or if the sale of these assets were not subject to the restrictions contained in the terms of the plan.

A Monitoring Trustee was approved by the European Commission in October 2010 to oversee the Group's adherence to the EU Restructuring Plan commitments. The actions of the Monitoring Trustee may adversely impact on the Group and its performance by requiring the Group to act in a manner which is not always aligned with the interests of stockholders and which may lead to disruption in the Group's operations, financial condition and prospects.

Following the 2011 PCAR review, the Minister for Finance advised that the State will be submitting new restructuring plans for Irish banks (including the Group) to the European Commission for approval under State aid rules in respect of the implications of the changes necessary for the future banking landscape in Ireland. At this stage, there is no certainty that the European Commission will not require additional measures to limit any competition distortions that might result from any State aid received by the Group, additional to the deleveraging of assets included in the Group's Deleveraging plan over and above those already included in the approved EU Restructuring Plan.

## The Group's UK subsidiary

Bank of Ireland (UK) plc is authorised and regulated by the Financial Services Authority (FSA). If the FSA considered that Bank of Ireland (UK) plc was failing, or likely to fail, to meet the threshold authorisation conditions in the Financial Services and Markets Act 2000 (FSMA 2000), it could exercise the special resolution regime powers granted to HM Treasury, the Bank of England and the FSA under the UK Banking Act 2009. These powers allow the FSA to: (a) transfer all or part of the business of the subsidiary or the shares of the subsidiary to a third party, (b) transfer all or part of the business of the subsidiary to a 'bridge bank' wholly owned by the Bank of England or (c) take the subsidiary into temporary UK Government ownership, with the corresponding risk of the loss to the Group of the Bank of Ireland (UK) plc business.

Such actions could adversely impact the existence, nature or value of the Group's investment in Bank of Ireland (UK) plc. If Bank of Ireland (UK) plc was subject to the special resolution regime and a partial transfer of its business to another entity took place, the quality of the assets and the quantum of the liabilities not transferred and remaining with Bank of Ireland (UK) plc may result in a deterioration of the creditworthiness or in the insolvency of Bank of Ireland (UK) plc. In such circumstances, while the Group may have a claim for compensation there can be no assurance that it would recover compensation promptly or equal to any loss actually incurred.

## Taxation Risk

The Group is subject to various tax rates in various jurisdictions computed in accordance with local legislation and practice. There is a risk that such tax rates, legislation and practice may change, which could adversely impact the results, financial condition and prospects of the Group.

In accordance with applicable accounting rules, the Group has recognised deferred tax assets on losses available to relieve future profits to the extent that it is probable that such losses will be utilised. The assets are quantified on the basis of current tax legislation and are subject to change in respect of the tax rate or the rules for computing taxable profits and allowable losses. A failure to generate sufficient future taxable profits or changes in tax legislation may reduce the recoverable amount of the deferred tax assets currently recognised in the financial statements.

**Reputation Risk**

The Group's operations have inherent reputational risk. Negative public and market opinion can result from the actual or perceived manner in which the Group conducts its business activities or from actual or perceived practices in the banking industry, such as money laundering or mis-selling of financial products. Negative public opinion may adversely impact the Group's ability to attract and retain customers and, in particular, corporate and retail depositors. The Group cannot ensure that it will be successful in avoiding damage to its business from reputational risk.

**Banking Inquiries**

The banking system in Ireland has been severely impacted by a range of Irish specific and international factors. Arising from these events, there have been a number of Government and market responses impacting or potentially impacting on the structure of the Irish banking sector.

On 19 January 2010 the Government announced a framework for an investigation into the factors which contributed to the Irish banking crisis within the context of the international economic and financial environment.

As part of the first stage of the investigation into the banking system, the Government commissioned two preliminary investigatory reports. A report on the functions of the Central Bank over the period from the establishment of the Financial Regulator (now the Central Bank) in May 2003 to the end of September 2008 was prepared by the Governor of the Central Bank. A second report, dealing with an investigation into the specific factors within the Irish banking sector which exacerbated the impact of the international financial crisis for Ireland, was prepared by independent experts appointed by the Minister. This preliminary report involved an inquiry into the conduct, management and corporate governance of individual financial institutions, including the Group.

Both preliminary reports were published on 31 May 2010 and their findings formed the basis for the terms of reference of a formal statutory investigation (the Statutory Commission of Investigation) which was established by the Government pursuant to the Commissions of Investigation Act, 2004. At the second stage of the investigation into the banking system, the Statutory Commission of Investigation is examining the performance of individual banks and bank directors, the performance of regulatory authorities, the response of Government and Government agencies and the structure of the banking system in Ireland generally.

The Government established the Statutory Commission of Investigation on 21 September 2010 and presented its report to the Minister for Finance on 22 March 2011. Further inquiry may result from the findings of the Statutory Commission of Investigation, including the possibility of public hearings.

Further information, including the preliminary reports, is available on [www.bankinginquiry.gov.ie](http://www.bankinginquiry.gov.ie).

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

**Key Staff**

The Group's success depends in part on the availability of skilled management and the continued services of key members of its management team, both at its head office and at each of its business units. Failure by the Group to staff its operations appropriately, or the loss of one or more key senior executives and failure to replace them in a satisfactory and timely manner may have a material adverse impact on the Group's results, financial condition and prospects.

In addition, if the Group fails to attract and appropriately train, motivate and retain highly skilled and qualified people, its businesses may also be negatively impacted. Restrictions imposed on remuneration by Government, tax or regulatory authorities or other factors outside the Group's control in relation to the retention and recruitment of key executives and highly skilled and qualified people may also adversely impact on the Group's ability to retain such staff. The Group is also subject to restrictions on remuneration arising from the implementation of Irish legislation and the CEBS remuneration guidelines.

### Central Bank Consultation Paper - Fit and Proper Regime

The Central Bank issued a consultation paper on 22 March 2011 on the imposition of statutory standards of fitness and probity for individuals in regulated institutions pursuant to Part 3 of the Central Bank Reform Act 2010. These statutory standards are expected to come into effect on 1 September 2011. The Central Bank has announced that it will carry out a review of the fitness and probity of persons performing certain designated functions (including the Directors and Senior Executives) in credit institutions that have received financial support from the State, including the Group, for persons intending to perform those functions after 1 January 2012. Where the review causes the Head of Regulation of the Central Bank to form the opinion that there is reason to suspect the person's fitness and probity to perform the relevant function, an investigation may be conducted which may result in a prohibition notice being issued preventing the person from carrying out the function. The timing, form and consequences of such a review and its implications for the Group are as yet unknown.

### Operational Risk

The Group's businesses are dependent on their ability to process and report, accurately and efficiently, a high volume of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. Operational risks are inherently present in the Group's businesses, including, as a result of potentially inadequate or failed internal processes (including financial reporting and risk monitoring processes), 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 being entirely outside the control of the Group) or from people-related or external events, such as the risk of fraud and other criminal acts carried out against the Group. Any weakness in the Group's internal control structures and procedures could result in a material adverse impact on the Group's results, financial condition and prospects, as well as reputational damage which could exacerbate such adverse impact.

### Legal and Regulatory Risk

The Group is subject to financial services laws, regulations, potential administrative actions, and regulatory / market codes and policies in each location in which it operates. The nature and impact of these requirements (including responses to current difficult economic conditions) are unpredictable and outside the control of the Group. The Group operates in a legal and regulatory environment that exposes it to potentially significant litigation and regulatory risks. Disputes and legal proceedings in which the Group may be involved are subject to many uncertainties, and their outcomes are often difficult to predict, particularly in the earlier stages of a case or investigation. Adverse regulatory action or adverse judgments in litigation could result in restrictions or limitations on the Group's operations or result in a material adverse impact on the Group's reputation or financial condition. Recently introduced and new legislation and / or regulatory obligations could have a material adverse effect on the Group's results, financial condition and prospects.

### Market Risk

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

### Valuation Risk

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

In establishing the value of certain financial instruments that are recorded at fair value, the Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to changes in market conditions.

In such circumstances, the Group's internal valuation models require the Group to make assumptions, judgements and estimates to establish fair value. In common with other financial institutions, these internal valuation models are complex, and the assumptions, judgements and estimates the Group is required to make often relate to matters that are inherently uncertain, such as expected cash flows, the ability of borrowers to service debt, residential and commercial property price appreciation and depreciation, and relative levels of defaults. Such assumptions, judgements and estimates may need to be updated to reflect changing facts, trends and market conditions. The resulting change in the fair values of the financial instruments could have a material adverse impact on the Group's results and financial condition.

Market volatility and illiquidity could challenge the factual bases of certain underlying assumptions and make it difficult to value certain of the Group's financial instruments. Valuations in future periods, reflecting prevailing market conditions, may result in changes in the fair values of these instruments, which could have a negative impact on the Group's results and financial condition. Incorrect valuation of financial instruments or assets could overstate earnings or the Group's liquidity position. It could also understate counterparty credit risk in derivative instruments or assets or overstate the value of marketable loan collateral.

### Pension Risk

The Group sponsors a number of defined benefit pension schemes for past and current employees. As at 31 December 2010, these pension schemes had a deficit of €0.4 billion (calculated on the basis of IAS 19). In 2010 the Group carried out an extensive pensions review exercise with the majority of staff in order to address this deficit by a combination of benefits restructuring and additional employer contributions over a period of time. To date, the Group has received in excess of 99% acceptance from individual active members of five of its pension schemes, including the main Bank Staff Pensions Fund, to a series of benefit reductions which are estimated to deliver a reduction of approximately 50% in the total deficit across all schemes relative to the 31 December 2009 IAS 19 deficit position. As the proposals have been accepted by staff and have been implemented, the Group expects to make discretionary cash contributions, in addition to existing cash contributions, to the schemes so as to eliminate the remaining 50% of the IAS 19 deficit as at 31 December 2009 over approximately six years.

Notwithstanding the implementation of the proposals to reduce the current pension scheme deficits outlined above, the pension funds are subject to market fluctuations and changes in the value of underlying assets, as well as interest rate risk, mortality risk and changes to actuarial assumptions. These fluctuations could impact on the value of the schemes' asset portfolios and result in returns on the pension funds being less than expected and / or result in there being a greater than expected increase in the estimated value of the schemes' liabilities.

As a result, new or additional deficits in the schemes may arise which could result in the Group making additional contributions to the schemes in the event those schemes became unable to meet their liabilities. Such contributions could be significant and may have a materially negative impact on the Group's results and financial condition.

### Life Insurance Risk

Life insurance risk is the potential volatility in the amount and timing of insurance claims caused by unexpected changes in mortality, longevity and morbidity. Mortality risk is the risk of deviations in timing and amounts of cash flows (premiums and benefits) due to the incidence or non-incidence of death. Longevity risk is the risk of such deviations due to increasing life expectancy trends among policy holders and pensioners, resulting in payout ratios higher than originally accounted for. Morbidity risk is the risk of deviations in timing and amount of claims by policy holders due to the incidence or non-incidence of disability and sickness.

The Group's life assurance business is also subject to persistency risk which is the risk that policyholders may not continue with their insurance for the full term of the contract, or may do so at a reduced level, in which case the Group's life assurance business will receive less fees from the provision of insurance services than envisaged at the inception of the contract.

A material change in relation to life assurance or persistency risks could materially and adversely affect the results, financial condition and prospects of the Group's life assurance business.

## 1.1 Risk Management Approach

A description of the current market environment is set out on pages 92 to 93.

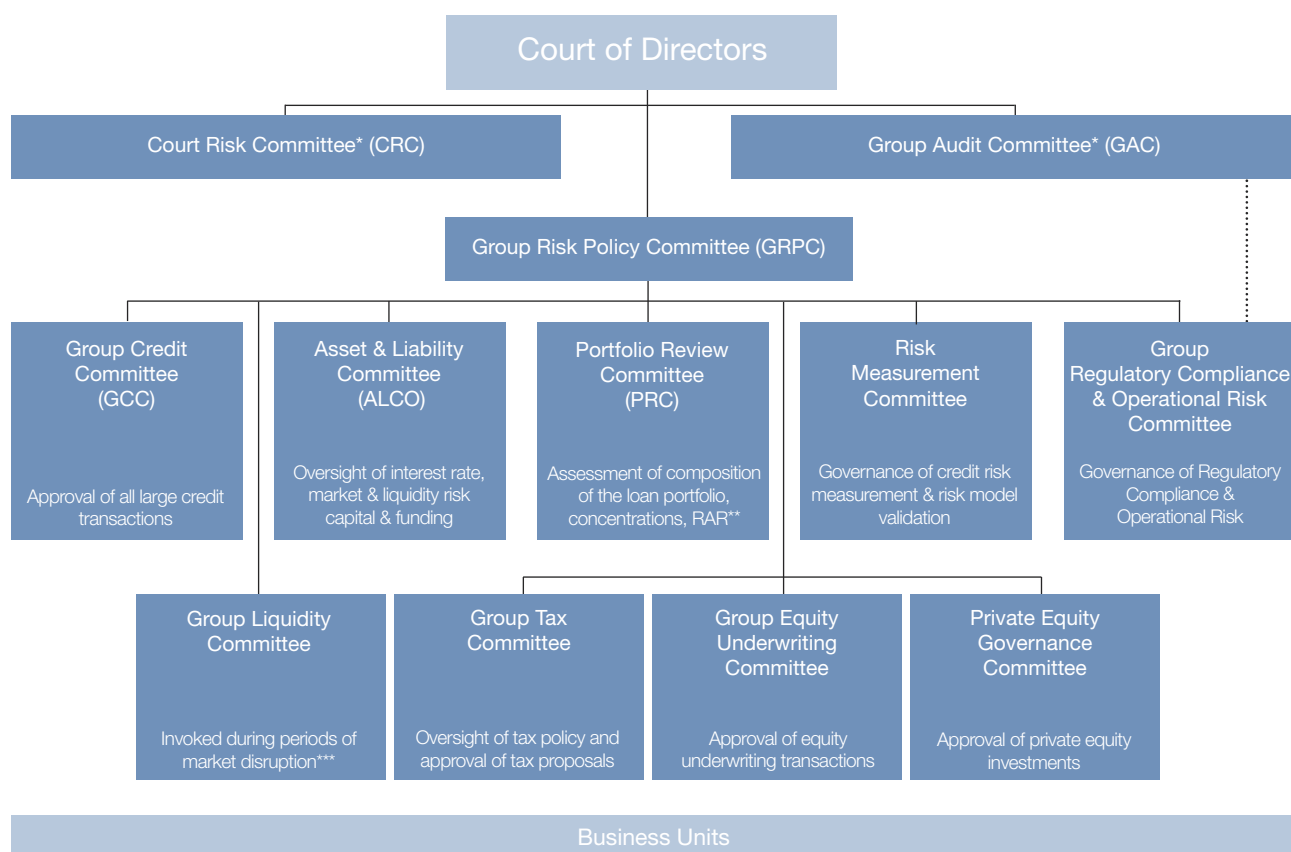
The Group follows an integrated approach to risk management to ensure that all material classes of risk are taken into account and that its risk management and capital management strategies are aligned with its overall business strategy. This integrated approach is set out in the Group Risk Framework, which is approved by the Court of Directors (the Court). It describes the Group's formal governance process around risk and the approach to risk identification, assessment, analysis and reporting.

## 1.2 Risk Management Objective, Governance Structure and Organisation

### Risk Management Objective

The Group's risk management objective is to ensure that all risks are properly identified, assessed, reported and controlled.

### Governance Structure



\* Membership comprises only non-executive Directors

\*\* Risk-adjusted returns (RAR)

\*\*\* The committee has been invoked and is overseeing the management of funding and liquidity



The responsibility for risk management extends throughout the organisation:

- The Court is responsible for approving high level policy and strategic direction in relation to the nature and scale of risk that the Group is prepared to assume to achieve its strategic objectives. The Court ensures that an appropriate system of internal control is maintained and reviews its effectiveness. It regularly reviews reports on the size and composition of key risks facing the Group as well as the minutes of key committees. The formulation and implementation of risk appetite in the Group was reviewed during 2010 and a new Risk Appetite Framework and Statement was approved by the Court. This new statement includes specific credit limits on sectoral and single name exposures among other qualitative and quantitative risk parameters and it also provides for the implementation of a hierarchy of sectoral credit limits;
- The Court Risk Committee (CRC) comprises six non-executive Directors and its primary responsibilities are to monitor risk governance and to assist the Court in discharging its responsibilities in ensuring that risks are properly identified, reported, and assessed, that risks are properly controlled and that strategy is informed by and aligned with the Group's risk appetite. It meets at least four times annually and more often if required. The committee met ten times during 2010;
- The Group Audit Committee (GAC) assists the Court in fulfilling its responsibilities in relation to risk management. It reviews and evaluates the Group's procedures for fraud prevention and detection. It oversees all regulatory contact in all jurisdictions, including inspections, disciplinary matters and emerging developments. It assesses whether management is setting the appropriate 'control culture' through communication, leadership and the timely implementation of recommendations. It also reviews the Annual Controls Review which is a formal annual report of the effectiveness of the Group's system of internal controls and covers all material controls and risk management systems including financial, operational and compliance controls. The committee met fourteen times during 2010; and
- The Group Risk Policy Committee (GRPC) is appointed by and reports directly to the Court. It is chaired by the Chief Credit & Market Risk Officer (CCMRO) and its membership comprises senior management of the Group. The GRPC exercises its authority as delegated by the Court to approve business initiatives that have material implications for the level or composition of risk and which are consistent with risk appetite and high level policy approved by the Court. The CRC and the Court oversee the decisions of the GRPC through a review of the GRPC minutes. The GRPC delegates specific responsibility for oversight of the major classes of risk (including credit, market, liquidity, operational, regulatory and tax) to specific committees that are accountable to it. It met twenty eight times during 2010; and

The organisational structure for risk management is designed to facilitate reporting and escalation of risk concerns from business units and risk functions to the GRPC, the CRC and the Court, and the communication of approved risk management policies and decisions from the Court and the GRPC to business units.

### Risk Management Organisation

The Group's approach to the organisation of risk management is based on three lines of defence:

**First line of defence:** Primary responsibility and accountability for risk management lies with line management in individual businesses. Every business unit is responsible for the identification and management of risk at business unit level including the implementation of appropriate controls and reporting to the Group in respect of all major risk events.

**Second line of defence:** Central risk management functions are responsible for establishing a risk control framework, formulating risk policy and strategy, providing independent oversight, analysis and reporting of key risks. The Group has two central risk management functions – Credit & Market Risk and Group Governance Risk:

- Credit & Market Risk is responsible for the independent oversight and underwriting of credit risk and the monitoring of market risk within the Group as well as for the centralised management of certain challenged portfolios. It assists the Court in the setting of risk appetite for the Group and the formulation of credit and market risk policies. It is also responsible for integrated risk reporting within the Group; and
- Group Governance Risk is responsible for the management of regulatory compliance and operational risk.

**Third line of defence:** Group Internal Audit (GIA), which has a direct reporting line to the Chairman of the Group Audit Committee, is responsible for providing control assurance to the Court, the Group Audit Committee, senior management and other stakeholders such as regulatory authorities and the external auditors. GIA also includes Group Credit Review (GCR) and its reviews cover lending units in each division and incorporate an examination of adherence to credit policies and procedures across the various portfolios. GCR also addresses the timeliness of the annual review process and the quality of credit assessment in each portfolio.

### 1.3 Risk Strategy and Appetite

The Group's risk strategy and risk appetite is set by the Court and reviewed on an ongoing basis by the GRPC, the CRC and the Court.

#### Risk Strategy

The objectives of risk strategy are to:

- ensure that all material risks are correctly identified, measured and controlled;
- allocate clear roles, responsibilities and accountabilities for the management and control of risk within the Group; and
- raise awareness of and commitment to the principles of sound risk management.

#### Risk Appetite

Risk appetite defines the amount and nature of risk the Group is prepared to accept in pursuit of its business objectives. It is defined in qualitative terms as well as quantitatively through a series of high level limits covering credit risk, market risk, liquidity and funding risk, pension risk, and capital measures. These high level limits are cascaded into more granular limits and targets across portfolios and business units.

Risk appetite guides the Group in its risk taking and related business activities, having regard to the maintenance of financial stability, solvency and the protection of the Group's core franchises and growth platforms. The Group has defined measures to track its profile against the most significant risks that it assumes. Each of these measures has a defined target level or limit, as appropriate, and actual performance is tracked against these target levels or limits. All measures are reported to the GRPC, the CRC and to the Court.

Risk appetite represents a boundary condition to the Group's strategy. Given the unprecedented deterioration in economic conditions and the resulting strain on the Group's asset quality, capital and funding metrics, the Group is following a strategy designed to reduce its overall risk profile through strengthening its capital ratios, deleveraging its balance sheet and reducing its reliance on wholesale funding.

### 1.4 Risk Identification Process

Risks facing the Group are identified and assessed at least annually through the Group's Risk Identification Process.

Risks that are deemed material to the Group are included in the Group Risk Framework, ownership assigned, appropriate policies put in place and a formalised measurement and management process defined and implemented.

The Group has identified ten key risk types that it believes could have a material impact on its earnings, capital adequacy and on its ability to trade in the future:

**Credit risk** is the risk of loss arising from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. This risk includes concentration risk and country risk.

**Liquidity risk** is the risk that the Group will experience difficulty in financing its assets and / or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds.

**Business and strategic risk** is the volatility of the Group's projected outcomes (including income, net worth or reputation), associated with damage to the franchise or operational economics of the business and reflected in the income or net worth of the Group. Typically business risk occurs in a one year timeframe and relates to volatilities in earnings caused by changes in the competitive environment, new market entrants and / or the introduction of new products, inflexibility in the cost base or to anticipate or mitigate a related risk. Strategic risk generally relates to a longer timeframe and pertains to volatilities in earnings, capital adequacy, liquidity and financial prospects arising from a failure to develop or execute an appropriate strategy.

**Regulatory risk** is the risk arising from a breach of regulatory and compliance guidelines and requirements. Regulatory risk arises from a failure to comply with the laws, regulations or codes applicable to the financial services industry in the jurisdictions in which the Group operates.



**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.

**Operational risk** is the risk of loss arising from inadequate or failed internal processes, people related events and systems or from external events. It includes legal and contractual risk which is the risk of loss due to litigation arising from errors, omissions and acts by the Group in the conduct of its business. Operational risk also includes tax compliance risk, which is the risk of loss due to non-compliance with tax legislation and the Group's tax policy.

**Pension risk** is the risk that the assets of the Group's defined benefit pension schemes fail to generate returns that are sufficient to meet the schemes' liabilities.

**Life insurance risk** is the volatility in the amount and timing of claims caused by unexpected changes in mortality, morbidity and longevity.

**Model risk** is the risk of loss resulting from the Group's suite of models (credit, market and operational) inaccurately measuring the risk of the Group's exposures, resulting in the Group mis-pricing deals, holding insufficient capital (economic and / or regulatory) and being subject to economic, regulatory and / or market censure.

**Reputation risk** is the risk arising from an adverse perception of the Group's image on the part of customers, suppliers, counterparties, stockholders, investors or regulatory authorities.

In addition to, and separate from, the Group's Risk Identification Process, the top five risks facing the Group are identified on a half yearly basis whereby members of the Group Executive Committee (GEC) and the GRPC identify and rank the top five risks facing the Group for consideration by the CRC and the Court. The following criteria are used to identify and assess the top five risks:

- the severity of the risk in terms of materiality and the length of time it would take the Group to recover;
- the likelihood of the risk occurring; and
- the impact of the risk, taking mitigants and likelihood into account.

## 1.5 Risk Measurement

Risk management systems are in place to facilitate measurement, monitoring and analysis of risk. These systems are in line with good practice and ensure compliance with regulatory requirements. In addition to the assessment of individual risks on a case-by-case basis, the Group also measures its exposure to risk at an aggregate level using, among other techniques, economic capital estimates and stress testing.

### Economic capital

The Group uses Economic Capital (Ecap) along with regulatory capital as a metric by which risk is assessed, risk based budgets and strategic plans are formulated and an internal risk based capital framework is applied. Ecap is used internally for capital planning as well as for the calculation of risk adjusted returns. The common measure of return on risk used by the Group is Risk Adjusted Return on Economic Capital (RAROC).

### Solvency stress testing and scenario analysis

The Group conducts solvency stress tests in order to assess the impacts of adverse scenarios on the Group's impairment charges on financial assets, earnings, capital adequacy, liquidity and financial prospects.

The results of solvency stress tests are used to assess the Group's resilience to adverse scenarios and to aid the identification of potential areas of vulnerability. The tests are applied to the existing risk exposures of the Group and also consider changing business volumes as envisaged in the Group's business plans and strategies. Macroeconomic scenarios of different levels of severity are combined with assumptions on volume changes and margin development. Impacts are measured in terms of potential impairment charges on financial assets, earnings, capital adequacy, liquidity and financial prospects.

Solvency stress test results are presented to the GRPC, the CRC and the Court.

The Group also performs other stress tests to measure exposure to liquidity risk and market risk and for the management and limit setting of individual risks.

1.6 Risk Reporting

Material risks identified under the Group’s Risk Identification Process are assessed and their status is reported quarterly by the CCMRO in the Court Risk Report which is reviewed by the GRPC, the CRC and the Court. The content of the report includes an analysis of and commentary on all material risk types as set out in pages 101 to 102. It also addresses governance and control issues and compliance with risk appetite. Regular updates on emerging risks, risk surveys and relevant international economic or monetary reports are also considered.

In addition, the GRPC, the CRC and the Court consider more frequent formal updates on the key areas of credit and liquidity risk and capital management. The reports also provide data on the external economic environment and management’s view of the implications of this environment on the Group’s risk profile. The Court Risk Report forms the top of a reporting hierarchy with more detailed risk information being considered by divisional level management. The CRC and the Court also receive risk information through their review of the GRPC minutes and through investigations carried out into specific risk matters.

## 2 Management of Principal Risks

### 2.1 Credit Risk

*The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 197.*

#### Key points:

- The credit environment in which the Group operated remained challenging, reflecting the impact of the continued slowdown in economic activity, high unemployment levels and significant property value declines in Ireland. A range of initiatives has been put in place to deal with the effects of the deterioration in credit conditions and the decline in asset quality in recent years.
- Loans and advances to customers (including assets held for sale to NAMA) amounted to €120 billion before impairment provisions at 31 December 2010, a reduction of €15 billion from €135 billion at 31 December 2009. This reduction reflects repayments, redemptions and asset sales, sale of assets to NAMA, and lower new business volumes.
- The levels of impaired loans, impairment charges and impairment provisions remained elevated in 2010. Asset quality continued to deteriorate, although there was slowdown in the rate of deterioration in the second half of 2010.

#### Definition

Credit Risk is 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.

Credit risk includes default risk, recovery risk, counterparty risk, the credit risk in securitisation vehicles, cross border (or transfer) risk, country risk, credit concentration risk and settlement risk.

The manner in which the Group's exposure to credit risk arises, its policies and processes for managing it and the methods used to measure and monitor it are set out below.

#### How Credit Risk arises

The Group's customer base includes retail customers, financial institutions, sovereigns, state institutions and commercial entities. The Group is exposed to credit risk as a result of the financial transactions it enters into with these customers.

The main types of financial transaction the Group enters into and which give rise to credit risk are loans and advances to customers. Credit risk on loans and advances to customers arises as a result of both drawn exposures and exposures the Group has committed to extend. While the Group could potentially suffer loss to an amount equivalent to its undrawn commitments, the Group does not expect to incur losses to that extent as most consumer related commitments can be cancelled by the Group and non-consumer related commitments are entered into subject to the customer continuing to achieve specific credit standards.

The Group is also exposed to credit risk from its derivatives, available for sale financial assets, other financial assets and from its reinsurance activities in Bank of Ireland Life.

#### Credit Risk Exposures

The table below sets out the maximum exposure to credit risk for financial assets at 31 December 2010 and 31 December 2009 without taking account of collateral or other credit enhancements held by the Group. The exposures are based on the carrying amounts (after impairment provisions) as reported in the balance sheet for the relevant assets.

	31 December 2010 €m	31 December 2009 €m
<b>Maximum exposure to credit risk (before collateral or other credit enhancements)</b>		
Loans and advances to banks (note 24)	7,458	5,031
Loans and advances to customers (note 27)	114,457	119,439
Assets held for sale to NAMA <sup>1</sup> (note 28)	804	9,581
NAMA senior bonds (note 26)	5,075	-
Available for sale financial assets <sup>3</sup> (note 25)	15,526	20,884
Other assets <sup>4</sup> (note 35)	1,179	1,118
Trading securities (note 21)	151	403
Other financial assets <sup>2</sup>	2,859	3,275
Derivative financial instruments (note 22)	6,375	5,824
<b>Total on balance sheet exposure</b>	<b>153,884</b>	<b>165,555</b>
Contingent liabilities and commitments (note 46)	25,657	27,456
<b>Total maximum exposure to credit risk</b>	<b>179,541</b>	<b>193,011</b>

<sup>1</sup> Assets held for sale to NAMA include derivatives and accrued interest (see note 28).

<sup>2</sup> Other financial assets include government bonds, unit trusts, debt securities and loans and advances but excludes equity securities as they are not subject to credit risk (see note 23).

<sup>3</sup> Available for sale financial assets excludes equity securities (see note 25).

<sup>4</sup> Other assets comprises interest receivable and a reinsurance asset (note 35).

### Credit Risk Management

The Group's approach to the management of credit risk is focused on a detailed credit analysis at origination followed by early intervention and active management of accounts where creditworthiness has deteriorated.

The Credit & Market Risk function has responsibility for the management of credit and market risk and overall risk reporting to the Group Executive, the CRC and the Court. It is led by the CCMRO who reports directly to the Group Chief Executive. The function provides strong independent oversight and management of the Group's credit risk strategy, credit risk management information and credit risk underwriting as well as strategic oversight and management of certain challenged portfolios.

A range of initiatives has been put in place to deal with the effects of the continued deterioration in the credit environment and decline in asset quality in recent years including:

- the enhancement of collections and recoveries processes;
- the creation and expansion of specialist work-out teams to ensure early intervention in and resolution of vulnerable cases;
- more frequent and intensive review cycles for 'at risk' exposures and for the management of excess positions;
- reviews of those industry and market sectors considered to be more vulnerable;
- support from central teams in managing 'at risk and challenged' portfolios at a business unit level;
- increased centralised control over loan restructures by Group Credit Committee (GCC);
- modified and tighter lending criteria for specific sectors;
- a reduction in certain individual bank exposures; and
- in 2010 the Court approved a new Risk Appetite Framework and Statement as set out on page 100.

The segregation of certain challenged portfolios and the realignment of resources to manage these assets allows the remaining portfolio managers to focus on the 'acceptable quality' loan book and to work closely with those customers.

**Credit Policy**

The core values and principles governing the provision of credit are contained in the Statement of Group Credit Policy which is approved by the Court. Individual business unit credit policies define in greater detail the credit approach appropriate to the units concerned. These policies take account of the Group's Risk Appetite Statement, applicable sectoral credit limits, the lessons learned from the Group's recent loss history, the markets in which the business units operate and the products which they provide. In a number of cases business unit policies are supplemented by sectoral credit policies. Each staff member involved in developing banking relationships and / or in assessing or managing credit has a responsibility to ensure compliance with these policies. Procedures for the approval and monitoring of exceptions to policy are included within the policy documents.

**Lending authorisation**

The Group's credit risk management systems operate through a hierarchy of lending authorities which are related to internal loan ratings. All exposures above certain levels require approval by the Group Credit Committee (GCC) and exposures in excess of the Group's single name limits require Court approval. Other exposures are approved according to a system of tiered individual authorities which reflect credit competence, proven judgment and experience.

Material lending proposals are referred to credit units for independent assessment / approval or formulation of a recommendation and subsequent adjudication by the applicable approval authority.

**Credit Reporting / Monitoring**

It is the Group's policy 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.

Credit risk at a Group, divisional and significant operating unit / product type level is reported on a monthly basis to senior management. This monthly reporting includes information and detailed commentary on loan book growth, quality of the loan book (credit grade and probability of default (PD) profiles and risk weighted assets) and loan impairment provisions including individual large impaired exposures. Changes in sectoral and single name concentrations are tracked on a quarterly basis highlighting changes to risk concentration in the Group's loan book.

A report on any exceptions to credit policy is presented to and reviewed by the GRPC on a monthly basis.

The Portfolio Review Committee (PRC) considers, on a quarterly basis, a credit concentration report which tracks changes in sectoral and single name concentrations measured under agreed parameters.

Credit risk including compliance with key credit risk limits is reported monthly in the Court Risk Report. Statistics on any credit policy exception are also included on a quarterly basis. This report is presented to and discussed by the GRPC, the CRC and the Court.

In addition other reports are submitted to senior management and the Court as required.

Group Credit Review (GCR), is an independent function within Group Internal Audit. Its reviews cover lending units in each division and incorporate an examination of adherence to credit policies and procedures across the various portfolios. GCR also addresses the timeliness of the annual review process and the quality of credit assessment in each portfolio.

**Credit related commitments**

The Group manages credit related commitments that are not reflected as loans and advances on the balance sheet on the same basis as loans for credit approval and management. These include:

- Guarantees and standby letters of credit
- Performance or similar bonds and guarantees
- Documentary and commercial letters of credit
- Commitments
- Letters of offer

Further information on the Group's exposures is set out in note 46 and pages 104 to 105.

**Counterparty credit risk arising from derivatives**

Credit risk exposure arising from derivative instruments is managed as part of the overall lending limits with customers and financial institutions.

Credit risk exposure on derivative transactions is calculated using the current value of the contract (on a mark to market basis) and an estimate of the maximum cost of rewriting the contract in the event of counterparty default. The credit process also limits gross derivative positions.

The Group has executed standard internationally recognised documents such as International Swaps and Derivative Association (ISDA) agreements and Credit Support Annexes (CSAs) with its principal interbank derivative counterparties. The purpose of a CSA is to limit the potential cost of replacing derivative contracts at market prices in the event of default by the original counterparty. A very high proportion of the Group's interbank derivatives book is covered by CSAs and is hence collateralised.

**Country Risk**

The Group is exposed to country risk. Exposures are managed in line with approved policy and country maximum exposure limits. Further information is set out on page 110.

**Settlement Risk**

Settlement risk arises in any situation where a payment in cash, securities or equities is made in expectation of a corresponding receipt in cash, securities or equities. Appropriate policies exist and settlement limits are monitored.

**Credit Concentration Risk**

Credit concentration risk is the risk of loss due to exposures to a single entity or group of entities engaged in similar activities and having similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Undue concentrations could lead to increased volatility in the Group's impairment charges on financial assets, earnings, capital requirements and financial prospects. Management of risk concentrations is an integral part of the Group's approach to risk management. Target levels and, where appropriate, limits are defined by the Court for each credit category. In addition, monetary risk limits are set by the GRPC or its appointed committees and, where necessary, approved by the Court. These target levels and, where appropriate, limits are informed by the Group's Risk Appetite. Single name concentrations are also subject to limits.

## Geographical and industry analysis of loans and advances to customers

## Loans and advances to customers and loans held for sale to NAMA (total loans)

The following table gives the geographic and industry breakdown of total loans (before impairment provisions) based on the location of the business unit where the borrowing is booked.

Geographical / industry analysis	Total loans and advances to customers 31 December 2010			Total loans and advances to customers 31 December 2009		
	Ireland €m	UK & Other €m	Total €m	Ireland €m	UK & Other €m	Total €m
<b>Personal</b>						
- Residential mortgages	28,067	32,199	60,266	28,196	32,274	60,470
- Other consumer lending	2,401	1,298	3,699	2,906	1,434	4,340
Property and construction	11,761	13,501	25,262	19,472	16,038	35,510
Business and other services	9,660	4,461	14,121	11,983	3,627	15,610
Manufacturing	3,806	1,581	5,387	4,511	1,744	6,255
Distribution	3,897	758	4,655	4,463	525	4,988
Transport	1,225	324	1,549	778	618	1,396
Financial	1,758	310	2,068	1,088	1,354	2,442
Agriculture	1,609	161	1,770	1,726	388	2,114
Energy	1,454	69	1,523	1,438	108	1,546
<b>Total</b>	<b>65,638</b>	<b>54,662</b>	<b>120,300</b>	<b>76,561</b>	<b>58,110</b>	<b>134,671</b>

The following table gives the geographic and industry breakdown of loans held for sale to NAMA (before impairment provisions) based on the location of the underlying property.

Geographical / industry analysis	Loans held for sale to NAMA 31 December 2010			Loans held for sale to NAMA 31 December 2009		
	Ireland €m	UK & Other €m	Total €m	Ireland €m	UK & Other €m	Total €m
<b>Personal</b>						
- Residential mortgages	-	-	-	68	-	68
Property and construction	270	598	868	7,503	4,453	11,956
Business and other services	-	-	-	188	8	196
Manufacturing	-	-	-	7	-	7
Agriculture	-	-	-	8	-	8
<b>Total</b>	<b>270</b>	<b>598</b>	<b>868</b>	<b>7,774</b>	<b>4,461</b>	<b>12,235</b>

The Group's primary markets are Ireland and the UK and exposures originated and managed in these countries represent a material concentration of credit risk. Similarly, the Group exhibits a material concentration in residential mortgages and in the property and construction sector.

The Group's residential mortgage portfolio is widely diversified by individual borrower and amounted to 50% of total loans at 31 December 2010 (31 December 2009: 45%). 47% of residential mortgages relate to Ireland and 53% relate to the UK (both percentages unchanged from 31 December 2009). In January 2009 the Group announced its withdrawal from the intermediary source mortgage market in the UK. At 31 December 2010 this book amounted to £24.7 billion (before impairment provision).

The property and construction sector accounted for 21% or €25 billion of total loans at 31 December 2010 (31 December 2009: 27% or €36 billion). This book consists primarily of investment loans. The level of concentration in the property and construction sector fell during the 12 month period ended 31 December 2010 as a result of the sale of property and construction loans of €9.3 billion (before impairment provisions) to NAMA.

### Large Exposures

The Group's Risk Appetite Statement, Credit Concentration Policy and regulatory guidelines set out the maximum exposure limits to a customer or a group of connected customers. The policy and regulatory guidelines cover both bank and non-bank counterparties.

Individual non-bank credit exposures are limited to 10% of Tier 1 capital. The Group's Risk Appetite Statement specifies a range of exposure limits for credit concentration risk. The Group also monitors single customer exposure against regulatory guidelines.

At 31 December 2010, the Group's top 50 non-Bank exposures (including off balance sheet exposures) amounted to €11.8 billion (31 December 2009: €13.6 billion). Of this amount at 31 December 2010, €0.9 billion relates to assets held for sale to NAMA (31 December 2009: €3.7 billion).

### Credit Risk Assessment and Measurement

All credit transactions are assessed at origination for credit quality and the borrower is assigned a credit grade based on a predefined credit rating scale. The risk, and consequently the credit grade, is reassessed periodically as part of the transaction review process.

The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes within the Group. The primary model measures used are:

- Probability of Default (PD): the probability of a given counterparty defaulting on any of its borrowings from the Group within the next twelve months;
- Exposure at Default (EAD): the exposure the Group has to a defaulting borrower at the time of default;
- Loss Given Default (LGD): the loss incurred (after the realisation of any collateral) on a specific transaction should the borrower default, expressed as a percentage of EAD; and
- Maturity: the contractual or estimated time period until an exposure is fully repaid or cancelled.

These measures are used to calculate expected loss and are fully embedded in, and form an essential component of, the Group's operational and strategic credit risk management and credit pricing practices.

For the Group's retail consumer and smaller business portfolios, which are characterised by a large volume of customers with smaller individual exposures, the credit risk assessment is grounded on application and behavioural scoring tools. For larger commercial and corporate customers, the risk assessment is underpinned by statistical risk rating models which incorporate quantitative information from the customer (e.g. financial accounts) together with a qualitative assessment of non-financial risk factors such as management quality and market / trading outlook.

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

The credit risk rating systems employed within the Group use statistical analysis combined, where appropriate, with external data and the judgement of professional lenders.



An independent unit reporting to Group Internal Audit annually validates internal credit risk models from a performance and compliance perspective. This unit provides reports to the Risk Measurement Committee (RMC).

Risk modelling is also applied at a portfolio level in the Group's credit businesses to guide economic capital allocation and strategic portfolio management.

The measures to calculate credit risk referred to above are used to calculate expected loss. A different basis is used to derive the amount of incurred credit losses for financial reporting purposes. For financial reporting purposes, impairment allowances are recognised only with respect to losses that have been incurred at the balance sheet date based on objective evidence of impairment.

### Credit Risk Mitigation

An assessment of the borrower's ability to service and repay the proposed level of debt is undertaken for credit requests and is a key element in the Group's approach to mitigating risk. In addition, 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. hedging, securitisation and collateralisation).

### Controls and limits

The Group imposes risk control limits and guide points to mitigate significant concentration risk. These limits and guide points are informed by the Group's Risk Appetite Statement.

The GRPC approves country maximum exposure limits based on the Group's country risk rating models which are supported by external ratings.

Maximum exposure limits for lending to banks are also approved by the GRPC for each rating category based on credit risk modelling techniques combined with expert judgement.

### Risk transfer and financing strategies

The objective of risk mitigation / transfer is to limit the risk impact to acceptable (quantitative and qualitative) levels.

Where the risk review process indicates the possible emergence of undue risk concentrations, appropriate risk transfer and mitigation options are explored and recommended to the Portfolio Review Committee (PRC). The Group currently makes very limited use of credit derivatives for credit risk mitigation purposes.

### Collateral

Credit risk mitigation includes the requirement to obtain collateral, depending on the nature of the product and local market practice, as set out in the Group's policies and procedures. The nature and level of collateral required depends on a number of factors including, but not limited to, the amount of the exposure, the type of facility made available, the term of the facility, the amount of the borrower's own cash input and an evaluation of the level of risk or probability of default.

Various types of collateral are accepted, including property, securities, cash, guarantees and insurance, grouped broadly as follows:

- Financial collateral (lien over deposits, shares, etc.);
- Residential and commercial real estate;
- Physical collateral (plant and machinery, stock, etc.); and
- Other collateral (debtors, guarantees, insurance, etc.).

The Group's requirements around completion, valuation and management requirements for collateral are set out in appropriate Group or business unit policies and procedures. The Group has availed of the option under International Financial Reporting Standards (IFRS) 7 not to disclose the fair value of collateral held against past due or impaired financial assets given that it is operationally impracticable.

### Loan Loss Provisioning Methodology

Through its ongoing credit review processes, the Group seeks early identification of deteriorating loans with a view to taking corrective action to prevent the loan becoming impaired. Typically, loans that are at risk of impairment are managed by dedicated specialist units / debt collection teams focused on working-out loans.

The identification of loans for assessment as impaired is driven by the Group's credit risk rating systems. It is the Group's policy to provide for impairment promptly and consistently across the loan book. For those loans that become impaired, the focus is to minimise the loss that the Group will incur from such impairment. This may involve entering into restructuring arrangements or action to enforce security.

All credit exposures, either individually or collectively, are regularly reviewed for objective evidence of impairment. Where such evidence of impairment exists, the exposure is measured for an impairment provision. The criteria used to determine if there is objective evidence of impairment include:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties;
- breach of loan covenants or conditions;
- deterioration of the borrower's competitive position;
- deterioration in the value of collateral;
- external rating downgrade below an acceptable level; and
- initiation of bankruptcy proceedings.

Where objective evidence of impairment exists, as a result of one or more past events, the Group is required to estimate the recoverable amount of the exposure or group of exposures.

For financial reporting purposes, loans on the balance sheet that become impaired are written down to their estimated recoverable amount. The amount of this write down is taken as an impairment charge in the income statement.

The Group's impairment provisioning methodologies are compliant with IFRS. International Accounting Standard (IAS) 39 requires that there is objective evidence of impairment and that the loss has been incurred. The standard does not permit the recognition of expected losses, no matter how likely these expected losses may appear.

All exposures are assessed for impairment either individually or collectively.

### Methodology for Individually Assessing Impairment

An individual impairment assessment is performed for any exposure for which there is objective evidence of impairment and where the exposure is above an agreed threshold. The carrying amount of the exposure net of the estimated recoverable amount (and thus the specific provision required) is calculated using a discounted cashflow analysis. This calculates the estimated recoverable amount as the present value of the estimated future cash flows, discounted at the exposure's original effective interest rate (or the current effective interest rate for variable rate exposures). The estimated future cashflows include forecasted principal and interest payments (not necessarily contractual amounts due) including cash flows, if any, from the realisation of collateral / security held, less realisation costs.

### Methodology for Collectively Assessing Impairment

Where exposures fall below the threshold for individual assessment of impairment, such exposures with similar credit risk characteristics (e.g. portfolio of consumer personal loans) are pooled and are collectively assessed for impairment. A provision is then calculated by estimating the future cash flows of a group of exposures that are collectively evaluated for impairment. This estimation considers the expected contractual cash flows of the exposures in a portfolio and the historical loss experience for exposures with credit risk characteristics similar to those in the portfolio being assessed. Assumptions and parameters used to create the portfolio provision, which are based on historical experience (i.e. amount and timing of cashflows / loss given default), are regularly compared against current experience in the loan book and current market conditions.

Where there is objective evidence of impairment on a collective basis, this is reported as a specific provision in line with individually assessed loans.

**Methodology for establishing incurred but not reported (IBNR) provisions**

Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment. These are described as incurred but not reported provisions. Statistical models are used to determine the appropriate level of IBNR provisions. These models estimate latent losses taking into account three observed and / or estimated factors:

- loss emergence rates (based on historic grade migration experience or probability of default);
- the emergence period (historic experience, adjusted to reflect the current conditions and the credit management model); and
- loss given default rates (loss and recovery rates using historical loan loss experience, adjusted where appropriate to reflect current observable data).

Account performance is reviewed periodically to confirm that the credit grade or probability of default assigned remains appropriate and to determine if impairment has arisen. For consumer and smaller ticket commercial exposures, the review is largely based on account behaviour and is highly automated. Where there are loan arrears, excesses, dormancy, etc. the account is downgraded to reflect the higher underlying risk. For larger commercial loans the relationship manager re-assesses the risk at least annually (more frequently if circumstances or grade require) and re-affirms or amends the grade (credit and PD grade) in light of new information or changes (e.g. up to date financials or changed market outlook). Grade migration and adjusted PD grades are analysed for inclusion in the loss model. Recent data sets are used in order to capture current trends rather than averaging over a period which might include earlier and less stressed points in the credit cycle.

The emergence period is calculated using historical loan loss experience. Given the current economic environment the emergence periods are adjusted to reflect the more intensive credit management model in place, where all vulnerable portfolios are reviewed on a shortened cycle. The range of emergence periods is typically three to nine months.

The loss given default (LGD) is calculated using historical loan loss experience and is adjusted where appropriate to apply management's credit expertise to reflect current observable data (including an assessment of the deterioration in the property sector, discounted collateral values, rising unemployment and reduced repayment prospects, etc).

An analysis of the Group's impairment provisions at 31 December 2010 is set out on pages 117 to 120 and note 29.

Other factors taken into consideration in estimating provisions include domestic and international economic climates, changes in portfolio risk profile and the effect of any external factors such as legal or competition requirements.

Whilst provisioning is an ongoing process, all business units formally review and confirm the appropriateness of their provisioning methodologies and the adequacy of their impairment provisions on a half yearly basis. Their conclusions are reviewed by the Credit & Market Risk function and the GRPC.

The Group's provisioning methodology is approved by the GRPC on a half yearly basis.

The quantum of the Group's loan loss charge, impaired loan balances and provisions is also reviewed by the GRPC half yearly, in advance of providing a recommendation to the Group Audit Committee.

**Methodologies for valuation of collateral**

Where cash flows arising from the realisation of collateral held are included in impairment assessments, management typically rely on valuations or business appraisals from independent external professionals. However, in the case of land and development property assets, in particular in Ireland, where restricted market liquidity continues to be a feature of the market, the Group uses estimated cashflows based on valuations from the most appropriate source available for the asset in question. These valuation methodologies include formal written valuations from independent external professionals, desktop valuations informed by consultations with external valuers, local market knowledge made available by relevant bank management and / or residual value methodologies.

**1) Formal written valuations from independent external professionals:**

Up to date, independent, professional valuations in writing are sought in circumstances where there continues to be sufficient transactional evidence and market liquidity to support an expert objective view. These circumstances are more likely to exist in markets outside Ireland and / or where land and development property assets are at or near practical completion. External qualified firms with appropriate knowledge of the particular market are commissioned to provide formal written valuations, including an assessment of the timeline for disposal, in respect of the property.

**2) Desktop valuations informed by consultations with external valuers:**

Given the significant dislocation experienced in property markets, the requirements for sufficient transactional evidence and market liquidity to support a formal written expert view is not always met. Whilst less formal than written valuations, verbal consultations with external valuers familiar with local market conditions provide general information on market developments, trends and outlook. These consultations are used to benchmark asset values and the potential timeline for realisation and form the basis for the estimation of the recoverable amount to be used for impairment provisioning.

**3) Local market knowledge made available by relevant bank management:**

Local market knowledge made available by relevant bank management occurs typically where the loan and underlying property asset are relatively small and illiquid. In such cases, estimated valuations of undeveloped sites may be expressed on a 'per plot' basis if there is suitable zoning / planning in place, whereas unzoned rural land may be assumed to have only agricultural value.

**4) Residual value methodologies:**

Residual value methodologies are used to estimate the current value of a site or part-completed development based on a detailed appraisal that assesses the costs (building, funding and other costs) and receipts (forecast sales and / or lettings) associated with bringing a development to completion. This approach looks at the cost of developing the asset and assessing the expected cashflows from completing the development to determine the residual value to the Group. The type, size and location of the property asset and its development potential and marketability are key factors in this assessment process. The Group may look to some of the other valuation methodologies outlined earlier e.g. residual value methodologies may look to formal professional valuations, verbal consultations with external professionals or local market knowledge made available by relevant bank management, in determining the appropriate inputs to this analysis.

The appropriate methodology applied depends in part on the options available to management to maximise recovery which are driven by the particular circumstances of the loan and underlying collateral, e.g. the degree of liquidity and recent transactional evidence in the relevant market segment, the type, size and location of the property asset and its development potential and marketability.

Irrespective of the valuation methodology applied, it is Group policy to review individually significant impaired loans quarterly, with the review including a reassessment of the recovery strategy, the continued appropriateness of the valuation methodology and the adequacy of the impairment provision.

Where information is obtained between reviews that impacts expected cashflows (e.g. evidence of comparable transactions emerging, changes in local market conditions, etc.), an immediate review and assessment of the required impairment provision is undertaken.

In all cases where the valuation methodologies outlined for land and development loans are used, the initial recommendation of the realisable value and the timeline for realisation are arrived at by specialist work out units. These estimated valuations are subject to review, challenge and, potentially, revision by experienced independent credit professionals in underwriting units within the Credit & Market Risk function and are ultimately approved in line with delegated authority upon the recommendation of the credit underwriting unit. At all approval levels, the impairment provision and the underlying valuation methodology is reviewed and challenged for appropriateness, adequacy and consistency.

The Group operates a tiered approval framework for impairment provisions, depending on the exposure or impairment provision amount, which are approved by various delegated authorities up to Credit Committee level.

Land and development property loans within the Group's property and construction portfolio is the principal asset class where one or more valuation methods as described above are applied. Including loans held for sale to NAMA, land and development property loans total €5 billion or 4% of total loans at 31 December 2010 (before impairment provisions) (31 December 2009: €11 billion 8% of total loans).

After applying one or more of the above methodologies, the resulting valuations for impaired land and development assets show a wide range of discounts (typically between 40% and 90%) to the estimated peak market values for the underlying property collateral assets. Key influencing factors as to the level of discount include the type of property asset (with undeveloped land incurring a relatively high discount), the status of zoning and planning and the location in terms of both jurisdiction / region and proximate environment, e.g. whether city centre, suburban, provincial town or rural.

## Asset Quality – Financial Assets

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

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

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

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

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

Mappings to external rating agencies are indicative only, as additional factors such as collateral will be taken into account by the Group in assigning a credit grade to a counterparty.

- high quality ratings apply to highly rated financial obligors, strong corporate and business counterparties and consumer banking borrowers (including residential mortgages) with whom the Group has an excellent repayment experience. High quality ratings are derived from grades 1 to 4 on the thirteen point grade scale, grades 1 and 2 on the seven point grade scale and ratings equivalent to AAA, AA+, AA, AA-, A+, A, A-, BBB+ and BBB for the external major rating agencies;
- satisfactory quality ratings apply to good quality financial assets that are performing as expected, including loans and advances to small and medium sized enterprises, leveraged entities and more recently established businesses. Satisfactory quality ratings also include some element of the Group's retail portfolios. Satisfactory quality ratings are derived from grades 5 to 7 on the thirteen point grade scale, grade 3 on the seven point grade scale and external ratings equivalent to BBB-, BB+, BB and BB-. In addition, satisfactory quality ratings also apply to modified mortgages that are neither past due nor impaired;
- acceptable quality ratings apply to customers with increased risk profiles that are subject to closer monitoring and scrutiny by lenders with the objective of managing risk and moving accounts to an improved rating category. Acceptable quality ratings are derived from grades 8 and 9 on the thirteen point grade scale, grade 4 outstandings within the seven point scale and external ratings equivalent to B+; and
- the lower quality but neither past due nor impaired rating applies to those financial assets that are neither in arrears nor impaired but where the Group requires a work down or work out of the relationship unless an early reduction in risk is achievable. Lower quality ratings are derived from outstandings within rating grades 10 and 11 on the thirteen point grade scale and grade 5 on the seven point grade scale and external ratings equivalent to B or below.

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

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

### 'Impaired' loans are defined as follows:

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

### Loans and advances to customers

At 31 December 2010 and at 31 December 2009, the Group classified those loans and advances to customers expected to transfer to NAMA as 'loans held for sale to NAMA', and an analysis of these loans is set out on pages 120 to 124. The following tables and analysis excludes these loans held for sale to NAMA and, in respect of 31 December 2010 are stated net of transfers to NAMA during the year.

**Book composition (before impairment provisions)**

	<b>31 December 2010</b>		31 December 2009	
	€m	%	€m	%
<b>Loans and advances to customers</b>				
Residential mortgages	60,266	51%	60,402	49%
Non-property SME and corporate	31,073	26%	34,140	28%
Property and construction	24,394	20%	23,554	19%
Consumer	3,699	3%	4,340	4%
<b>Loans and advances to customers</b>	<b>119,432</b>	<b>100%</b>	<b>122,436</b>	<b>100%</b>

The Group's loans and advances to customers at 31 December 2010 were €119 billion before impairment provisions compared to €122 billion before impairment provisions at 31 December 2009. Residential mortgages accounted for 51% of total loans and advances to customers at 31 December 2010 compared to 49% at 31 December 2009. The other loan portfolios account for broadly equivalent proportions of the loan book at 31 December 2010 and at 31 December 2009.

**Risk profile of loans and advances to customers**

The tables and analysis below summarise the Group's loans and advances to customers over the following categories: 'neither past due nor impaired', 'past due but not impaired' and 'impaired'. Exposures are before provisions for impairment.

**31 December 2010**

	<b>Residential mortgages</b>	<b>Non-property SME and corporate</b>	<b>Property and construction</b>	<b>Consumer</b>	<b>Total</b>
	€m	€m	€m	€m	€m
<b>Loans and advances to customers</b>					
Neither past due nor impaired	55,575	26,926	16,938	3,119	102,558
Past due but not impaired	3,614	490	1,579	209	5,892
Impaired	1,077	3,657	5,877	371	10,982
<b>Total</b>	<b>60,266</b>	<b>31,073</b>	<b>24,394</b>	<b>3,699</b>	<b>119,432</b>

**31 December 2009**

	<b>Residential mortgages</b>	<b>Non-property SME and corporate</b>	<b>Property and construction</b>	<b>Consumer</b>	<b>Total</b>
	€m	€m	€m	€m	€m
<b>Loans and advances to customers</b>					
Neither past due nor impaired	56,600	30,821	19,390	3,661	110,472
Past due but not impaired	3,331	625	968	253	5,177
Impaired	471	2,694	3,196	426	6,787
<b>Total</b>	<b>60,402</b>	<b>34,140</b>	<b>23,554</b>	<b>4,340</b>	<b>122,436</b>

Loans and advances to customers classified as 'neither past due nor impaired' amounted to €103 billion or 86% of the Group's loan book at 31 December 2010 compared to €110 billion or 90% at 31 December 2009.

The 'past due but not impaired' category amounted to €5.9 billion or 5% of loans and advances to customers at 31 December 2010 compared to €5.2 billion or 4% of loans and advances to customers at 31 December 2009. The movement is primarily driven by continued deterioration in the construction and property sector.

'Impaired' loans increased from €6.8 billion or 6% of loans and advances to customers at 31 December 2009 to €11 billion or 9% of loans and advances to customers at 31 December 2010, an increase of 62%. This increase in impaired loans reflects the continued slowdown in economic activity, high levels of unemployment, lower disposable income, poor consumer sentiment, business insolvencies, falling asset values and low levels of transactions and illiquidity in property markets during the twelve month period ended 31 December 2010.

**'Neither past due nor impaired':**

The tables below provide an analysis of loans and advances to customers 'neither past due nor impaired' by asset classification based on an assessment of the credit quality of the borrower.

31 December 2010

**Loans and advances to customers  
neither past due nor impaired**

	Residential mortgages €m	Non- property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
High Quality	54,009	6,987	2,085	2,268	65,349
Satisfactory Quality	1,566	12,777	7,595	788	22,726
Acceptable Quality	-	4,989	5,114	63	10,166
Lower Quality but not past due nor impaired	-	2,173	2,144	-	4,317
<b>Total</b>	<b>55,575</b>	<b>26,926</b>	<b>16,938</b>	<b>3,119</b>	<b>102,558</b>

31 December 2009

**Loans and advances to customers  
neither past due nor impaired**

	Residential mortgages €m	Non- property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
High Quality	55,085	8,298	1,073	2,683	67,139
Satisfactory Quality	1,515 <sup>1</sup>	15,712	11,060	893	29,180
Acceptable Quality	-	5,098	6,197	85	11,380
Lower Quality but not past due nor impaired	-	1,713	1,060	-	2,773
<b>Total</b>	<b>56,600</b>	<b>30,821</b>	<b>19,390</b>	<b>3,661</b>	<b>110,472</b>

<sup>1</sup> As a result of changes in the classification of modified mortgages that are 'neither past due nor impaired' from high quality to satisfactory quality during the twelve month period ended 31 December 2010, the table at 31 December 2009 has been amended to reflect this reclassification.

**'Past due but not impaired':**

The tables below provide an aged analysis of loans and advances to customers 'past due but not impaired' by asset classification. Amounts arising from operational and / or timing issues that are outside the control of customers are generally excluded.

31 December 2010

**Loans and advances to customers  
past due but not impaired**

	Residential mortgages €m	Non- property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Past due up to 30 days	1,221	303	801	114	2,439
Past due 31 - 60 days	590	108	302	69	1,069
Past due 61 - 90 days	332	79	476	26	913
Past due more than 90 days	1,471	-	-	-	1,471
<b>Total</b>	<b>3,614</b>	<b>490</b>	<b>1,579</b>	<b>209</b>	<b>5,892</b>

31 December 2009

**Loans and advances to customers  
past due but not impaired**

	Residential mortgages €m	Non- property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Past due up to 30 days	1,159	440	495	132	2,226
Past due 31 - 60 days	531	115	324	86	1,056
Past due 61 - 90 days	281	70	149	29	529
Past due more than 90 days	1,360	-	-	6	1,366
<b>Total</b>	<b>3,331</b>	<b>625</b>	<b>968</b>	<b>253</b>	<b>5,177</b>



The tables above highlight that the volume of Residential mortgages that are past due but not impaired has increased by 8.5% from €3.3 billion at 31 December 2009 to €3.6 billion at 31 December 2010. The volume of Residential mortgages that are past due more than 90 days has increased from €1.4 billion at 31 December 2009 to €1.5 billion at 31 December 2010. This reflects the impact on the level of arrears from the ongoing economic slowdown in Ireland, including lower levels of employment, reduced disposable income and falling house prices.

The volume of Non-property SME and corporate loans that are 'past due but not impaired' has fallen from €0.6 billion at 31 December 2009 to €0.5 billion at 31 December 2010, which primarily reflects the downward migration of some loans into 'impaired' but also the impact of the more favourable European and global outlook which has helped the larger corporate customers who are focused internationally to perform better.

The volume of Property and construction loans that are 'past due but not impaired' has increased from €1.0 billion at 31 December 2009 to €1.6 billion at 31 December 2010. This increase primarily reflects continued challenging conditions in the construction and property market.

The volume of Consumer loans which are 'past due but not impaired' amounted to €0.2 billion at 31 December 2010 compared to €0.3 billion at 31 December 2009.

#### 'Impaired':

The tables below provide an analysis of 'impaired' loans and advances to customers by asset classification.

#### 31 December 2010

Loans and advances to customers Composition and Impairment	Advances €m	Impaired loans €m	Impaired loans as % of advances %	Impairment provisions €m	Impairment provisions as % of impaired loans %
Residential mortgages	60,266	1,077	1.8%	725	67%
Non-property SME and corporate	31,073	3,657	11.8%	1,474	40%
Property and construction	24,394	5,877	24.1%	2,455	42%
Consumer	3,699	371	10.0%	321	87%
<b>Loans and advances to customers</b>	<b>119,432</b>	<b>10,982</b>	<b>9.2%</b>	<b>4,975</b>	<b>45%</b>

#### 31 December 2009

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

Loans and advances to customers reduced by 2% or €3 billion, from €122 billion at 31 December 2009 to €119 billion at 31 December 2010 due to muted demand for new lending, actions taken by customers to reduce their levels of debt and deleveraging initiatives undertaken by the Group.

'Impaired' loans increased from €6.8 billion or 5.5% of Loans and advances to customers at 31 December 2009 to €11 billion or 9.2% at 31 December 2010. The loan book continued to be impacted by difficult economic conditions which have resulted in falling asset values and low levels of transactions and illiquidity in property markets, high levels of unemployment, lower disposable incomes, poor consumer sentiment and the heightened level of business insolvencies.

The stock of impairment provisions of €5.0 billion at 31 December 2010 represented 45% of impaired loans (31 December 2009: impairment provisions of €3.0 billion representing 44% of impaired loans).



Total Residential mortgages impaired loans increased to €1.1 billion or 1.8% of the loan book at 31 December 2010 from €0.5 billion or 0.8% of the loan book at 31 December 2009. Mortgage arrears in Ireland increased significantly in 2010 impacted by the ongoing economic slowdown including lower levels of employment, lower disposable income and continuing declines in house prices. In addition the buy to let element of the Irish residential mortgage book is impacted by a lower demand for rental properties caused in part by net migration out of Ireland which, together with the existing levels of over supply in the housing market has put downward pressure on rental income in recent years. The housing market in Ireland is now not expected to stabilise until at least late 2012 and the Group has revised its expectation of house price decline such that it now expects prices to reduce by up to 55% (previous expectation 45%) from their peak level in the fourth quarter of 2006. The position in the UK is more stable and the level of Residential mortgage arrears increased only marginally year on year.

Non-property SME and corporate impaired loans increased to €3.7 billion or 11.8% of the loan book at 31 December 2010 from €2.7 billion or 7.9% of the loan book at 31 December 2009. Impairment provisions increased from €1.1 billion at 31 December 2009 or 42% of the impaired loans to €1.5 billion or 40% of the impaired loans at 31 December 2010. Impaired loans and impairment provisions increased during the twelve month period ended 31 December 2010 as the stressed economic conditions continued to negatively impact business activity, particularly in Ireland. In addition, a continuation of poor consumer sentiment and the heightened level of business insolvencies have caused general pressure on the SME sector. Those sectors correlated with consumer spending were particularly impacted. Separately, the more favourable European and global outlook meant that larger corporate customers who were focussed internationally continued to perform better. In particular, the leveraged acquisition finance portfolio which is very well spread geographically and sectorally has benefitted from the global economic recovery and has achieved some provision write-backs.

Impaired loans in the Property and construction portfolio increased from €3.2 billion or 13.6% of the portfolio at 31 December 2009 to €5.9 billion or 24.1% of the portfolio at 31 December 2010. The level of impaired loans in the investment property portfolio at 31 December 2010 is impacted by the underlying economic conditions, reduced asset values and low levels of transactions and illiquidity in property markets which have continued to reduce rental flows and recovery prospects. The low level of transactions in the Irish commercial property sector is due to a lack of risk appetite among investors given the current economic downturn and given the uncertainties that exist in the Irish property market.

Consumer impaired loans amounted to €0.4 billion or 10% of the loan portfolio at 31 December 2010 (31 December 2009: impaired loans of €0.4 billion or 9.8% of the loan portfolio).

*The information below is additional disclosure and it does not form an integral part of the audited financial statements as described in the Basis of preparation on page 197.*

#### **'Challenged' Loans**

The Group's 'challenged' loans amounted to €23.8 billion at 31 December 2010 compared to €26.3 billion at 31 December 2009. These 'challenged' loans include 'impaired loans', together with elements of 'past due but not impaired loans', 'lower quality but not past due nor impaired' and loans at the lower end of 'acceptable quality' which are subject to increased credit scrutiny.

The reduction in 'challenged' loans reflects the impact of the sale of assets to NAMA during the twelve month period ended 31 December 2010.

Property and construction 'challenged' loans amount to €11.4 billion at 31 December 2010 (31 December 2009: €15.1 billion) with the reduction in volumes being primarily attributable to the sale of assets to NAMA.

Non-property SME and corporate 'challenged' loans amount to €8.1 billion at 31 December 2010 (31 December 2009: €7.7 billion) as the stressed economic conditions continued to negatively impact business activity, particularly in Ireland. In addition, a continuation of poor consumer sentiment and the heightened level of business insolvencies have caused general pressure on the SME sector. Those sectors correlated with consumer spending were particularly impacted. Separately, the more favourable European and global outlook meant that larger corporate customers who were focussed internationally continued to perform better.

Residential mortgages 'challenged' loans amount to €2.9 billion at 31 December 2010 (31 December 2009: €2.2 billion) with the ongoing economic slowdown in Ireland, including lower levels of employment, lower disposable income and continuing declines in house prices continued to adversely impact on the level of mortgage arrears, which increase significantly in 2010. In addition, the buy to let element of the Irish residential mortgage book is impacted by a lower demand for rental properties which, together with the existing levels of oversupply in the housing market has put downward pressure on rental income in recent years. Similar pressures also impacted on Consumer 'challenged' loans which amount to €1.4 billion at 31 December 2010 (31 December 2009: €1.3 billion).

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 197.

### Impairment charges on Loans and Advances to Customers

The ongoing economic downturn, high levels of unemployment, lower disposable income, falling asset values, poor consumer sentiment, business insolvencies and low levels of transactions and illiquidity in property markets are the key drivers of the impairment charges across the Group's loan portfolios.

The **impairment charges on loans and advances to customers** of €1,887 million for the twelve month period ended 31 December 2010 decreased by €484 million compared to the impairment charge of €2,371 million for the nine month period ended 31 December 2009 reflecting the lower impairment charges on the Property and construction portfolio, the Non-property SME and corporate portfolio as well as the Consumer portfolio, partly offset by the higher impairment charges on Residential mortgages.

	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
<b>Impairment charge on loans and advances to customers</b>		
Residential mortgages	407	231
Non-property SME and corporate	609	655
Property and construction	744	1,319
Consumer	127	166
<b>Impairment charge on loans and advances to customers</b>	<b>1,887</b>	<b>2,371</b>

\* The impairment charge on loans and advances to customers and assets sold or held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans sold to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).

Impairment charges on Residential mortgages increased by €176 million from €231 million for the nine month period ended 31 December 2009 to €407 million for the twelve month period ended 31 December 2010. The ongoing economic slowdown in Ireland including lower levels of employment, reduced disposable income and falling house prices continued to adversely impact the level of mortgage arrears which increased significantly in 2010. In addition the buy to let element of the Irish residential mortgage book is impacted by a lower demand for rental properties caused in part by net migration out of Ireland which, together with the existing levels of oversupply in the housing market has put downward pressure on rental income in recent years. This has led to an increase in impaired loans with a corresponding increase in the impairment charge. The housing market in Ireland is now not expected to stabilise until at least late 2012 and the Group has revised its expectation of house price decline such that it now expects prices to reduce by up to 55% (previous expectation 45%) from their peak level in the fourth quarter of 2006. In the UK the level of Residential mortgage arrears is up marginally year on year and the related impairment charge is below expectations.

The impairment charge on the Non-property SME and corporate loan portfolio was €609 million for the twelve month period ended 31 December 2010 compared to €655 million for the nine month period ended 31 December 2009. Despite the longer reporting period the impairment charge on this portfolio has reduced. The more favourable European and global outlook means that larger corporate customers who are focused internationally continue to perform better. Losses in Corporate Banking in the twelve month period ended 31 December 2010 are significantly lower than in the nine month period ended 31 December 2009. In particular, the leveraged acquisition finance portfolio which is very well spread geographically and sectorally has benefited from the global economic recovery and has achieved some provision write-backs. However the stressed economic conditions particularly in Ireland, a continuation of poor consumer sentiment and the heightened level of business insolvencies have negatively impacted trading conditions and caused general pressure on the SME sectors. Those sectors correlated with consumer spending are particularly impacted. As a result, for the SME sectors, the level of impaired loans and the related impairment charges and impairment provisions have increased.

The impairment charge of €744 million on the Property and construction portfolio for the twelve month period ended 31 December 2010 has reduced by €575 million compared to the impairment charge of €1,319 million for the nine month period ended 31 December 2009. The Property and construction portfolio amounted to €24.4 billion at 31 December 2010 comprising of €19.8 billion of investment property loans and €4.6 billion of land and development loans.

The impairment charge on the investment property element of the Property and construction portfolio was €445 million for the twelve month period ended 31 December 2010 compared to €308 million for the nine month period ended 31 December 2009. Impairment charges on the investment property loan book have increased due to the impact of underlying economic conditions, reduced asset values and low levels of transactions and illiquidity in property markets which have continued, particularly in Ireland, to reduce rental flows and delay recovery prospects. There are few transactions in the Irish commercial property sector due to a lack of risk appetite among investors given the current economic downturn and the uncertainties that exist in the Irish property market.

The impairment charge on the land and development element of the Property and construction portfolio was €299 million for the twelve month period ended 31 December 2010 compared to €1,011 million for the nine month period ended 31 December 2009. The impairment charge in the nine month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, oversupply of residential housing stock in Ireland and generally weak economic conditions, particularly in Ireland. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to investor uncertainty.

The impairment charge of €127 million on the Consumer loan book for the twelve month period ended 31 December 2010 is €39 million lower compared to the impairment charge of €166 million for the nine month period ended 31 December 2009 despite the longer reporting period as the default rates are better than expected. In addition the loan book has reduced faster than expected reflecting debt repayment and a dearth of demand for new loans and other credit facilities.

The Group maintains its expectation that the impairment charge on the loans and advances to customers (excluding assets held for sale to NAMA) peaked in 2009, reduced in 2010, with anticipated further reductions in subsequent years.

#### Loans held for sale to NAMA – composition by division

The tables below set out an analysis of the loans held for sale to NAMA by division.

#### 31 December 2010 Loans held for sale to NAMA Composition by division

	Assets €m	Impairment provisions €m	Carrying value €m
Retail Republic of Ireland	5	-	5
UK Financial Services	644	29	615
Capital Markets	219	46	173
<b>Loans held for sale to NAMA</b>	<b>868</b>	<b>75</b>	<b>793</b>

#### 31 December 2009 Loans held for sale to NAMA Composition by division

	Assets €m	Impairment provisions €m	Carrying value €m
Retail Republic of Ireland	3,525	1,063	2,462
UK Financial Services	3,573	817	2,756
Capital Markets	5,137	898	4,239
<b>Loans held for sale to NAMA</b>	<b>12,235</b>	<b>2,778</b>	<b>9,457</b>

**Loans held for sale to NAMA – composition by portfolio**

The table below sets out the composition by portfolio of loans held for sale to NAMA.

	31 December 2010 €m	31 December 2009 €m
<b>Loans held for sale to NAMA (before impairment provisions)</b>		
Residential mortgages	-	68
Non-property SME and corporate	-	211
Property and construction	868	11,956
Consumer	-	-
<b>Loans held for sale to NAMA (before impairment provisions)</b>	<b>868</b>	<b>12,235</b>

The Group's loans held for sale to NAMA at 31 December 2010 amounted to €0.9 billion (before impairment provisions) compared to €12.2 billion (before impairment provisions) at 31 December 2009. During the twelve month period ended 31 December 2010, the Group sold €9.4 billion of assets (before impairment provisions) to NAMA.

**Loans held for sale to NAMA – composition by risk profile****31 December 2010**

	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Total €m
<b>Loans held for sale to NAMA (before impairment provisions)</b>				
Neither past due nor impaired	-	-	455	455
Past due but not impaired	-	-	11	11
Impaired	-	-	402	402
<b>Loans held for sale to NAMA (before impairment provisions)</b>	<b>-</b>	<b>-</b>	<b>868</b>	<b>868</b>

**31 December 2009**

	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Total €m
<b>Loans held for sale to NAMA (before impairment provisions)</b>				
Neither past due nor impaired	30	97	5,289	5,416
Past due but not impaired	38	2	215	255
Impaired	-	112	6,452	6,564
<b>Loans held for sale to NAMA (before impairment provisions)</b>	<b>68</b>	<b>211</b>	<b>11,956</b>	<b>12,235</b>

Loans held for sale to NAMA which were classified as 'neither past due nor impaired' amounted to €0.5 billion at 31 December 2010 compared to €5.4 billion at 31 December 2009.

Loans held for sale to NAMA which were classified as 'past due but not impaired' amounted to €0.01 billion at 31 December 2010 compared to €0.3 billion at 31 December 2009.

Loans held for sale to NAMA which were classified as 'impaired loans' amounted to €0.4 billion at 31 December 2010 compared to €6.6 billion at 31 December 2009.

**'Neither past due nor impaired':**

The tables below provide an analysis of loans held for sale to NAMA which are 'neither past due nor impaired' by asset classification based on an assessment of the credit quality of the borrower.

31 December 2010

**Risk Profile**

Loans held for sale to NAMA neither past due nor impaired

	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Total €m
High Quality	-	-	38	38
Satisfactory Quality	-	-	90	90
Acceptable Quality	-	-	267	267
Lower Quality but not past due nor impaired	-	-	60	60
<b>Total</b>	-	-	<b>455</b>	<b>455</b>

31 December 2009

**Risk Profile**

Loans held for sale to NAMA neither past due nor impaired

	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Total €m
High Quality	30	5	526	561
Satisfactory Quality	-	40	1,974	2,014
Acceptable Quality	-	32	2,234	2,266
Lower Quality but not past due nor impaired	-	20	555	575
<b>Total</b>	<b>30</b>	<b>97</b>	<b>5,289</b>	<b>5,416</b>

**'Past due but not impaired':**

The tables below provide an aged analysis of loans held for sale to NAMA which are 'past due but not impaired' by asset classification. Amounts arising from operational and / or timing issues that are outside the control of customers are generally excluded.

31 December 2010

Loans held for sale to NAMA past due but not impaired

	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Total €m
Past due up to 30 days	-	-	-	-
Past due 31 - 60 days	-	-	11	11
Past due 61 - 90 days	-	-	-	-
Past due more than 90 days	-	-	-	-
<b>Total</b>	-	-	<b>11</b>	<b>11</b>

31 December 2009

Loans held for sale to NAMA past due but not impaired

	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Total €m
Past due up to 30 days	-	2	95	97
Past due 31 - 60 days	-	-	15	15
Past due 61 - 90 days	38	-	105	143
Past due more than 90 days	-	-	-	-
<b>Total</b>	<b>38</b>	<b>2</b>	<b>215</b>	<b>255</b>

**'Impaired':**

The tables below set out an analysis of the 'impaired' loans held for sale to NAMA by asset classification.

31 December 2010

Loans held for sale to NAMA Composition and Impairment	Advances €m	Impaired loans €m	Impaired loans as % of advances %	Impairment provisions €m	Impairment provisions as % of impaired loans %
Residential mortgages	-	-	-	-	-
Non-property SME and corporate	-	-	-	-	-
Property and construction	868	402	46.3%	75	19%
<b>Loans held for sale to NAMA</b>	<b>868</b>	<b>402</b>	<b>46.3%</b>	<b>75</b>	<b>19%</b>

31 December 2009

Loans held for sale to NAMA Composition and Impairment	Advances €m	Impaired loans €m	Impaired loans as % of advances %	Impairment provisions €m	Impairment provisions as % of impaired loans %
Residential mortgages	68	-	-	-	-
Non-property SME and corporate	211	112	53.1%	18	16%
Property and construction	11,956	6,452	54.0%	2,760	43%
<b>Loans held for sale to NAMA</b>	<b>12,235</b>	<b>6,564</b>	<b>53.6%</b>	<b>2,778</b>	<b>42%</b>

The Group's loans held for sale to NAMA at 31 December 2010 amounted to €0.9 billion (before impairment provisions) compared to €12.2 billion (before impairment provisions) at 31 December 2009. During the twelve month period ended 31 December 2010, the Group sold €9.4 billion of assets (before impairment provisions) to NAMA.

The stock of impairment provisions of €0.1 billion at 31 December 2010 represented 19% of impaired loans (31 December 2009: impairment provisions of €2.8 billion representing 42% of impaired loans). The reduction in the stock of impairment provisions is due to the sale of assets to NAMA during the twelve month period ended 31 December 2010.

**Impairment charges on assets sold or held for sale to NAMA**

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

Impairment charges on assets sold or held for sale to NAMA of €229 million for the twelve month period ended 31 December 2010 reduced by €1,455 million compared to the impairment charge of €1,684 million for the nine month period ended 31 December 2009.

Assets held for sale to NAMA	12 months ended 31 December 2010 €m	* Restated 9 months ended 31 December 2009 €m
Residential mortgages	10	6
Non-property SME and corporate	14	4
Property and construction	205	1,674
<b>Impairment charges on assets sold or held for sale to NAMA</b>	<b>229</b>	<b>1,684</b>

\* Impairment charges on loans and advances to customers and assets held for sale to NAMA have been restated for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans transferring to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15 on page 240).

The impairment charge of €205 million on the Property and construction portfolio held for sale to NAMA for the twelve month period ended 31 December 2010 has decreased by €1,469 million compared to the impairment charge of €1,674 million for the nine month period ended 31 December 2009. The impairment charge in the nine month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, an oversupply of residential housing stock in Ireland and generally weak economic conditions, particularly in Ireland. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to a lack of demand from investors. The Property and construction impairment charge of €205 million in the twelve month period ended 31 December 2010 reflects the impact of underlying economic conditions, reduced asset values and low levels of transactions and illiquidity in property markets which have continued to reduce rental flows and delay recovery prospects.

#### Financial assets renegotiated that would otherwise be past due or impaired

Renegotiated loans are those facilities at 31 December 2010 which if not renegotiated during the twelve month period ended 31 December 2010 would have been classified as 'impaired' loans or as 'past due but not impaired' loans. The carrying value of these loans at 31 December 2010 is €5.7 billion (31 December 2009: €6.4 billion) and represents borrowers whose loan terms and conditions have been amended in recognition of a change in the borrowers' circumstances. Renegotiated loans are primarily included in the 'Acceptable quality', 'satisfactory' for mortgages and 'Lower quality but not past due nor impaired' classifications and are not deemed to represent a risk of loss at the reporting date.

Loans that have their terms amended but do not meet the requirements for financial assets that are 'neither past due nor impaired', continue to be reported as 'past due but not impaired' or as 'impaired'.

#### Reposessed collateral

During the twelve month period ended 31 December 2010, the Group took possession of collateral held as security, as follows:

	31 December 2010 €m	31 December 2009 €m
<b>Reposessed collateral</b>		
Residential properties		
Ireland	16	6
UK and other	81	66
	97	72
Other	32	12
<b>Total</b>	<b>129</b>	<b>84</b>

Reposessed collateral are sold as soon as practicable, with the proceeds applied against outstanding indebtedness.

#### Asset quality: Other financial instruments

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

	31 December 2010		31 December 2009	
<b>Asset quality: Other financial instruments</b>	€m	%	€m	%
High quality	35,487	92%	33,633	93%
Satisfactory quality	2,025	6%	2,097	6%
Acceptable quality	857	2%	286	1%
Lower quality but not past due nor impaired	114	-	113	-
<b>Neither past due nor impaired</b>	<b>38,483</b>	<b>100%</b>	<b>36,129</b>	<b>100%</b>
Impaired	158	-	12	-
<b>Total</b>	<b>38,641</b>	<b>100%</b>	<b>36,141</b>	<b>100%</b>

Other financial instruments at 31 December 2010 amounted to €38.6 billion, an increase of €2.5 billion as compared with €36.1 billion at 31 December 2009. This increase primarily reflects a higher level of derivative financial assets and loans and advances to banks.

The majority of the Group's exposure to other financial instruments were classified as 'neither past due nor impaired'. The impaired financial instruments primarily relate to the NAMA subordinated bonds and the subordinated debt issued by Allied Irish Banks plc.

#### Impairment charges on available for sale financial assets

	12 months ended 31 December 2010	9 months ended 31 December 2009
Available for sale financial assets	€m	€m
Allied Irish Banks plc subordinated bonds	98	-
NAMA subordinated bonds	70	-
Other	-	2
<b>Impairment charges on available for sale financial assets</b>	<b>168</b>	<b>2</b>

In the twelve month period ended 31 December 2010, the Group incurred impairment charges of €168 million on assets in its AFS portfolio. This includes a charge of €98 million on a holding of subordinated debt issued by Allied Irish Banks plc. The Group exchanged these bonds for cash in January 2011 without further loss. In addition the Group incurred an impairment charge of €70 million on NAMA subordinated bonds following the decision by NAMA not to pay the discretionary coupon due on 1 March 2011.



The information below is additional disclosure and it does not form an integral part of the audited financial statements as described in the Basis of preparation on page 197.

#### Available for sale financial assets and NAMA senior bonds

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

Portfolio	Carrying Value	Asset Type	Profile	Key Movements	Fair Value expressed as % of Underlying Nominal
Liquid Asset Portfolio	€19.5 billion (31 December 2009: €19.4 billion)	€3.7 billion Government bonds  (31 December 2009: €1.1 billion)	Average credit rating A-  (31 December 2009: 100% AA rated)	Total negative mark to market adjustment to reserves of €295.1 million (31 December 2009: €21 million positive)  No impairments were recognised in the current or prior period	92.3%  (31 December 2009: 104.2%)
		€10.7 billion bank debt and covered bonds  (31 December 2009: €18.3 billion)	FRNs / CPS / CDs / covered bonds – average credit rating A+.  (31 December 2009: average credit rating AA-).	Total negative mark to market adjustment to reserves of €325.2 million (31 December 2009: €251 million negative)  An impairment charge of €97.8 million was recognised in the current period (31 December 2009: no impairments recognised)	98.3%  (31 December 2009: 100.4%)
		€5.1 billion NAMA senior bonds  (31 December 2009: €nil)	Average credit rating BBB+  (31 December 2009: not rated)	No mark to market recognised in reserves.	98.5%  (31 December 2009: N/A)
Asset Backed Securities Portfolio	€1.2 billion (31 December 2009: €1.5 billion)	€0.3 billion RMBS  (31 December 2009: €0.5 billion)	91% rated AAA/AA, all prime (31 December 2009: 79%)	Total negative mark to market adjustment to reserves of €72 million (31 December 2009: €188 million)	92.9%  (31 December 2009: 87%)
		€0.4 billion CMBS  (31 December 2009: €0.4 billion)	81% rated AAA/AA, all prime (31 December 2009: 75%)		
		€0.1 billion student loans / SME loans / whole business securitisations  (31 December 2009: €0.1 billion)	38% rated AAA/AA, all prime (31 December 2009: 82%)	No impairments were recognised in the current period (31 December 2009: €2 million)	58.2%  (31 December 2009: N/A)
		€0.1 billion NAMA subordinated bonds	Not rated	No mark to market recognised in reserves.  An impairment charge of €0.1 billion was recognised in the current period	
		€0.3 billion other categories (including loans in syndication, CDOs and financials)  (31 December 2009: €0.5 billion)			

**Available for sale financial assets and NAMA senior bonds (continued)**

The information below is additional disclosure and it does not form an integral part of the audited financial statements as described in the Basis of preparation on page 197.

The following table sets out, by country of issuer, the Group's exposures to Government bonds, senior bank debt and covered bonds together with asset backed securities and AFS equity securities as at 31 December 2010.

Country of Issuer	Government bonds* (net of impairment) €m	Senior bank debt and covered bonds (net of impairment) €m	Total liquid asset portfolio (net of impairment) €m	Asset backed securities portfolio (net of impairment) €m
Australia	-	198	198	64
Austria	-	75	75	-
Belgium	-	347	347	-
Bulgaria	-	-	-	-
Bermuda	-	-	-	2
Canada	-	324	324	15
Cayman Islands	-	-	-	1
Cyprus	-	-	-	-
Czech Republic	-	-	-	-
Denmark	-	281	281	-
Estonia	-	-	-	-
Finland	-	82	82	-
France	21	1,866	1,887	5
Germany	-	299	299	9
Guernsey	-	-	-	1
Greece	-	-	-	-
Hungary	-	-	-	-
Iceland	-	-	-	-
Ireland*	8,206	542	8,748	141
Italy	31	681	712	15
Jersey	-	-	-	27
Latvia	-	-	-	-
Liechtenstein	-	-	-	-
Lithuania	-	-	-	-
Luxembourg	-	71	71	4
Malta	-	-	-	-
Netherlands	-	911	911	93
Norway	-	406	406	-
Poland	-	-	-	-
Portugal	-	230	230	-
Romania	-	-	-	-
Singapore	-	-	-	18
Slovakia	-	-	-	-
Slovenia	-	-	-	-
Spain	-	1,368	1,368	85
Sweden	-	497	497	-
Switzerland	-	375	375	-
United Kingdom	553	1,493	2,046	530
United States	-	616	616	166
Other	-	-	-	-
<b>Total</b>	<b>8,811</b>	<b>10,662</b>	<b>19,473</b>	<b>1,176</b>

\* includes €5,075 million of NAMA senior bonds which are guaranteed by the Irish Government

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

## 2.2 Liquidity Risk

*The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 197.*

### Key points

- The heightened concerns regarding European sovereign debt experienced in May and June 2010, resurfaced in the third quarter of 2010 with particular focus on Ireland. These concerns led to multiple notch ratings downgrades for both the Irish sovereign and the Group and created difficult funding conditions for the Group.
- Reflecting these difficult market conditions, the Group has experienced significant outflows of ratings sensitive customer deposits. The Irish retail deposit base has remained stable and UK retail deposit gathering, through the UK Post Office, has continued to perform well.
- As a result the Group has increased funding from Monetary Authorities (including the additional liquidity facilities made available by the Central Bank) from €8 billion (net) at 31 December 2009 to €31 billion (net) at 31 December 2010.

### Definition of Liquidity Risk

Liquidity risk is the risk that the Group will experience difficulty in financing its assets and / or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds.

Liquidity risk arises from differences in timing between cash inflows and outflows. Cash inflows are driven, among other things, by the maturity structure of loans and investments held by the Group, while cash outflows are driven by the term of the debt issued by the Group and the outflows from deposit accounts held for customers.

Liquidity risk can increase due to the unexpected lengthening of maturities or non-repayment of assets, a sudden withdrawal of deposits or the inability to refinance maturing debt which are often associated with times of distress or adverse events such as a credit rating downgrade(s) or economic or financial turmoil.

### Liquidity Risk Management

The Group's exposure to liquidity risk is governed by the Group's liquidity and funding policy approved by the Court and the GRPC. The objective of the policy is to ensure that the Group can meet its obligations, including deposit withdrawals and funding commitments, as they fall due. The operation of this policy is delegated to the Group's Asset and Liability Committee (ALCO).

Liquidity management within the Group focuses on the overall balance sheet structure together with the control, within prudent limits, of risk arising from the mismatch of maturities of assets and liabilities and the risks arising from undrawn commitments and other contingent liabilities.

Liquidity management consists of two main activities:

- Tactical liquidity management focuses on monitoring current and expected daily cashflows to ensure that the Group's liquidity needs can be met. This takes account of the Group's access to unsecured funding (customer deposits and wholesale funding) and the liquidity characteristics of a portfolio of highly marketable assets and a portfolio of contingent assets that can be readily converted into funding to cover unforeseen cash outflows; and
- Structural liquidity management focuses on assessing an optimal balance sheet structure taking account of the expected maturity profile of assets and liabilities and the Group's debt issuance strategy.

The Group is required to comply with the liquidity requirements of the Central Bank and also with the requirements of local regulators in those jurisdictions where such requirements apply to the Group.

The Central Bank requires that banks have sufficient resources (cash inflows and marketable assets) to cover 100% of expected cash outflows in the 0 to 8 day time horizon and 90% of expected cash outflows in the 8 day to 30 day time horizon. The Group notified the Central Bank of a temporary breach of regulatory liquidity requirements in January 2011 (that breach was remediated in January 2011) and a breach in April 2011. The breaches have been associated with the contraction in unsecured wholesale funding, changes in the eligibility criteria of the ECB and increased usage of Monetary Authority funding. The Actions agreed with the Central Bank to de-lever the balance sheet post the PLAR exercise are expected to reduce the Group's funding and liquidity risk.

### Stress testing and scenario analysis

The Group performs stress testing and scenario analysis to evaluate the impact of stresses on its liquidity position. These stress tests incorporate Group specific risks and systemic risks and are run at three levels of severity. Tactical actions and strategies available to mitigate the stress scenarios are evaluated as to their appropriateness. Stress test results are reported to ALCO, the GRPC and the Court.

### Liquidity Risk Measurement

The Group's cashflow and liquidity reporting processes provide management with daily liquidity risk information by designated cash flow categories. These processes capture the cash flows from both on balance sheet and off balance sheet transactions.

The tables below summarise the maturity profile of the Group's financial assets and liabilities, excluding those arising from insurance and participating investment contracts at 31 December 2010 and 31 December 2009 based on the remaining contractual maturity period at the balance sheet date, which agree to the balance sheet. Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,271 million and €7,188 million respectively (31 December 2009: €5,050 million and €6,658 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts. The Group manages liquidity risk by adjusting the contractual cashflows on the retail deposit books to reflect their inherent stability and on its mortgage book to reflect early repayment of such loans.

#### 31 December 2010

Maturities of financial assets and liabilities	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
<b>Assets</b>						
Cash and balances at central banks	1,014	-	-	-	-	1,014
Trading securities	-	137	-	8	6	151
Derivative financial instruments	840	382	582	2,759	1,812	6,375
Other financial assets at fair value through profit or loss*	754	20	101	488	1,513	2,876
Loans and advances to banks	3,608	3,679	153	16	2	7,458
Available for sale financial assets*	2	1,342	3,350	7,712	3,060	15,466
NAMA senior bonds	-	-	-	-	5,075	5,075
Loans and advances to customers (before impairment provisions)	3,671	9,481	8,276	32,983	65,021	119,432
Assets classified as held for sale to NAMA (before impairment provisions)	11	460	261	86	61	879
<b>Total</b>	<b>9,900</b>	<b>15,501</b>	<b>12,723</b>	<b>44,052</b>	<b>76,550</b>	<b>158,726</b>
<b>Liabilities</b>						
Deposits from banks	359	37,847	411	2,380	78	41,075
Customer accounts	32,377	17,742	10,561	4,352	411	65,443
Derivative financial instruments	815	195	319	2,233	1,883	5,445
Debt securities in issue	-	4,750	3,525	14,280	6,138	28,693
Subordinated liabilities	-	-	-	83	2,692	2,775
<b>Total</b>	<b>33,551</b>	<b>60,534</b>	<b>14,816</b>	<b>23,328</b>	<b>11,202</b>	<b>143,431</b>

\*excluding equity shares and perpetual funds which have no contractual maturity.

31 December 2009

	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
<b>Maturities of financial assets and liabilities</b>						
<b>Assets</b>						
Cash and balances at central banks	4,241	-	-	-	-	4,241
Trading securities	-	18	271	84	30	403
Derivative financial instruments	1,074	140	505	2,185	1,920	5,824
Other financial assets at fair value through profit or loss*	903	86	334	510	1,442	3,275
Loans and advances to banks	2,406	2,543	64	16	2	5,031
Available for sale financial assets*	-	1,359	4,209	12,418	2,898	20,884
Loans and advances to customers (before impairment provisions)	895	8,357	8,672	37,499	67,013	122,436
Assets classified as held for sale to NAMA (before impairment provisions)	3,616	4,037	1,757	2,036	913	12,359
<b>Total</b>	<b>13,135</b>	<b>16,540</b>	<b>15,812</b>	<b>54,748</b>	<b>74,218</b>	<b>174,453</b>
<b>Liabilities</b>						
Deposits from banks	128	8,365	8,175	1,006	229	17,903
Customer accounts	36,795	31,410	12,296	3,966	345	84,812
Derivative financial instruments	1,070	445	437	2,289	1,796	6,037
Debt securities in issue	11	13,958	10,677	9,330	9,168	43,144
Subordinated liabilities	-	754	-	-	5,299	6,053
Liabilities classified as held for sale to NAMA (before impairment provisions)	-	-	-	-	1	1
<b>Total</b>	<b>38,004</b>	<b>54,932</b>	<b>31,585</b>	<b>16,591</b>	<b>16,838</b>	<b>157,950</b>

\* excluding equity shares which have no contractual maturity.

### Liquidity Risk Mitigation

#### Wholesale Funding diversification

The Group's wholesale funding strategy is to diversify its profile across investor types, regions, instruments and currency. During the twelve month period ended 31 December 2010, the Group issued €6.8 billion of term wholesale debt with an original maturity of greater than one year (€9.1 billion during the nine month period ended 31 December 2009).

#### Customer Deposits

The Group's customer deposit strategy is focused on growing high quality 'sticky' deposits by leveraging the Group's extensive retail customer franchise in Ireland and by accessing the UK retail market through the Group's joint venture with the UK Post Office. During the twelve month period ended 31 December 2010 the Group migrated the deposits originated through the UK Post Office to Bank of Ireland (UK) plc such that the depositors are covered under the Financial Services Compensation Scheme (FSCS). In addition, the Group has treasury and corporate banking customer relationships in Ireland, the UK and internationally which enable the Group to access corporate customer deposits.

The Group continues to focus on the growth of retail deposits and maximise corporate deposits which arise from the Group's broader lending and treasury risk management activities with a view to reducing its dependence on wholesale funding and reducing its customer loan to deposit ratio.

## Funding and Liquidity Position

### Market Overview

The Irish Government, recognising the adverse impact of the global financial crisis on Irish financial institutions in accessing wholesale funding markets, and the systemic importance of certain financial institutions, including the Group, to the Irish economy introduced the CIFS Guarantee Scheme on 30 September 2008 to guarantee the deposits and certain liabilities of covered institutions. The CIFS Guarantee Scheme expired on 29 September 2010.

On 11 January 2010, the relevant deposit taking entities within the Group were accepted as participating institutions in the ELG Scheme. The ELG Scheme facilitates participating institutions issuing debt securities and taking deposits which have a maturity of up to five years, provided the relevant liabilities are incurred during the issuance window. The ELG Scheme had an original expiry of 29 September 2010, but has been extended to 31 December 2011 with a review by the European Commission on 30 June 2011. At 31 December 2010, €39.3 billion of customer deposits and wholesale funding (excluding subordinated liabilities) continue to be covered under the ELG Scheme.

The heightened concerns regarding European sovereign debt experienced in May and June 2010 resulted in renewed instability in financial markets adversely impacting market sentiment, restricting access to wholesale funding markets for financial institutions across Europe and increasing the cost of funding. These concerns resurfaced during the third quarter of 2010 for peripheral eurozone countries, particularly Ireland, due to heightened concerns in international debt markets about the level of fiscal deficits and evolving debt levels in these countries and the potential impact of these deficits on their economies. These conditions were exacerbated by, amongst other things, the downgrading of the Irish sovereign credit rating in August, and the corresponding downgrades for senior ratings of domestic financial institutions and uncertainty in relation to whether the ELG Scheme would be extended.

Following the downgrades of the Irish sovereign credit rating in August 2010 and the consequent downgrades of the Group, the Group has experienced a material deterioration in funding market conditions and wholesale funding has largely only been available on a secured basis. As a result, the Group has experienced significant outflows of ratings sensitive customer deposits in its Capital Markets business. The Group's retail deposit volumes in Ireland have remained stable throughout 2010 and the Group continues to experience strong growth in retail deposit volumes in the UK. Deposit volumes in the Capital Markets business have broadly stabilised since 31 December 2010.

In February 2011, Standard & Poor's further downgraded the long term (outlook) rating of the Group to BB+ (CreditWatch Negative). This downgrade has not had a material impact on the level of customer deposits.

In April 2011, there was a further downgrade by DBRS of the Group's issued securities to BBB (high) from A (high (negative)).

The credit ratings of the Group on 5 April 2011 were as follows:

Senior Debt	LongTerm (Outlook) / ShortTerm (Outlook)
Standard & Poor's	BB+ (CreditWatch Negative) / B (CreditWatch Negative)
Moody's Investor Service	Ba1 (Review for possible downgrade) / N-P
Fitch	BBB (Rating Watch Negative) / F2 (Rating Watch Negative)
DBRS	BBB (High (Negative trend)) / R-2 (High (Negative trend))

### Funding Position

The Group has access to the liquidity operations offered by Monetary Authorities using its pool of contingent collateral. As a result of the challenging funding markets the Group has extended its usage of liquidity facilities made available by Monetary Authorities by means of both its pool of eligible collateral with the ECB and the additional liquidity facilities made available by the Central Bank. The Group's funding from these sources increased to €31 billion (net) at 31 December 2010 from €8 billion (net) at 30 June 2010 and €8 billion (net) at 31 December 2009.

A key priority for the Group is to reduce its reliance on Monetary Authority and Central Bank liquidity facilities when market conditions improve.

The Group's continued focus on deleveraging its balance sheet should reduce the Group's funding and liquidity risk.

Summary Balance Sheet	2010 €bn	31 December 2009 €bn	31 December Change %
Loans and advances to customers (after impairment provisions)	114	119	(4%)
Assets held for sale to NAMA (after impairment provisions)	1	10	(92%)
Liquid assets	30	31	(3%)
Other assets	22	21	4%
<b>Total assets</b>	<b>167</b>	<b>181</b>	<b>(8%)</b>
Customer deposits	65	85	(23%)
Wholesale funding	70	61	14%
Subordinated liabilities	3	6	(54%)
Other liabilities	22	23	(6%)
<b>Total liabilities</b>	<b>160</b>	<b>175</b>	<b>(9%)</b>
Stockholders' equity	7	6	16%
<b>Total liabilities and stockholders' equity</b>	<b>167</b>	<b>181</b>	<b>(8%)</b>

The Group's loans and advances to customers (after impairment provisions) at 31 December 2010 of €114 billion reflects a decrease of 4% when compared to the Group's loans and advances to customers of €119 billion at 31 December 2009.

#### Deleveraging

The 2011 PCAR incorporates a deleveraging plan (PLAR) which anticipates a loan to deposit ratio of less than 122.5% for the Group by 31 December 2013.

This plan augments the asset reductions contained in the Group's approved EU Restructuring and Viability Plan which are underway and ahead of target. The deleveraging plan envisages portfolios of customer loans continuing to be wound down or disposed of on an orderly basis over a three year period resulting in an expected reduction in the Group's non-core loan portfolios of approximately €30 billion between December 2010 and December 2013. A conservative estimate of losses arising on deleveraging under an adverse stress scenario is incorporated within the capital requirement.

The loan portfolios / lending businesses of the Group, that are being / will be run down or disposed of over time, include:

- portfolios of UK Intermediary sourced Mortgages;
- selected international niche businesses such as project finance, asset based lending and certain previously identified international corporate banking portfolios;
- certain international commercial investment property portfolios; and
- land and development loans where the Group has an individual customer / sponsor exposure less than €20 million.

These portfolios are estimated at approximately €39 billion of loans and advances to customers.

It is envisaged that the international portfolios will be significantly wound down or sold in the period to 31 December 2013 on a basis that will balance the advantage of stronger liquidity ratios with the need to maximise value from the disposal of such assets without pressure to concede to the risk of 'fire sales'.

### Customer Deposits

A key source of funding for the Group is customer deposits which comprise demand deposits, current accounts, notice deposits and term deposits. Together these account for 42% of the funding of the balance sheet of the Group at 31 December 2010 (excluding Bank of Ireland Life funds held on behalf of policyholders). Deposit gathering remains a key priority and the Group continues to leverage the potential of its extensive retail distribution platforms, both in Ireland through its 255 branches, in Northern Ireland through its 37 branches, and internationally through its joint venture with the UK Post Office, its Business and Corporate Banking relationship management teams and its network of treasury offices in Dublin, the UK and the US.

Customer deposits	31 December 2010		31 December 2009	
	€bn	%	€bn	%
<b>Retail Ireland</b>	35	54%	35	41%
- Deposits	24		24	
- Current account credit balances	11		11	
<b>UK Financial Services (€bn equivalent)</b>	21	32%	21	25%
<i>UK Financial Services (£bn)</i>	18		19	
- POFS	11		9	
- Business Banking	7		10	
<b>Capital Markets</b>	9	14%	29	34%
<b>Total customer deposits</b>	65	100%	85	100%

Despite intense competition, the Group's retail customer deposit base in Ireland has been stable throughout 2010.

Retail deposit gathering activities in the joint venture with the UK Post Office continue to perform strongly. The recent incorporation of the Group's UK retail and commercial banking activities, into an FSA approved and regulated wholly owned subsidiary will continue to support the Group's deposit raising strategies in the UK.

Reflecting the difficult market conditions experienced in the second half of 2010, the Group has experienced outflows of €20 billion of ratings sensitive customer deposits in the Capital Markets business together with Stg£2 billion in Business Banking in the UK. In addition to the deposits covered by the ELG Scheme, other deposits are guaranteed under the protection deposit protection schemes operating in the various jurisdictions in which the Group operates, including the Irish Government Deposit Scheme, the UK Financial Services Compensation Scheme and the IOM Depositors Compensation Scheme.

The Group's loans to deposit ratio (excluding loans held for sale to NAMA) has increased from 141% at 31 December 2009 to 175% at 31 December 2010 primarily reflecting the outflow of deposits outlined above.

### Wholesale Funding

Wholesale funding accounts for 45% of the Group's funding requirements at 31 December 2010 (excluding Bank of Ireland Life funds held on behalf of policyholders) (31 December 2009: 36%). The Group's wholesale funding programmes cover approximately 50 geographies and a range of different investor types. In addition to its funding programmes, the Group currently accesses liquidity schemes made available by Monetary Authorities and the additional liquidity facilities made available by the Central Bank as set out above.

The heightened concerns regarding European sovereign debt experienced in May and June 2010 resulted in renewed instability in financial markets and restricted access to wholesale funding markets for financial institutions across Europe. These concerns resurfaced during the third quarter particularly for Irish sovereign debt. Following the rating agency downgrades of the Irish sovereign in August 2010 and the Group in September 2010 and in line with other financial institutions, the Group has experienced a deterioration in funding market conditions. This has resulted in a shortening of the maturity profile of wholesale funding due to limited access to term funding markets and an increased reliance on secured funding.



	31 December 2010		31 December 2009	
	€bn	%	€bn	%
<b>Wholesale funding</b>				
Deposits from banks	41	27%	18	11%
Senior Debt / Asset Covered Securities	23	15%	27	16%
Commercial Paper / Certificates of deposits	1	0%	10	6%
Securitisations	5	3%	6	3%
<b>Wholesale funding</b>	<b>70</b>	<b>45%</b>	<b>61</b>	<b>36%</b>

The Group's wholesale funding at 31 December 2010 amounted to €70 billion as compared to €61 billion at 31 December 2009. The increase of €9 billion during the twelve month period ended 31 December 2010 primarily reflects the impact of the significant outflow of ratings sensitive customer deposits partly offset by the sale of assets to NAMA and the reduction in loans and advances to customers.

Within wholesale funding, commercial paper and certificates of deposit have reduced from €10 billion at 31 December 2009 to €1 billion at 31 December 2010 reflecting the difficult market conditions. Deposits from banks have increased from €18 billion at 31 December 2009 to €41 billion at 31 December 2010 primarily due to an increase in funding from Monetary Authorities and the Central Bank.

During 2010, the Group issued €6.8 billion of term wholesale funding (funding with a maturity of greater than one year at date of issuance) with an average maturity of 3.3 years and an average spread of 2.4% over 3 month euribor. In the nine month period ended 31 December 2009, the Group issued €9.1 billion of term wholesale funding. The average maturity of this funding was 2.4 years with an average spread of 1.8% over 3 month euribor. Wholesale funding as a percentage of the Group's total assets increased to 45% (€70 billion) at 31 December 2010 compared to 36% (€61 billion) at 31 December 2009. At 31 December 2010 €24 billion or 34% of wholesale funding had a term to maturity of greater than one year, compared to €20 billion or 32% at 31 December 2009.

Due to the difficult market conditions experienced in the second half of 2010 the average term to maturity of wholesale funding has shortened significantly. The following table provides a maturity analysis of wholesale funding:

	31 December 2010		31 December 2009	
	€bn	%	€bn	%
<b>Wholesale funding maturity analysis</b>				
Less than 3 months <sup>1</sup>	43	61%	23	38%
3 months to one year	5	7%	19	31%
One to five years	16	23%	10	16%
More than five years	6	9%	9	15%
<b>Wholesale funding</b>	<b>70</b>	<b>100%</b>	<b>61</b>	<b>100%</b>

<sup>1</sup>Includes funding from Monetary Authorities and the Central Bank

## 2.3 Market Risk

*The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 197.*

### Key Points:

- There was no fundamental change in the Group's approach to the management and control of market risk during 2010.
- The Group continues to have a low appetite for discretionary market risk.

### 2.3.1 Market Risk in the Group

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.

#### Structural risks

Risks that arise from structural aspects of the Group's balance sheet and operations are managed centrally and include:

- **Structural interest rate risk** arises from the existence of non-interest bearing liabilities (principally equity and non-interest bearing current accounts less fixed assets) on the balance sheet. If these net liabilities were used to fund variable rate assets, the Group's earnings would be fully exposed to any variation in interest rates.
- **Structural basis risk** arises where variable rate assets and liabilities reprice at different frequencies or where lending reprices with changes in central bank rates but is funded at market rates. Changes in the differential, or basis, between different floating rates can have an impact on the Group's net interest margin.
- **Structural foreign exchange risk** arises from the Group's net investment in its non-euro based subsidiaries. Changes in exchange rates can have an impact on the Group's net asset value and capital ratios.

#### Fixed rate risk

Fixed rate risk arises on the asset side of the balance sheet through fixed rate lending and on the liability side through fixed rate deposit products.

#### Discretionary market risk

Discretionary market risk is any risk that is assumed in anticipation of movements in financial markets. Discretionary risk can be taken by leaving naturally arising customer risk unhedged for a period or by proactively assuming risk in the market. The Group does not seek to generate a material proportion of its earnings through discretionary risk taking and it has a low tolerance for earnings volatility arising from this activity which is reflected in the policy, limits and other controls applied.

Bank of Ireland Global Markets (BoIGM) is the only business unit permitted to take discretionary market risk on behalf of the Group.

### 2.3.2 Management and control of market risk

#### Governance

The management of market risk in the Group is governed by a Statement of High Level Principles 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.

#### Centralisation of market risk in BoIGM

The Group's policy is that all interest rate risk and foreign exchange risk which arises from customer transactions, wholesale funding and investment in liquid assets is centralised in BoIGM, which is part of the Governor and Company of the Bank of Ireland.

#### Structural risks

It is Group policy to manage **structural interest rate risk** by investing its net non-interest bearing liabilities in a portfolio of fixed rate assets with an average life of 3.5 years and a maximum life of 7 years. This has the effect of mitigating the impact of the interest rate cycle on net interest margin.

It is Group policy to manage **structural basis risk** through selective, strategic hedging to mitigate the impact of changes in floating rate differentials on the net interest margin.

It is Group policy to manage **structural foreign exchange (FX) risk** by ensuring that the currency composition of its Risk Weighted Assets and its structural net asset position by currency are broadly similar so as to minimise the impact of the exchange rate movements on its principal capital ratios.

#### Discretionary Market Risk

The Group does not seek to generate a material proportion of its earnings through discretionary risk taking and it has a low tolerance for earnings volatility arising from this activity which is reflected in the policy, limits and other controls applied.

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.

In compliance with regulatory requirements, positions are allocated to a trading book based on the criterion of 'intent to trade' and are marked to market for financial reporting purposes. Interest rate positions assumed proactively and all foreign exchange positions are allocated to the trading book. Risk positions arising from internal hedging transactions which are not fully or immediately eliminated with the market, from wholesale funding in cash and debt markets and from the management of liquidity are allocated to the banking book.

Discretionary market risk, whether taken in the trading or banking books, is subject to an overall Value at Risk (VaR) limit, approved by the Court. ALCO approves and monitors compliance with VaR limits for BoIGM including limits for interest rate, foreign exchange and credit spread risk. Market risk limits are rigorously enforced and compliance is monitored by ALCO.

### 2.3.3 Market Risk Measurement

#### Earnings sensitivity of banking book risk

The impact on the Group's net interest margin for one year ahead of an immediate and sustained 50 basis points shift up or down in the euro and sterling yield curves applied to the exposures in the Group's wholesale banking book is set out in the table below:

Group net interest margin sensitivity	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Euro</b>		
+ 50 basis points	(0.5)	(5.1)
- 50 basis points	0.5	5.1
<b>Sterling</b>		
+ 50 basis points	5.8	(2.5)
- 50 basis points	(5.8)	2.5

The sensitivities are indicative of the magnitude and direction of exposures but require to be qualified in two respects. Firstly, the results are based on an immediate and sustained shift of the same magnitude in all curves which would represent a very unusual scenario. Secondly, these exposures are continuously monitored and can be substantially eliminated in response to adverse market movements.

The change in these net interest margin sensitivities between December 2009 and December 2010 reflects the different market conditions prevailing on the two dates. At the end of 2009, there was an expectation that rates globally would remain stable or fall further and this was reflected in a willingness to carry some risk on these books that would benefit from a fall in rates. The opposite was the case at the end of 2010. At 31 December 2010, the Group had non-material exposure in euro and positions in its sterling books that stood to gain from stable or rising rates.

#### Structural foreign exchange risk

Structural foreign exchange risk is measured in terms of the sensitivity of the Group's net asset value and its capital ratios to exchange rate movements.

The Group's structural FX position was as follows:

Structural FX position	31 December 2010 €m	31 December 2009 €m
Sterling – net asset position	3,413	3,814
US dollar – net asset position	619	173
Total structural FX position	4,032	3,987

A 10% depreciation of the euro against sterling and the US dollar at 31 December 2010 would have resulted in a gain to reserves of €403 million (31 December 2009: gain of €399 million).

#### Discretionary market risk

The Group employs a Value at Risk (VaR) approach to measure, and set limits on, discretionary market risk. 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. This means that, for a given set of market risk positions on a given day, the Group believes there is no more than a 1% chance of a gain or loss in excess of the VaR number over the following day.

The Group calculates VaR by using estimates of market volatility and correlation that are updated daily using the Exponentially Weighted Moving Average (EWMA) approach. This widely used approach gives greater weight to more recent data and, as a consequence, estimates of VaR are more responsive to changes in market conditions.

For the nature of the risks assumed by BoIGM, VaR remains a relatively reliable basis of risk measurement. Nonetheless, management recognises that VaR is subject to certain inherent limitations and therefore 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 are used to assess and manage discretionary market risk.

The Group's peak, average and end of period, 1 day trading book VaR in the twelve month period ended 31 December 2010 and in the nine month period ended 31 December 2009 are set out in the following table:

	12 months ended 31 December 2010	9 months ended 31 December 2009
	€m	€m
<b>Trading book VaR</b>		
<b>Interest Rate VaR</b>		
Peak	2.8	3.4
Average	1.2	2.1
End period	0.5	1.0
<b>Foreign Exchange VaR</b>		
Peak	1.9	1.0
Average	0.7	0.5
End period	0.1	1.0

#### Other sensitivities

##### Available for sale securities

At 31 December 2010, the Group held €15.6 billion in debt securities classified as Available for sale financial assets (31 December 2009: €20.9 billion). These assets are held at fair value on the balance sheet with movements in fair value (apart from impairments) recognised in reserves. Available for sale financial assets include both floating rate securities and fixed rate securities swapped to a floating rate. A one basis point increase in the average spread to Euribor or Libor of the book at 31 December 2010 would have reduced its value by €3.5 million (31 December 2009: €4.6 million).

##### New Ireland Assurance Company

Market risk arises in the Group's non-linked life assurance business to the extent that the expected duration of cash flows on the liability side differs from the duration of the matching fixed interest rate assets (comprising Irish and other euro fixed interest government bonds). New Ireland Assurance Company pursues a policy of close asset / liability matching and any difference in the mean duration of assets and liabilities is minimised by buying and selling euro fixed interest government securities. No corporate bonds are held. At 31 December 2010, the sensitivity of the non-linked portfolio to a 50 basis points parallel shift in the yield curve assuming a similar shift in the yield used to discount the liabilities was as follows:

	31 December 2010	31 December 2009
	€m	€m
<b>Non-linked portfolio sensitivity</b>		
50 basis points increase	3.9	0.3
50 basis points decrease	(3.3)	(0.4)

New Ireland Assurance Company does not bear equity risk directly as this is borne by the unit linked policyholders. However, New Ireland Assurance Company is indirectly exposed to movements in equity markets because the management fees it receives are related to the value of assets under management. A 5% fall in equity and property markets, applied to the book at 31 December 2010, would reduce earnings by €6 million (31 December 2009: a reduction of €7 million for the same percentage decline).

Similarly, New Ireland Assurance Company bears indirect exposure to changes in exchange rates through management fees earned on non-euro unit linked funds under management. A 5% increase in the euro exchange rate against all other currencies midway through the year would reduce earnings by €4 million (31 December 2009: a reduction of €5 million for the same percentage decline).

### Derivatives

A derivative is a financial contract whose value is linked to movements in interest rates, exchange rates, equity or commodity prices or, more generally, to any objectively measured variable agreed between the parties. Derivative markets are an efficient mechanism for the transfer of risk and risk mitigation.

The Group uses derivatives to manage the market risks that arise naturally in its retail and wholesale banking activities. In addition, it transacts in derivatives with its business and corporate clients for the purpose of assisting these clients in managing their exposure to changes in interest and foreign exchange rates. Finally, the Group takes discretionary market risk in derivative markets.

The Group also uses credit derivatives, on a very limited basis, within its trading book to take exposure to specific and general credit spread movements and in its banking book to provide default protection on specific credit exposures.

Further details can be found in note 22 and the accounting policy is set out on page 207.

The Group's participation in derivatives markets is subject to policy approved by the Court and, at a more detailed level, by the GRPC. The Group makes a clear distinction between derivatives which must be transacted on a perfectly hedged basis, and those whose risks can be managed within broader interest rate or foreign exchange books. Since these books can be structured to assume some degree of discretionary market risk, derivative positions held within them will not necessarily be exactly hedged.

Discretionary market risk can only be assumed in clearly defined categories of derivatives which are traded in well established liquid markets, supported by industry standard conventions and documentation and valued in accordance with generally accepted methods. BolGM is permitted to take discretionary market risk in derivatives such as interest rate futures, bond futures, forward rate agreements, interest rate swaps, credit derivatives, forward foreign exchange and currency swaps. In addition, it is permitted to take exposure in the most widely traded option markets, principally options on futures, caps, floors, swap options (swaptions) and conventional currency options. Transactions executed in more complex derivatives are typically completed on a perfectly matched, back-to-back basis.

### Collateral support agreements

The Group has executed Collateral Support Agreements (CSAs) with its principal interbank derivatives counterparties and, as a result, a very high proportion of its total interbank derivatives book is covered by CSAs. The purpose of a CSA is to limit the potential cost of replacing derivative contracts at market prices in the event of default by the original counterparty. Under the terms of a CSA, if the aggregate market value of a set of derivative contracts between the two parties exceeds an agreed threshold figure, the party which would be exposed to loss in the event of default receives a deposit of cash or eligible securities equal to the excess aggregate value over the threshold. In BolGM's case, valuations are agreed and collateral is typically exchanged on a daily basis and in some cases weekly.

## 2.4 Life Insurance Risk

*The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 197.*

### Key Point:

- Under the terms of the Group's restructuring plan agreed with the EU, the Group has committed to dispose of its holding in New Ireland Assurance Company plc (NIAC) prior to December 2012, but will retain the distribution business in the branch network. This will reduce the Group's exposure to life insurance risk.

### Definition

Life insurance risk is defined as the volatility in the amount and timing of claims caused by unexpected change in mortality, longevity and morbidity. Mortality risk is the risk that the claim payments incurred by the business due to deaths within the portfolio of assured lives are greater than expected. Longevity risk is the risk that claim payments incurred by the business due to the rates of survival within the portfolio of annuitants are greater than expected. Morbidity risk, primarily critical illness risk, is the risk that claim payments incurred by the business due to critical illness events is greater than expected.

### Life Insurance Risk Management

Life insurance risk is underwritten and managed by NIAC, a wholly owned subsidiary of the Group. The management of insurance risk is the responsibility of the Board of NIAC. Responsibilities delegated by the Board to the Reinsurance Committee include completing a review of the reinsurance arrangements at least annually and reporting on this review to the Audit Committee of the Board. This includes a review of the panel of reinsurers that may be used and the optimal structure of its reinsurance arrangements. The Reinsurance Committee comprises of senior members of the management team with actuarial and underwriting expertise.

### Life Insurance Risk Measurement

The amount at risk on each life insurance policy is the difference between the sum assured payable on the insured event and the reserve held. Risk experience is monitored monthly. Actual claims experience is compared to the underlying risk assumptions, and risk profits and losses are reported to senior management and reflected in new business pricing and new product design.

### Life Insurance Risk Mitigation

NIAC mitigates the potential impact of insurance risk through a number of measures. These include reinsurance, underwriting, contract design and diversification.

### Life Insurance Risk Reporting

An update on the status of life insurance risk is included in the Court Risk Report which is presented to the GRPC, the CRC and the Court by the Chief Credit and Market Risk Officer.

### Future developments

Solvency II is the new supervisory regime that will apply to insurers in the EU from 2013. It is designed to facilitate the development of a single market in insurance services in Europe, whilst at the same time securing an adequate level of consumer protection.

It is a risk based system of regulation based on economic principles for the measurement of assets and liabilities. Often called 'Basel for insurers', the structure of Solvency II is somewhat similar to the banking regulations of Basel II. For example, the proposed Solvency II framework has three main areas (pillars):

- Pillar 1 consists of the quantitative requirements (for example, the amount of capital an insurer should hold);
- Pillar 2 sets out requirements for the governance and risk management of insurers, as well as for the effective supervision of insurers; and
- Pillar 3 focuses on disclosure and transparency requirements.

As part of its preparation for Solvency II, the Group has taken part in the European wide Quantitative Impact Studies and has a comprehensive plan in place to ensure compliance in advance of the required deadlines.

## 2.5 Regulatory, Compliance and Operational Risk

*The information below is additional disclosure and it does not form an integral part of the audited financial statements as described in the Basis of preparation on page 197.*

### Key Points:

- One of the key challenges during 2010 was to meet the increasing regulatory compliance requirements. The Group successfully implemented the Central Bank's codes on Mortgage Arrears and Related Party Lending.
- During 2011 the Central Bank is expected to issue new codes of practice in relation to minimum competency and consumer protection. The Group is examining the implications of these new codes and is engaged in preparatory work in advance of the codes being issued.

Regulatory, compliance and operational risk has increased over the course of the calendar year in light of industry developments and increased regulatory supervision.

Under the CIFS Scheme, the Governor and Group Chief Executive were required to sign a quarterly compliance certificate which certifies compliance with the terms and conditions of the Scheme to the Central Bank. This requirement of the CIFS Scheme ended with the quarter ended 30 September 2010.

The Minister for Finance also has significantly increased powers as part of this Scheme, including the power to appoint non-executive Directors.

The Group, in common with other covered institutions, is subject to close supervision by the Central Bank. The Central Bank has the power to appoint observers to attend the Court, the Group Risk Policy Committee (GRPC), ALCO, the Group Liquidity Committee, the Group Regulatory, Compliance and Operational Risk Committee (GRCORC), the Group Credit Committee (GCC), the Group Audit Committee (GAC) and the Court Risk Committee (CRC).

The Court oversees regulatory compliance with the extensive supervisory and regulatory regimes to which the Group is subject, principally in Ireland, the UK and the US, and the Group's operational risks, through

- risk reports presented to the GAC and the CRC – the Head of GRCOR reports to both committees semi annually;
- the Group Regulatory, Compliance and Operational Risk Committee (GRCORC), a committee appointed by the GRPC. The minutes of GRCORC meetings are made available to the GRPC and the Head of Group Regulatory, Compliance and Operational Risk reports to the GRPC semi annually; and
- a Regulatory, Compliance and Operational Risk status update included in the Court Risk Report presented to the GRPC, the CRC and the Court on a quarterly basis.



The GRCORC discharges its responsibilities principally through its meetings at which a comprehensive report on Regulatory, Compliance and Operational Risk is presented by the Group Regulatory, Compliance and Operational Risk (GRCOR) function. In addition, the Committee receives presentations from Business and Support Units concerning their particular operations and addressing the management of those risks as they arise within them. In addition the Committee determines the Top Risks (of a Regulatory, Compliance and Operational Risk nature) facing the Group.

The GRCOR function supports the GRCORC and manages the Group's risks associated with operations, regulatory compliance, data privacy, business continuity, and compliance with legislation including anti money laundering. It also reviews upstream risks in relation to regulatory, compliance and operational risk developments.

The Head of the GRCOR function is responsible for formulating and communicating the risk control framework for the management of regulatory, compliance and operational risks and for monitoring the implementation of the framework by business management across the Group. Regulatory, compliance and operational risk policies are implemented by business units, subject to monitoring and support from the GRCOR function. The GRCORC also promotes awareness of regulatory, compliance and operational risks throughout the Group.

### Regulatory and Compliance Risk

#### Definition

Regulatory and compliance risk is the risk arising from a breach of regulatory or compliance deadlines and requirements. It arises from a failure to comply with the laws, regulations or codes applicable to the financial services industry in the jurisdictions within which the Group operates. Non-compliance has adverse reputational implications and may lead to fines, public reprimands, enforced suspension of operations or, in extreme cases, withdrawal of authorisation to operate.

#### Management of Regulatory and Compliance Risk

The Group manages regulatory and compliance risk under an overall framework, which is implemented by accountable executives, monitored by the GRPC, the GAC, the CRC and the GRCORC, and supported by the GRCOR function. The effective management of regulatory and compliance risk is primarily the responsibility of business management.

The Group's regulatory and compliance practices are governed by policy formulated by the GRCORC and approved by the GRPC, on behalf of the Court. This requires the conduct of business in accordance with applicable regulations and with an awareness of regulatory and compliance risk by all employees.

The Group has established a formal approach to the management of regulatory and compliance risk and the objective is the identification, assessment, monitoring and management of regulatory and compliance risks.

Business units, divisions, and the GRCOR function undertake risk based regulatory and compliance monitoring, and annual monitoring plans are reviewed to reflect changes or emerging risks. Regulatory compliance reports from business units are analysed and reviewed by the GRCOR function and by the GRCORC.

#### Operational Risk

*The information below is additional disclosure and it does not form an integral part of the audited financial statements as described in the Basis of preparation on page 197.*

#### Definition

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) being entirely outside the control of the Group 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.

### Management of Operational Risk

The Group has established a formal approach to the management of operational risk in the form of the 'Operational Risk Management Framework' to identify, assess, monitor and manage operational risks which may impact the achievement of the Group's business objectives. It consists of:

- formulation and dissemination of the Group Operational Risk policy;
- establishment of organisational structures for the oversight, monitoring and management of operational risk throughout the Group;
- embedding the operational risk management process in business and support units throughout the Group; and
- maintenance of awareness and training of relevant staff in the operational risk management process.

The Group's exposure to operational risk is governed by policy formulated by the GRCORC and approved by the GRPC, on behalf of the Court. Policies for management of specific aspects of operational risk are approved and monitored by GRCORC.

Business units are responsible for effective implementation of the operational risk policy, and the head of each business unit provides the GRCOR function with a certificate of compliance with the requirements of the policy semi annually. In addition, the GRCOR function monitors compliance through review of management reports made available by the business units; through periodic visits to business and support functions to inspect practices and compliance with policies; and through monitoring of the nature, scale and frequency of loss events.

### Risk Mitigation

The Group implements specific policies and risk mitigation measures for key risks, including financial crime, data protection and privacy and business contingency planning risks. This strategy is further supported by risk transfer mechanisms such as the Group's insurance programme, whereby selected risks are reinsured externally.

### Risk Reporting

The Head of the GRCOR function reports to the GRCORC on the status of operational risk in the Group, including status of these key risks across the Group and progress of risk mitigation initiatives, significant loss events and the nature, scale and frequency of overall losses.

## 2.6 Business and Strategic Risk

*The information below is additional disclosure and it does not form an integral part of the audited financial statements as described in the Basis of preparation on page 197.*

### Key Points:

- Competitive pressures and margin and cost challenges have increased business risk during the year.
- The Group's strategic plan is currently under review given external developments such as PCAR / PLAR.

### Definition

Business risk is the volatility of the Group's projected outcomes (i.e. income, net worth or reputation), associated with damage to the franchise or operational economics of a Group's business and reflected in the income or net worth of the Group. It includes volatilities caused by changes in the competitive environment, new market entrants, new products or failure to develop and execute a strategy or anticipate or mitigate a related risk. Typically business risk occurs in a one year time-frame and relates to volatilities in earnings caused by changes in the competitive environment, new market entrants and / or the introduction of new products or inflexibility in the cost base. Strategic risk relates generally to a longer timeframe and pertains to volatilities in earnings arising from a failure to develop or execute an appropriate strategy.

### Risk management, measurement and reporting

The Group reviews business and strategic risk as part of the annual risk identification process. The risk is managed on a divisional basis, and measured quarterly, with a scorecard addressing moves in key indicators around income diversification, margin trends, customer advocacy, direct and indirect costs and staff turnover and engagement. Input from the Group's divisions is collated by Risk Strategy Analysis and Reporting, who liaise with Group Finance to provide an overall group context and assess the impact of changes in the environment on the Group's business plan. An update is provided quarterly in the Court Risk Report.

### Risk mitigation

The Group's main mitigants for business risk include the diversification of income streams across products, segments, business sectors and locations and good employee relations. Flexibility in cost base also helps mitigate business risk. The Group depends in part on the continued service of key members of its management team. The ability to continue to attract, train, motivate and retain highly qualified professionals is a key element of the Group's strategy.

## 2.7 Pension Risk

*The information below is additional disclosure and it does not form an integral part of the audited financial statements as described in the Basis of preparation on page 197.*

### Key point:

- The Group has carried out an extensive review of its pension schemes to address the pension deficit, and has implemented a series of benefit reductions which have delivered a reduction of approximately 50% of the IAS 19 deficit at 31 December 2009. In addition to existing cash contributions, the Group expects to make discretionary cash contributions to the schemes so as to eliminate the remaining IAS 19 deficit (approximately 50% as at 31 December 2009) over approximately six years.

### Definition

Pension risk is the risk that the assets in the Group's defined benefit pension schemes fail to generate returns that are sufficient to meet the schemes' liabilities and the sponsor makes up the shortfall, or a significant part of it. This risk crystallises when a deficit emerges of a size which implies a material probability that the liabilities will not be fully met.

### Risk management, measurement and reporting

The Group maintains a number of defined benefit pension schemes for past and current employees. The Group's net IAS 19 pension deficit at 31 December 2010 was €424 million (31 December 2009: €1.6 billion). During the year the Group carried out a comprehensive review of all aspects of its pension provision. A number of changes were made to pension benefits, with the result that the liabilities of the schemes reduced giving rise to a reduction of approximately 50% of the IAS 19 deficit as at 31 December 2009.

The investment policy pursued to meet the Scheme's estimated future liabilities is a matter for the Trustees and the Scheme's Investment Committee. The Group, as sponsor, is afforded an opportunity to communicate its views on investment strategy to the Trustees and receives regular updates including scenario analysis of pension risk. The GRPC reviews pension risk and the Court is informed quarterly of the GRPC's risk deliberations through a review of the GRPC proceedings and through the Court Risk Report.

### Risk mitigation

In order to mitigate pension risk, a new scheme was introduced in 2006 for all new entrants which adjusted terms for new members (see note 45). In 2010, the Group carried out an extensive pensions review exercise in order to address the pension deficit by a combination of benefits restructuring and additional employer contributions over a period of time. To date, the Group has received in excess of 99% acceptance from individual active members of five of its pension schemes, including the main Bank Staff Pensions Fund, to a series of benefit reductions which have delivered a reduction of approximately 50% in the total deficit across all schemes relative to the 31 December 2009 IAS 19 deficit position. As the proposals have been accepted by staff and have been implemented, the Group expects to make discretionary cash contributions, in addition to existing cash contributions, to the schemes so as to eliminate the remaining approximately 50% of the IAS 19 deficit as at 31 December 2009 over approximately six years.

## 2.8 Reputation Risk

*The information below is additional disclosure and it does not form an integral part of the audited financial statements as described in the Basis of preparation on page 197.*

### Key point:

- The reputation of the Group continues to be negatively impacted by the ongoing financial crisis. Against this negative backdrop, the Group continually strives to be positively differentiated from other banks operating in the markets where we do business.

### Definition

Reputation risk is defined as the risk of loss / volatility of earnings arising from adverse perception of the Group's image on part of the customers, suppliers, counterparties, stockholders, investors and regulators. This risk typically materialises through a loss of business in the areas affected.

The Group uses business and management processes to manage this risk.

### Risk management, measurement and reporting

Group Communications is the primary function responsible for managing reputation risk. It includes all external and internal communications, public affairs and corporate responsibility, helping to reinforce the Group's reputation with its employees, customers, government, general public and the wider community.

Reputation risk indicators are tracked on an ongoing basis. These indicators include external market conditions and risk events which may have the potential to impact reputation.

The Group reviews reputation risk as part of the annual risk identification process. Quarterly updates are reported to the GRPC, the CRC and the Court as part of the Court Risk Report.

### Risk mitigation

A wide range of processes and structures are used to identify, assess and mitigate the potential risk to the Group's reputation. Managing the Group in a manner that ensures that the potential impact on the Group's reputation is taken into account in decision making is paramount in mitigating against reputation risk.

## 3. Capital Management

*The information below is additional disclosure and it does not form an integral part of the audited financial statements as described in the Basis of preparation on page 197.*

### Key Points:

- In September 2010 the Group completed the 2010 Capital Raising. This capital initiative generated net additional equity for the Group of €3 billion (including ordinary stock issued in September 2011 as part of the debt for equity element of the capital raise). See page 37 to 38 of the Operating and Financial Review for further details on Capital Management;
- The Group completed a number of liability management exercises during the twelve month period ended 31 December 2010 which generated a gain to Equity tier 1 of €1.4 billion;
- A number of stress tests and prudential capital adequacy reviews were conducted by the Central Bank and CEBS during the year;
- Following the results of 2011 PCAR, the Group needs to generate / raise incremental equity capital of €4.2 billion including a regulatory buffer of €0.5 billion. In addition €1.0 billion of contingent capital is also required via the issue of a debt instrument which under certain circumstances would convert to equity capital; and
- On a proforma basis at 31 December 2010, these portfolios are estimated at approximately €39 billion of loans and advances to customers and represent approximately €22 billion of credit risk weighted assets.

*The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 197.*

### Capital Management Objectives and Policies

The objectives of the Group's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Group has sufficient capital to cover the risks of its business and support its strategy. It seeks to minimise refinancing risk by managing the maturity profile of non-equity capital whilst the currency mix of capital is managed to ensure that the sensitivity of capital ratios to currency movements is minimised.

The capital adequacy requirements set by the Central Bank are used by the Group as the basis for its capital management. These requirements set a floor under which capital levels must not fall. The Group seeks to maintain sufficient capital to ensure that even under stressed conditions these requirements are met.

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The EU Capital Requirements Directive (CRD) came into force on 1 January 2007 and is divided into three sections commonly referred to as Pillars.

Pillar I introduced the Internal Ratings Based Approach (IRBA) which permits banks to use their own internal rating systems to calculate their capital requirements for credit risk. Use of IRBA is subject to regulatory approval. Where credit portfolios are not subject to IRBA, the calculation of the minimum capital requirements is subject to the Standardised Approach.

Pillar II of the CRD deals with the regulatory response to the first pillar whereby banks undertake an Internal Capital Adequacy Assessment Process (ICAAP) which is then subject to supervisory review.

Pillar III of the CRD (Market Discipline) involves the disclosure of a range of qualitative and quantitative information relating to capital and risk. The Group most recently disclosed this information on 18 June 2010.

The CRD also introduced a requirement to calculate capital requirements, and to set capital aside, with respect to operational risk. The Group is also required to set capital aside for market risk.

The Group also considers other methodologies of capital metrics used by rating agencies. Separately it also calculates economic capital based on its own internal models.

The Group stress tests the capital held to ensure that under stressed conditions, it continues to comply with regulatory minimum ratios.

*The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 197.*

### Capital resources

The following table sets out the Group's capital resources.

	31 December 2010	31 December 2009
	€m	€m
<b>Group capital resources</b>		
Equity (including other equity reserves)	7,326	6,345
Non-cumulative preference stock	25	42
Non-controlling interests – equity	56	50
Undated subordinated loan capital	769	1,521
Dated subordinated loan capital	2,006	4,532
<b>Total capital resources</b>	<b>10,182</b>	<b>12,490</b>

In the twelve month period ended 31 December 2010 the Group's total capital resources reduced by €2.3 billion to €10.2 billion due primarily to:

- the underlying\* loss after tax arising during the twelve month period ended 31 December 2010 driven by impairment charges on loans and advances to customers and losses incurred on sale of assets to NAMA;
- offset by
- the 2010 Capital Raising initiatives which increased equity by €1.3 billion (net of 2009 (NPRFC) preference stock converted to ordinary stock);
  - a series of liability management exercises of subordinated debt securities which generated an equity gain of €1.4 billion (offset by a reduction in subordinated capital of €2.4 billion);
  - a gain of €0.7 billion arising due to the pension benefit changes;
  - a gain of €0.4 billion due to changes in actuarial assumptions in the defined benefit pension schemes;
  - a gain of €0.4 billion on the credit spreads movement on the Group's own debt and deposits accounted for at 'fair value through profit or loss'; and
  - the redemption of €0.75 billion of subordinated debt securities.

*\*Underlying excludes the impact of non-core items (see page 16).*

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### Regulatory Initiatives and Capital Stress Testing

#### March 2010 Prudential Capital Assessment Review

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

The PCAR was undertaken with reference to:

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

As announced on 30 March 2010, the outcome of this review was that the Central Bank determined that the Group needed to raise an additional €2.66 billion of equity capital by 31 December 2010 to comply with the PCAR. This requirement was exceeded following the successful completion of the capital raising initiatives for the Group which generated net additional equity capital of €3 billion.

#### July 2010 CEBS stress test

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

The objective of the stress test, which was conducted on a bank by bank basis across 91 banks, was to assess the overall resilience of the EU banking sector and the banks ability to absorb further possible shocks on credit and market risks including sovereign risks. Bank of Ireland passed the stress test. Under the adverse scenario including the additional sovereign shock, Bank of Ireland's estimated Tier 1 capital ratio would be 7.1% at 31 December 2011 which is 1.1% or €933 million in excess of the threshold of 6% Tier 1 capital ratio agreed exclusively for the purpose of this exercise.

#### September 2010 PCAR update

On 30 September 2010 the Minister for Finance announced a change in the NAMA eligibility criteria such that where the total exposure of a customer was below €20 million, that customer's loans would not be transferred to NAMA, thus facilitating the completion of all NAMA transfers by 31 December 2010. The threshold had previously been set at €5 million. In addition the Minister stated that it was now 'possible for NAMA to forecast with confidence the final overall discount to be applied to the remaining tranches of loans'. The Central Bank confirmed on 30 September 2010 that the Group had sufficient capital to meet the PCAR standard (including the buffer set by the Central Bank for the non-NAMA portfolio) recognising the change in threshold and estimated NAMA haircuts announced by the Minister.

#### November 2010 PCAR update

On 28 November 2010 the Irish Government announced the details of the programme for support agreed with EU/IMF. As part of this programme the Central Bank announced a series of measures with the objectives of (a) achieving a reconfiguration and downsizing of the banks thereby putting the Irish banking system on a secure footing and (b) achieving a significant strengthening of the capital position of the Irish banking sector.

As a consequence the Central Bank set a new minimum capital requirement for the Group of 10.5% Core tier 1. The Central Bank also required the Group to generate / raise additional equity capital amounting to €2.199 billion in order to achieve a capital ratio of at least 12% Core tier 1 by the 28 February 2011. This was superseded by the outcome of the 2011 PCAR.

**2011 PCAR update**

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 proforma Core tier 1 ratio estimated to exceed 15% at 31 December 2010.

The equity capital requirement has been 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;
- not withstanding that the land and development loans of the Group where an individual customer / sponsor exposure less than €20 million at 31 December 2010 are 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 is 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 conducting a stress test on a wide sample of banks (including the Group) in the first half of 2011. This exercise is being undertaken in coordination with national supervisory authorities, the ESRB, the European Central Bank (ECB) and the European Commission.

The Group is subject to this test and the exercise is being carried out between March 2011 and June 2011. After a series of national supervisory authority reviews all results will be submitted centrally to the EBA. These results will undergo an extensive quality control and peer review process that will involve further interaction with national supervisory authorities and relevant banks as appropriate. The final set of results will be reviewed by the EBA's Board of Supervisors before expected publication in June 2011.

The stress test is one of a range of supervisory tools used for assessing the resilience of individual financial institutions as well as the overall resilience of the system. The exercise is conducted on a bank-by-bank basis and the objective of the stress test is to assess the resilience of the EU banking system, and the specific solvency of individual financial institutions, to hypothetical stress events under certain restrictive conditions imposed by supervisors.



## Regulatory capital and key capital ratios

The following table outlines the components of the Group's regulatory capital together with key capital ratios at 31 December 2010 and 31 December 2009.

	31 December 2010 €m	31 December 2009 €m
Share capital and reserves	7,407	6,437
Regulatory retirement benefit obligation adjustment	424	1,632
Available for sale reserve and cash flow hedge reserve	1,063	1,118
Goodwill and other intangible assets	(435)	(488)
Preference stock and warrants	(1,877)	(3,521)
Other adjustments	(782)	80
<b>Equity tier 1 capital</b>	<b>5,800</b>	<b>5,258</b>
Preference stock	60	59
2009 Preference stock and warrants	1,817	3,462
<b>Core tier 1 capital</b>	<b>7,677</b>	<b>8,779</b>
Hybrid instruments (undated, without incentive to redeem)	299	752
Hybrid instruments (dated or incentive to redeem)	280	574
Supervisory deductions	(580)	(454)
<b>Tier 1 capital</b>	<b>7,676</b>	<b>9,651</b>
Undated loan capital	183	225
Dated loan capital	2,018	3,716
IBNR provisions	174	772
Revaluation reserves	14	40
Supervisory deductions	(580)	(454)
Other adjustments	54	11
<b>Tier 2 capital</b>	<b>1,863</b>	<b>4,310</b>
<b>Total capital before supervisory deductions</b>	<b>9,539</b>	<b>13,961</b>
<b>Supervisory deductions</b>		
Life business	(816)	(797)
<b>Total capital</b>	<b>8,723</b>	<b>13,164</b>
<b>Risk weighted assets (RWA) – Basel II Risk Weighted Assets</b>		
Credit risk	71,403	89,785
Market risk	1,964	2,133
Operational risk	5,678	6,415
<b>Total risk weighted assets</b>	<b>79,045</b>	<b>98,333</b>
<b>Key Capital Ratios</b>		
Equity tier 1 capital ratio (Core tier 1 less Preference Stock)	7.3%	5.3%
Core tier 1 capital ratio	9.7%	8.9%
Tier 1 capital ratio	9.7%	9.8%
Total capital ratio	11.0%	13.4%



Risk Weighted Assets at 31 December 2010 of €79 billion are €19 billion lower than the Risk Weighted Assets of €98 billion at 31 December 2009. This decrease is mainly due to a reduction in the quantum of loans and advances to customers (see section 1.4.2), the impact of the sale of loans to NAMA during the twelve month period ending 31 December 2010 (see sections 1.3.8 and 1.4.3), the impact of the higher level of impaired loans and the increased impairment provisions at 31 December 2010 as compared to 31 December 2009 together with a series of RWA optimisation initiatives partly offset by the impact of a stronger sterling exchange rate.

The Equity tier 1 ratio at 31 December 2010 of 7.3% compares to 5.3% at 31 December 2009. The increase in the ratio is primarily as a result of the capital generating initiatives that were completed during 2010 and the reduction in RWA, partly offset by the loss after tax incurred during the twelve month period ended 31 December 2010.

The Core tier 1 ratio at 31 December 2010 of 9.7% compares to 8.9% at 31 December 2009. The increase in the ratio is primarily as a result of the net capital generating initiatives that were completed during 2010 and the reduction in RWA, partly offset by the loss after tax incurred during the twelve month period ended 31 December 2010.

The Tier 1 ratio at 31 December 2010 of 9.7% compares to 9.8% at 31 December 2009. The reduction in the ratio is primarily due to the loss after tax incurred during the twelve month period ended 31 December 2010, the increase in the expected loss adjustment at 31 December 2010 as compared with 31 December 2009 and the net reduction in subordinated liabilities due to the liability management exercises completed during the twelve month period ended 31 December 2010, partly offset by the additional Core tier 1 capital generated during 2010 and the reduction in RWA at 31 December 2010 as compared to 31 December 2009.

The Total capital ratio at 31 December 2010 of 11.0% compares to 13.4% at 31 December 2009. The reduction in the ratio is primarily due to the loss after tax incurred during the twelve month period ended 31 December 2010, the increase in the expected loss adjustment at 31 December 2010 as compared with 31 December 2009 and the net reduction in subordinated liabilities due to the liability management exercises completed during the twelve month period ended 31 December 2010, partly offset by the additional Core tier 1 capital generated during 2010 and the reduction in RWA at 31 December 2010 as compared to 31 December 2009.

The Group's regulatory capital includes the Group's Stockholders' funds (which includes €1.8 billion 2009 Preference Stock issued to the National Pension Reserve Fund Commission) together with undated and dated subordinated liabilities with appropriate regulatory adjustments and deductions applied.

Regulatory adjustments applied to the Core tier 1 capital include replacing the IAS 19 pension deficit with deductions of either three or five years supplementary contributions as appropriate, excluding AFS reserves and cash flow hedge reserves from Core tier 1 capital and also deducting goodwill and other intangible assets from Core tier 1 capital.

The adjustments applied in respect of Tier 1 capital and Tier 2 capital, taken equally from Tier 1 capital and Tier 2 capital, include a deduction with respect to the difference between expected losses and actual provisions on Internal Ratings Based Approach (IRBA) portfolios, first losses on securitisations and investments in financial services companies (other than Bank of Ireland Life) which are excluded from the Group consolidation. IBNR provisions on standardised portfolios are included in Tier 2 capital. An adjustment is applied to Total capital in respect of the Group's investment in Bank of Ireland Life.

# Corporate Governance Statement

The Court of Directors is accountable to stockholders for the overall direction and control of the Group. It is committed to high standards of governance designed to protect the interests of stockholders and all other stakeholders while promoting the highest standards of integrity, transparency and accountability.

The Court's role is to provide leadership of the Group within a framework of prudent and effective controls which enable risk to be assessed and managed. The Court sets the Group's strategic aims, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives and review management performance.

In response to the stressed position in which the Group found itself, the Court initiated a fundamental review of risk governance within the Group in early 2009, supported by independent risk consultants, Oliver Wyman. All of the recommendations of the review group have been addressed and are being implemented. Increased Court oversight of risk continues to be enabled through the Court Risk Committee, whose membership is drawn exclusively from non-executive Directors, to monitor risks arising in the Group. The Court Risk Committee also assists the Court in discharging its responsibilities of ensuring that risks are properly identified, reported and assessed, properly controlled, and that strategy is informed by and aligned with the Group's risk appetite.

A key objective of the Group's governance framework is to ensure compliance with applicable legal and regulatory requirements. With effect from 1 January 2011, the Group is subject to the Irish Central Bank's Corporate Governance Code for Credit Institutions and Insurance Undertakings (the 'Irish Code' which is available on [www.centralbank.ie](http://www.centralbank.ie)). The Directors believe that the Group complied with the Combined Code throughout 2010, otherwise than as set out below. Specifically, the Group has complied with the provisions of the Combined Code throughout the year ended 31 December 2010, except (i) in the case of Tom Considine's membership of the Group Audit Committee and Joe Walsh's membership of the Group Remuneration Committee – see comments on independence on page 153 and; (ii) that the Annual General Court of the Bank held on 19 May 2010 was convened on 21 calendar days' notice, instead of 20 working days' notice. The shorter notice period for the Annual General Court (which complied with the Bank's Byelaws) was necessary to facilitate the holding of an Extraordinary General Court (for which a shorter notice period was required) on the same day as the Annual General Court. For the financial year beginning 1 January 2011 and thereafter, except for item (i) above, the Group is committed to ensuring compliance with the UK Corporate Governance Code (the 'UK Code' formerly the Combined Code), which will apply to the Group from 1 January 2011, a copy of which is available on [www.frc.org.uk](http://www.frc.org.uk). The Group is also committed to ensuring compliance with the Irish Corporate Governance Annex to the UK Code issued by the Irish Stock Exchange on 18 December 2010.

In August 2010, the Irish Central Bank formally requested that the Group engage a suitably qualified and independent firm to conduct a review of its governance and risk management arrangements. This review formed part of the programme set out by the Central Bank in a document titled '*Banking supervision: our new approach*', published on 21 June 2010.

One of the items covered was corporate governance arrangements. A Central Bank-approved top tier external advisor ('External Advisor') was appointed to carry out this review. The External Advisor presented its conclusions to the Central Bank and the Group in December 2010, which were as follows: 'BOI is broadly aligned with governance best practices. The form of BOI governance complies with best practice guidelines. We have also found no evidence that there are any major weaknesses in terms of how governance is 'lived' at BOI. Finally, when comparing BOI with benchmarks, we found its governance to be broadly in line with international banking peers, and Board effectiveness to be better.'

The External Advisor identified certain areas for possible improvements, which have been considered by the Court. The Court has either addressed or is in the process of addressing these areas on the basis of their materiality and impact.

As a result, the Group believes it has robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed, adequate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls. The system of governance is subject to regular internal review.

## The Court of Directors

At 31 December 2010, the Court consisted of 14 Directors, 10 of whom were non-executive Directors.

The composition of the Court is reviewed by the Group Nomination and Governance Committee and the Court to ensure that there is an appropriate mix of skills and experience. In doing so, the Court aims to appoint non-executive Directors who have the skills and experience needed for a comprehensive understanding of the Group's activities and the risks associated with them. Specifically, the current size of the Court is driven by the Code requirement that at least half the board, excluding the Chairman, should comprise independent non-executive Directors.

The Court held 11 scheduled and 16 unscheduled meetings during the year ending on 31 December 2010. Agendas and papers are circulated prior to each meeting to provide the Directors with relevant information to enable them to discharge fully their duties. The Group Secretary provides dedicated support for Directors on any matter relevant to the business on which they require advice separately from or additional to that available in the normal Court process.

The Court has the following schedule of matters specifically reserved for its decision, which is reviewed and updated regularly:

- The determination of strategy;
- Reviewing and agreeing company values with management;
- Overseeing the management of the business, including control systems and risk management;
- Overseeing corporate governance and succession planning;
- Approving material acquisitions and disposals;
- Approving capital expenditure (in excess of €40 million);
- Approving guarantees entered into by the Group, other than in the normal course of business; and
- Approving changes in Group pension schemes.

At its meetings in 2010, the Court considered the implementation of Group Strategy in the context of Government support for the Group, the recapitalisation of the Group which occurred in 2010 and the evolving capital and liquidity position throughout 2010. It received and considered reports from each of the principal Court Committees and reports from the Group Secretary on relevant corporate governance matters.

Details of the number of scheduled meetings of the Court and its Committees and attendance by individual Directors are set out on pages 158 and 159. The terms of reference of the Committees are reviewed annually by the relevant Committees and by the Court and are available on the Bank's website ([www.bankofireland.com](http://www.bankofireland.com)) or by request to the Group Secretary. The Chairman and the non-executive Directors meet at least once annually without the Executive Directors present to appraise management.

The Bank has in place Directors' and Officers' liability insurance in respect of legal actions against its Directors; however this insurance cover does not extend to fraudulent or dishonest behaviour.

Patrick J Molloy was elected to the Court at the Annual General Court held on 19 May 2010, having been co-opted to the Court on 10 June 2009.

Patrick Kennedy was co-opted to the Court on 6 July 2010. Declan McCourt and Terence Neill retired as non-executive Directors on 19 May 2010.

All of the other Directors who stood for re-election were re-elected at the Annual General Court in May 2010.

The Group will ensure that individual Directors of the Court have sufficient time to dedicate to their duties, having regard to the limits on the number of directorships held by any individual Director as set out in the Irish Code within the Transitional Arrangements timeframes set out in the Irish Code.

### Governor and Group Chief Executive

The respective roles of the Governor, who is Chairman of the Court, and the Group Chief Executive are set out in writing and have been agreed by the Court. The Governor oversees the operation and effectiveness of the Court of Directors. He also ensures that there is effective communication with stockholders and promotes compliance with the highest standards of corporate governance. The Governor commits a substantial amount of time to the Group and his role has priority over any other business commitment.

The Group Chief Executive is responsible for execution of agreed strategy and holds delegated authority from the Court for the day to day management of the business. The Group Chief Executive's contract is reviewed regularly and it was reviewed during the year.

### Board Balance and Independence

The Court has considered the principles relating to independence contained in the Irish Code and the Combined Code. The Court has determined that the Governor, Deputy Governor and each current non-executive Director, with the exception of Tom Considine and Joe Walsh, is independent within the meaning of the Combined Code. Tom Considine and Joe Walsh were nominated by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Scheme, 2008 and are not required to stand for election or regular re-election by stockholders. They are not, therefore, considered independent by reference to the terms of the Irish Code and the Combined Code. The Court values and benefits from their judgement and the quality of their contribution to the deliberations of the Court and its Committees. Each of the Governor, Deputy Governor and all of the non-executive Directors bring independent challenge and judgement to the deliberations of the Court through their character, objectivity and integrity and all are considered independent of management in accordance with the criteria set out in the NYSE Corporate Governance Standards.

### Credit Institutions (Stabilisation) Act 2010

The Credit Institutions (Stabilisation) Act 2010 (the Stabilisation Act) has given the Minister for Finance, for a period of two years, extensive powers regarding the affairs, assets and liabilities of certain covered financial institutions in Ireland, including the Bank. In particular, Section 48 of the Stabilisation Act imposes a duty on the Directors of the Bank to align the activities of the Bank and the duties and responsibilities of the Directors, officers and employees of the Bank, with the public interest and the other purposes of the Stabilisation Act (as set out in Section 4 of the Stabilisation Act). This duty is owed by the Directors to the Minister, on behalf of the State, and takes priority over any other duty of the Directors. For further information on the Stabilisation Act, please see note 56 (a).

### Appointments to the Court and role of Nomination and Governance Committee

The Group Nomination and Governance Committee is chaired by the Governor and its composition is fully compliant with the Irish Code and the Combined Code. The Committee is responsible for leading the process for succession to the position of Group Chief Executive and positions on the Court and overseeing the selection process for key subsidiary Board non-executive appointments and renewals.

In addition to reviewing the size and composition of the Court, the Committee is also responsible for reviewing the balance on the Court and its principal Committees and recommending the appointment of any new Directors to the Court. The Committee regularly reviews succession plans for the Court in the context of the Group's strategy and the skills, knowledge and experience of current Directors and makes appropriate recommendations to the Court. The Court is responsible for the appointment of Directors (with the exception of the two Government nominated Directors). Prior to the appointment of a Director, the Committee approves a job specification, assesses the time commitment involved and identifies the skills and experience required for the role. The recruitment process for non-executive Directors is supported by an experienced third party professional search firm which develops an appropriate pool of candidates and provides a level of independent assessment to the process. The Group then works with that firm to shortlist candidates, conduct interviews / meetings and complete comprehensive due diligence, including satisfying itself as to the candidates' independence and to assess and document its consideration of possible conflicts of interests. Appointments will not proceed where conflicts emerge which are significant to the overall work of the Board.

The Court benefits from the diverse range of skills, knowledge and experience acquired by the non-executive Directors as Directors of other companies, both national and international, or as business leaders in the public and private sectors. The effectiveness of the Court depends on ensuring the right balance of Directors with banking or financial services experience and broader commercial experience.

All newly appointed Directors are provided with a comprehensive letter of appointment detailing their responsibilities as Directors, the terms of their appointments and the expected time commitment for the role. A copy of the standard terms and conditions of appointment of non-executive Directors can be inspected during normal business hours by contacting the Group Secretary.

Directors are required to devote adequate time to the business of the Group, which includes attendance at regular briefings and meetings, preparation time for meetings and visits to business units. In addition, non-executive Directors are normally required to sit on at least one Committee of the Court, which involves the commitment of additional time. Certain non-executive Directors, such as the Deputy Governor and Committee Chairmen are required to allocate additional time in fulfilling those roles.

In addition, the Committee, with the support of the Group Secretary, monitors developments in corporate governance, assesses the implications of such developments for the Group and advises the Court accordingly. It is also charged with overseeing the Group's Corporate Responsibility Programme.

#### Information and Professional Development

On appointment, all non-executive Directors receive comprehensive briefing documents designed to familiarise them with the Group's operations, management and governance structures; these include the functioning of the Court and the role of the key committees. In addition, new non-executive Directors undertake an induction programme, including visits to or presentations by Group businesses and briefings with senior management. On an ongoing basis, briefings appropriate to the business of the Group are provided to all non-executive Directors.

A skills profile assessment has been conducted to ensure that the non-executive Directors have the relevant skills and experience to carry out their duties and that the Court as a whole has the full range of skills and experience required to discharge its responsibilities.

The Directors have access to the advice and services of the Group Secretary, who is responsible for advising the Court on all governance issues and for ensuring that the Directors are provided with relevant information on a timely basis to enable them to consider issues for decision and to discharge their oversight responsibilities. The Directors also have access to the advice of the Group Legal Adviser and to independent professional advice, at the Group's expense, if and when required. Committees of the Court have similar access and are provided with sufficient resources to undertake their duties.

Directors are aware that, should they have any material concern about the overall corporate governance of the Group, it should be reported without delay to the Board and, should their concerns not be satisfactorily addressed within 5 business days, the Directors should report the concern to the Central Bank of Ireland.

In order to ensure the Directors continue to further their understanding of the issues facing the Group, Directors are provided with training sessions and briefings on technical matters. During the year ended 31 December 2010, Directors participated in a number of training modules including: Capital Management, Market Risk, Operational and Regulatory Risk, Stress Testing and Credit Processes. Directors are also offered the option of attending suitable external events or conferences designed to provide an overview of current issues of relevance to Directors.

#### Performance Evaluation

Each Committee of the Court reviews its performance and discusses its conclusions with the Court. The Court evaluates its own performance annually and also reviews the conclusions of the Group Nomination and Governance Committee in relation to the performance of individual Directors standing for election or re-election. The objective of all these evaluations is to review past performance and identify any scope for improvement and, in the case of the individual evaluations, to determine whether each Director continues to contribute effectively and to demonstrate commitment to the role.

The Court and individual Director performance evaluation processes involve completion of questionnaires by Directors, one to one discussions between the Governor and each Director and presentation of the overall findings to the Court for its consideration and action as required. The questionnaires seek to establish whether each individual contributed effectively and demonstrated commitment to the role and whether the Court as a whole is effective in discharging its responsibilities. The evaluation covered the following areas:

- Strategy and performance objectives
- Board composition and competence
- Information flows
- Risks and controls
- Decision-making process
- Court meetings
- Court Committees

As part of the overall performance evaluation process, each Director completes an assessment questionnaire and meets individually with the Senior Independent Director, to appraise the Governor's performance. The Senior Independent Director presents the results of these assessments for discussion with the Directors, without the Governor being present. He then meets the Governor to present him with the Court's conclusions on his effectiveness. The Senior Independent Director may also meet individual Directors on such other occasions as are deemed appropriate.

The Court has agreed to have external facilitation of the evaluation process every three years.

### Re-Election of Directors

Non-executive Directors are normally appointed for an initial three year term, with an expectation of a further term of three years, assuming satisfactory performance. A non-executive Director is not normally expected to serve any longer than two terms. All Directors, except those nominated to the Court by the Minister for Finance, are appointed subject to re-election by shareholders. In line with emerging corporate governance practice, since the Annual General Court in 2009, all Directors who have sought re-election (other than Mr. Tom Considine and Mr. Joe Walsh, who were nominated to the Court by the Minister for Finance) have done so on an annual basis. In the case of Tom Considine and Joe Walsh, the requirement to stand for election and regular re-election is dispensed with for as long as the NPRFC's investment in the Bank remains in place.

In respect of Executive Directors, no service contract exists between the Bank and any Director which provides for a notice period from the Group of greater than one year. None of the non-executive Directors has a contract of service with the Group.

### Remuneration

The Remuneration Report, incorporating the responsibilities of the Group Remuneration Committee, is set out on pages 173 to 184.

A statement confirming that remuneration consultants appointed by the Group Remuneration Committee have no other remuneration consultancy connections with the Group is available on the Group's website ([www.bankofireland.com](http://www.bankofireland.com)) or by request to the Group Secretary. During the financial year, the remuneration consultants provided corporate recovery services, regulatory and risk focused advisory services and IT consulting services. The Group's historic long term incentive schemes have been approved by stockholders.

### Directors' Loans

The Companies Acts, IAS 24 and a condition imposed on the Bank's licence by the Central Bank (formerly the Irish Financial Services Regulatory Authority) on 11 August 2009 require the disclosure in the Annual Report of information on transactions between the Bank and its Directors and their connected persons. The amount of outstanding loans to Directors (and relevant loans to connected persons) is set out on page 298.

A condition imposed on the Bank's licence by the Central Bank on 20 May 2010 requires the Bank to maintain a register of loans to Directors and relevant loans to their connected persons, which is updated quarterly and is available for inspection by shareholders on request for a period of one week following quarterly updates.

An enhanced process to ensure that the Group complies with the Central Bank Code of Practice on Lending to Related Parties has been in place since 1 January 2011. This includes the establishment of a Related Party Lending Committee of the Court, which is authorised to review and approve lending to Related Parties as defined in the Code.

### Accountability and Audit

The Report of the Directors, including a going concern statement, is set out on pages 197 to 199. The Corporate Governance Statement forms part of the Report of the Directors.

### Internal Controls

The Directors acknowledge their overall responsibility for the Group's systems of internal control and for reviewing their effectiveness.

Such systems are designed to control, rather than eliminate, the risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement or loss. Such losses could arise because of the nature of the Group's business in undertaking a wide range of financial services that inherently involves varying degrees of risk.



The Court has obligations as a non-US registrant under US securities laws and regulations, including the requirement to comply, where applicable, with the Sarbanes-Oxley Act of 2002 (SOx). The Group has put in place a comprehensive framework to document and test its internal control structures and procedures in line with the requirements of Section 404 of SOx, which requires, among other things, certification by management regarding the effectiveness of internal controls over financial reporting. The Group's overall control systems include:

- a clearly defined organisation structure with defined authority limits and reporting mechanisms to higher levels of management and to the Court, which support the maintenance of a strong control environment;
- Court and Management Committees with responsibility for core policy areas;
- a comprehensive set of policies and procedures relating to financial controls, asset and liability management (including interest rate, foreign currency and liquidity risk), operational risk and credit risk management (further details are given in the Risk Management section on pages 89 to 150); such procedures include the annual preparation of detailed operational budgets for the following year and projections for subsequent years;
- monthly reporting by business units which enables progress against business objectives to be monitored, trends to be evaluated and variances to be acted upon by the Court and relevant subsidiary boards;
- regular meetings, prior to each Court or relevant subsidiary board, of the senior management teams, where the executive Directors and other senior executives responsible for running the Group's businesses, amongst other matters, review performance and explore strategic and operational issues;
- reconciliation of data, consolidated into the Group's financial statements, to the underlying financial systems. A review of the consolidated data is undertaken by management to ensure that the true position and results of the Group are reflected, through compliance with approved accounting policies and the appropriate accounting for non-routine transactions; and
- a Code of Conduct setting out the standards of behaviour expected of all Directors, officers and employees. This covers arrangements, should the need arise, for the independent investigation and follow up of any concerns raised by staff regarding matters of financial and non-financial reporting.

The Group operates a comprehensive internal control framework over financial reporting with documented procedures and guidelines to support the preparation of the consolidated financial statements. The main features are as follows:

- a comprehensive set of accounting policies relating to the preparation of the annual and interim financial statements in line with International Financial Reporting Standards as adopted by the European Union;
- the Sarbanes-Oxley compliance process ensures that the Group has appropriately designed internal controls to mitigate the financial reporting risks. Group Internal Audit has overall responsibility for this testing process and providing objective assurance to management and the Group Audit Committee on the operating effectiveness of the controls;
- a co-ordinated and structured set of key financial controls for each material process at Business unit and Group level;
- a robust control process is followed as part of interim and annual financial statements preparation, involving the appropriate level of management review and attestation of the significant account line items, and where judgements and estimates are made they are independently reviewed to ensure that they are reasonable and appropriate. This ensures that the consolidated financial information, required for the interim and annual financial statements is presented fairly and disclosed appropriately;
- the Annual Report is also subject to detailed review and approval through a structured governance process involving senior and executive finance personnel;
- summary and detailed papers are prepared for review and approval by the Group Audit Committee covering all significant judgmental and technical accounting issues together with any significant presentation and disclosure matters; and
- user access to the consolidation of the financial reporting system is restricted to those individuals that require it for their assigned roles and responsibilities.

These controls, which are embedded within the operations of the Group, are reviewed by Group Internal Audit. In these reviews, emphasis is focused on areas of greater risk as identified by risk analysis.

The Directors confirm that the Court, through its Committees, has reviewed the effectiveness of the Group's systems of internal control for the twelve month period ended 31 December 2010. This review involved consideration of the reports of internal audit and the risk management functions, (including operational risk, regulatory risk and compliance) and establishing that appropriate action is being taken by management to address issues highlighted. In addition, any reports of the external auditors, which contain details of any material control issues identified arising from their work, are reviewed by the Group Audit Committee, if they arise. After each meeting of the Group Audit Committee, its Chairman reports to the Court on all significant issues considered by the Committee and the minutes of meetings are circulated to all members of the Court.

Following the twelve month period ended 31 December 2010, the Court reviewed the Group Audit Committee's conclusions in relation to the Group's systems of internal control and the appropriateness of the structures in place to manage and monitor them. This process involved a confirmation that a system of internal control in accordance with the Financial Reporting Council Revised Guidance on Internal Control was in place throughout the year and up to the date of the signing of these financial statements. It also involved an assessment of the ongoing process for the identification, evaluation and management of individual risks and of the roles of the various Committees and Group risk management functions and the extent to which various significant challenges facing the Group are understood and are being addressed.



## Attendance at scheduled meetings of the Court during the period ended 31 December 2010

Name	Court Scheduled		Court Unscheduled		Group Audit Committee Scheduled		Group Audit Committee Unscheduled	
	A	B	A	B	A	B	A	B
Richie Boucher	11	11	16	16	-	-	-	-
Tom Considine	11	11	16	16	7	7	7	7
Des Crowley	11	11	16	16	-	-	-	-
Denis Donovan	11	11	16	15	-	-	-	-
Paul Haran	11	11	16	13	7	7	7	7
Dennis Holt	11	11	16	13	-	-	-	-
Rose Hynes <i>(Resigned from GAC 22 June 2010. Appointed to N&amp;G on 22 June 2010. Appointed to Rem Com 19 May 2010)</i>	11	11	16	15	3	2	7	6
Jerome Kennedy <i>(Appointed to Rem Com 21 September 2010)</i>	11	11	16	15	7	7	7	7
Patrick Kennedy <i>(Appointed 6 July 2010)</i>	5	5	4	4	-	-	-	-
Patrick Molloy	11	11	16	16	-	-	-	-
Declan McCourt <i>(Retired 19 May 2010)</i>	5	5	11	11	-	-	-	-
Heather Ann McSharry <i>(Appointed Risk Committee 21 September 2010)</i>	11	11	16	16	7	7	7	7
Terry Neill <i>(Retired 19 May 2010)</i>	5	5	11	8	-	-	-	-
John O'Donovan	11	11	16	16	-	-	-	-
Patrick O'Sullivan	11	8	16	11	7	5	7	5
Joe Walsh	11	10	16	16	-	-	-	-

Column A Indicates the number of meetings held during the period the Director was a member of the Court and / or the Committee and was eligible to attend.  
Column B Indicates the number of meetings attended.

Group Nomination & Governance Committee Scheduled		Group Nomination & Governance Committee Unscheduled		Group Remuneration Committee Scheduled		Group Remuneration Committee Unscheduled		Court Risk Committee Scheduled		Court Risk Committee Unscheduled	
A	B	A	B	A	B	A	B	A	B	A	B
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	8	8	2	2
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
4	4	3	2	-	-	-	-	-	-	-	-
1	1	2	2	4	4	2	2	8	8	2	1
-	-	-	-	1	1	1	1	8	7	2	2
-	-	-	-	-	-	-	-	-	-	-	-
4	4	3	3	4	4	2	2	-	-	-	-
3	3	-	-	3	3	-	-	-	-	-	-
4	4	3	3	-	-	-	-	2	2	2	2
3	2	-	-	3	2	-	-	3	3	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	8	6	2	2
4	3	3	3	4	3	2	2	-	-	-	-

Column A Indicates the number of meetings held during the period the Director was a member of the Court and / or the Committee and was eligible to attend.  
Column B Indicates the number of meetings attended.

**Speak Up Policy**

The Group has a Speak Up policy in place for all staff, which is in accordance with international best practice for whistle blowing arrangements and is compliant with the Sarbanes-Oxley Act. The policy encourages staff to raise concerns openly and locally. Where this is not possible or the problem has not been resolved effectively at that level, there are clear alternative senior contacts within the Group to whom the concern may be addressed. Confidential advice is available from Public Concern at Work, an independent, not-for-profit organisation, through a free phone number and a dedicated email address. In the case of concerns regarding financial reporting, fraudulent accounting or irregularities in audit work, these can be passed directly to the Chairman of the Group Audit Committee, whose contact details are available from Public Concern at Work. The Chairman of the Group Audit Committee is a non-executive Director.

**Group Audit Committee**

The Group Audit Committee (GAC) comprises five non-executive Directors. The Court has determined that the Committee members' collective skills and recent and relevant financial experience enable them to discharge their responsibilities. In close liaison with the Court Risk Committee, which advises the Court in establishing the Group's risk appetite and setting standards for the Group's risk control framework, the GAC reviews the appropriateness and completeness of the system of internal control, reviews the manner and framework in which management ensures and monitors the adequacy of the nature, extent and effectiveness of internal control systems, including accounting control systems, and thereby maintains an effective system of internal control.

The Group Audit Committee has responsibility for:

- monitoring the integrity of the financial statements;
- assisting the Court in meeting obligations under relevant Stock Exchange listing rules and other applicable laws and regulations including the Sarbanes-Oxley Act in the United States of America;
- overseeing all matters relating to the relationship between the Group and the External Auditors;
- overseeing the Group Internal Audit function and its operations;
- discharging the statutory responsibility of the Bank under Section 42 of The Companies (Auditing and Accounting) Act, 2003 and other statutes or regulations;
- overseeing compliance with the requirements of the Irish Government associated with their support for the Bank of Ireland Group.

It conducts an annual review of the procedures and processes by which non-audit services are provided by the external auditors in order to ensure, among other things, that auditor objectivity and independence are not compromised. In this regard, a key procedural control requires that any engagement of the external auditors to provide non-audit services must be pre-approved by the Committee, which also receives reports on the performance of such services.

**Court Risk Committee**

The Court Risk Committee (CRC) comprises six non-executive Directors and was established in response to a recommendation from a Court-sponsored review of risk governance. Under its Terms of Reference, the CRC is required to monitor risk governance and assist the Court in discharging its responsibilities in ensuring that risks are properly identified, reported, and assessed; that risks are properly controlled and that strategy is informed by and aligned with the Group's risk appetite. To ensure co-ordination with the work of the GAC, the chairman of GAC is a member of the CRC and the chairman of the CRC is a member of the GAC. Membership is reviewed annually by the Group Nomination and Governance Committee. The CRC meets at least quarterly; it met 10 times in 2010.

The Court Risk Report is produced by the Chief Credit and Market Risk Officer and covers material Risk Types to which the Group has exposure. The Court Risk Report is presented quarterly to Group Risk Policy Committee (GRPC), the CRC and the Court of Directors. In addition, monthly updates on credit, liquidity and capital risks are submitted to the GRPC and the Court of Directors. The Group's material risk types and group risk reporting are outlined on pages 101 to 103, respectively.

The primary responsibility of the CRC is to assist the Court in discharging its responsibilities on overseeing risk management in the Group. To that end, the CRC develops views on the key risks facing the Group, including determining if they are appropriately identified, measured, reported, assessed and controlled. In discharging these responsibilities, the CRC reviews the recommendations of the GRPC to the Court on key risk documents including the Risk Appetite Statement, the Group Risk Framework and key documents on liquidity, credit, capital, Internal Capital Adequacy Assessment Process (ICAAP), and funding.

On an annual basis, the CRC reviews the Group's Risk Management Framework which is approved by the Court. The Group's Risk Management Framework defines risk management processes for material risk types on the basis of, among other things, a comprehensive risk identification and assessment process. Where this exercise highlights risks or areas not effectively covered by existing risk management and governance processes, appropriate changes are proposed to the Court. The CRC also discusses results of the Group's stress testing programme. These results are used to inform Risk Appetite as well as capital targets and buffers as part of the Group's ICAAP. The Group's Stress Testing Process is described on page 102.

#### Court Appointed Executive Committees

**Group Risk Policy Committee** – Within the parameters of Court approved high level policies, frameworks and principles, the GRPC approves risk policies and actions and makes recommendations to the Court on risk issues where the Court has reserved authority. In addition the committee ensures that risks are properly identified and assessed; that risks are properly controlled and managed; and that strategy is informed by and aligned with the Group's risk appetite.

**Group Investment Committee** – The Group Investment Committee is responsible for evaluating all material investment / divestment / capital expenditure proposals, determining those within its authority and recommending those outside its authority to the Court for its approval. It is also responsible for monitoring the implementation of such proposals and ensuring satisfactory delivery of expected benefits.

Membership of the above committees at 31 December 2010 was as follows:

Group Risk Policy Committee  
 Vincent Mulvey (Chairman)  
 Richie Boucher\*  
 Des Crowley\*  
 Denis Donovan\*  
 Liam McLoughlin  
 Peter Morris  
 Declan Murray  
 Helen Nolan  
 John O'Donovan\*  
 Mick Sweeney

Group Investment Committee  
 Richie Boucher\* (Chairman)  
 Des Crowley\*  
 Denis Donovan\*  
 Liam McLoughlin  
 Peter Morris  
 Vincent Mulvey  
 Helen Nolan  
 John O'Donovan\*  
 Julie Sharp

\* Court member

#### Relations with Stockholders

Communication with stockholders is given high priority. The Group seeks to provide through its Annual Report a balanced, clear assessment of the Group's performance and prospects. It also uses its website ([www.bankofireland.com](http://www.bankofireland.com)) to provide investors with the full text of the Annual Report and Interim Statement, the Form 20-F (which is filed annually with the US Securities and Exchange Commission) and copies of presentations to analysts and investors as they are made, so that information is available to all stockholders. Annual and interim results presentations are webcast live so that all stockholders can receive the same information at the same time. Additionally, the Investor Relations section on the Group's website is updated with all Stock Exchange releases as they are made by the Group. The Group has an active and well developed Investor Relations programme, which involves regular meetings by the Group Chief Executive, the Chief Financial Officer and other members of his senior executive team and the Head of Group Investor Relations with the Group's principal institutional stockholders and with financial analysts and brokers. The Directors are kept informed on investor issues through regular reports from Group Investor Relations on the outcome of these meetings. All meetings with stockholders are conducted in such a way as to ensure that price sensitive information is not divulged. In addition, all Directors are encouraged and facilitated to hear the views of investors and analysts at first hand through their participation in conference calls following major announcements. The Court concluded that the objective of keeping Directors fully informed on stockholder views was achieved in the year ended 31 December 2010.

The Governor and / or the Senior Independent Director are available to stockholders if they have concerns that cannot be resolved through the normal channels.

The Group's policy is to make constructive use of the Annual General Court and all stockholders are encouraged to participate. Stockholders are given the opportunity to ask questions at the Annual General Court. The Group's policy is to issue notice of the Annual General Court at least 20 working days before the meeting, in line with the requirements of the Combined Code. Following the implementation in Ireland of the EU Shareholders' Rights Directive, the Bye-Laws have been amended to allow an Extraordinary General Court, other than an Extraordinary General Court called for the passing of a special resolution, to be convened by giving 14 days notice of the meeting. At Annual General Courts separate resolutions are proposed on each substantially separate issue and voting is conducted by way of poll. The outcome of every general meeting of the Group, including details of votes cast for, against, and abstaining, on each resolution, including proxies, are posted on the Group's website as soon as possible afterwards and released to the Irish, London and New York Stock Exchanges. It is usual for all Directors to attend all General Courts to meet Stockholders and for the Chairs of the Group Audit, Nomination and Governance and Remuneration Committees to be available to answer relevant questions. In addition a 'Help Desk' facility is available at all General Courts to assist stockholders to resolve any specific queries that they may have.

#### **New York Stock Exchange (NYSE) Corporate Governance Requirements**

All non US companies listed on the NYSE are required to disclose any significant differences between their corporate governance practices and the requirements of the NYSE applicable to US companies.

As a company formed by Charter in Ireland, listed on the Irish and London Stock Exchanges and with an ADR listing on the NYSE, the Group's corporate governance practices reflect Irish law, the Listing Rules of the Irish Stock Exchange and the UK Listing Authority, the Irish Code and the Combined Code. The Group believes there are no significant differences between its corporate governance practices and the requirements of the NYSE.

# Report of the Directors

## Results

For the twelve month period ended 31 December 2010 the Group made a loss before tax of €950 million, and an after tax loss of €609 million. A profit of €5 million is attributable to non-controlling interests, and a €614 million loss is attributable to ordinary stockholders, which has transferred to retained earnings.

## Dividends

No dividend on ordinary stock will be paid in respect of the twelve month period ended 31 December 2010.

## Group activities

The Group provides a range of banking and other financial services. The Business Review section (pages 2 to 86) describes the results and operations of the Group.

## Principal risks and uncertainties

Information concerning the principal risks and uncertainties facing the Group is set out in the Risk Management section of the Business Review on page 89.

## Capital stock and subordinated liabilities

1,026,225,679 units of ordinary stock, of nominal value of €0.64 each, were in issue at 1 January 2010 of which 33,223,815 were held in treasury stock. During the twelve month period ended 31 December 2010 the Bank issued stock under the terms of the Long Term Performance Stock Plan. On 19 May 2010, the ordinary stock was renormalised from €0.64 per share to €0.10 per share. As at 31 December 2010, the Group has 5,321,422,310 units of ordinary stock of €0.10 each of which 27,702,862 were held in treasury stock.

During the twelve month period ended 31 December 2010 the Bank carried out a number of capital raising initiatives which impacted the issued capital stock of the Bank. A description of these initiatives and a schedule outlining their impact on the ordinary stock of the Bank are outlined in note 49.

As part of its ongoing capital management activities, the Group has repurchased and/or exchanged certain subordinated liabilities. Full details of the changes during the period in the capital stock and subordinated liabilities are set out in note 49 and note 41.

## Takeover Bids Regulations

The disclosures required by the European Communities (Takeover Bids (Directive 2004 / 25 / EC)) Regulations 2006 are set out in the Schedule to the Report of the Directors on pages 166 to 170.

## Directors

The names of the members of the Court of Directors as at 31 December 2010 together with a short biographical note on each Director appear on pages 171 and 172. At the Annual General Court (AGC) held on the 19 May 2010, all Directors (with the exception of J Walsh and T Considine) retired. D McCourt and T Neill did not offer themselves for re-election. The Governor was elected as a non-executive Director and all other Directors were re-elected on that date.

## Remuneration

See Remuneration Report on pages 173 to 184.

## Directors' interests

The interests of the Directors and Secretary in office at 31 December 2010 and of their spouses and minor children in the stock issued by the Bank are shown in the Remuneration Report on page 184.

In relation to the Group's business, no contracts of significance to the Group, in which the Directors of the Bank had any interest, existed at any time during the twelve month period ended to 31 December 2010.

### Substantial stockholdings

There were 96,143 registered holders of the ordinary stock of the Bank at 31 December 2010. An analysis of these holdings is shown on page 368.

As at 12 April 2011, the Bank had received notification of the following substantial interests in its issued ordinary stock:

Name	%
NPRFC*	35.97%
Harris Associates LP**	5.47%

\* The NPRFC has voting rights equivalent to 35.97% of all votes capable of being cast by stockholders on a poll at a General Court of the Bank. In certain circumstances, the NPRFC will have additional voting rights arising in respect of its holding of 2009 Preference Stock and pursuant to the Bank's Bye-Laws. For further information please see note 56.

\*\* This stockholding is not beneficially owned but is held on behalf of a range of clients, none of whom hold, so far as the Directors have been notified, more than 3% of the issued ordinary stock. So far as the Directors have been notified, there were no other holdings of 3% or more of the issued ordinary stock of the Bank.

### Corporate governance

Statements by the Directors in relation to the Group's compliance with the Central Bank's Corporate Governance Code for Credit Institutions and Insurance Undertakings, the UK Corporate Governance Code (formerly the Combined Code), the Group's system of internal controls, and the activities of the Group Audit Committee for the period are set out in the Corporate Governance Statement on pages 151 to 162. The Corporate Governance Statement forms part of the Report of the Directors.

### Environment

The Group's environmental policy is accessible at [www.bankofireland.com](http://www.bankofireland.com) and details of its environmental activities are outlined in the Corporate Responsibility Report on page 85.

### Political donations

Political donations are required to be disclosed under the Electoral Act 1997, as amended. The Directors, on enquiry, have satisfied themselves that there were no political donations made during the twelve month period ended 31 December 2010.

### Branches outside the State

Pursuant to Regulation 25 of the European Communities (Accounts) Regulations, 1993 (which gave effect to Article II of Council Directive 89 / 666 / EEC), the Bank has established branches in the UK, France, Germany and the US.

### Going concern

The Directors have considered the appropriateness of the going concern basis in preparing the financial statements for the twelve month period ended 31 December 2010 on pages 197 to 199 which forms part of the Report of the Directors.

### Books of account

The Directors ensure that proper books and accounting records are kept at the Bank's registered office, through the appointment of suitably qualified competent personnel, the implementation of appropriate computerised systems and the use of financial and other controls over the systems and the data.

## Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office in accordance with Section 160(2) of the Companies Act, 1963.

## Post Balance Sheet Events

These are described in note 61 to the financial statements.

**Patrick J Molloy**  
Governor

**Dennis Holt**  
Deputy Governor

Bank of Ireland  
Head Office  
40 Mespil Road,  
Dublin 4

13 April 2011



# Schedule to the Report of the Directors

## Information required under the European Communities (Takeover Bids (Directive 2004 / 25 / EC)) Regulations 2006

As required by these Regulations, the information contained below represents the position at 31 December 2010.

On 31 March 2009, the Bank raised capital of €3.5 billion through the issue of the 2009 preference stock and warrants to the National Pensions Reserve Fund Commission (NPRFC). The information at the bullet points and notes 1 to 3 below is subject to that set out in note 4 '2009 Preference Stock and Warrants'.

- The structure of the Bank's capital is set out in note 47 to the consolidated financial statements. The percentage of the total capital stock represented by each class and details regarding the rights and obligations attaching to the classes of stock are set out at note 1 below.
- Details of significant stockholdings may be found on page 164.

Subject to certain restrictions set out in Note 4:

- There are no restrictions imposed by the Bank on the transfer of stock, nor are there any requirements to obtain the approval of the Bank or other stockholders for a transfer of stock, save in certain limited circumstances set out in the Bye-Laws. A copy of the Bye-Laws may be found on [www.bankofireland.com](http://www.bankofireland.com) or may be had on request from the Group Secretary.
- Other than the rights set out in note 4 below, there are no special rights with regard to control of the Bank.
- There are no unusual restrictions on voting rights except for the circumstances set out in note 4. Deadlines for exercising voting rights are specified in note 1 below.
- There are no arrangements between stockholders, known to the Bank, which may result in restrictions on the transfer of securities or voting rights.
- The rules concerning the appointment and replacement of the Directors and amendment of the Bank's Bye-Laws are set out in note 2 below.
- Details of the powers of the Bank's Directors, including powers in relation to issuing or buying back by the Bank of its stock are set out in note 3 below.
- Certain Group agreements may be altered or terminated upon a change of control of the Bank following a takeover. Those that may be deemed to be significant in terms of their potential impact on the business of the Group as a whole are the joint ventures between the Bank and Post Office Limited in the UK (in respect of foreign exchange and Post Office branded retail financial service products).
- There are no agreements between the Bank and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occur because of a bid. There are however provisions for early maturity of employee stock schemes in the event of a change of control.

### Note 1 - Percentage of the Bank's capital represented by class of stock and rights and obligations attaching to the classes of stock

The ordinary stock represents 60% of the authorised capital stock and 44% of the issued capital stock. The preference stock represents 13% of the authorised capital stock and 2% of the issued capital stock, of which the 2009 preference stock represents 1% and 1% respectively. The deferred stock represents 27% of the authorised capital stock and 54% of the issued capital stock.

### Rights and Obligations attaching to the classes of stock

#### (a) Ordinary stock

##### Dividend rights

Under Irish law and under the Bye-Laws of the Bank, dividends are payable on the ordinary stock of the Bank only out of profits available for distribution. Holders of the ordinary stock of the Bank are entitled to receive such dividends as may be declared by the stockholders in General Court, provided that the dividend cannot exceed the amount recommended by the Directors. The Bank may pay stockholders such interim dividends as appear to the Directors to be justified by the profits of the Bank. No dividend on the ordinary stock may be declared unless the dividend on the Dollar preference stock, the Sterling preference stock, the euro preference stock (including the 2009 preference stock) and the 2005 preference stock most recently payable prior to the relevant General Court shall have been paid in cash. Any dividend which has remained unclaimed for 12 years from the date of its declaration may be forfeited and cease to remain owing by the Bank.

### Voting rights

Voting at any General Court is by a show of hands or by poll. On a show of hands, every stockholder who is present in person or by proxy has one vote regardless of the number of units of stock held by them. On a poll, every stockholder who is present in person or by proxy has one vote for every unit of ordinary stock of €0.10 each, except for the voting rights of the Minister for Finance, as set out in note 4.

A poll may be demanded by the Chairman of the meeting or by at least nine members of the Bank present in person or by proxy and entitled to vote on a poll. The necessary quorum for a General Court is 10 persons present in person or by proxy and entitled to vote. All business is considered to be special business if it is transacted at an Extraordinary General Court as is all business transacted at an Annual General Court other than the declaration of a dividend, the consideration of the accounts, the balance sheet and reports of the Directors and Auditors, the election of Directors in the place of those retiring, the reappointment of the retiring Auditors, and the determination of the remuneration of the Auditors, all of which is deemed ordinary business. Special business is dealt with by way of an ordinary resolution save where a special resolution is expressly required by the Bye-Laws or the Companies Acts 1963 to 2009 ('the Companies Acts'). A special resolution must be passed by not less than three fourths of the votes cast by such members as being entitled so to do, vote in person or, where proxies are allowed, by proxy at a General Court at which not less than 21 days notice specifying the intention to propose a resolution as a special resolution has been duly given. Ordinary business is dealt with by way of an ordinary resolution which requires a simple majority of the votes cast by the members voting in person or by proxy at a General Court. Where an equal number of votes have been cast on any resolution the Chairman of the meeting is entitled to a second or casting vote. An Extraordinary General Court (other than an Extraordinary General Court called for the passing of a special resolution) may be called on 14 days' notice in writing, at least, where: (i) the Bank offers the facility for stockholders to vote by electronic means accessible to all stockholders; and (ii) a special resolution reducing the period of notice to 14 days has been passed at the immediately preceding Annual General Court or at an Extraordinary General Court held since the immediately preceding Annual General Court.

The NPRFC obtained a 36% interest in the ordinary stock of the Bank during the twelve month period ended 31 December 2010. The special voting rights of the 2009 Preference Stockholder are referred to at note 4 below. For further information, please see 'Substantial stockholdings' in the Report of the Directors on page 164 and note 56.

### Liquidation rights

In the event of any surplus arising on the occasion of the liquidation of the Bank, the ordinary stockholders would be entitled to a share in that surplus pro rata to their holdings of ordinary stock.

### (b) Preference stock

The capital of the Bank is divided into ordinary stock, non-cumulative dollar preference stock, non-cumulative sterling preference stock and non-cumulative euro preference stock (which includes the 2009 preference stock). At 31 December 2010, there was no non-cumulative dollar preference stock in issue. Any non-cumulative dollar preference stock issued will rank equivalently to the existing euro or sterling preference stock as regards entitlements to dividends. At 31 December 2010, there were in issue 1,876,090 units of non-cumulative sterling preference stock and 3,026,598 units of non-cumulative euro preference stock. The holders of non-cumulative sterling and euro preference stock are entitled to a fixed annual dividend, at the discretion of the Bank, in accordance with the terms and conditions relating to the issue of the particular class of preference stock. Any dividend which has remained unclaimed for 12 years from the date of its declaration may be forfeited and cease to remain owing by the Bank.

The non-cumulative sterling preference stock and the non-cumulative euro preference stock rank *pari passu* inter se and the right to a fixed dividend is in priority to the dividend rights of ordinary stock in the capital of the Bank. On a winding-up or other return of capital by the Bank, the non-cumulative sterling preference stockholders and the non-cumulative euro preference stockholders are entitled to receive, out of the surplus assets available for distribution to the Bank's members, an amount equal to the amount paid up on their preference stock including any preference dividend outstanding at the date of the commencement of the winding-up or other return of capital. Otherwise the preference stockholders are not entitled to any further or other right of participation in the assets of the Bank. Bye-Law 7 enables the Directors to issue and allot new preference stock (the 2005 Preference Stock) which can be either redeemable or nonredeemable, and can be denominated in US dollars, in euro or in sterling. Any preference stock issued under Bye-Law 7 will rank equivalently to the existing euro and sterling preference stock as regards entitlements to dividends. Bye-Law 7 permits the substitution of all of the outstanding preferred securities in the event of the occurrence of a trigger event. A trigger event will occur when the capital adequacy requirements of the Central Bank have been, or are expected to be, breached.

**(c) Renominalisation of ordinary stock - deferred stock**

The Bank's ordinary stock was renominalised by Stockholders at the Extraordinary General Court held on 19 May 2010; refer to note 47 for further information on the deferred stock created on the renominalisation. The deferred stock created on the renominalisation has no voting or dividend rights and, on a return of capital on a winding up of Bank of Ireland, will have the right to receive the amount paid up thereon only after stockholders have received, in aggregate, any amounts paid up thereon plus €10 million per unit of €0.10 ordinary stock, the purpose of which is to ensure that the units of deferred stock have no economic value.

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

**Variation of class rights**

The rights attached to the ordinary stock of the Bank may be varied or abrogated, either while the Bank is a going concern or during or in contemplation of a winding-up, with the sanction of a resolution passed at a class meeting of the holders of the ordinary stock. Similarly, the rights, privileges, limitations or restrictions attached to the preference stock may be varied, altered or abrogated, either while the Bank is a going concern or during or in contemplation of a winding-up, with the written consent of the holders of not less than 75% of such class of stock or with the sanction of a resolution passed at a class meeting at which the holders of 75% in nominal value of those in attendance vote in favour of the resolution.

**Note 2 - Rules concerning the appointment and replacement of the Directors and amendment of the Bank's Bye-Laws**

With the exception of those Directors appointed by the Minister for Finance, all Directors appointed between Annual General Courts are submitted to stockholders for election at the first Annual General Court following their co-option and for re-election at intervals of no more than three years, thereafter. In proposing the election or re-election of any individual Director to the Annual General Court, the reasons why the Court believes that the individual should be elected or re-elected are provided in the Governor's Letter to stockholders. The rights of the Minister for Finance to appoint 25% of the Directors and to exercise 25% of the votes in respect of all nominations for the office of Director are set out in note 4 below.

All non-executive Directors are appointed for an initial three year term with an expectation of a further term of three years assuming satisfactory performance. A non-executive Director is not normally expected to serve any longer than two terms. All Directors, except those nominated to the Court by the Minister for Finance, are appointed subject to re-election by shareholders.

**Rules concerning amendment of the Bank's Bye-Laws**

The Bank's Bye-Laws may be amended by special resolution passed at an Annual General Court or Extraordinary General Court. An Annual General Court and a Court called for the passing of a special resolution shall be called on 21 days' notice in writing at the least. Special resolutions must be approved by not less than 75% of the votes cast by stockholders entitled to vote in person or by proxy. No business may be transacted at any General Court unless a quorum of members is present at the time when the Court proceeds to business. Ten persons present in person or by proxy and entitled to vote shall constitute a quorum.

**Note 3 - Powers of Directors including powers in relation to issuing or buying back by the Bank of its stock**

Under its Bye-Laws, the business of the Bank is managed by the Directors, who exercise all powers of the Bank as are not, by the Charter, the Bank's Acts or the Bye-Laws, required to be exercised by the Bank in General Court. The Directors may exercise all the borrowing powers of the Bank and may give security in connection therewith. These borrowing powers may be amended or restricted only by the stockholders in General Court.

The members of the Bank in General Court may at any time and from time to time by resolution enlarge the capital stock of the Bank by such amount as they think proper. The requirement for the approval in writing by the Minister for Finance before any such resolution (a 'Capital Resolution') can be tabled at an Annual General Court is set out in note 4. Whenever the capital stock of the Bank is so enlarged, the Directors may, subject to various provisions of the Bye-Laws, issue stock to such amount not exceeding the amount of such enlargement as they think proper. All ordinary stock so issued shall rank in equal priority with existing ordinary stock.

Subject to provisions of the Companies Acts, to any rights conferred on any class of stock in the Bank and to the Bye-Laws, the Bank may purchase any of its stock of any class (including any redeemable stock) and may cancel any stock so purchased. The Bank may hold such stock as treasury stock, in accordance with Section 209 of the Companies Act, 1990 (the treasury stock) with the ability to re-issue any such treasury stock on such terms and conditions and in such manner as the Directors may from time to time determine. The Bank shall not make market purchases of its own stock unless such purchases shall have been authorised by a special resolution passed by the members of the Bank at a General Court (a Section 215 Resolution).

**Note 4 - 2009 Preference Stock and Warrants**

The following principal rights attach to the 2009 preference stock:

The repayment of the capital paid up (inclusive of premium) on the 2009 preference stock will rank *pari passu* with the repayment of the paid up nominal value (excluding premium) of the ordinary stock on a winding up or other return of capital of the Bank.

The 2009 preference stock ranks ahead of ordinary stock as regards dividends and as regards the repayment of premium on the ordinary stock on a winding up or other return of capital of the Bank. The 2009 preference stock ranks *pari passu* as regards dividends with other stock or securities which constitute Core tier 1 capital of the Bank (other than ordinary stock and other than dividends to Minority Interests).

The 2009 preference stock entitles the holder to receive a non-cumulative dividend at a fixed rate of 8 per cent of the issue price per annum, payable annually at the discretion of the Bank. As part of the Government's participation in the recapitalisation of the Bank, the rights attaching to the 2009 preference stock were amended to increase the non-cumulative dividend from 8% to a fixed rate of 10.25% of the issue price per annum, payable annually in arrears at the discretion of the Bank; the 8% rate applied for the year ended 20 February 2010 and the 10.25% rate became effective from 19 May 2010. The dividend on the 2009 preference stock accrues day to day and is payable annually in arrears on 20 February. If a cash dividend is not paid by the Bank, the Bank shall issue units of ordinary stock to the NPRFC.

The 2009 preference stock is transferable in minimum lots of 50,000 units. If transferred to a person who is not a Government Body, the 2009 preference stock will cease to carry any voting rights or the right to appoint Directors to the Court referred to below.

The number of units of ordinary stock that the Bank would be required to issue to the NPRFC (in the event of non-payment of a dividend) will be calculated by dividing the amount of the unpaid dividend by the Thirty Day Average Price<sup>1</sup>. If units of ordinary stock are issued in the event of non-payment of dividends, these units will be settled on a day determined by the Bank, in its sole discretion, provided that this must occur no later than the day on which the Bank subsequently redeems or repurchases or pays a dividend on the 2009 preference stock or any class of capital stock. The issue of units of ordinary stock in the event of non-payment of dividends will result in the dilution of existing ordinary stockholders' proportionate ownership and voting interests in the Bank.

If the dividend on the 2009 preference stock is not paid in any particular year, then the Bank is precluded from paying any dividend on any ordinary stock until the Bank resumes the payment of dividends on the 2009 preference stock in cash. The Bank will also be precluded from paying any dividend on any ordinary stock where the payment of such dividend would reduce the distributable reserves of the Bank to such an extent that the Bank would be unable to pay the next dividend due for payment on the 2009 preference stock.

The 2009 preference stock may be repurchased at the option of the Bank, in whole or in part, at a price per unit equal to the issue price of €1.00 per unit of the 2009 preference stock within the first five years from the date of issue and thereafter at a price per unit of €1.25, provided in either case that the consent of the Central Bank to the repurchase of the 2009 preference stock is obtained. The 2009 preference stock will not be capable of being repurchased if it would breach or cause a breach of Irish banking capital adequacy requirements from time to time applicable to the Bank. The 2009 preference stock may be repurchased from profits available for distribution or from the proceeds of any issue of stock or securities that constitute Core tier 1 capital.

While the 2009 preference stock is held by a Government Body, the Minister for Finance has the right to directly appoint 25 per cent of the Directors of the Bank (such 25 per cent to include any Directors nominated by the Minister for Finance pursuant to the Government Guarantee Scheme – the guarantee scheme implemented by the Government in relation to participating Irish credit institutions pursuant to the Credit Institutions (Financial Support) Act 2008). Two Directors were appointed as Directors by the Court, on 1 January 2009, pursuant to the nominations of the Minister for Finance under the Government Guarantee Scheme.

<sup>1</sup> Defined in *Capital Stock and Government Guarantee - Defined Terms*, page 367.

Following the implementation of the proposals for the 2010 recapitalisation of the Bank, the NPRFC's voting rights were altered. The NPRFC are no longer subject to the restriction on exercising more than 25% of the total voting capital on resolutions for the appointment, re-election or removal of Directors: as such, the NPRFC is entitled to exercise the full ordinary voting rights attaching to its ordinary stock. However, the 2009 Preference Stock no longer carries a block vote of 25% of the total voting rights in respect of resolutions relating to Directors and Control Resolutions: instead, the 2009 Preference Stock will carry the right to top-up the NPRFC's total voting rights to 25% of the total voting rights on Directors and Control Resolutions where the NPRFC's ordinary voting rights through its holding of ordinary stock (or other securities issued in future) falls below this level. For further information on the voting rights of the NPRFC, see note 56.

For such time as the NPRFC or a Government Body holds the 2009 preference stock, the tabling of any resolution at a General Court of the Bank to alter the capital structure of the Bank requires the prior written consent of the Minister for Finance.

In the event that the ordinary stock to be issued in the event of non-payment of cash dividends on the 2009 preference stock is not settled on the dividend payment date to which it relates, the NPRFC shall be entitled to exercise the voting rights of the as yet unissued ordinary stock from the dividend payment date (although such voting rights will have no effect on the Bank's unfettered discretion in respect of (i) the payment of dividends on the 2009 preference stock or any other securities of the Bank ranking *pari passu* with, or junior to, the 2009 preference stock or the issuance of ordinary stock in the event of non-payment of dividends on the 2009 preference stock; or (ii) the redemption or repurchase of the new preference stock or any other securities of the Bank ranking *pari passu* with, or junior to, the 2009 preference stock).

#### **The Warrants**

The Bank entered into a warrant instrument on 31 March 2009 pursuant to which the Bank issued 334,737,148 warrants to the NPRFC. These warrants were cancelled in return for the payment of €491 million in cash by the Bank to the NPRFC. For further information, refer to note 48 and note 49.

# Court of Directors

## Non-Executive Officers

### **Patrick Molloy** *Governor*

Appointed to the Court in June 2009 and Governor in July 2009. He was Group CEO of the Bank from 1991—1998 and subsequently served as a non-executive Director from 1998—2001. He has served as a non-executive Director on the Boards of CRH plc (1997—2007); Eircom plc (1999—2001) and Waterford Wedgwood plc (2002—2009). He was Chairman of Enterprise Ireland (1998—2008) and CRH plc (2000—2007). His current Directorships are Blackrock Hospital Ltd (Chairman), Dublin Adult Learning Centre and Hugh Lane Gallery Trust (Chairman). (Age 73)

### **Dennis Holt** *BA, ACIB*

#### *Deputy Governor and Senior Independent Director*

Appointed to the Court in 2006. Chairman of Group Audit Committee from October 2008 to August 2009 when he was appointed Deputy Governor and Senior Independent Director. Appointed to the Board of Bank of Ireland (UK) plc as Chairman in March 2010. 40 years experience in Financial Services, including Retail Banking Executive Director on the Main Board of Lloyds TSB (2000-2001) and CEO of global insurer AXA's UK and Ireland businesses (2001-2006). Chairman of Liverpool Victoria Friendly Society Ltd. (Age 62)

## Executive Directors

### **Richie Boucher** *Group Chief Executive*

Appointed to the Court in 2006 and appointed Group Chief Executive in February 2009. Director of Bank of Ireland (UK) plc from March 2010 to March 2011. Joined the Group as Chief Executive, Corporate Banking in December 2003 from Royal Bank of Scotland. He was appointed Chief Executive, Retail Financial Services Ireland in January 2006. He is a past President of the Institute of Bankers in Ireland (2008) and of the Irish Banking Federation (2006). (Age 52)

### **Des Crowley** *BA(Mod) Econ, FCMA*

#### *Chief Executive Officer - Retail (Ireland & UK)*

Appointed to the Court in 2006. Appointed to the Board of Bank of Ireland (UK) plc in September 2009. Joined the Bank in 1988 from Arthur Andersen & Co. Appointed Chief Executive, Retail Banking and Distribution and joined the Group Executive Committee in 2000. In 2004 he was appointed Chief Executive, Retail Financial Services, Chief Executive, UK Financial Services in 2006 and Chief Executive — Retail (Ireland & UK) in May 2009. He is a Director of Post Office Financial Services and First Rate Exchange Services, the Bank's joint ventures with the UK Post Office and a Director of New Ireland Assurance Company plc. (Age 51)

### **Denis Donovan** *B Comm, MBA*

#### *Chief Executive, Capital Markets*

Appointed to the Court in 2006. Joined the Bank in 1985 from the Central Bank of Ireland. Appointed Chief Executive of the Group's Capital Markets Division in 2006, having held the position of Chief Executive, Wholesale Financial Services Division since 2003. He was CEO of Global Markets from 1999 - 2003 and Chief Operating Officer — International, with Bank of Ireland Asset Management from 1993—1999. (Age 57)

### **John O'Donovan** *B Comm, F.C.A.*

#### *Group Chief Financial Officer*

Joined the Group in 2001 as Group Chief Financial Officer. Appointed to the Court in 2002. Formerly Group Finance Director/Company Secretary of Aer Lingus Group plc. (Age 59)

## Non-Executive Directors

### **Tom Considine** *BA, F.C.C.A.*

Appointed to the Court in 2009. Appointed Chairman of the Court Risk Committee in August 2009. President of the Institute of Public Administration and a member of the Forum of the Economic & Social Research Institute. Former Secretary General of the Department of Finance and former member of the Advisory Committee of the National Treasury Management Agency. Former Board member of the Central Bank and Financial Services Authority of Ireland and former member of the Council of the Economic & Social Research Institute. (Age 66)

### **Paul Haran** *M.Sc, B.Sc*

Appointed to the Court in 2005. Spent his career in public service and was Secretary General of the Department of Enterprise, Trade and Employment (1997—2004) during a period of significant economic and social transformation. In that period he was also a member of the National Economic and Social Council (1997—2004) and the Board of Forfas (1997-2004). He is Chairman of the National Qualifications Authority of Ireland, of Edward Dillon & Company and of the UCD Michael Smurfit Graduate Business School and the UCD College of Business & Law. A member of the Forum of the Economic & Social Research Institute and the Road Safety Authority, he is also a Director of Glanbia plc, the Mater Private Hospital, Drury Communications and the Institute of Public Administration. He serves on the council of the Irish Insurance Federation. (Age 53)

### **Rose Hynes** *BCL, AITI, Solr*

Appointed to the Court in 2007. Appointed as Chairman of the Group Remuneration Committee in June 2010. A Solicitor by profession, she previously held senior management positions in GPA Group plc, including General Counsel and Head of Commercial. She is Chairman of Bord Gais and a Director of Total Produce plc, where she is its Senior Independent Director and chairs the Compensation Committee. (Age 53)



**Jerome Kennedy F.C.A.**

Appointed to the Court in 2007. Appointed Chairman of Group Audit Committee in August 2009. Spent 24 years (1980-2004) as a Partner in KPMG providing audit and advisory services to a range of Irish companies and Irish subsidiaries of multinational groups. Managing Partner of KPMG Ireland and a Board member of KPMG Europe from 1995-2004. Director of Total Produce plc where he chairs the Audit Committee. Also Chairman of Caulfield McCarthy Group Retail and is on the Irish Board of the UCD Michael Smurfit Graduate Business School. (Age 62)

**Patrick Kennedy B. Comm F.C.A**

Appointed to the Court in July 2010. Chief Executive of Paddy Power plc since 2006 having previously been an executive Director since September 2005 and a non-executive Director since March 2004. Prior to joining Paddy Power, was Chief Financial Officer of Greencore Group plc, having held a number of senior positions within the Greencore Group. Also worked with KPMG Corporate Finance in Ireland and the Netherlands and as a strategy consultant with McKinsey & Company in London, Dublin and Amsterdam. He is also a non-executive Director of Elan Corporation plc. (Age 41)

**Heather Ann McSharry B.Comm MBS**

Appointed to the Court in 2007. Director of IDA Ireland and Council member of the Institute of Directors. Previously Managing Director of Reckitt Benckiser and Boots Healthcare in Ireland. Former Director of Enterprise Ireland and the Irish Pharmaceutical Healthcare Association, and a former member of Governing Authority of University College Dublin. (Age 49)

**Patrick O'Sullivan BBS, MSc, F.C.A**

Appointed to the Court in 2009. Previously Vice Chairman, Chief Growth Officer and Group Finance Director of Zurich Financial Services; Chief Executive Officer, Eagle Star Insurance (London); Chief Operating Officer, Barclays De Zoete Wedd Holdings (London); Managing Director, Financial Guaranty Insurance Co. (part of GE Capital) (London & New York); Executive Director, Goldman Sachs International (London) and General Manager, Bank of America Futures (London). He is currently non-executive Director of Man Group plc, COFRA Holding AG and Chairman of Old Mutual plc. (Age 62)

**Joe Walsh**

Appointed to the Court in 2009. Served as Minister for Agriculture from 1994–2004, having previously served as Minister for Food from 1987. He retired from the Cabinet in 2004. Chairman of Cork Racecourse (Mallow) Limited, Horse Sport Ireland, Irish Hunger Task Force and a Director of Southwestern Business Process Services Limited. (Age 67)

**Senior Independent Director**

Dennis Holt

**Group Audit Committee (GAC)**

Jerome Kennedy (Chairman)

Tom Considine

Paul Haran

Heather Ann McSharry

Patrick O'Sullivan

**Group Remuneration Committee (REM COM)**

Rose Hynes (Chairman)

Jerome Kennedy

Patrick Kennedy (appointed 13 January 2011)

Patrick Molloy

Joe Walsh

**Group Nomination and Governance Committee (N&G)**

Patrick Molloy (Chairman)

Dennis Holt

Rose Hynes

Heather Ann McSharry

Joe Walsh

**Court Risk Committee (CRC)**

Tom Considine (Chairman)

Rose Hynes

Jerome Kennedy

Patrick Kennedy (appointed 13 January 2011)

Heather Ann McSharry

Patrick O'Sullivan

**Trustees of the Bank Staff Pensions Fund (BSPF)**

Paul Haran (Chairman)

Dennis Holt

Heather Ann McSharry

**Group Risk Policy Committee**

Vincent Mulvey (Chairman)

Richie Boucher

Des Crowley

Denis Donovan

Andrew Keating (appointed 22 March 2011)

Liam McLoughlin

Peter Morris

Declan Murray

Helen Nolan

John O'Donovan

Mick Sweeney

**Group Investment Committee**

Richie Boucher (Chairman)

Des Crowley

Denis Donovan

Liam McLoughlin

Peter Morris

Vincent Mulvey

Helen Nolan

John O'Donovan

Julie Sharp

# Remuneration Report

## Governance Structures & Subscription Agreement Obligations

The Group Remuneration Committee holds delegated responsibility 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. Changes were made to remuneration-related governance during 2010 including the formal incorporation of more explicit links between the Remuneration Committee and the Risk Committee as well as the attendance of the Chief Credit & Market Risk Officer at Remuneration Committee meetings, as required, to provide independent input, from a risk perspective, into key remuneration decisions.

This Remuneration Report has been prepared in accordance with the requirements of the UK Corporate Governance Code.

The Subscription Agreement with the Irish Government (March 2009) and the Credit Institutions (Financial Support) Scheme 2008 (expired in September 2010) contain certain requirements in terms of remuneration and fees in respect of senior executives and non-executive Directors and these have been reflected in the key remuneration decisions over the past two years.

The remuneration of non-executive Directors is determined and approved by the Court. Neither the Governor nor any Director participates in decisions relating to their own remuneration.

During 2010 the Remuneration Committee received independent remuneration advice from a number of external advisers on a range of issues relating to remuneration.

## Committee of European Banking Supervisors Remuneration Guidelines

The Committee of European Banking Supervisors (CEBS) Remuneration Guidelines came into effect from 1 January 2011. The Group supports their over-arching aim, namely to ensure that remuneration structures are consistent with and promote effective risk management. The Group's Risk Strategy and Appetite statement as set out on page 101 will form part of our broader CEBS-related work as we link this to our remuneration structures, practices and frameworks. Changes have already been made to remuneration governance structures in line with the new requirements. The first annual disclosure, as required under the guidelines, will take place during 2011.

## Statement on Remuneration

Reflecting the external environment, the performance of the Group and the Group's obligations in relation to remuneration as set out under the Subscription Agreement (March 2009) and the Credit Institutions (Financial Support) Scheme 2008 (expired in September 2010), the Group Remuneration Committee took the following key decisions in relation to remuneration for the Group's Directors during the twelve month period ended 31 December 2010:

### Executive Directors

- Changes were made to the remuneration package of the Group Chief Executive. In April 2010 he voluntarily waived his contractual option to retire at age 55 on a pension without actuarial reduction and a new contract to this effect was put in place. This voluntary waiver is reflected in the decrease in the pension transfer value set out on page 183 (Directors' pension benefits table). His accrued pension benefits as at 31 December 2010 also reflect a lower rate of accrual from May 2009 to December 2010 as a result of the waiver, as set out on page 183 (Directors' pension benefits table). In 2009 he waived a portion of his salary and this voluntary waiver has been extended until 31 December 2011.
- The remaining Executive Directors also agreed to maintain the voluntary waiver of a minimum of 10% of their salary until 31 December 2011.
- Executive Directors did not receive any bonus awards in respect of 2010.
- Awards made under the 2007 Long Term Incentive Plan lapsed in 2010 resulting in the cancellation of the conditional grant of units of stock, as the performance conditions were not achieved. The Group did not make any awards under the Long Term Incentive Plan in 2010.
- The Group did not make any awards under the Executive Stock Option Scheme in 2010. Awards made under the 2007 Executive Stock Option Scheme lapsed in 2010, resulting in the cancellation of options under this grant, as the performance conditions were not achieved.



**Non-Executive Directors**

- In 2009, the Governor, Deputy Governor and all non-executive Directors agreed to reduce their salaries (in the case of the Governor and Deputy Governor) and their fees (in the case of all other non-executive Directors) by 25%. These reductions applied throughout the twelve month period ended 31 December 2010.
- In addition, any fees payable in respect of Committee membership also reduced by 25% in 2009. These reductions also applied throughout the twelve month period ended 31 December 2010.

**Group Remuneration Strategy**

We are updating our remuneration strategy as part of our broader review of remuneration in line with the CEBS guidelines.

As noted above, the Group is governed by obligations in relation to remuneration as contained in the Subscription Agreement (March 2009) and the Credit Institutions (Financial Support) Scheme 2008 (expired in September 2010).

The Bank of Ireland Group's remuneration strategy is to align remuneration with the Group's strategy and business goals through providing a suite of remuneration tools directly related to:

- Sustainable long term financial and business performance targets;
- Risk measures, which ensure that the policies on remuneration are risk adjusted and appropriately reflect risk timeframes;
- Capital and liquidity measures; and
- Non-financial measures of Group wide behaviours on leadership, customer satisfaction, regulatory compliance and employee engagement.

**Performance Management**

A robust performance management system and process, incorporating performance planning & review, remains critical in the current challenging environment.

The performance management approach allows the Group to align individual, business unit and divisional performance to the Group's strategic objectives through an ongoing dialogue between managers and their direct team members.

**The Balanced Scorecard & Key Result Areas ('KRAs')**

A Balanced Scorecard is a key document in the Performance Planning & Review process. This Balanced Scorecard approach is consistent with the new CEBS guidelines and principles. It ensures that:

- All key deliverables and accountabilities of a role are taken into account when performance is assessed. For example, financial results, risk management, impact on customers, leadership and development of people, regulatory and compliance requirements;
- A broad view of an individual's performance is taken, rather than focusing on one or two key areas to the detriment of others; and
- Organisational performance is continually enhanced by measuring both results and behaviours.

The Balanced Scorecard currently contains four Key Result Areas (KRAs), each with a minimum weighting of 10%, that apply to all executive roles in the Group:

KRA 1 Credit, Regulatory & Operational Risk.

KRA 2 Customer

KRA 3 Financial / Revenue / Cost / Efficiency

KRA 4 Leadership & People Development

The KRAs are agreed between the executive and his / her line manager at the beginning of the performance cycle. A formal interim review is conducted with regular informal reviews taking place at other times during 2010. A formal end of year review occurs at the end of the financial year.

### Remuneration packages for Executive Directors

The total remuneration package is reviewed by the Group Remuneration Committee on an annual basis.

For the twelve month period ended 31 December 2010 the remuneration packages for Executive Directors were governed by obligations contained in the Subscription Agreement (March 2009) and the Credit Institutions (Financial Support) Scheme 2008 (expired in September 2010).

The key elements of the remuneration package in respect of the twelve month period ended 31 December 2010 were as follows:

- **Salary** - Is payable monthly and is set at a level as approved under the Subscription Agreement. Salaries are reviewed annually by the Group Remuneration Committee. No salary increases were granted to any Executive Director in 2010. Since May 2009, all Executive Directors have voluntarily waived a portion of their salary;
- **Retirement Benefits** - The Executive Directors, with the exception of Denis Donovan, are members of the Bank of Ireland Staff Pensions Fund, which is a contributory scheme at the rate of 2.5% of salary. Denis Donovan is a member of the Bank of Ireland Affiliated Pension Fund (formerly known as the Bank of Ireland Asset Management Pension Scheme). That scheme is currently a non-contributory scheme but contributions will become payable from July 2011. Both the Bank of Ireland Staff Pensions Fund and the Bank of Ireland Affiliated Pension Fund are defined benefit plans.

In April 2010 the Group CEO, Richie Boucher, voluntarily waived his contractual option to retire at age 55, on a pension of approximately 59% of his salary, without actuarial reduction.

In June 2010, as a result of the Group Pensions Review, (described in detail on page 271) all of the Executive Directors voluntarily agreed to a series of pension benefit reductions. These changes include, where applicable:

- a freeze on salary qualifying for pension purposes until April 2012;
- capping of increases to salaries qualifying for pension purposes post April 2012;
- a freeze on increases on pension in payment for up to three years post-retirement;
- a cap on increases on pension in payment following that three year period; and
- the payment of a 2.5% pension fund member contribution if contributions were previously lower than this amount.

The Finance Act 2006 introduced a substantial tax charge on pension assets that exceeded certain limits. Having reviewed market responses to this development and having taken actuarial advice, in May 2006 the Remuneration Committee agreed that Executive Directors be offered an option (a) to continue with unchanged pension funding arrangements or (b) to elect for a revised arrangement whereby their prospective pension fund would be limited to the value of the standard pension cap (or their personal fund threshold, if applicable) together with a taxable, non pensionable, cash allowance in lieu of the pension benefit foregone. Des Crowley, Denis Donovan and John O'Donovan received taxable cash allowances under this revised arrangement in lieu of pension foregone during 2010.

Other elements of the remuneration package for Executive Directors were as follows:

- **Performance-related bonus scheme** - A decision was taken by the Group Remuneration Committee during the twelve month period ended 31 December 2010 that no bonuses would be paid to Executive Directors in respect of the twelve month period ended 31 December 2010;
- **Long Term Incentive Plan** - Since 2004, the Group has operated a Long Term Incentive Plan (LTIP) for key senior executives, with stockholder approval, to align the interests of those senior executives with the interests of stockholders. No grants have been made under this plan since 2008. Under the LTIP, which is described in more detail in note 47 on pages 281 and 282, conditional awards had previously been made to the Executive Directors as set out in the table on page 182.

As set out previously, the Group did not make an award under this LTIP plan in 2010. The grant made in 2007 lapsed during 2010 due to the non achievement of the performance conditions. The remaining conditional grant (granted in 2008) is unlikely to vest and will likely lapse;

- **Stock Options** - As set out previously, the Group did not make an award under this Executive Stock Option Scheme (ESOS) in 2010. The grant made in 2007 lapsed in 2010 due to the non achievement of the performance conditions. It is also likely that grants made in 2008 will lapse. All ESOS grants made in respect of the financial years ending 31 March 2002 to 31 March 2006 inclusive currently have no economic value;

- **Employee Stock Issue Scheme** - The Bank operates an Employee Stock Issue Scheme under which the Court of Directors may set aside an element of Group profit before taxation for allocation to the trustees of the scheme to enable them to acquire units of ordinary stock on behalf of the scheme participants. The amount set aside is related to overall Group performance (see note 47 on page 279). Executive Directors participate on the same basis as staff. As the Group did not achieve profit before tax, there was no issue under the Employee Stock Issue Scheme in 2010;
- **Sharesave Scheme** - In 1999, the Group established a Sharesave Scheme (SAYE Scheme) for all eligible employees. Under the SAYE Scheme the Executive Directors who participated were granted options over units of ordinary stock as set out in the table on page 181 (see also note 47 on page 280). No SAYE Scheme has been launched since the 2007 SAYE Scheme; and
- **Service contracts** - No service contract exists between the Bank and any Director which provides for a notice period from the Group of greater than one year.

#### Directors' remuneration for the twelve month period ended 31 December 2010 (all figures in €000s)

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 197.

The information below is for the twelve month period ended 31 December 2010, while the comparative information on page 178 is for the nine month period ended 31 December 2009.

	Gross salary (1)	Fees (2)	Performance Bonus (3)	Other remuneration (4)	Pension funding contributions (5)	Total 2010 before amounts waived	Amounts waived during the 12 month period (6)	Total 2010 (after amounts waived)
<b>Governor</b>								
P Molloy	^394					394		394
<b>Deputy Governor</b>								
D Holt	◊126	+◊84				210		210
<b>Executive Directors</b>								
R Boucher	690			34	\$(1,026)	(302)	(67)	(369)
D Crowley	570			109		679	(72)	607
D Donovan	660			278		938	(66)	872
J O'Donovan	550			192		742	(55)	687
<b>Non-Executive Directors</b>								
T Considine		90				90		90
P Haran		90				90		90
R Hynes		*100				100		100
J Kennedy		*126				126		126
D McCourt		**37				37		37
(retired 19 May 2010)								
HA McSharry		89				89		89
T Neill		**36				36		36
(retired 19 May 2010)								
P O'Sullivan		79				79		79
J Walsh		79				79		79
P Kennedy		**31				31		31
(appointed 6 July 2010)								
<b>Totals</b>	<b>2,990</b>	<b>841</b>	<b>-</b>	<b>613</b>	<b>(1,026)</b>	<b>3,418</b>	<b>(260)</b>	<b>3,158</b>

Ex-gratia payments paid to former Directors / dependents

321

321

^ In addition to amounts shown, P Molloy is also in receipt of a pension from the Bank of Ireland Staff Pensions Fund relating to his previous employment with the Group

◊ D Holt receives a salary for his role as Deputy Governor. In addition he was appointed Chairman of Bank of Ireland (UK) plc with effect from 2 March 2010 and received a separate fee for this role (Stg£70,525)

+ From date of appointment as Chairman of Bank of Ireland (UK) plc

# This amount for Richie Boucher primarily relates to the waiver of the contractual option allowing him to retire at age 55 on a pension without actuarial reduction

\* Includes fees paid in respect of services as Directors of subsidiary companies (R Hynes €6,250, J Kennedy €21,000). Both retired as Directors of these subsidiaries during 2010

\*\* From date of appointment or to date of retirement as a Director, as indicated

## Notes:

(1) The Chief Executive Officer, Richie Boucher, has, with effect from 1 May 2009, waived a portion of his salary (€67,000 for the twelve month period ended 31 December 2010). The salary shown in the table is the gross amount before that waiver.

The other Executive Directors have waived payment of at least 10% of their salary with effect from 1 May 2009. The amounts shown in Column (1) are before that waiver. The amounts waived during the twelve month period ended 31 December 2010 are D Crowley €72,300, D Donovan €66,000 and J O'Donovan €55,000.

The Governor and Deputy Governor, as non-executive Officers of the Bank are remunerated by way of non-pensionable salary. In addition D Holt receives a fee for his role as Chairman of Bank of Ireland (UK) plc - see note (2) below.

(2) Fees are paid to non-executive Directors (other than Governor and Deputy Governor) and a basic fee of €63,000 per annum applies. Additional fees are paid to Committee Chairmen and for Committee membership. On 1 February 2009, all non-executive Directors agreed to reduce their fees by 25%. These reductions applied throughout 2010. The basic fee of €63,000 is the reduced fee.

In addition to the above D Holt was appointed Chairman of Bank of Ireland (UK) plc with effect from 2 March 2010 and received a separate fee for this role (Stg£70,525).

(3) No bonuses were awarded in respect of the twelve month period ended 31 December 2010.

(4) The figures include car allowances and where applicable, club subscriptions, benefits in kind and a taxable cash allowance in lieu of pension foregone for those Executives whose contractual pension promise would exceed the pensions cap introduced by the Finance Act 2006. No amount is payable in respect of a taxable cash allowance in lieu of pension foregone for R Boucher with effect from 1 May 2009.

(5) In the case of J O' Donovan, D Donovan and D Crowley their pension benefits are currently limited to specified personal pension fund thresholds. Their future pension accrual is therefore limited to the amount by which their personal pension fund threshold is increased under legislation. In prior years, a release back to the fund of previously funded benefits arose on an annual basis for D Donovan and D Crowley. However, following their acceptance of the Pension Review changes detailed on page 271, this release back to the fund of previously funded benefits has now ceased.

The amount included for Richie Boucher primarily relates to the waiver of the contractual option allowing him to retire at age 55 on a pension without actuarial reduction.

All pension amounts at (4) and (5) have been determined by Towers Watson, the Group's actuary, and approved by the Group Remuneration Committee.

(6) Amount of salary waived are as set out in note (1) above.

**Directors' remuneration for the nine month period ended 31 December 2009 (all figures in €000s)**

The information below is for the nine month period ended 31 December 2009, while the comparative information on page 176 is for the twelve month period ended 31 December 2010.

	Gross Salary (9 months) (1)	Fees (9 months) (2)	Performance bonus (3)	Other remuneration (9 months) (4)	Pension funding contributions (9 months) (5)	Total 2009 (9 months) (before amounts waived)	Amounts waived during the 9 month period (6)	Total 2009 (9 months) (after amounts waived)
<b>Governor</b>								
R Burrows (retired 3 July 09)	**103					103		103
P Molloy (appointed to Court on 10 June 2009 and Governor on 3 July 2009)	^**194	4				198		198
<b>Deputy Governor</b>								
G M Magan (retired 3 July 2009)	**33					33		33
D Holt (appointed Deputy Governor 25 August 2009)	**45	41				86		86
<b>Executive Directors</b>								
R Boucher	508			43	#1,490	2,041	(45)	1,996
D Crowley	428			107	(7)	528	(48)	480
D Donovan	495			223	(106)	612	(44)	568
J O'Donovan	412			151	8	571	(37)	534
<b>Non-Executive Directors</b>								
T Considine		60				60		60
D Dilger (retired 3 July 2009)		*26				26		26
P Haran		67				67		67
R Hynes		+81				81		81
J Kennedy		+96				96		96
D McCourt		60				60		60
HA McSharry		65				65		65
T Neill		59				59		59
P O'Sullivan (appointed 3 July 2009)		*37				37		37
J Walsh		59				59		59
<b>Totals</b>	<b>2,218</b>	<b>655</b>	<b>-</b>	<b>524</b>	<b>1,385</b>	<b>4,782</b>	<b>(174)</b>	<b>4,608</b>

**Ex-gratia payments paid to former Directors / dependents**

**248**

**248**

\*\* From date of appointment or to date of retirement as Governor / Deputy Governor, as indicated

^ In addition to amounts shown, P Molloy is also in receipt of a pension from the Bank of Ireland Staff Pensions Fund relating to his previous employment with the Group

# This amount for Richie Boucher primarily relates to a one-off amount paid to the Bank of Ireland Staff Pensions Fund required to cover the contractual option allowing him to retire at age 55 on a pension without actuarial reduction. This contractual option was waived in 2010

\* From date of appointment or to date of retirement as a Director, as indicated

+ Includes fees paid in respect of services as Directors of subsidiary companies (R Hynes €18,750, J Kennedy €31,500)

## Notes:

(1) The Chief Executive Officer, Richie Boucher, has, with effect from 1 May 2009, waived a portion of his salary (€44,667 for the nine month period ended 31 December 2009). The salary shown in the table is the gross amount before that waiver. In addition, the full amount of his pension cash allowance ceased with effect from 1 May 2009.

The other Executive Directors have waived payment of at least 10% of their salary with effect from 1 May 2009. The amounts shown in Column (1) are before that waiver. The amounts waived during the nine month period ended 31 December 2009 are D Crowley €48,199, D Donovan €44,000 and J O'Donovan €36,667.

The Governor and Deputy Governor, as non-executive Officers of the Bank, are not paid Court fees but are remunerated by way of non-pensionable salary.

(2) Fees are paid only to non-executive Directors and a basic fee of €63,000 per annum applies. Additional fees were paid to Committee Chairmen, the Senior Independent Director and for Committee membership. On 1 February 2009, the Governor, Deputy Governor and all non-executive Directors agreed to reduce their salary (in the case of the Governor and Deputy Governor) and their fees (in the case of all other non-executive Directors) by 25%. The basic fee of €63,000 is the reduced fee.

(3) Payments under the performance bonus scheme are linked to individual performance and overall Group performance versus pre determined targets for the financial period. No bonuses were awarded in respect of the nine month period ended 31 December 2009.

(4) The figures include car allowances and where applicable a taxable cash allowance in lieu of pension foregone for those Executives whose contractual pension promise would exceed the pensions cap introduced by the Finance Act 2006. No amount is payable in respect of a taxable cash allowance in lieu of pension foregone for R Boucher with effect from 1 May 2009.

(5) In the case of D Donovan and D Crowley their pension accrual is now capped at the increase in pension thresholds set out in the Finance Act each year, and as a result, a release back to the fund of previously funded benefits arises on an annual basis.

Following his appointment as Group Chief Executive Officer, the pension contribution for R Boucher includes a one-off amount paid to the Bank of Ireland Staff Pensions Fund required to cover the contractual option allowing him to retire at age 55 on a pension of approximately 59% of salary without actuarial reduction. This contractual option was waived in 2010. All pension amounts at (4) and (5) have been determined by Towers Watson, the Group's actuary, and approved by the Group Remuneration Committee.

(6) Amount of salary waived are as set out in note (1) above.

## Stock options held by Directors and Secretary

### a) Executive stock options

#### Options Granted between 2007 and 2008

The vesting of options granted in 2007 and 2008 is conditional upon underlying earnings per share achieving a cumulative growth of at least 5% per annum compounded above the increase in the Consumer Price Index over the three year performance period - see note 47 on page 281.

Options granted in 2007 matured on 12 June 2010 and did not vest as the performance conditions were not achieved.

Options granted in 2008 are due to mature on 3 June 2011, but will likely lapse as the performance conditions are unlikely to be achieved. This confirms the strong link between returns to stockholders and the remuneration of executives.

	Date of grant	Earliest exercise date	Expiry date	Exercise price €	Options at 1 January 2010	Granted in period	Exercised in year	Lapsed in period	Market price at exercise date €	Options at 31 December 2010
<b>R Boucher</b>	26 Jul 2004	26 Jul 2007	26 Jul 2014	€10.76	26,000					26,000
	21 Jun 2005	21 Jun 2008	21 Jun 2015	€12.85	23,000					23,000
	12 Jun 2007	12 Jun 2010	12 Jun 2017	€15.45	33,950			33,950		-
	3 Jun 2008	3 Jun 2011	3 Jun 2018	€8.10	71,600					71,600
<b>TOTAL</b>					<b>154,550</b>			<b>33,950</b>		<b>120,600</b>
<b>D Crowley</b>	21 May 2001	21 May 2004	21 May 2011	€11.05	25,000					25,000
	24 Jun 2002	24 Jun 2005	24 Jun 2012	€12.50	25,000					25,000
	18 Jun 2003	18 Jun 2006	18 Jun 2013	€10.77	50,000					50,000
	26 Jul 2004	26 Jul 2007	26 Jul 2014	€10.76	35,000					35,000
	21 Jun 2005	21 Jun 2008	21 Jun 2015	€12.85	32,500					32,500
	12 Jun 2007	12 Jun 2010	12 Jun 2017	€15.45	33,950			33,950		-
	3 Jun 2008	3 Jun 2011	3 Jun 2018	€8.10	68,800					68,800
<b>TOTAL</b>					<b>270,250</b>			<b>33,950</b>		<b>236,300</b>
<b>D Donovan</b>	24 Jun 2002	24 Jun 2005	24 Jun 2012	€12.50	30,000					30,000
	18 Jun 2003	18 Jun 2006	18 Jun 2013	€10.77	50,000					50,000
	26 Jul 2004	26 Jul 2007	26 Jul 2014	€10.76	35,000					35,000
	21 Jun 2005	21 Jun 2008	21 Jun 2015	€12.85	32,500					32,500
	12 Jun 2007	12 Jun 2010	12 Jun 2017	€15.45	33,950			33,950		-
	3 Jun 2008	3 Jun 2011	3 Jun 2018	€8.10	81,450					81,450
<b>TOTAL</b>					<b>262,900</b>			<b>33,950</b>		<b>228,950</b>
<b>J O'Donovan</b>	24 Jun 2002	24 Jun 2005	24 Jun 2012	€12.50	25,000					25,000
	18 Jun 2003	18 Jun 2006	18 Jun 2013	€10.77	50,000					50,000
	26 Jul 2004	26 Jul 2007	26 Jul 2014	€10.76	35,000					35,000
	21 Jun 2005	21 Jun 2008	21 Jun 2015	€12.85	32,500					32,500
	12 Jun 2007	12 Jun 2010	12 Jun 2017	€15.45	33,950			33,950		-
	3 Jun 2008	3 Jun 2011	3 Jun 2018	€8.10	67,900					67,900
<b>TOTAL</b>					<b>244,350</b>			<b>33,950</b>		<b>210,400</b>
<b>Secretary</b>										
<b>H Nolan</b>	21 May 2001	21 May 2004	21 May 2011	€11.05	10,000					10,000
	18 Jun 2003	18 Jun 2006	18 Jun 2013	€10.77	10,000					10,000
	26 Jul 2004	26 Jul 2007	26 Jul 2014	€10.76	12,000					12,000
	21 Jun 2005	21 Jun 2008	21 Jun 2015	€12.85	11,000					11,000
	12 Jun 2007	12 Jun 2010	12 Jun 2017	€15.45	9,700			9,700		-
	3 Jun 2008	3 Jun 2011	3 Jun 2018	€8.10	16,400					16,400
<b>TOTAL</b>					<b>69,100</b>			<b>9,700</b>		<b>59,400</b>

The above options are pre the Group's 2010 Rights Issue. The Group Remuneration Committee exercised its discretion to not make any technical adjustments to these grants. No other Directors have been granted options to subscribe for units of ordinary stock of the Bank or of other Group entities. The official closing price per unit of ordinary stock at 31 December 2010 was €0.375 (31 December 2009: €1.325).

**(b) Sharesave Scheme Options**

Under the terms of the Sharesave Scheme offered in 2006 and 2007, options were granted in December of each of those years to all eligible Group employees who elected to participate. Option prices were set at a discount of 25% of the then market price as permitted by the Rules in Ireland and at a discount of 20% of the then market price as permitted by the Rules in the UK. Under the terms of the 2006 and 2007 Sharesave offers, participants could save for three years.

The following table summarises the Sharesave Schemes operating in the Group:

Sharesave Scheme	ROI Price	UK Price	Saving Period	Maturity Date
2006	€12.28	€13.09	3 years	*February 2010
2007	**€4.39	**€4.68	3 years	February 2011

The options held under the Sharesave schemes by the Directors and Secretary are set out below:

Name	Sharesave Scheme Date of Grant	Sharesave Options Granted	Market Value per unit of ordinary stock at Date of Grant	Sharesave Options held at 31 December 2010
<b>Directors:</b>				
R Boucher	<b>2006</b> 22 December 2006	301	€17.33	*-
<b>Secretary</b>				
H Nolan	<b>2006</b> 22 December 2006	301	€17.33	*-
	<b>2007</b> 24 December 2007	**842	€10.11	**842

\* The 2006 3 year scheme matured in February 2010. Both Richie Boucher and Helen Nolan opted not to exercise their SAYE options and to take their savings (€3,600 each) and maturity payment (€100 each) in cash.

\*\* The Sharesave Options grant in 2007 has been re-stated following the Group's 2010 Rights Issue with the associated number of shares adjusted upwards by a factor of 1.586176 and the equivalent share price discounted by a factor of 0.630447. These are technical adjustments only and ensure that the aggregate exercise price of an option remains the same before and after the adjustment.

**(c) Long Term Incentive Plan (LTIP)**

Conditional awards of units of ordinary stock were made to Group senior executives in prior years under the terms of the LTIP.

These awards do not vest unless demanding performance criteria are achieved (see description of LTIP in note 47 on page 281). Prior to the introduction of the LTIP in 2004, conditional awards of units of ordinary stock were made under the Long Term Performance Stock Plan (LTPSP).

The performance conditions attached to the award of conditional units of stock made in June 2007 under the LTIP were not met in June 2010 and the awards granted under the scheme lapsed.

As set out previously, the Group did not make an award under this LTIP plan in 2010.



The conditional awards of units of ordinary stock previously made to date to the Executive Directors and the Group Secretary are as follows:

	Date of award	No. of units conditionally held at 1 January 2010	Conditionally awarded in the year	Vested and Retained in Scheme*	Lapsed **	Matching Award*	Released from scheme in the year	Potential interest in shares at 31 December 2010	Original Maturity date	Maturity date*
<b>R Boucher</b>	12 Jun 07	33,950			33,950			-	12 Jun 10	
	3 Jun 08	71,600						71,600	3 Jun 11	
	<b>Total</b>	<b>105,550</b>	<b>-</b>	<b>-</b>	<b>33,950</b>	<b>-</b>	<b>-</b>	<b>71,600</b>		
<b>D Crowley</b>	25 May 00			13,079		3,269	16,348	-	25 May 03	25 May 10
	21 May 01			9,496		2,373		2,373	21 May 04	21 May 11
	24 Jun 02			7,070		1,767		1,767	24 Jun 05	24 Jun 12
	12 Jun 07	33,950			33,950			-	12 Jun 10	
	3 Jun 08	68,800						68,800	3 Jun 11	
	<b>Total</b>	<b>102,750</b>	<b>-</b>	<b>29,645</b>	<b>33,950</b>	<b>7,409</b>	<b>16,348</b>	<b>72,940</b>		
<b>D Donovan</b>	25 May 00			11,494		2,873	14,367	-	25 May 03	25 May 10
	21 May 01			7,067		1,766		1,766	21 May 04	21 May 11
	24 Jun 02			4,714		1,178		1,178	24 Jun 05	24 Jun 12
	12 Jun 07	33,950			33,950			-	12 Jun 10	
	3 Jun 08	81,450						81,450	3 Jun 11	
	<b>Total</b>	<b>115,400</b>	<b>-</b>	<b>23,275</b>	<b>33,950</b>	<b>5,817</b>	<b>14,367</b>	<b>84,394</b>		
<b>J O'Donovan</b>	24 Jun 02			6,034		1,508		1,508	24 Jun 05	24 Jun 12
	12 Jun 07	33,950			33,950			-	12 Jun 10	
	3 Jun 08	67,900						67,900	3 Jun 11	
	<b>Total</b>	<b>101,850</b>	<b>-</b>	<b>6,034</b>	<b>33,950</b>	<b>1,508</b>	<b>-</b>	<b>69,408</b>		
<b>Secretary</b>										
<b>H Nolan</b>	12 Jun 07	6,950			6,950			-	12 Jun 10	
	3 Jun 08	12,300						12,300	3 Jun 11	
	<b>Total</b>	<b>19,250</b>	<b>-</b>	<b>-</b>	<b>6,950</b>	<b>-</b>	<b>-</b>	<b>12,300</b>		

The above units of stock are pre the Group's 2010 Rights Issue. The Group Remuneration Committee exercised its discretion to not make any technical adjustments to these grants.

\* Only applies to awards made under the LTPSP. A minimum of 80% of the vested stock must be retained for two years from maturity of award. After the two year retention period, an additional award of 20% is made. If the award is retained for an additional five years, a further award of 30% is made. These additional awards are made at the maturity date as per the above table.

\*\* This column relates to any conditional grant which may have lapsed during the twelve month period ended 31 December 2010.

## Directors' pension benefits

Set out below are details of the change in accrued pension benefits for the Directors during the twelve month period ended 31 December 2010.

	(a) Additional pension in the period €	(b) Increase / (decrease) in transfer value €	(c) Accrued pension benefits at 31 December 2010 €
<b>Executive Directors</b>			
R Boucher	12,487	(1,051,582)	289,177
D Crowley*	0	(14,250)	270,866
D Donovan*	0	0	268,507
J O'Donovan**	2,001	(16,071)	270,904

Column (a) above is the increase in pension during the period. Increases are after adjustment for inflation and comprise allowance for additional pensionable service, increases in pensionable earnings and any agreed adjustment in the individual's pension accrual.

Column (b) is the additional/(reduced) capital value, less each Director's contributions, of Column (a) which would arise if the pension were to be transferred to another pension plan on the Director leaving the Group and is calculated using factors supplied by the actuary in accordance with actuarial guidance notes ASP PEN-2, and is based on leaving service pension benefits becoming payable at normal retirement date, age 60.

In April 2010, the Group CEO, R Boucher, voluntarily waived his contractual option to retire at age 55 on a pension without actuarial reduction. Column (b) above includes an amount in respect of this change in contractual terms.

Column (c) is the aggregate pension benefits payable at normal retirement age based on each Director's pensionable service with the Group at 31 December 2010.

\* Pension benefits increase annually in line with the increase in fund thresholds announced in the Finance Act each year. In the case of these individuals the pension earned in 2010 is nil as there were no increases in the statutory revaluation or this threshold during 2010.

\*\* Pension benefits have reached the Standard Funds Threshold and will increase annually in line with any increase in the Funds Threshold announced post 31 December 2010.

## Directors' interests in stock

In addition to their interests in the ordinary stock through their holding of stock options and the conditional awards of stock under the LTPSP and LTIP as set out above, the interests of the Directors and Secretary in office at 31 December 2010, and of their spouses and minor children, in the stocks issued by the Bank are set out below:

	Units of €0.10 of ordinary stock At 31 December 2010 beneficial <sup>▲</sup>	Units of €0.64 of ordinary stock At 1 January 2010* beneficial
<b>DIRECTORS</b>		
R Boucher	82,817	33,127
T Considine	12,500	5,000
D Crowley	329,403	130,454
D Donovan	465,567	185,078
P Haran	21,107	8,443
D Holt	40,710	16,284
R Hynes	62,500	+25,000
J Kennedy	20,155	8,062
P Kennedy	55,357	**55,357
H A McSharry	28,385	11,354
P Molloy	2,094,170	1,167,333
J O'Donovan	227,814	91,126
P O'Sullivan	25,000	10,000
J Walsh	26,832	10,733
<b>SECRETARY</b>		
H Nolan	54,707	21,883

<sup>▲</sup> The closing balance above is after the Group's 2010 Rights Issue and reflects the rights taken up by the Directors and Secretary

\* The opening balances above is before the Group's 2010 Rights Issue

+ held as American Depositary Receipts (ADRs). One ADR equates to four units of ordinary stock

\*\* as at date of appointment

Apart from the interests set out above and in the previous section, the Directors and Secretary and their spouses and minor children had no other interests in the stock / securities of the Bank or its Group undertakings at 31 December 2010. There have been no changes in the stockholdings of the above Directors and Secretary between 31 December 2010 and 12 April 2011.

*End of information that forms an integral part of the audited financial statements.*

## Changes in the Directorate during the period

	Executive Directors	Non-Executive Directors
Number at 31 December 2009	4	11
Changes during 2010	None	- D McCourt (retired 19 May 2010) - T Neill (retired 19 May 2010) + P Kennedy (appointed 6 July 2010)
Numbers at 31 December 2010	4	10
<b>Average number during 2010</b>	4	10.25
(Nine month period ended 31 December 2009)	(4)	(11.4)

# Corporate Responsibility

Bank of Ireland continues to focus on Corporate Responsibility and it is an important driver of reputation and business sustainability. Through our ongoing interactions with stockholders, customers, employees and the wider community we work to understand their different needs and strive to balance these with the need of the organisation to act commercially.

## Supporting our Communities

Our primary charitable engagement in the communities in which we operate is through Give Together - our employee led volunteering and fundraising initiative. Since 2007 with the support of Give Together, over €14.5 million has been invested in more than 1,300 community organisations, including over 700 in 2010. In addition, over 3,000 employee volunteering days have been provided across the Group. Community organisations in Ireland will receive further support in 2011 through the disbursement of funds raised from the sale of art in 2010. Financial Education is another area of community investment for Bank of Ireland driven in part by the commitments arising from the Irish Government recapitalisation of the Bank in 2009. In conjunction with Junior Achievement Ireland, the Bank delivered a Financial Education programme to transition year students in 60 schools across Ireland. The Bank has also participated in a working group on Financial Education established by the National Consumer Agency (NCA) which will launch a workplace education scheme in 2011.

## Supporting our Environment

We recognise our wider responsibility in protecting the environment, utilising our resources carefully and promoting appropriate green products to our customers. As a financial services company, energy management is an important area of focus and through our 'Powerofone@BoI' initiative, we have implemented a number of energy efficiencies. External accreditation has been achieved through successful adoption of energy standards ISO14001 and EN16001 in our business. Bank of Ireland is the first financial institution to receive these awards in Ireland. We also promote sustainable travel among employees and in 2010 continued to offer purchase of bikes and cycling equipment through the Bank's 'Cycle to Work' scheme, which was taken up by almost 900 employees. We continue to offer environmental funds to SME's in support of renewable energy and energy efficient projects and we supported homeowners with new products designed to cater for home improvements in conjunction with Sustainability Energy Authority Ireland (SEAI) and ESB.

Please see [www.bankofireland.com](http://www.bankofireland.com) for further information on corporate responsibility initiatives in Bank of Ireland.

We welcome your feedback, please email [corporate.responsibility@boi.com](mailto:corporate.responsibility@boi.com).

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations adopted by the European Union (EU) and with those parts of the Companies Acts, 1963 to 2009 applicable to companies reporting under IFRS and Article 4 of the IAS Regulation and the European Communities (Credit Institutions: Accounts) Regulations, 1992. In preparing these financial statements, the Directors have also elected to comply with IFRS issued by the International Accounting Standards Board (IASB).

Irish company law requires the Directors to prepare financial statements which give a true and fair view of the state of affairs of the Bank and the Group and of the profit or loss of the Group. In preparing these financial statements for the twelve month period ended 31 December 2010, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the financial statements comply with IFRS adopted by the EU and IFRS issued by the IASB; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements are prepared in accordance with IFRS and IFRIC interpretations endorsed by the European Union and with those parts of the Companies Acts, 1963 to 2009 applicable to companies reporting under IFRS and Article 4 of the IAS Regulation and the European Communities (Credit Institutions: Accounts) Regulations, 1992. They are also responsible for safeguarding the assets of the Bank and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also required by the Transparency (Directive 2004 / 109 / EC) Regulations 2007 and the Transparency Rules of the Financial Regulator to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group. Statutory Instrument number 450 of 2009 'European Communities (Directive 2006/46/EC)' (S.I. 450) requires the Directors to make a statement with a description of the main features of the internal control and risk management systems in relation to the process for preparing consolidated accounts for the Group and its subsidiaries.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website.

Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that, to the best of each Director's knowledge and belief:

- They have complied with the above requirements in preparing the financial statements;
- The financial statements, prepared in accordance with IFRS as adopted by the European Union and with IFRS as issued by the IASB, give a true and fair view of the assets, liabilities, financial position of the Group and the Bank and of the loss of the Group; and
- The management report contained in the Business Review includes a fair review of the development and performance of the business and the position of the Group and Bank, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Court by

**Patrick J Molloy**  
Governor

**Dennis Holt**  
Deputy Governor Group

**Richie Boucher**  
Chief Executive

13 April 2011

# Independent Auditors' Report

## Independent Auditors' Report to the Members of the Governor and Company of the Bank of Ireland

We have audited the Group financial statements and the Bank financial statements (together 'the financial statements') of the Bank of Ireland for the year ended 31 December 2010 which comprise the Consolidated income statement, the Consolidated statement of other comprehensive income, the Consolidated and the Bank balance sheets, the Consolidated and the Bank statements of changes in equity, the Consolidated and the Bank cash flow statements, the Group and Bank accounting policies and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements, in accordance with applicable Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the members of the Governor and Company of the Bank of Ireland as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union. We report to you our opinion as to whether the Bank financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2009. We also report to you whether the financial statements have been properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009, Article 4 of the IAS Regulation and the European Communities (Credit Institutions: Accounts) Regulations, 1992. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit, and whether the Bank's balance sheet is in agreement with the books of account.

We also report to you our opinion as to:

- whether the Bank has kept proper books of account;
- whether proper returns adequate for the purposes of our audit have been received from branches of the Bank not visited by us;
- whether the information in the Report of the Directors is consistent with the financial statements; and
- whether at the balance sheet date there existed a financial situation which may require the Bank to convene an extraordinary general Court of the Bank; such a financial situation may exist if the net assets of the Bank, as stated in the Bank balance sheet, are not more than half of its called-up share capital.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding Directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

We are required by law to report to you our opinion as to whether the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements is consistent with the Group financial statements. In addition, we review whether the Corporate Governance Statement reflects the Bank's compliance with the nine provisions of the June 2008 Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, and we report if it does not. We are not required to consider whether the Directors' statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the unaudited part of the Business Review, the Report of the Directors, the unaudited part of the Remuneration Report, the Corporate Governance Statement and all other information listed on the Contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial

statements, and of whether the accounting policies are appropriate to the Group's and Bank's circumstances, consistently applied and adequately disclosed.

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

### Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2010 and of its loss and cash flows for the year then ended;
- the Bank financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2009, of the state of the Bank's affairs as at 31 December 2010 and of its cash flows for the year then ended;
- the Group and Bank financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009, Article 4 of the IAS Regulation and the European Communities (Credit Institutions: Accounts) Regulations 1992.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Bank and proper returns adequate for the purpose of our audit have been received from branches of the Bank not visited by us. The Bank balance sheet is in agreement with the books of account.

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

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

### Separate opinion in relation to IFRSs

As explained in the Basis of Preparation on page 197, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
Dublin

13 April 2011

# Consolidated income statement

for the 12 months ended 31 December 2010

	Note	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
Interest income	3	5,179	4,188
Interest expense	4	(2,960)	(2,009)
<b>Net interest income</b>		<b>2,219</b>	<b>2,179</b>
Net insurance premium income	5	969	665
Fee and commission income	6	633	474
Fee and commission expense	6	(257)	(255)
Net trading income / (expense)	7	225	(28)
Life assurance investment income and gains	8	474	958
Gain on subordinated liability management	9	1,402	1,037
Other operating income	10	199	31
<b>Total operating income</b>		<b>5,864</b>	<b>5,061</b>
Insurance contract liabilities and claims paid	11	(1,268)	(1,462)
<b>Total operating income, net of insurance claims</b>		<b>4,596</b>	<b>3,599</b>
Other operating expenses	12	(1,803)	(1,387)
Impact of amendments to defined benefit pension schemes	45	733	-
<b>Operating profit before impairment charges on financial assets and loss on NAMA</b>		<b>3,526</b>	<b>2,212</b>
Impairment charges on financial assets (excluding assets sold or held for sale to NAMA)	14	(2,055)	(2,373)
Impairment charges on assets sold or held for sale to NAMA	15	(229)	(1,684)
Loss on sale of assets to NAMA including associated costs	16	(2,241)	-
<b>Operating loss</b>		<b>(999)</b>	<b>(1,845)</b>
Share of results of associates and joint ventures (after tax)	17	49	35
Loss on disposal of business activities	18	-	(3)
<b>Loss before taxation</b>		<b>(950)</b>	<b>(1,813)</b>
Taxation credit	19	341	344
<b>Loss for the period</b>		<b>(609)</b>	<b>(1,469)</b>
Attributable to non-controlling interests		5	(9)
Attributable to stockholders		(614)	(1,460)
<b>Loss for the period</b>		<b>(609)</b>	<b>(1,469)</b>
Loss per unit of €0.10 ordinary stock (cent) (2009: €0.64 cent)	20	(21.7c)	*(106.3c)
Diluted loss per unit of €0.10 ordinary stock (cent) (2009: €0.64 cent)	20	(21.7c)	*(106.3c)

\* Restated to reflect the bonus element of the Rights Issue which took place in June 2010 (see note 20)

**Patrick J Molloy**  
Governor

**Dennis Holt**  
Deputy Governor

**Richie Boucher**  
Group Chief Executive

**Helen Nolan**  
Group Secretary



# Consolidated statement of other comprehensive income

for the 12 months ended 31 December 2010

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Loss for the period</b>	(609)	(1,469)
<b>Other comprehensive income, net of tax:</b>		
Net change in revaluation reserve	(15)	(53)
Cash flow hedge reserve		
Changes in fair value	(105)	(419)
Transfer to income statement	380	501
Net change in cash flow hedge reserve	275	82
Available for sale reserve		
Changes in fair value	(354)	973
Transfer to income statement		
- On asset disposal	(13)	(49)
- Impairment	147	-
Net change in available for sale reserve	(220)	924
Net actuarial gain / (loss) on defined benefit pension funds	391	(74)
Foreign exchange translation gains	157	117
<b>Other comprehensive income for the period net of tax</b>	<b>588</b>	<b>996</b>
<b>Total comprehensive income for the period net of tax</b>	<b>(21)</b>	<b>(473)</b>
Total comprehensive income attributable to equity stockholders	(26)	(464)
Total comprehensive income attributable to non-controlling interests	5	(9)
<b>Total comprehensive income for the period net of tax</b>	<b>(21)</b>	<b>(473)</b>

The effect of tax on these items is shown in note 19

**Patrick J Molloy**  
Governor

**Dennis Holt**  
Deputy Governor

**Richie Boucher**  
Group Chief Executive

**Helen Nolan**  
Group Secretary

# Consolidated balance sheet

as at 31 December 2010

	Note	31 December 2010 €m	31 December 2009 €m
<b>ASSETS</b>			
Cash and balances at central banks		1,014	4,241
Items in the course of collection from other banks		491	400
Trading securities	21	151	403
Derivative financial instruments	22	6,375	5,824
Other financial assets at fair value through profit or loss	23	10,045	9,679
Loans and advances to banks	24	7,458	5,031
Available for sale financial assets	25	15,576	20,940
NAMA senior bonds	26	5,075	-
Loans and advances to customers	27	114,457	119,439
Assets held for sale to NAMA	28	804	9,581
Interest in associates	30	26	23
Interest in joint ventures	31	199	194
Intangible assets – goodwill	32	44	48
Intangible assets – other	32	408	459
Investment properties	33	1,304	1,265
Property, plant and equipment	34	372	404
Current tax assets		125	134
Deferred tax assets	44	1,128	865
Other assets	35	2,291	2,170
Retirement benefit asset	45	11	6
Other assets classified as held for sale	36	119	-
<b>Total assets</b>		<b>167,473</b>	<b>181,106</b>
<b>EQUITY AND LIABILITIES</b>			
Deposits from banks	37	41,075	17,903
Customer accounts	38	65,443	84,812
Items in the course of transmission to other banks		293	198
Derivative financial instruments	22	5,445	6,037
Debt securities in issue	39	28,693	43,144
Liabilities to customers under investment contracts	40	5,271	5,050
Insurance contract liabilities	40	7,188	6,658
Other liabilities	42	3,102	2,778
Current tax liabilities		139	121
Provisions	43	64	142
Deferred tax liabilities	44	91	134
Retirement benefit obligations	45	435	1,638
Subordinated liabilities	41	2,775	6,053
Liabilities held for sale to NAMA	28	-	1
Other liabilities classified as held for sale	36	52	-
<b>Total liabilities</b>		<b>160,066</b>	<b>174,669</b>
<b>Equity</b>			
Capital stock	47	1,210	699
Stock premium account	48	3,926	4,092
Retained earnings		3,740	3,263
Other reserves		(1,510)	(1,580)
Own stock held for the benefit of life assurance policyholders		(15)	(87)
<b>Stockholders' equity</b>		<b>7,351</b>	<b>6,387</b>
Non-controlling interests		56	50
<b>Total equity</b>		<b>7,407</b>	<b>6,437</b>
<b>Total equity and liabilities</b>		<b>167,473</b>	<b>181,106</b>

**Patrick J Molloy**  
Governor

**Dennis Holt**  
Deputy Governor

**Richie Boucher**  
Group Chief Executive

**Helen Nolan**  
Group Secretary

# Consolidated statement of changes in equity

as at 31 December 2010

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Capital stock</b>		
Balance at the beginning of the period	699	699
Dividend on 2009 Preference Stock paid in ordinary stock (note 49)	118	-
Issue of ordinary stock (note 49)	238	-
Conversion of 2009 Preference Stock (note 49)	155	-
<b>Balance at the end of the period</b>	<b>1,210</b>	<b>699</b>
<b>Stock premium account</b>		
Balance at the beginning of the period	4,092	4,092
Dividend on 2009 Preference Stock paid in ordinary stock (note 49)	(118)	-
Premium on issue of ordinary stock (note 49)	1,409	-
Transaction costs, net of tax (note 49)	(121)	-
Reduction in stock premium on conversion of preference stock (note 49)	(155)	-
Reduction in stock premium transferred to retained earnings (note 48)	(800)	-
Loss on cancellation of warrants (note 49)	(381)	-
<b>Balance at the end of the period</b>	<b>3,926</b>	<b>4,092</b>
<b>Retained earnings</b>		
Balance at the beginning of the period	3,263	4,761
Loss for the period attributable to stockholders	(614)	(1,460)
Dividends on other equity interests	-	(4)
Transfer (to) / from capital reserve	(46)	29
Loss retained	(660)	(1,435)
Repurchase of capital note (note 9)	24	-
Buyback of treasury stock	(79)	(7)
Transfer from share based payment reserve	4	11
Transfer from stock premium account (note 48)	800	-
Net actuarial gain / (loss) on defined benefit pension schemes	391	(74)
Other movements	(3)	7
<b>Balance at the end of the period</b>	<b>3,740</b>	<b>3,263</b>
<b>Other Reserves:</b>		
<b>Available for sale reserve</b>		
Balance at the beginning of the period	(608)	(1,532)
Net changes in fair value	(402)	1,110
Deferred tax on reserve movements	29	(131)
Transfer to income statement (pre tax)		
- On asset disposal	(15)	(55)
- Impairment (note 14)	168	-
<b>Balance at the end of the period</b>	<b>(828)</b>	<b>(608)</b>
<b>Cash flow hedge reserve</b>		
Balance at the beginning of the period	(510)	(592)
Changes in fair value	(205)	(555)
Transferred to income statement (pre tax)		
- Net interest income (note 3)	411	351
- Net trading income (foreign exchange)	109	325
Deferred tax on reserve movements	(40)	(39)
<b>Balance at the end of the period</b>	<b>(235)</b>	<b>(510)</b>
<b>Foreign exchange reserve</b>		
Balance at the beginning of the period	(1,199)	(1,316)
Exchange adjustments during the period	157	117
<b>Balance at the end of the period</b>	<b>(1,042)</b>	<b>(1,199)</b>

## Statement of changes in equity (continued)

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Capital reserve</b>		
Balance at the beginning of the period	462	491
Transfer from / (to) retained earnings	46	(29)
<b>Balance at the end of the period</b>	<b>508</b>	<b>462</b>
<b>Share based payment reserve</b>		
Balance at the beginning of the period	22	33
Credit to the income statement	(6)	-
Transfer to retained earnings	(4)	(11)
<b>Balance at the end of the period</b>	<b>12</b>	<b>22</b>
<b>Revaluation reserve</b>		
Balance at the beginning of the period	29	82
Revaluation of property	(18)	(60)
Deferred tax on revaluation of property	3	7
<b>Balance at the end of the period</b>	<b>14</b>	<b>29</b>
<b>Other equity reserves</b>		
<b>US\$150 million capital note</b>		
Balance at the beginning of the period	114	114
Repurchase of capital note (note 9)	(53)	-
<b>Balance at the end of the period</b>	<b>61</b>	<b>114</b>
<b>Core and secondary tranche warrants</b>		
Balance at the beginning of the period	110	110
Cancellation of warrants	(110)	-
<b>Balance at the end of the period</b>	<b>-</b>	<b>110</b>
<b>Total other reserves</b>	<b>(1,510)</b>	<b>(1,580)</b>
<b>Own stock held for the benefit of life assurance policyholders</b>		
Balance at the beginning of the period	(87)	(90)
Changes in value and amount of stock held	72	3
<b>Balance at the end of the period</b>	<b>(15)</b>	<b>(87)</b>
<b>Total stockholders' equity excluding non-controlling interests</b>	<b>7,351</b>	<b>6,387</b>
<b>Non-controlling interests</b>		
Balance at the beginning of the period	50	61
Revaluation	-	(2)
Share of net profit / (loss)	6	(9)
<b>Balance at the end of the period</b>	<b>56</b>	<b>50</b>
<b>Total equity</b>	<b>7,407</b>	<b>6,437</b>
<b>Total comprehensive income included within the above:</b>		
Total comprehensive income attributable to equity stockholders	(26)	(464)
Total comprehensive income attributable to non-controlling interests	5	(9)
<b>Total comprehensive income for the period net of tax</b>	<b>(21)</b>	<b>(473)</b>

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# Consolidated cash flow statement

for the twelve month period ended 31 December 2010

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Cash flows from operating activities</b>		
Loss before taxation	(950)	(1,813)
Share of results of associates and joint ventures	(49)	(35)
Gain / (loss) on disposal of business activities	(15)	3
Depreciation and amortisation	147	107
Impairment charges on financial assets (excluding assets sold or held for sale to NAMA)	2,055	2,373
Impairment charges on assets sold or held for sale to NAMA	229	1,684
Loss on sale of assets to NAMA including associated costs	2,241	-
Impairment of intangibles	(2)	6
Decline in value of property below cost	10	6
Net change in prepayments and interest receivable	10	175
Net change in accruals and interest payable	111	(154)
Loans and advances written off net of recoveries	5	(142)
Revaluation of investment property	(49)	98
Interest expense on subordinated liabilities and other capital instruments	312	163
Profit on disposal of available for sale financial assets	(15)	(55)
Credit for share based payments	(6)	-
Charge for provisions	28	88
Charge for retirement benefit obligation	174	149
Impact of amendments to defined benefit pension schemes	(733)	-
Gain on repurchase of subordinated debt	(1,402)	(1,037)
Gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	(360)	6
Amortisation of premiums and discounts	(10)	(12)
Amortisation of debt issue expenses	23	8
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>1,754</b>	<b>1,618</b>
Net change in items in the course of collection from other banks	8	78
Net change in trading securities	252	(278)
Net change in derivative financial instruments	(768)	1,106
Net change in other financial assets at fair value through profit or loss	(273)	(2,062)
Net change in loans and advances to banks	(258)	3,901
Net change in loans and advances to customers	6,288	3,474
Net change in other assets	(20)	81
Net change in deposits from banks	23,143	(10,813)
Net change in customer accounts	(20,355)	566
Net change in debt securities in issue	(15,721)	(1,521)
Net change in liabilities to customers under investment contracts	226	966
Net change in insurance contract liabilities	589	1,024
Net change in other liabilities	(275)	(192)
Effect of exchange translation and other adjustments	(616)	(1,823)
<b>Net cash flow from operating assets and liabilities</b>	<b>(7,780)</b>	<b>(5,493)</b>

## Cash flow statement (continued)

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Net cash flow from operating activities before taxation</b>	<b>(6,026)</b>	<b>(3,875)</b>
Taxation refunded	2	45
<b>Net cash flow from operating activities</b>	<b>(6,024)</b>	<b>(3,830)</b>
Investing activities (section a)	5,230	6,778
Financing activities (section b)	(558)	(838)
<b>Net change in cash and cash equivalents</b>	<b>(1,352)</b>	<b>2,110</b>
Opening cash and cash equivalents	9,187	7,259
Effect of exchange translation adjustments	300	(182)
<b>Closing cash and cash equivalents (note 53)</b>	<b>8,135</b>	<b>9,187</b>
<b>(a) Investing activities</b>		
Additions to available for sale financial assets	(8,106)	(8,587)
Disposal of available for sale financial assets	13,375	15,389
Additions to property, plant & equipment	(41)	(11)
Disposal of property, plant & equipment	8	4
Additions to intangible assets	(50)	(47)
Disposal of investment property	7	33
Dividends received from joint ventures	35	-
Net change in interest in associates	2	(3)
<b>Cash flows from investing activities</b>	<b>5,230</b>	<b>6,778</b>
<b>(b) Financing activities</b>		
Buyback of treasury stock	(7)	(7)
Redemption of subordinated liabilities	(750)	(683)
Interest paid on subordinated liabilities	(218)	(144)
Net proceeds from institutional placing and rights issue	908	-
Cancellation of warrants	(491)	-
Dividends on other equity interests	-	(4)
<b>Cash flows from financing activities</b>	<b>(558)</b>	<b>(838)</b>

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# Group accounting policies

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## Accounting policies

The following are Bank of Ireland Group's principal accounting policies.

### Basis of preparation

The financial statements comprise the Consolidated income statement, the Consolidated statement of other comprehensive income, the Consolidated and Bank balance sheets, the Consolidated and Bank statements of changes in equity, the Consolidated and Bank cash flow statements and the Group and Bank accounting policies and the notes to the Consolidated financial statements and notes to the Bank financial statements. The notes include the information contained in those parts of sections 2.1, 2.2, 2.3, 2.4 and 3 of the Risk Management Report and the information in the Remuneration Report that are described as being an integral part of the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) and with those parts of the Companies Acts, 1963 to 2009 applicable to companies reporting under IFRS, with the European Communities (Credit Institutions: Accounts) Regulations, 1992 and with the Asset Covered Securities Acts, 2001 to 2007. The EU adopted version of IAS 39 currently relaxes some of the hedge accounting rules in IAS 39 'Financial Instruments — Recognition and Measurement'. The Group has not availed of this, hence these financial statements comply with both IFRS as adopted by the EU and IFRS as issued by the IASB.

The financial statements have been prepared under the historical cost convention as modified to include the fair valuation of certain financial instruments and land and buildings.

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. A description of the critical estimates and judgements is set out on pages 219 to 222.

### Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2010 is a period of twelve months from the date of approval of these financial statements ('the period of assessment').

In making this assessment, the Directors considered its business, funding and capital plans, including under base and stress scenarios, together with a range of factors such as the Irish economy and the period over which it is likely to recover, the impact of the EU/IMF Programme, the availability of collateral to access the Eurosystem, the ability of the Group to meet the targets set out in the PCAR and PLAR and in particular the Directors have focussed on the matters set out below:

#### Context

The continued deterioration of the Irish economy throughout 2010 culminating in the EU/IMF Programme for Government has adversely affected the Group's financial condition and performance and poses challenges for the future.

Following a number of downgrades to the credit ratings of the Irish Sovereign and of the Group since August 2010 and the withdrawal of the Irish Sovereign from the funding markets, the Group has experienced a significant outflow of ratings sensitive customer deposits and it has had very limited access to market sources of wholesale funding. As a result the Group is currently dependent on secured funding from the ECB (€23 billion (net) at 31 December 2010) and emergency liquidity assistance from the Central Bank (€8 billion at 31 December 2010). These challenges caused the Group to notify the Central Bank of a temporary breach of regulatory liquidity requirements in January 2011 and April 2011.

It is expected that the Group will continue to be dependent on the ECB and the Central Bank for funding during the period of assessment. The Group understands that, under its Charter, the ECB and the Central Bank cannot provide medium or long term funding and, therefore, the funding received from the ECB and the Central Bank rolls over on a short term basis. This poses a liquidity risk for the Group which the Directors addressed in detail as part of the going concern assessment.



The Programme for the Recovery of the Banking System announced by the Irish Government on 28 November 2010 (the 'EU/IMF programme') provided for a fundamental downsizing and reorganisation of the banking sector so that it was proportionate to the size of the economy. The EU/IMF programme envisaged that the banking sector would be capitalised to the highest international standards, and in a position to return to normal market sources of funding. As a result, the Group will have to raise additional capital to meet these requirements. This poses a capital risk for the Group which the Directors addressed in detail as part of the going concern assessment.

As part of the EU/IMF programme, the Central Bank undertook a Prudential Capital Assessment Review ('PCAR') and a Prudential Liquidity Assessment Review ('PLAR').

### Capital

On 31 March 2011, the Central Bank announced the results of the 2011 Prudential Capital Assessment Review for the Group and three other Irish banks.

The 2011 PCAR is a stress test of the capital resources of the bank. The resultant capital requirements are derived from the results of BlackRock's independent assessment of forecast loan losses through to the end of 2013, the outputs from the Group's deleveraging plans under the 2011 PLAR (including the phased sales of certain non-core assets) and the estimated income and expenditure items based on conservative, Central Bank specified, economic and other factors together with prudent additional regulatory buffers. The process was conducted in close consultation with the staff of the EC, ECB and the IMF, who have reviewed the methodology utilised.

As a result of the PCAR and the PLAR exercises, the Central Bank have assessed that the Group needs to generate an additional €4.2 billion (including a prudent regulatory buffer of €0.5 billion) of equity capital. In addition €1.0 billion of contingent capital is required via the issue of a debt instrument which under certain circumstances would convert to equity capital. A timeline has not yet been set for this capital generating / raising to be completed.

The Minister for Finance confirmed that the Group is a 'Pillar bank' and therefore of systemic importance to the Irish economy. The Minister for Finance has also stated that the Group will be provided with time in order to generate, or raise from private sources, the additional capital required. The Department of Finance and the NTMA have confirmed to the Group that it is Irish Government policy to provide any capital that the Group is unable to generate or raise from non-Government sources. As set out in their public announcement of 31 March 2011, the EC, ECB and IMF strongly support the authorities' plans to ensure that the capital needs of the Irish banks are met in a timely manner and they further noted that the capital needs can be funded comfortably under the program supported by the EU and IMF. The Directors believe that this satisfactorily addresses the capital risk identified above.

### Liquidity and funding

The 2011 PLAR established funding targets in order to reduce the leverage of the Group, reduce its reliance on short-term, largely ECB and Central Bank funding, and ensure convergence to Basel III liquidity standards over time.

The results of the 2011 PLAR were announced on 31 March 2011 and the Group must achieve a target loan to deposit ratio of 122.5% by December 2013.

The Central Bank's objective in the 2011 PLAR was to ensure that the required improvement in banks' loan to deposit ratios would be by way of deleveraging i.e. the reduction of loans through the disposal and run-down of non-core portfolios.

The Group submitted its deleveraging plan (under both base and stress scenarios) for 2011 to 2013 to the Central Bank as part of the 2011 PLAR process. This deleveraging plan set out the Group's estimates of new lending in its core markets, its plans to dispose or run down non-core assets on a phased basis over time in order to avoid excessive capital losses and its need for liquidity and funding from both the ECB and the Central Bank over the period of the plan. The successful implementation of the plan will reinforce the benefits of higher capital and help the Group to regain access to the market sources of financing.

In its public announcement of 31 March 2011, the Governing Council of the ECB supports the overall plans to deleverage and downsize the balance sheets of the four Irish banks which it noted would help such banks over time to regain market access and play an important role in providing credit to the Irish economy.

The liquidity and funding advanced by the ECB and the Central Bank rolls-over on a short term basis. Continued access to Eurosystem refinancing requires that the Group is solvent. The additional €4.2 billion of equity capital and €1.0 billion of contingent capital will substantially strengthen the Group and give it a sound capital base, particularly given the conservative nature of the assumptions and methodologies that were used in the 2011 PCAR process. Against this background the ECB have confirmed that the Eurosystem will continue to provide liquidity to banks in Ireland and hence the Group.

The ECB noted that the aforementioned measures are to ensure the full implementation of the EU/IMF programme.

In addition, in the context of its assessment of going concern, the Group discussed the relevant public announcements from the ECB, the EC and the IMF and the Minister for Finance (together 'the announcements') with the Central Bank, the Department of Finance, the NTMA and the Financial Regulator (together 'the State authorities') and it sought assurance on the continued availability of required liquidity from the Eurosystem during the period of assessment. The Directors are satisfied, based on the announcements and the clarity of confirmations received from the State authorities, that, in all reasonable circumstances, the required liquidity and funding from the ECB and the Central Bank will be available to the Group during the period of assessment.

The Directors believe that this satisfactorily addresses the liquidity risk above.

### Conclusion

On the basis of the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment.

## Adoption of new accounting standards

The following standards and amendments to standards have been adopted by the Group during the twelve month period ended 31 December 2010:

**IAS 39 (Amendment) - Eligible Hedged Items, 'Financial Instruments: Recognition and Measurement'** This amendment to IAS 39 clarifies how the principles that determine whether a hedged risk or portions of cash flows is eligible for designation as a hedged item or items should be applied. The adoption of this amendment has not had a material impact on the financial statements.

**IAS 27 (Revised), 'Consolidated and separate financial statements'** The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. These transactions will no longer result in goodwill on acquisitions from non-controlling interests or gains and losses on disposals to non-controlling interests. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The adoption of this amendment has not had a material impact on the financial statements.

**IFRS 3 (Revised), 'Business combinations'** The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The adoption of this amendment has not had any impact on the financial statements.

**IFRS 2 (Amendment) - 'Group Cash-settled share-based payment transactions'** The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transactions. The amendment also incorporates the guidance contained in IFRIC 8 and IFRIC 11. The adoption of this amendment has not had a material impact on the financial statements.

**IFRIC 17 - 'Distribution of non-cash to Owners'** IFRIC 17 addresses how non-cash dividends distributed to shareholders should be measured. A dividend obligation is recognised when the dividend was authorised by the entity and is no longer at the discretion of the entity. The dividend obligation should be recognised at fair value of the net assets distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit or loss. Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation. The adoption of this standard has not had any material impact on the financial statements.

**Improvements to IFRSs 2009** The 'Improvements to IFRSs 2009' standard amends 10 standards, bases of conclusions and guidance, and 2 interpretations. The improvements include changes in presentation, recognition and measurement as well as terminology and editorial changes. The adoption of this amendment has not had any material impact on the financial statements.

**Amendment to IAS 24 – ‘Related Party Disclosures’** The Group has early adopted the partial exemption for government-related entities. The adoption of the partial exemption has resulted in financial institutions which are controlled by the Government becoming related parties of the Group, and introduces an exemption from the disclosure requirements of IAS 24 for transactions between government-related entities and the Government, and all other government-related entities unless individually or collectively significant.

**Amendment to IAS 27 – ‘Cost of an investment in a subsidiary, jointly-controlled entity or associate’** The amendment removes the definition of the cost method from IAS 27 and requires an entity to present dividends from investment in subsidiaries, jointly controlled entities and associates as income in the separate financial statements of the investors. The adoption of this amendment has not had a material impact on the financial statements.

**Amendment to IFRS 5 – ‘Non-current Assets Held for Sale and Discontinued Operations’** The amendment clarified that all of a subsidiary’s assets and liabilities are classified as held for sale if a partial disposal / sale plan results in loss of control. The continuing involvement after partial disposal does not prevent classification as a discontinued operation. The adoption of this amendment has not had a material impact on the financial statements.

Details of those IFRS pronouncements which will be relevant to the Group but which were not effective at 31 December 2010 and which have not yet been adopted by the Group are set out on pages 217 and 218.

## Comparatives

Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current period. The following is a list of the comparative figures which have been re-presented in the current period:

The impairment charge in respect of assets held for sale to NAMA for the twelve month period ended 31 December 2010 and the nine month period ended 31 December 2009 is based on loans transferred to NAMA during 2010 together with loans classified as held for sale to NAMA at 31 December 2010. The analysis of the impairment charge for the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been re-presented on this basis to allow comparability. There has been no change in the total comparative figure.

The impairment charge on intangible assets of €6 million for the nine month period ended 31 December 2009 is no longer shown separately in the income statement but is included in other operating expenses as it is not considered material.

## Group accounts

### (1) Subsidiaries

Subsidiaries, which are those companies and other entities (including Special Purpose Entities (SPEs)) in which the Group, directly or indirectly, has power to govern the financial and operating policies, generally accompanying a shareholding of more than half of its voting rights, are consolidated.

Assets, liabilities and results of all group undertakings have been included in the Group financial statements on the basis of financial statements made up to the end of the financial period.

The existence and effect of potential voting rights that are currently exercisable or currently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. In addition foreign exchange gains and losses which arise on the retranslation to functional currency of intercompany monetary assets and liabilities are not eliminated.

Even if there is no shareholder relationship, SPEs are consolidated in accordance with SIC12, if the Group controls them from an economic perspective. SPEs are consolidated when the substance of the relationship between the Group and that entity indicates control. Potential indicators of control include, amongst others, an assessment of the Group's exposure to the risks and benefits of the SPE. Whenever there is a change in the substance of the relationship between the Group and the SPE, the Group performs a reassessment of consolidation. Indicators for a reassessment of consolidation can include changes in ownership of the SPE, changes in contractual arrangements and changes in the financing structure.

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

Upon adoption of IFRS, the Group availed of the exemption not to restate the Group financial statements for any acquisitions or business combinations that took place prior to 1 April 2004.

#### *(2) Associates and Joint Ventures*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures are contractual arrangements whereby the Group and another party undertake an economic activity that is subject to joint control.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. Under this method, the Group's share of the post acquisition profits or losses in associates and joint ventures is recognised in the income statement, and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate or joint venture.

The Group utilises the venture capital exemption for investments where significant influence is present and the business operates as a venture capital business. These investments are designated at initial recognition at fair value through profit or loss.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associate / joint venture; unrealised losses are also eliminated on the same basis unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates and joint ventures includes goodwill (net of any accumulated impairment losses) on acquisition.

Accounting policies of associates and joint ventures have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

#### *(3) Non-controlling Interests*

Transactions with non-controlling interests where the Group has control over the entity are accounted for using the Economic entity model. This accounting model requires that any surplus or deficit that arises on any transaction(s) with non-controlling interests to dispose of or to acquire additional interests in the entity are settled through equity.

#### *(4) Securitisations*

Certain Group undertakings have entered into securitisation transactions in order to finance specific loans and advances to customers. 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 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. In this case 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 the above conditions apply to a fully proportionate share of all or specifically identified cash flows, the relevant accounting treatment is applied to that proportion of the asset.

### Common control transactions

A business combination involving entities or businesses under common control is excluded from the scope of IFRS 3: Business Combinations. The exemption is applicable where the combining entities or businesses are controlled by the same party both before and after the combination. Where such transactions occur, the Bank, in accordance with IAS 8, uses its judgement in developing and applying an accounting policy that is relevant and reliable. In making this judgement management considers the requirements of IFRS dealing with similar and related issues and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the framework. Management also considers the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, to the extent that these do not conflict with the IFRS framework or any other IFRS or interpretation. The comparatives have not been restated.

Accordingly the Bank has applied the guidance as set out in FRS 6 'Acquisitions and Mergers' as issued by the Accounting Standards Board. Where the transactions meet the definition of a group reconstruction or achieves a similar result, predecessor accounting is applied. The assets and liabilities of the business transferred are measured in the acquiring entity upon initial recognition at their existing book value in the Group, as measured under IFRS.

### Foreign currency translation

Items included in the financial statements of each entity of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements of the Group and the financial statements of the Bank are presented in euro.

Foreign currency transactions are translated into functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equities, classified as available for sale, are recognised in other comprehensive income. Exchange differences arising on translation to presentation currency and on consolidation of overseas net investments, are recognised in other comprehensive income.

Assets, liabilities and equity of all the group entities that have a functional currency different from the presentation currency are translated at the closing rate at the balance sheet date and items of income and expense are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions). All resulting exchange differences are recognised in other comprehensive income.

The Group availed of the exemption to deem all accumulated balances arising from translation of foreign subsidiaries to be nil on transition to IFRS on 1 April 2004.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The principal rates of exchange used in the preparation of the financial statements are as follows:

	31 December 2010		31 December 2009	
	Average	Closing	Average	Closing
€ / US\$	1.3258	1.3362	1.4248	1.4406
€ / Stg£	0.8579	0.8607	0.8851	0.8881

## Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment loss. Where the Group revises its estimates of payments or receipts on a financial instrument measured at amortised cost, the carrying amount of the financial instrument (or group of financial instruments) is adjusted to reflect actual and revised estimated cash flows. The Group recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised in profit or loss as income or expense.

## Fee and commission income

Fees and commissions which are not an integral part of the effective interest rate of a financial instrument are generally recognised on an accruals basis when the service has been provided. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts usually on a time apportioned basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Loan commitment fees for loans that are likely to be drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan once drawn.

## Operating loss / profit

Operating loss / profit includes the Group's earnings from ongoing activities after impairment charges and before share of profit or loss on associates and joint ventures (after tax) and gain / loss on disposal of business activities.

## Leases

### (1) A Group company is the lessee

The total payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

The corresponding rental obligations, net of finance charges, are included in long term payables. The interest element of the finance costs is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.



*(2) A Group company is the lessor*

When assets are held under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is included within net interest income and is recognised over the term of the lease reflecting a constant periodic rate of return on the net investment in the lease.

**Financial assets****(1) Classification, Recognition and Measurement**

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held to maturity investments; and available for sale financial assets. The Group determines the classification of its financial assets at initial recognition.

Financial assets that the Group expects will be transferred to NAMA during 2011, have been classified as assets held for sale to NAMA (refer to accounting policy on page 211).

*(a) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss can either be held for trading, if acquired principally for the purpose of selling in the short term, or designated at fair value through profit or loss at inception.

A financial asset may be designated at fair value through profit or loss only when:

- (i) it eliminates or significantly reduces a measurement or recognition inconsistency, (an accounting mismatch), that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis; or
- (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or
- (iii) a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

The principal category of assets designated at fair value through profit or loss are those held by the Group's life assurance business, which are managed on a fair value basis.

Regular way purchases and sales of financial assets at fair value through profit or loss are recognised on trade date: the date on which the Group commits to purchase or sell the asset. Thereafter they are carried on the balance sheet at fair value, with all changes in fair value included in the income statement.

Financial assets may not be transferred out of this category, except for non-derivative financial assets held for trading, which may be transferred out of this category where:

- (i) in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the short term; or
- (ii) they are no longer held for trading, they meet the definition of loans and receivables at the date of reclassification and the Group has the intention and ability to hold the assets for the foreseeable future or until maturity.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans are recorded at fair value plus transaction costs when cash is advanced to the borrowers. They are subsequently accounted for at amortised cost using the effective interest method.

*(c) Held to maturity*

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

Purchases and sales of held to maturity investments are recorded on trade date. They are initially recognised at fair value plus transaction costs and are subsequently accounted for at amortised cost using the effective interest method.

**(d) Available for sale**

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

Purchases and sales of available for sale financial assets are recognised on trade date. They are initially recognised at fair value plus transaction costs. Movements are recognised in other comprehensive income. Interest is calculated using the effective interest method and is recognised in the income statement.

If an available for sale financial asset is derecognised or impaired the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement.

Dividends on available for sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

Available for sale financial assets that would have met the definition of loans and receivables may be reclassified to loans and receivables if the Group has the intention and ability to hold the asset for the foreseeable future or until maturity.

**(2) Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

**(3) Shares in Group Entities**

The Bank's investments in its subsidiaries are stated at cost less any impairment.

**Financial liabilities**

The Group has two categories of financial liabilities: those that are carried at amortised cost and those that are carried at fair value through profit or loss. Financial liabilities are initially recognised at fair value, (normally the issue proceeds i.e. the fair value of consideration received) less, in the case of financial liabilities subsequently carried at amortised cost, transaction costs. For liabilities carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement using the effective interest method.

Preference shares which carry a mandatory coupon are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest method.

A liability may be designated as at fair value through profit or loss only when:

- (i) it eliminates or significantly reduces a measurement or recognition inconsistency, (an accounting mismatch), that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis; or
- (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or
- (iii) a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

The Group designates certain financial liabilities at fair value through profit or loss as set out in note 52 to the financial statements. Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.



## Valuation of financial instruments

The Group recognises trading securities, other financial assets and liabilities designated at fair value through profit or loss, derivatives and available-for-sale financial assets at fair value in the balance sheet. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The fair values of financial assets and liabilities traded in active markets are based on unadjusted bid and offer prices respectively. If an active market does not exist, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Group uses estimates based on the best information available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which primarily uses observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Group recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price. Any day one profit is deferred and recognised in the income statement to the extent that it arises from a change in a factor that market participants would consider in setting a price. Straight line amortisation is used where it approximates to the amount. Subsequent changes in fair value are recognised immediately in the income statement without the reversal of deferred day one profits or losses.

For liabilities designated at fair value through profit or loss, the fair values reflect changes in the Group's own credit spread.

The fair values of the Group's financial assets and liabilities are disclosed within note 52 together with a description of the valuation technique used for each asset or liability category. For assets or liabilities recognised at fair value on the balance sheet, a description is given of any inputs into valuation models that have the potential to significantly impact the fair value, together with an estimate of the impact of using reasonably possible alternative assumptions.

## Sale and repurchase agreements and lending of assets

Assets sold subject to repurchase agreements (repos) are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate.

Securities purchased under agreements to resell (reverse repos) are treated as collateralised loans and recorded as loans and advances to banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and recognised in the income statement over the life of the agreement using the effective interest method.

Securities lent to counterparties are also retained on the balance sheet. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return the securities is recorded at fair value as a trading liability.

## Issued debt and equity securities

The classification of instruments as a financial liability or an equity instrument is dependent upon the substance of the contractual arrangement. Instruments which carry a contractual obligation to deliver cash or another financial asset to another entity are classified as financial liabilities. The coupons on these instruments are recognised in the income statement as interest expense using the effective interest method. Where the Group has absolute discretion in relation to the payment of coupons and repayment of principal, the instrument is classified as equity and any coupon payments are classified as distributions in the period in which they are made.

If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in net trading income.

Due to the materiality of the gains on subordinated liability management (detailed in note 9), those gains have been disclosed as a separate line item within the income statement, rather than included within net trading income.

## Debt for debt exchanges

Where the Group exchanges and an existing borrower agrees to exchange financial liabilities and where the terms of the original financial liability and the new financial liability are substantially different, the exchange is treated as an extinguishment of the original financial liability and the recognition of a new financial liability. The Group considers both quantitative and qualitative measures in determining whether the terms are substantially different. The difference between the carrying amount of the financial liability extinguished and the consideration paid, including any non-cash asset transferred or liabilities assumed, is recognised in profit or loss. Any costs or fees incurred are recognised as part of the gain or loss on extinguishment.

## Debt for equity exchanges

Where the Group settles a liability through the issuance of its own equity instruments the difference between the carrying amount of the financial liability and the fair value of equity instruments issued is recognised in profit or loss. If the fair value of the equity instruments cannot be reliably measured then the fair value of the existing financial liability is used to measure the gain or loss.

## Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Certain derivatives embedded in other financial instruments are separated from the host contract and accounted for as derivatives, when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss.

Fair value gains or losses on derivatives are normally recognised in the income statement. However where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

The Group designates certain derivatives as either:

- (i) hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge); or
- (ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge).

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

### (a) Fair value hedge

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

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

### (b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in other comprehensive income are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised in the income statement when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately reclassified to the income statement.

## Impairment of financial assets

### *Assets carried at amortised cost*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

- (i) delinquency in contractual payments of principal or interest;
- (ii) cash flow difficulties;
- (iii) breach of loan covenants or conditions;
- (iv) deterioration of the borrower's competitive position;
- (v) deterioration in the value of collateral;
- (vi) external rating downgrade below an acceptable level; and
- (vii) initiation of bankruptcy proceedings.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and advances or held to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the charge for loan impairment in the income statement.

The Risk Management Report on pages 89 to 150 contains further detail on loan loss provisioning methodology.

*Available for sale financial assets*

The Group assesses at each balance sheet date whether there is objective evidence that an available for sale financial asset is impaired. In addition to the factors set out above, a significant or prolonged decline in the fair value of an investment in an available for sale equity instrument below its cost is considered in determining whether an impairment loss has been incurred. If an impairment loss has been incurred, the cumulative loss that had been recognised in other comprehensive income is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

**Property, plant and equipment**

Freehold land and buildings are initially recognised at cost, and subsequently are revalued annually to open market value by independent external valuers. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the open market value at the balance sheet date.

All other property, plant and equipment, including freehold and leasehold adaptations, are stated at historical cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on the revaluation of land and buildings are recognised in other comprehensive income. Decreases that offset previous increases on the same asset are recognised in other comprehensive income: all other decreases are charged to the income statement.

The Directors consider that residual values of freehold and long leasehold property based on prices prevailing at the time of acquisition or subsequent valuation are such that depreciation is not material.

Depreciation is calculated on the straight line method to write down the carrying value of other items of property, plant and equipment to their residual values over their estimated useful lives as follows:

Adaptation works on freehold and leasehold property	15 years, or the remaining period of the lease
Computer and other equipment	Maximum of 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or its value in use.

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit before tax. If the asset being disposed of had previously been revalued then any amount in other comprehensive income relating to that asset is reclassified to retained earnings on disposal.

**Investment property**

Property held for long term rental yields and capital appreciation is classified as investment property. Investment property comprises freehold and long leasehold land and buildings. It is carried at fair value in the balance sheet based on annual revaluations at open market value and is not depreciated. Changes in fair values are recorded in the income statement. Rental income from investment properties is recognised as it becomes receivable over the term of the lease.

## Intangible assets

### (a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates or joint ventures is included in 'investments in associates' and 'investments in joint ventures' as appropriate. The carrying amount of goodwill in the Irish GAAP balance sheet as at 31 March 2004 has been brought forward without adjustment on transition to IFRS.

Goodwill is tested annually for impairment, or more frequently if there is any indication that it may be impaired, and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units (CGU) for the purpose of impairment testing. The CGU is considered to be the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The Group impairment model compares the recoverable amount of the CGU with the carrying value at the review date. An impairment loss arises if the carrying value of the CGU exceeds the recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use, where the value in use is the present value of the future cash flows expected to be derived from the CGU.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

### (b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives, which is normally five years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development, employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight line method over their useful lives, which is normally five years.

Computer software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

### (c) Other intangible assets

Other intangible assets are carried at cost less amortisation and impairment, if any and, are amortised on a straight line basis over their useful lives which range from 5 years to 20 years and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or its value in use.

## Assets and liabilities classified as held for sale

An asset or a disposal group is classified as held for sale if the following conditions are met:

- its carrying amount will be recovered principally through sale rather than continuing use;
- it is available for immediate sale; and
- the sale is highly probable within the next twelve months.

When an asset (or disposal group), other than a financial asset or financial liability, is initially classified as held for sale, it is measured at the lower of its carrying amount or fair value less costs to sell at the date of reclassification. Impairment losses subsequent to classification of such assets as held for sale are recognised in the income statement. Increases in fair value less costs to sell of such assets that have been classified as held for sale are recognised in the income statement to the extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset.

The measurement of financial assets or financial liabilities which are classified as held for sale is not impacted by that classification, and they continue to be measured in accordance with the Group's accounting policies for measurement of financial assets and financial liabilities respectively, set out on pages 204 and 205.

When an asset (or disposal group) is classified as held for sale, prior period amounts presented in the balance sheet are not reclassified.

Where the criteria for the classification of an asset (or disposal group) as held for sale cease to be met, the asset (or disposal group) is reclassified out of held for sale and included in the appropriate balance sheet headings.

## Assets and liabilities held for sale to NAMA

Assets and liabilities that the Group expects will be transferred to NAMA during 2011, all of which are financial assets and liabilities, are classified as assets and liabilities held for sale to NAMA.

These assets and liabilities continue to be measured in accordance with the Group's accounting policies for measurement of financial assets and financial liabilities respectively, set out on pages 204 and 205. Loans and advances held for sale to NAMA are measured at amortised cost less any incurred impairment losses, which continue to be calculated in accordance with the Group's accounting policy on impairment of financial assets, set out on pages 208 and 209.

The assets and liabilities will be derecognised when substantially all of the risks and rewards have transferred to NAMA, which will be the date when ownership of or the beneficial interest in the assets is legally transferred to NAMA. This is expected to occur on a phased basis as ownership of each tranche is transferred. Until the date of derecognition, interest income on the assets continues to be recognised using the effective interest method.

Derivatives held for sale to NAMA continue to be measured at fair value through profit or loss.

On the derecognition date, a gain or loss will be recognised, measured as the difference between the fair value of the consideration received and the balance sheet value of the assets transferred, less transaction costs and any provision for the ongoing cost of servicing these assets on behalf of NAMA. The consideration received will be measured at fair value at initial recognition.

## Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provision is made for the anticipated costs of restructuring, including related redundancy costs, when an obligation exists. An obligation exists when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

## Employee benefits

### (a) Pension obligations

The Group companies operate various pension schemes. The schemes are funded and the assets of the schemes are held in separate trustee administered funds. The Group has both defined contribution and defined benefit plans. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets, together with adjustments for unrecognised past service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited directly to reserves through the statement of other comprehensive income. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

Gains and losses on curtailments are recognised when the curtailment occurs which is when amendments have been made to the terms of the plan so that a significant element of future service will no longer qualify for benefits or will qualify only for reduced benefits or when there is a demonstrable commitment to make a significant reduction in the number of employees covered by the plan. The effect of any reduction for past service is a negative past service cost.

For defined contribution plans, once the contributions have been paid, the company has no further payment obligations. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### *(b) Equity compensation benefits*

The Group has a number of equity settled share based payment schemes. The fair value at the date of grant of the employee services received in exchange for the grant of the options or shares is recognised as an expense. The total amount to be expensed over the vesting period is determined on the date the options or shares are granted by reference to their fair value, excluding the impact of any non-market vesting conditions (for example, growth in EPS). Non-market vesting conditions are included in assumptions about the number of options or shares that are expected to vest. At each balance sheet date, the Group revises its estimate of the number of options or shares that are expected to vest. It recognises the impact of the revision of the original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

Where an option is cancelled, the Group immediately recognises, as an expense, the amount of the expense that would have otherwise been recognised over the remainder of the vesting period.

Where new shares are issued, the proceeds received net of any directly attributable transaction costs are credited to share capital (at nominal value) and to share premium, when the options are exercised.

The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the share price over the life of the option and other relevant factors.

Upon transition to IFRS, the Group availed of the exemption only to apply IFRS 2 to share based payments which were granted on or after 7 November 2002 that had not yet vested by 1 January 2005.

#### *(c) Short term employee benefits*

Short term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period in which the employees' service is rendered. Bonuses are recognised where the Group has a legal or constructive obligation to employees that can be reliably measured.

#### *(d) Termination payments*

Termination payments are recognised as an expense when the Group is demonstrably committed to a formal plan to terminate employment before the normal retirement date. Termination payments for voluntary redundancies are recognised where an offer has been made by the Group, it is probable that the offer will be accepted and the number of acceptances can be reliably estimated.



## Income taxes

### (a) Current income tax

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses are utilised.

### (b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax on items taken to other comprehensive income is also recognised in other comprehensive income and is subsequently reclassified to the income statement together with the deferred gain or loss.

### (c) Investment tax credits

Investment tax credits are not recognised until there is reasonable assurance that: (a) the Group has complied with the conditions attaching to them; and (b) the credits will be received. They shall be recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the credits are intended. Investment tax credits related to assets shall be presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset.

## Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and balances with central banks and post office banks which can be withdrawn on demand. It also comprises balances with an original maturity of less than three months.

## Capital stock and reserves

### (1) Stock issue costs

Incremental external costs directly attributable to the issue of new equity stock or options are shown in equity as a deduction, net of tax, from the proceeds.

### (2) Dividends on ordinary stock and preference stock

Dividends on ordinary stock and preference stock are recognised in equity in the period in which they are approved by the Bank's stockholders.

### (3) Treasury stock

Where the Bank or its subsidiaries purchases the Bank's equity capital stock, the consideration paid is deducted from total stockholders' equity as treasury stock until they are cancelled. Where such stock is subsequently sold or reissued, any consideration received is included in stockholders' equity. Any changes in the value of treasury stock held are recognised in equity at the time of the disposal and dividends are not recognised as income or distributions. This is particularly relevant in respect of Bank of Ireland stock held by Bank of Ireland Life for the benefit of policyholders.



*(4) Capital Reserve*

The capital reserve represents transfers from retained earnings and other reserves in accordance with relevant legislation. The capital reserve is not distributable.

*(5) Foreign exchange reserve*

The foreign exchange reserve represents the cumulative gains and losses on the translation of the Group's net investment in its foreign operations since 1 April 2004.

*(6) Revaluation reserve*

The revaluation reserve represents the cumulative gains and losses on the revaluation of property occupied by Group businesses, included within property, plant and equipment and non-financial assets classified as held for sale.

*(7) Available for sale reserve*

The available for sale reserve represents the cumulative change in fair value of available for sale financial assets together with the impact of any fair value hedge accounting adjustments.

*(8) Cash flow hedge reserve*

The cash flow hedge reserve represents the cumulative changes in fair value, excluding any ineffectiveness, of cash flow hedging derivatives. This will be transferred to the income statement when the hedged transactions impact the Group's profit or loss.

**Life assurance operations**

In accordance with IFRS 4, the Group classifies all life assurance products as either insurance or investment contracts for accounting purposes.

Insurance contracts are those contracts that transfer significant insurance risk. These contracts are accounted for using an embedded value basis.

Investment contracts are accounted for in accordance with IAS 39. All of the Group's investment contracts are unit linked in nature. These contracts are accounted for as financial liabilities whose value is contractually linked to the fair value of the financial assets within the policyholders' unit linked funds. The value of the unit linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the balance sheet date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable.

The Group recognises an asset for deferred acquisition costs relating to investment contracts. Up front fees received for investment management services are deferred. These amounts are amortised over the period of the contract.

Non unit linked insurance liabilities are calculated using either a gross premium or net premium method of valuation. The assumptions are also set in accordance with the guidelines in the Insurance Regulations and contain a margin for adverse development. The key assumptions used in the valuation of insurance contract liabilities are:

Interest rate	The interest rates are derived in accordance with the guidelines in the Insurance Regulations. Margins for risk are allowed for in the derived interest rates.
Mortality and morbidity	The mortality and morbidity assumptions, which include an allowance for improvements in longevity for annuitants, are set with regard to the Group's actual experience and / or relevant industry data.
Maintenance expenses	Allowance is made for future policy costs and expense inflation explicitly.

The Group recognises the value of in force life assurance business asset as the present value of future profits expected to arise from contracts classified as insurance contracts under IFRS 4. The asset has been calculated in accordance with the embedded value achieved profits methodology in the Statement of Recommended Practice issued by the Association of British Insurers which came into force in 2002. The asset is determined by projecting the future statutory surpluses attributable to stockholders estimated to arise from insurance contracts. The surpluses are projected using appropriate assumptions as to future investment returns, persistency, mortality and expense levels and include consideration of guarantees and options. These surpluses are then discounted at a risk adjusted rate. Thus, the use of best estimate assumptions in the valuation of the value of in force asset ensures that the net carrying amount of insurance liabilities less the value of in force asset is adequate.

The value of in force asset in the consolidated balance sheet and movements in the asset in the income statement are presented on a gross of tax basis. The tax charge comprises both current and deferred tax expense and includes tax attributable to both stockholders and policyholders for the period.

#### *Premiums and claims*

Premiums receivable in respect of non unit linked insurance contracts are recognised as revenue when due from policyholders.

Premiums received in respect of unit linked insurance contracts are recognised in the same period in which the related policyholder liabilities are created. Claims are recorded as an expense when they are incurred.

#### *Reinsurance*

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group are dealt with as insurance contracts, subject to meeting the significant insurance risk test in IFRS 4. Outward reinsurance premiums are accounted for in accordance with the contract terms when due for payment.

### Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right of set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### Collateral

The Group enters into master agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis.

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

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts, in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet, with a corresponding liability recognised within deposits from banks or deposits from customers. Any interest payable arising is recorded as interest expense.

In certain circumstances, the Group pledges collateral in respect of liabilities or borrowings. Collateral pledged in the form of securities or loans and advances continues to be recorded on the balance sheet. Collateral placed in the form of cash is recorded in loans and advances to banks or customers. Any interest receivable arising is recorded as interest income.

### Financial guarantees

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities ('facility guarantees'), and to other parties in connection with the performance of customers under obligations related to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties. Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee is given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

Any increase in the liability relating to guarantees is taken to the income statement and recognised on the balance sheet within provisions for undrawn contractually committed facilities and guarantees.

## Group accounting policies

### Operating segments

The segment analysis of the Group's results and financial position is set out in note 2. The Group has identified five reportable operating segments, which are as follows: Retail Republic of Ireland, Bank of Ireland Life, UK Financial Services, Capital Markets and Group Centre.

These segments have been identified on the basis that the chief operating decision-maker uses information based on these segments to make decisions about assessing performance and allocating resources. The analysis of results by operating segment is based on management accounts information.

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

### Materiality

In its assessment of materiality, the Group considers the impact of any misstatements based on both:

- the amount of the misstatement originating in the current year income statement; and
- the effects of correcting the misstatement existing in the balance sheet at the end of the current year irrespective of the year in which the misstatement occurred.

## Impact of new accounting standards

The following standards, interpretations and amendments to standards will be relevant to the Group but were not effective at 31 December 2010 and have not been applied in preparing these financial statements. The Group's initial view of the impact of these accounting changes is outlined below.

New standards, interpretations and amendments to standards effective for the year ended 31 December 2011 or later.

Pronouncement	Nature of change	Effective date	Impact
Amendment to IFRIC 14, 'Prepayments of a Minimum Funding Requirement'	The amendment removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.	Financial periods beginning on or after 1 January 2011	Not significant
IFRIC 19 - 'Extinguishing Financial Liabilities with Equity Instruments'	The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). IFRIC 19 requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished.	Financial periods beginning on or after 1 July 2010	There is no impact on the Group as it is consistent with the Group's existing accounting policy
Amendment to IAS 32 - Classification of Rights Issues	The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously such issues had to be accounted for as derivative liabilities.	Annual periods beginning on or after 1 February 2010	Not significant
Amendment to IAS 24 - 'Related Party Disclosures'	The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities	The Group has early adopted the partial exemption for government-related entities and will adopt the rest of the amendment in the annual period beginning 1 January 2011	Not significant

## Impact of new accounting standards (continued)

Pronouncement	Nature of change	Effective date	Impact
IFRS 9, 'Financial instruments'	<p>IFRS 9 is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. The first stage of IFRS 9 dealt with the classification and measurement of financial assets and was issued in November 2009. An addition to IFRS 9 dealing with financial liabilities was issued in October 2010. The main changes from IAS 39 are summarised as follows:</p> <ul style="list-style-type: none"> <li>• The multiple classification model in IAS 39 is replaced with a single model that has only two classification categories: amortised cost and fair value;</li> <li>• Classification under IFRS 9 is driven by the entity's business model for managing financial assets and the contractual characteristics of the financial assets;</li> <li>• The requirement to separate embedded derivatives from financial asset hosts is removed;</li> <li>• The cost exemption for unquoted equities is removed;</li> <li>• Most of IAS 39's requirements for financial liabilities are retained, including amortised cost accounting for most financial liabilities;</li> <li>• Guidance on separation of embedded derivatives will continue to apply to host contracts that are financial liabilities;</li> <li>• Fair value changes attributable to changes in own credit risk for financial liabilities designated under the fair value option other than loan commitments and financial guarantee contracts are required to be presented in the statement of other comprehensive income unless the treatment would create or enlarge an accounting mismatch in profit or loss. These amounts are not subsequently reclassified to the income statement but may be transferred within equity.</li> </ul> <p>The new standard is still subject to EU endorsement.</p>	Financial periods beginning on or after 1 January 2013	The Group is assessing the impacts of adopting IFRS 9.
Improvements to IFRSs 2010	The IASB has issued the 'Improvements to IFRSs 2010' standard which amends 6 standards and 1 interpretation based on the exposure draft issued in August 2009. The improvements include changes in presentation, recognition and measurement as well as terminology and editorial changes.	Financial periods beginning on 1 July 2010 for certain amendments or 1 January 2011 for the remaining amendments	Not significant
Amendment to IAS 12 'Income Taxes'	The amendment introduces an exception to the existing principle for the measurement of the deferred tax asset or liabilities arising on investment property measured at fair value. This amendment is still subject to EU endorsement.	Financial periods beginning on or after 1 January 2012	Not significant
Amendment to IFRS 7 'Disclosures – Transfer of financial assets'	The amendment addresses disclosures required to help users of financial statements evaluate the risk exposures relating to transfer of financial assets and the effect of those risks on an entity's financial position. The amendment is subject to EU endorsement.	Annual periods beginning on or after 1 July 2011	Not significant

# Critical accounting estimates and judgements

In preparing the financial statements, the Group makes estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As management judgement involves an estimate of the likelihood of future events, actual results could differ from those estimates, which could affect the future reported amounts of assets and liabilities. The estimates and judgements that have had the most significant effect on the amounts recognised in the Group's financial statements are set out below.

## (a) Impairment charges on financial assets

The Group reviews its loan portfolios at least on a quarterly basis to assess impairment. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The use of historical loss experience is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to differ from that suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess inherent loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment loss derived solely from historical loss experience.

A key judgemental area is in relation to residential mortgages. This loan portfolio has been significantly affected in the current economic climate, as values of security have considerably reduced and, particularly in Ireland, there are very low levels of activity in the sector. Residential mortgage loans before impairment provisions at 31 December 2010, including those held for sale to NAMA, amounted to €60 billion (31 December 2009: €60 billion), against which were held provisions for impairment of €0.7 billion (31 December 2009: €0.4 billion).

A further significant judgemental area is in relation to impairment of property and construction loans and advances. The loans in this portfolio have been similarly affected by the current economic climate. Property and construction loans before impairment provisions at 31 December 2010, including those held for sale to NAMA, amounted to €25.3 billion (31 December 2009: €35.5 billion), against which were held provisions for impairment of €2.5 billion (31 December 2009: €3.9 billion).

The estimation of impairment charges is subject to uncertainty, which has increased in the current economic environment, and is highly sensitive to factors such as the level of economic activity, unemployment rates, bankruptcy trends, property price trends and interest rates. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment charges are reviewed regularly in the light of differences between loss estimates and actual loss experience.

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Group's impairment charge on financial assets are set out in the Risk Management Report (see section 2.1).

## (b) Taxation

The taxation charge accounts for amounts due to fiscal authorities in the various territories in which the Group operates and includes estimates based on a judgement of the application of law and practice in certain cases to determine the quantification of any liabilities arising. In arriving at such estimates, management assesses the relative merits and risks of tax treatments assumed, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice.

At 31 December 2010, the Group had a net deferred tax asset of €1,037 million (31 December 2009: €731 million), of which €898 million (31 December 2009: €475 million) related to incurred trading losses. See note 44.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unutilised tax losses can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of future taxable profits, and the future reversals of existing taxable temporary differences.

To the extent that the recognition of a deferred tax asset is dependent on sufficient future profitability, a degree of estimation and the use of assumptions is required. The Group's judgement takes into consideration the impact of both positive and negative evidence, including historical financial performance, projections of future taxable income, the impact of tax legislation and future reversals of existing taxable temporary differences.

The most significant judgement relates to the Group's assessment of the recoverability of the portion of the deferred tax asset relating to trading losses. Under current Irish and UK tax legislation, there is no time restriction on the utilisation of these losses. There is however, a restriction on the utilisation of tax losses carried forward by a financial institution participating in NAMA. This lengthens the period over which the deferred tax asset will reverse by restricting the amount of profits against which the carried forward trading losses can be utilised. The balance continues to be available for indefinite carry forward and there is no time limit on the utilisation of these losses.

Based on its projection of future taxable income, the Group has concluded that it is probable that sufficient taxable profits will be generated to recover this deferred tax asset, and it has been recognised in full.

#### **(c) Assets held for sale to NAMA**

Assets that the Group expects will be transferred to NAMA, all of which are financial assets, are classified as assets held for sale to NAMA. In the preparation of the financial statements at 31 December 2010, there are a number of key areas of judgement in relation to these assets, and in relation to certain assets transferred to NAMA during 2010.

The first of these is the identification of the quantity of assets which are expected to transfer to NAMA. Based on the Eligible Asset Regulations (as contained within the NAMA regulations), internal review work to identify all loans falling within the eligibility criteria, the change in the total exposure threshold by debtor and ongoing interaction with NAMA, the Group expects to transfer remaining Eligible Bank Assets comprising land and development and associated loans of approximately €0.8 billion (after impairment provisions of €75 million) (31 December 2009: €9.4 billion (after impairment provisions of €2.8 billion)). As interactions with NAMA and the internal review work are ongoing and there is a possibility that loans that are expected to transfer may be repaid or refinanced with other banks, there is uncertainty as to the final amount of eligible assets that will transfer.

In addition, significant judgement is required in relation to the level of impairment incurred on these assets, the vast majority of which are property and construction loans. As set out in the Group's accounting policy for assets held for sale to NAMA on page 211, impairment on these assets continues to be calculated on the same basis as prior to their classification as held for sale. The areas of judgement and estimation involved are set out in the above section on impairment of financial assets, together with the level of impairment provisions held against property and construction loans at 31 December 2009, including these assets.

Derecognition of the assets held for sale to NAMA will only occur when substantially all of the risks and rewards of ownership have been transferred to NAMA. This will only occur on a phased basis when ownership of the beneficial interest in each tranche is legally transferred to NAMA.

Judgement is also required in the estimation at 31 December 2010 of the consideration receivable for certain assets transferred to NAMA on an accelerated basis, prior to the completion of full due diligence, in October 2010 and December 2010. The final consideration for these assets will only be known when the due diligence has been completed.

On 28 November 2010 the Irish Government announced, as part of the EU/IMF Programme, an amendment to the NAMA process requiring the Group (and Allied Irish Banks plc) to sell to NAMA, (following the enactment of changes to the NAMA legislation and relevant due diligence) those remaining eligible land and development loans where the Group has an individual customer / sponsor exposure of less than €20 million which at 31 December 2010, was estimated to amount to €4.1 billion (before impairment provisions). The new Irish Government, which took office on 9 March 2011, stated in its programme for government that 'it would end further asset transfers to NAMA, which are unlikely to improve market confidence in either the banks or the state'. The Group has therefore not classified these assets as held for sale to NAMA at 31 December 2010.

Further information on the expected transfer of assets to NAMA is set out in note 28.

**(d) Fair value of financial instruments**

The Group measures certain of its financial instruments at fair value in the balance sheet. This includes trading securities, other financial assets and liabilities at fair value through profit or loss, all derivatives and available for sale financial assets. The fair values of financial instruments are determined by reference to observable market prices where available and an active market exists. Where market prices are not available or are unreliable, fair values are determined using valuation techniques including discounted cash flow models which, to the extent possible, use observable market inputs.

Where valuation techniques are used they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparable market prices. Using valuation techniques may necessitate the estimation of certain pricing inputs, assumptions or model characteristics such as credit risk, volatilities and correlations and changes in these assumptions could affect reported fair values.

The fair value movement on assets and liabilities held at fair value through profit or loss, including those held for trading, are included in net trading income. Fair values in respect of financial assets and liabilities are disclosed in note 52.

The most significant area of judgement is in relation to financial assets and liabilities classified within level 3 of the 3-level fair value hierarchy.

These assets consist principally of NAMA subordinated debt, which is classified as an available for sale debt instrument. NAMA subordinated debt does not trade in an active market for which observable market data is available. Its fair value has been estimated using a discounted cash flow valuation technique incorporating observable yields on bonds trading in active markets, and movements in those yields during the twelve month period ended 31 December 2010. The effect of using reasonably possible alternative assumptions would be to decrease the fair value of this debt by up to €25 million or to increase its fair value by up to €13 million, with a corresponding impact on the income statement.

As with all financial assets, NAMA senior bonds are measured at fair value at initial recognition. The bonds do not trade in an active market. Fair value at initial recognition has been estimated by using a valuation technique which takes into consideration the Government guarantee, collateral and other support, and valuations in the repo market. The bonds are subsequently measured at amortised cost.

Liabilities classified within level 3 comprise debt securities in issue, certain customer deposits and subordinated liabilities with a fair value of €670 million (31 December 2009: €763 million) which are measured at fair value through profit or loss, and the fair value of which is based on valuation techniques incorporating significant unobservable market data. The key judgement relates to the Group's credit spread, the estimation of which has become more judgemental in current market circumstances. The Group estimates this spread by reference to recent transactions in the same instrument or in similar instruments issued by the Group. The effect of changing the estimated credit spreads to a range of reasonably possible alternatives would decrease the fair value of the liabilities by up to €94 million or increase their fair value by up to €85 million, with a corresponding impact on the income statement.

**(e) Retirement benefits**

The Group operates a number of defined benefit pension schemes. In determining the actual pension cost, the actuarial values of the liabilities of the schemes are calculated by external actuaries. This involves modelling their future growth and requires management to make assumptions as to discount rates, price inflation, dividend growth, salary and pensions increases, return on investments and employee mortality. There are acceptable ranges in which these estimates can validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used. An analysis of the sensitivity of the defined benefit pension liability to changes in the key assumptions is set out in note 45 on retirement benefit obligations.

The Group completed a review of its defined benefit schemes in April 2010 and a shared solution to address the deficit in the Bank of Ireland Staff Pensions Fund (BSPF) and other defined benefit schemes, involving members of the schemes and the Group, was developed. By 31 December 2010, the shared solution was implemented in respect of members of the BSPF, the Bank of Ireland Affiliated Pension Fund (Affiliated Pension Fund), formerly known as the BIAM Pension Scheme (BIAM Scheme), the Bank of Ireland Finance Limited Pension Scheme (BIF Scheme), the NIIB Group Limited (1975) Group scheme (NIIB scheme) and the Bank of Ireland (IOM) Pension Scheme (note 45).

The most significant accounting judgement relating to these amendments is the Group's assessment of whether its legal and constructive obligations have been amended. For active members, these amendments require the agreement of affected employees and the gain is only recognised to the extent that this acceptance has been received at 31 December 2010. For deferred and current pensioners, the benefit gains have been recognised to the extent that the Group has formed the judgement that it has amended its constructive and legal obligations in relation to these members at 31 December 2010.



**(f) Life assurance operations**

The Group accounts for the value of the stockholders' interest in long term assurance business using the embedded value basis of accounting. Embedded value is comprised of the net tangible assets of Bank of Ireland Life and the present value of its in force business. The value of in force business is calculated by projecting future surpluses and other net cash flows attributable to the shareholder arising from business written up to the balance sheet date and discounting the result at a rate which reflects the shareholder's overall risk premium, before provision has been made for taxation.

Future surpluses will depend on experience in a number of areas such as investment returns, lapse rates, mortality and investment expenses. Surpluses are projected by making assumptions about future experience, having regard to both actual experience and forecast long term economic trends. Changes to these assumptions may cause the present value of future surpluses to differ from those assumed at the balance sheet date and could significantly affect the value attributed to the in force business. The value of in force business could also be affected by changes in the amounts and timing of other net cash flows (principally annual management charges and other fees levied upon the policyholders) or the rate at which the future surpluses and cash flows are discounted. In addition, the extent to which actual experience is different from that assumed will be recognised in the income statement for the period. An analysis of the sensitivity of profit after tax and stockholders' equity to changes in the key life assurance assumptions is set out in note 59 on the life assurance business.

**(g) Provisions**

The Group has recognised provisions in relation to restructuring costs, onerous contracts and litigation. Such provisions are sensitive to a variety of factors, which vary depending on their nature. The estimation of the amounts of such provisions is judgemental because the relevant payments are due in the future and the quantity and probability of such payments is uncertain.

The methodology and the assumptions used in the calculation of provisions are reviewed regularly and, at a minimum, at each reporting date. Details of the Group's provisions are set out in note 43.

# Notes to the consolidated financial statements

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## 1 Comparative period

On 17 February 2010, the Governor and Company of the Bank of Ireland announced that it was changing its fiscal year end from 31 March to 31 December to align its financial calendar with that of its peer banks.

These consolidated financial statements cover the twelve month period from 1 January 2010 to 31 December 2010, while the comparative period covers the nine month period from 1 April 2009 to 31 December 2009. As a result, the amounts presented in the financial statements are not entirely comparable.

The impairment charge in respect of assets held for sale to NAMA for the twelve month period ended 31 December 2010 and the nine month period ended 31 December 2009 is based on loans sold to NAMA during 2010 together with loans classified as held for sale to NAMA at 31 December 2010. The analysis of the impairment charge for the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been re-presented on this basis to allow comparability with no change to the total impairment charge.

The impairment charge on intangible assets of €6 million for the nine month period ended 31 December 2009 is no longer shown separately in the income statement but is included in other operating expenses as it is not considered material.

## 2 Operating segments

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

### Retail Republic of Ireland

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

### Bank of Ireland Life (BoI Life)

Bank of Ireland Life comprises the life insurer, New Ireland Assurance Company plc, and the business unit which distributes New Ireland investment and insurance products through the Group's branch network. New Ireland offers protection, investment and pension products to the Irish market through the Group's branch network, independent brokers and its direct sales force.

### UK Financial Services

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

On 1 November 2010, the Group transferred a substantial part of its UK banking business to a new, wholly owned UK subsidiary Bank of Ireland (UK) plc. The main businesses that were transferred were Business Banking UK, a portion of the UK residential and commercial mortgage books, together with selected Bank of Ireland branded deposits, Post Office branded deposits and business activities with the UK Post Office. This had no impact on the segment.

### Capital Markets

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

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

## 2 Operating segments (continued)

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

### Group Centre

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

### Other reconciling items

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

### Basis of preparation of segmental information

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

The measures of segmental assets and liabilities provided to the chief operating decision maker are not adjusted for transfer pricing adjustments or revenue sharing agreements as the impact on the measures of segmental assets and liabilities is not significant.

The Group's management reporting and controlling systems use accounting policies that are the same as those referenced in Accounting Policies on pages 197 to 218. The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as 'Underlying profit or loss' in our internal management reporting systems.

Underlying profit or loss excludes:

- gain on liability management exercises;
- impact of amendments to defined benefit pension schemes;
- gains / (charges) arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'<sup>1</sup>;
- impact of 'coupon stopper' on certain subordinated debt<sup>2</sup>;
- gross-up for policyholder tax in the Life business;
- investment return on treasury stock held for policyholders in the Life business;
- the cost of restructuring programmes; and
- gain / (loss) on disposal of business activities.

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

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

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

<sup>1</sup> This item was included in underlying profit / loss previously. Underlying profit / loss has been restated accordingly.

<sup>2</sup> In January 2010 the European Commission imposed restrictions on the Group's ability to make coupon payments on certain subordinated liabilities unless under a binding legal obligation to do so (a 'coupon stopper' provision). On 31 December 2009 the Group expected that it would be precluded from making coupon payments on these instruments for two years and therefore, as a result of this change in expected cashflows, the Group recognised a gain of €67 million in its financial statements for the nine month period ended 31 December 2009. As announced by the Group on 16 April 2010, it was expected at that date that the 'coupon stopper' provision would cease on 31 January 2011. The European Commission confirmed this on 15 July 2010. Consequently the Group has recognised a charge of €36 million in the twelve month period ended 31 December 2010 to reflect this change. Of this amount €35 million (nine month period ended 31 December 2009: gain of €58 million) has been reported in interest expense, under the effective interest method, while €1 million (nine month period ended 31 December 2009: gain of €9 million) was reported in net trading income as a change in fair value (note 7).

## 2 Operating segments (continued)

12 months ended 31 December 2010	Retail Republic of Ireland €m	Bol Life €m	UK Financial Services €m	Capital Markets €m	Group Centre €m	Other reconciling items €m	Group €m
Interest income	3,853	19	2,818	4,048	(400)	(5,174)	5,164
Interest expense	(2,843)	(21)	(2,226)	(3,163)	151	5,174	(2,928)
<b>Net interest income</b>	<b>1,010</b>	<b>(2)</b>	<b>592</b>	<b>885</b>	<b>(249)</b>	<b>-</b>	<b>2,236</b>
Other income, net of insurance claims	347	175	62	43	(61)	-	566
<b>Total operating income, net of insurance claims</b>	<b>1,357</b>	<b>173</b>	<b>654</b>	<b>928</b>	<b>(310)</b>	<b>-</b>	<b>2,802</b>
Other operating expenses	(865)	(95)	(336)	(275)	(67)	-	(1,638)
Depreciation and amortisation	(54)	(8)	(36)	(12)	(37)	-	(147)
<b>Total operating expenses</b>	<b>(919)</b>	<b>(103)</b>	<b>(372)</b>	<b>(287)</b>	<b>(104)</b>	<b>-</b>	<b>(1,785)</b>
<b>Operating profit / (loss) before impairment charges on financial assets and loss on NAMA</b>	<b>438</b>	<b>70</b>	<b>282</b>	<b>641</b>	<b>(414)</b>	<b>-</b>	<b>1,017</b>
Impairment charges on financial assets (excluding sold or held for sale to NAMA)	(1,157)	-	(464)	(364)	(70)	-	(2,055)
Impairment charges on assets sold or held for sale to NAMA	(85)	-	(15)	(129)	-	-	(229)
Loss on sale of assets to NAMA including associated costs	(675)	-	(398)	(1,121)	(47)	-	(2,241)
Share of results of associates and joint ventures	12	-	37	-	-	-	49
<b>Underlying (loss) / profit before tax</b>	<b>(1,467)</b>	<b>70</b>	<b>(558)</b>	<b>(973)</b>	<b>(531)</b>	<b>-</b>	<b>(3,459)</b>

Reconciliation of underlying loss before tax to loss before taxation	Group €m
Underlying loss before tax	(3,459)
Gain on liability management exercises	1,413
Impact of amendments to defined benefit pension schemes	733
Gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	360
Impact of 'coupon stopper' on certain subordinated debt	(36)
Gross-up for policyholder tax in the Life business	22
Investment return on treasury stock held for policyholders in the Life business	20
Cost of restructuring programmes	(18)
Gain on disposal of business activities <sup>1</sup>	15
<b>Loss before taxation</b>	<b>(950)</b>

<sup>1</sup> This relates to a gain of €15 million arising on the re-measurement of a loan note received as consideration for the disposal of a business activity in the nine month period ended 31 December 2009, due to an increase in the expected cash flows. Consistent with the Group's definition of underlying profit, this item has been classified as non-core and excluded from underlying profit.

## 2 Operating segments (continued)

9 months ended* 31 December 2009	Retail Republic of Ireland €m	Bol Life €m	UK Financial Services €m	Capital Markets €m	Group Centre €m	Other reconciling items €m	Group €m
Interest income	3,304	14	2,339	3,438	(513)	(4,394)	4,188
Interest expense	(2,425)	(16)	(1,874)	(2,733)	578	4,394	(2,076)
<b>Net interest income</b>	<b>879</b>	<b>(2)</b>	<b>465</b>	<b>705</b>	<b>65</b>	<b>-</b>	<b>2,112</b>
Other income, net of insurance claims	129	153	70	83	(96)	-	339
<b>Total operating income, net of insurance claims</b>	<b>1,008</b>	<b>151</b>	<b>535</b>	<b>788</b>	<b>(31)</b>	<b>-</b>	<b>2,451</b>
Other operating expenses	(646)	(78)	(277)	(222)	(59)	-	(1,282)
Depreciation and amortisation	(48)	(4)	(27)	(8)	(26)	-	(113)
<b>Total operating expenses</b>	<b>(694)</b>	<b>(82)</b>	<b>(304)</b>	<b>(230)</b>	<b>(85)</b>	<b>-</b>	<b>(1,395)</b>
<b>Operating profit / (loss) before impairment charges</b>							
<b>on financial assets</b>	<b>314</b>	<b>69</b>	<b>231</b>	<b>558</b>	<b>(116)</b>	<b>-</b>	<b>1,056</b>
Impairment charges on financial assets (excluding held for sale to NAMA)	(1,272)	-	(710)	(391)	-	-	(2,373)
Impairment charges on assets sold or held for sale to NAMA	(564)	-	(352)	(768)	-	-	(1,684)
Share of results of associates and joint ventures	8	-	26	1	-	-	35
<b>Underlying (loss) / profit before tax</b>	<b>(1,514)</b>	<b>69</b>	<b>(805)</b>	<b>(600)</b>	<b>(116)</b>	<b>-</b>	<b>(2,966)</b>

	Group €m
<b>Reconciliation of underlying loss before tax to loss before taxation</b>	
Underlying loss before tax	(2,966)
Gain on liability management exercises	1,037
Charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	(6)
Impact of 'coupon stopper' on subordinated debt	67
Gross-up for policyholder tax in the Life business	64
Investment return on treasury stock held for policyholders in the Life business	(6)
Loss on disposal of business activities	(3)
<b>Loss before taxation</b>	<b>(1,813)</b>

\* A number of reclassifications have been made to the Income Statement for the nine month period ended 31 December 2009:

- The impairment charges on financial assets and assets sold or held for sale to NAMA have been adjusted for the nine month period ended 31 December 2009 to reflect changes in the eligibility criteria for loans transferring to NAMA during 2010 with no change to the total impairment charge (further details are set out in note 15).
- The impairment charge on intangible assets of €6 million is shown in operating expenses where previously it had been shown as a separate line item.
- The charge of €6 million arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss' has been reclassified as a non-core item.
- During 2010 the Group changed the reported presentation of the results of two of its subsidiaries such that the income and other operating expenses are presented on separate line items in the Income Statement. To facilitate a more meaningful comparison a similar presentation has now been adopted in the nine month period ended 31 December 2009. This has led to a decrease in net interest income of €9 million, an increase in other income of €17 million and an increase in operating expenses of €8 million as compared to the amounts previously reported for these line items.

## 2 Operating segments (continued)

12 months ended 31 December 2010	Retail Republic of Ireland €m	Bol Life €m	UK Financial Services €m	Capital Markets €m	Group Centre €m	Other reconciling items €m	Group €m
Analysis by operating segment							
Capital expenditure	27	3	18	4	38	-	90
Investment in associates and joint ventures	146	-	79	-	-	-	225
External assets	47,715	12,325	52,642	50,949	3,842	-	167,473
Inter segment assets	76,490	1,918	36,765	151,054	47,302	(313,529)	-
<b>Total assets</b>	<b>124,205</b>	<b>14,243</b>	<b>89,407</b>	<b>202,003</b>	<b>51,144</b>	<b>(313,529)</b>	<b>167,473</b>
External liabilities	50,467	12,802	26,027	66,693	4,077	-	160,066
Inter segment liabilities	74,415	535	63,591	135,582	39,406	(313,529)	-
<b>Total liabilities</b>	<b>124,882</b>	<b>13,337</b>	<b>89,618</b>	<b>202,275</b>	<b>43,483</b>	<b>(313,529)</b>	<b>160,066</b>
9 months ended 31 December 2009	Retail Republic of Ireland €m	Bol Life €m	UK Financial Services €m	Capital Markets €m	Group Centre €m	Other reconciling items €m	Group €m
Analysis by operating segment							
Capital expenditure	-	2	32	6	20	-	60
Investment in associates and joint ventures	134	-	74	9	-	-	217
External assets	52,999	11,744	53,804	60,101	2,458	-	181,106
Inter segment assets	68,946	1,714	22,202	135,270	47,020	(275,152)	-
<b>Total assets</b>	<b>121,945</b>	<b>13,458</b>	<b>76,006</b>	<b>195,371</b>	<b>49,478</b>	<b>(275,152)</b>	<b>181,106</b>
External liabilities	49,109	12,081	18,400	78,562	16,517	-	174,669
Inter segment liabilities	72,401	515	58,298	117,743	26,195	(275,152)	-
<b>Total liabilities</b>	<b>121,510</b>	<b>12,596</b>	<b>76,698</b>	<b>196,305</b>	<b>42,712</b>	<b>(275,152)</b>	<b>174,669</b>
12 months ended 31 December 2010	Retail Republic of Ireland €m	Bol Life €m	UK Financial Services €m	Capital Markets €m	Group Centre €m	Eliminations €m	Group €m
Gross revenue by operating segments							
External customers	1,936	279	2,269	1,598	1,780	-	7,862
Inter-segment revenue	2,310	11	769	2,664	(368)	(5,386)	-
<b>Total gross revenue</b>	<b>4,246</b>	<b>290</b>	<b>3,038</b>	<b>4,262</b>	<b>1,412</b>	<b>(5,386)</b>	<b>7,862</b>
9 months ended 31 December 2009	Retail Republic of Ireland €m	Bol Life €m	UK Financial Services €m	Capital Markets €m	Group Centre €m	Eliminations €m	Group €m
External customers	1,458	247	1,814	1,107	1,264	-	5,890
Inter-segment revenue	1,996	15	693	2,474	(734)	(4,444)	-
<b>Total gross revenue</b>	<b>3,454</b>	<b>262</b>	<b>2,507</b>	<b>3,581</b>	<b>530</b>	<b>(4,444)</b>	<b>5,890</b>

## 2 Operating segments (continued)

The analysis below is on a geographical basis - based on the location of the business unit by which the revenues are generated.

12 months ended  
31 December 2010

Geographical analysis	Ireland €m	United Kingdom €m	Rest of World €m	Eliminations €m	Total €m
External revenues	4,985	2,661	216	-	7,862
Inter segment revenue	974	616	171	(1,761)	-
<b>Gross revenue</b>	<b>5,959</b>	<b>3,277</b>	<b>387</b>	<b>(1,761)</b>	<b>7,862</b>
<b>Capital expenditure</b>	<b>72</b>	<b>18</b>	<b>-</b>	<b>-</b>	<b>90</b>
External assets	107,893	56,560	3,020	-	167,473
Inter segment assets	57,983	23,657	3,035	(84,675)	-
<b>Total assets</b>	<b>165,876</b>	<b>80,217</b>	<b>6,055</b>	<b>(84,675)</b>	<b>167,473</b>
External liabilities	132,105	25,959	2,002	-	160,066
Inter segment liabilities	27,482	53,411	3,782	(84,675)	-
<b>Total liabilities</b>	<b>159,587</b>	<b>79,370</b>	<b>5,784</b>	<b>(84,675)</b>	<b>160,066</b>

9 months ended  
31 December 2009

Geographical analysis	Ireland €m	United Kingdom €m	Rest of World €m	Eliminations €m	Total €m
External revenues	3,795	2,022	73	-	5,890
Inter segment revenue	1,003	509	226	(1,738)	-
<b>Gross revenue</b>	<b>4,798</b>	<b>2,531</b>	<b>299</b>	<b>(1,738)</b>	<b>5,890</b>
<b>Capital expenditure</b>	<b>27</b>	<b>32</b>	<b>1</b>	<b>-</b>	<b>60</b>
External assets	116,259	59,089	5,758	-	181,106
Inter segment assets	57,873	26,684	10,731	(95,288)	-
<b>Total assets</b>	<b>174,132</b>	<b>85,773</b>	<b>16,489</b>	<b>(95,288)</b>	<b>181,106</b>
External liabilities	138,292	26,627	9,750	-	174,669
Inter segment liabilities	29,722	59,478	6,089	(95,289)	-
<b>Total liabilities</b>	<b>168,014</b>	<b>86,105</b>	<b>15,839</b>	<b>(95,289)</b>	<b>174,669</b>



### 3 Interest income

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
Loans and advances to customers (including loans held for sale to NAMA)	4,387	3,503
Available for sale financial assets	584	498
Finance leases	141	139
Loans and advances to banks	67	48
<b>Interest income</b>	<b>5,179</b>	<b>4,188</b>

Included within interest income is €210 million (nine month period ended 31 December 2009: €161 million) recognised on impaired financial assets. Net interest income also includes a charge of €411 million (nine month period ended 31 December 2009: charge of €351 million) transferred from the cash flow hedge reserve (see page 192).

Interest income in the twelve month period ended 31 December 2010 includes a gain of €15 million arising on the re-measurement of a loan note received as consideration for the disposal of a business activity in the nine month period ended 31 December 2009, due to an increase in the expected cash flows.

### 4 Interest expense

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
Customer accounts	1,467	995
Debt securities in issue	895	653
Subordinated liabilities	312	163
Deposits from banks	286	198
<b>Interest expense</b>	<b>2,960</b>	<b>2,009</b>

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

Included within interest expense for the twelve month period ended 31 December 2010 is an amount of €275 million (nine month period ended 31 December 2009: €nil) relating to the cost of the Credit Institutions (Eligible Liabilities Guarantee) Scheme (ELG). The cost of this scheme is classified as interest expense as it is directly attributable and incremental to the issue of specific financial liabilities. Further information on this scheme is outlined in note 56. The cost of the Credit Institutions (Financial Support) Scheme (CIFS) for the twelve month period ended 31 December 2010 of €68 million (nine month period ended 31 December 2009 of €105 million) is shown in fee and commission expense (note 6).

## 5 Net insurance premium income

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
Gross premiums written	1,069	751
Ceded reinsurance premiums	(112)	(91)
Net premiums written	957	660
Change in provision for unearned premiums	12	5
<b>Net insurance premium income</b>	<b>969</b>	<b>665</b>

## 6 Fee and commission income and expense

Income	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
Retail banking customer fees	362	268
Asset management fees	83	66
Insurance commissions	81	60
Credit related fees	52	41
Brokerage fees	8	8
Other	47	31
<b>Fee and commission income</b>	<b>633</b>	<b>474</b>

Included in other fees is an amount of €3 million (nine month period ended 31 December 2009: €3 million) related to trust and other fiduciary fees.

Expense	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
Government Guarantee fee (note 56)	68	105
Other	189	150
<b>Fee and commission expense</b>	<b>257</b>	<b>255</b>

The Government Guarantee fee relates to the fee paid under the CIFS Scheme, which commenced on 30 September 2008 and expired on 29 September 2010. This fee is included as a fee and commission expense as it is not both directly attributable and incremental to the issue of specific financial liabilities. Further information on the CIFS Scheme is outlined in note 56. The cost of the ELG Scheme for the twelve month period ended 31 December 2010 of €275 million is recognised in interest expense (note 4).

## 7 Net trading income / (expense)

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
Financial assets designated at fair value	19	31
Financial liabilities designated at fair value	189	(137)
Related derivatives held for trading	67	86
	275	(20)
Other financial instruments held for trading	(76)	(13)
Net fair value hedge ineffectiveness	26	7
Cash flow hedge ineffectiveness	-	(2)
<b>Net trading income / (expense)</b>	<b>225</b>	<b>(28)</b>

Net trading income of €225 million (nine month period ended 31 December 2009: net trading expense of €28 million) includes the gains and losses on financial instruments held for trading and those designated at fair value through profit or loss (other than unit linked life assurance assets and investment contract liabilities). It includes the gains and losses arising on the purchase and sale of these instruments, the interest income receivable and expense payable and the fair value movement on these instruments, together with the funding cost of the trading instruments. It also includes €124 million (nine month period ended 31 December 2009: €20 million) in relation to net gains arising from foreign exchange.

Net trading income / (expense) includes the total fair value movement (including interest receivable and payable) on liabilities that have been designated at fair value through profit or loss. The interest receivable on amortised cost assets which are funded by those liabilities is reported in net interest income. Net trading income / (expense) also includes the total fair value movements on derivatives that are economic hedges of assets and liabilities which are measured at amortised cost, the net interest receivable or payable on which is also reported within net interest income. The net amount reported within net interest income relating to these amortised cost instruments was €175 million (nine month period ended 31 December 2009: €71 million).

Net fair value hedge ineffectiveness comprises a net gain from hedging instruments of €280 million (31 December 2009: net loss of €97 million) offsetting a net loss from hedged items of €254 million (nine month period ended 31 December 2009: net gain of €104 million).

The net gain from the change in credit spreads relating to the Group's liabilities designated at fair value through profit or loss was €360 million (nine month period ended 31 December 2009: net loss €6 million). Of this amount, €297 million has been recognised within net trading income, with a further €58 million included within insurance contract liabilities and claims paid and €5 million included in other operating income. The loss in the nine month period ended 31 December 2009 was all included in net trading income. The cumulative impact at 31 December 2010 from the change in credit spreads relating to liabilities recognised on the balance sheet at that date is a net gain of €425 million (31 December 2009: €90 million).

Included within net trading income / (expense) above is a charge of €1 million (nine month period ended 31 December 2009: gain of €9 million) in relation to the revised estimates of future cashflows on certain subordinated liabilities. See note 4 for further details.

## 8 Life assurance investment income and gains

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
Gross life assurance investment income and gains	464	961
Elimination of investment return on treasury stock held for the benefit of policyholders in the Life businesses	10	(3)
<b>Life assurance investment income and gains</b>	<b>474</b>	<b>958</b>

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

## 8 Life assurance investment income and gains (continued)

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

The impact on the Group income statement for the twelve month period ended 31 December 2010 of applying this accounting treatment is that life assurance investment income and gains of €464 million have been increased by €10 million which is the loss on Bank of Ireland stock held under insurance contracts. Other operating income (note 10) has been increased by €10 million which is the loss on stock held under investment contracts. The combined adjustment is €20 million.

## 9 Gain on subordinated liability management

As part of its ongoing capital management activities, the Group has repurchased and / or exchanged certain subordinated liabilities. This involved a number of transactions as follows:

### Twelve month period ended 31 December 2010

- a Debt for Debt exchange relating to five subordinated notes, in February 2010;
- a Debt for Equity offer as part of the 2010 Capital Raising, under which holders of certain notes exchanged these notes for (a) cash proceeds from the allotment of ordinary stock on behalf of such holders in the rights issue or (b) allotment instruments which automatically converted into ordinary stock on 10 September 2010, or (c) a combination thereof;
- a Debt for Debt exchange in July 2010 in relation to US dollar subordinated notes;
- a Debt for Debt exchange in September 2010 in relation to Canadian dollar subordinated notes; and
- a Debt for Debt exchange relating to nine subordinated notes, in December 2010.

### Nine month period ended 31 December 2009

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

Further details on these transactions are set out on pages 265 to 267.

The gains (before taxation) arising on these transactions are summarised below:

	12 months ended 31 December 2010 €m
Debt for debt exchanges (Dated)	
- February 2010 transaction	423
- July 2010 transaction	12
- December 2010 transaction	691
	<b>1,126</b>
Debt for equity offer (Undated)	276
<b>Gain on subordinated liability management</b>	<b>1,402</b>

The September 2010 transaction did not give rise to a gain as the notes repurchased were measured at fair value through profit or loss, and hence the gain realised had already been recognised in net trading income.

	9 months ended 31 December 2009 €m
Repurchase of subordinated notes	
- June 2009 transaction	1,037
<b>Gain on subordinated liability management</b>	<b>1,037</b>

On 10 February 2010 the €750 million 6.45% subordinated bonds were redeemed on reaching their maturity date.

## 9 Gain on subordinated liability management (continued)

The following tables summarise the results of the debt for debt exchanges and the debt for equity offer in the twelve month period ended 31 December 2010 and the repurchase of subordinated liabilities for cash in the nine month period ended 31 December 2009. For further information on the Group's subordinated liabilities please refer to note 41.

Debt for debt exchanges (Dated) during the twelve months ended 31 December 2010 Description	Nominal Amount prior to debt exchange	Nominal Amount exchanged	Residual Nominal Amount	Price (%) <sup>*</sup>	Nominal and fair value of new notes issued
€650 million <i>Fixed / Floating Rate Subordinated Note due 2019</i>					
February 2010 transaction	€650m	€230m	€420m	78%	€179m <sup>(a)</sup>
December 2010 transaction	€420m	€218m	€202m	51%	€111m <sup>(e)</sup>
€600 million <i>Subordinated Floating Rate Notes 2017</i>					
February 2010 transaction	€600m	€442m	€158m	72%	€319m <sup>(a)</sup>
December 2010 transaction	€158m	€110m	€48m	48%	€53m <sup>(e)</sup>
€750 million <i>Floating Rate Subordinated Notes 2017</i>					
February 2010 transaction	€750m	€502m	€248m	73%	€366m <sup>(a)</sup>
December 2010 transaction	€248m	€155m	€93m	48%	€74m <sup>(e)</sup>
€1,002 million <i>Fixed Rate Subordinated Notes 2020</i>					
December 2010 transaction	€1,002m	€255m	€747m	57%	€141m <sup>(e)</sup>
Stg£400 million <i>Fixed / Floating Rate Subordinated Notes 2018</i>					
February 2010 transaction	Stg£400m	Stg£245m	Stg£155m	79%	Stg£194m <sup>(b)</sup>
December 2010 transaction	Stg£155m	Stg£98m	Stg£57m	52%	Stg£45m <sup>(f)</sup> & €7m <sup>(e)</sup>
Stg£450 million <i>Fixed / Floating Rate Subordinated Notes 2020</i>					
December 2010 transaction	Stg£450m	Stg£178m	Stg£272m	53%	Stg£60m <sup>(f)</sup> & €40m <sup>(e)</sup>
Stg£75 million <i>10 ¾% Subordinated Note 2018</i>					
December 2010 transaction	Stg£75m	Stg£48m	Stg£27m	58%	Stg£27m <sup>(f)</sup> & €1m <sup>(e)</sup>
Stg£197 million <i>Fixed Rate Subordinated Notes 2020</i>					
December 2010 transaction	Stg£197m	Stg£110m	Stg£87m	57%	Stg£41m <sup>(f)</sup> & €24m <sup>(e)</sup>
US\$600 million <i>Subordinated Floating Rate Notes due 2018</i>					
February 2010 transaction	US\$600m	US\$227m	US\$373m	70%	€114m <sup>(a)</sup> and Stg£3m <sup>(b)</sup>
July 2010 transaction	US\$373m	US\$45m	US\$328m	68%	€24m <sup>(c)</sup>
December 2010 transaction	US\$328m	US\$143m	US\$185m	46%	€50m <sup>(e)</sup>
CAD\$400 million <i>Fixed / Floating Rate Subordinated Notes 2015</i>					
September 2010 transaction	CAD\$400m	CAD\$179m	CAD\$221m	81%	CAD\$145m <sup>(d)</sup>

<sup>\*</sup>this column shows the price paid as a percentage of the nominal amount exchanged

The net gain after transaction costs amounted to €1,126 million (€1,103 million after taxation) being the net of fair value of the new notes issued of €1,934 million and the carrying value of the notes repurchased of €3,073 million, less transaction costs of €13 million.

The new subordinated liabilities issued in relation to the February 2010 transaction were:

- (a) €978 million, 10% coupon with a maturity of 12 February 2020, and
- (b) Stg£197 million, 10% coupon with a maturity of 12 February 2020

The new subordinated liability issued in relation to the July 2010 transaction was:

- (c) €24 million, 10% coupon with a maturity of 12 February 2020

The new subordinated liability issued in relation to the September 2010 transaction was:

- (d) CAD\$145 million Fixed / Floating with a maturity of 22 September 2018

The new senior notes (included within debt securities in issue) issued in relation to the December 2010 transaction were:

- (e) €500 million, 6.75% with a maturity of 30 January 2012, and
- (f) Stg£173 million, 6.75% with a maturity of 30 January 2012

## 9 Gain on subordinated liability management (continued)

Debt for equity offer (Undated) during the twelve months ended 31 December 2010 Description	Nominal Amount prior to debt for equity offer	Nominal Amount exchanged	Price (%)*	Residual Nominal Amount
<b>Recognised in the income statement</b>				
€600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities	€476m	€223m	86%	€253m
Stg£350 million 6.25% Guaranteed Callable Perpetual Preferred Securities	Stg£46m	Stg£6m	63%	Stg£40m
€600 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	€350m	€134m	60%	€216m
US\$800 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	US\$400m	US\$339m	73%	US\$61m
US\$400 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	US\$200m	US\$180m	72%	US\$20m
Stg£500 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	Stg£37m	Stg£32m	58%	Stg£5m

\*this column shows the price paid as a percentage of the nominal amount exchanged

The net gain after transaction costs on the debt for equity offer on subordinated liabilities amounted to €276 million (€269 million after taxation) being the net of the fair value of the consideration of €588 million and the carrying value of the securities of €871 million less transaction costs of €7 million.

### Recognised in retained earnings

US\$150 million Floating Rate Note (FRN) (accounted for as preference equity)	US\$150m	US\$70m	58%	US\$80m
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The net gain after transaction costs on the debt for equity offer on equity instruments amounted to €24 million after taxation being the fair value of the consideration of €29 million less the carrying value of the notes of €53 million. This amount is shown in other reserves and is included in the Statement of Changes in Equity on page 192.

## 9 Gain on subordinated liability management (continued)

### Repurchase of subordinated liabilities (Undated) during the nine months ended 31 December 2009

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

\*this column shows the price paid as a percentage of the nominal amount exchanged

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

## 10 Other operating income

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
Other insurance income	70	54
Other income	55	(104)
Movement in value of in force asset	41	29
Transfer from available for sale reserve on asset disposal	15	55
Elimination of investment return on treasury stock held for the benefit of policyholders in the Life business (note 58)	10	(3)
Dividend Income	8	-
<b>Other operating income</b>	<b>199</b>	<b>31</b>

Included within other income is a net gain of €26 million (nine month period ended 31 December 2009: charge of €62 million) arising on fair value movements on international investment properties and related activities. In addition, other income for the nine month period ended 31 December 2009 included a charge of €74 million arising from an unfavourable court ruling in connection with a European property investment.

## 11 Insurance contract liabilities and claims paid

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
Surrenders	(597)	(480)
Death and critical illness	(108)	(105)
Annuities	(65)	(34)
Maturities	(3)	(3)
Other	(35)	(34)
Gross claims	(808)	(656)
Reinsurance	47	38
<b>Net claims</b>	<b>(761)</b>	<b>(618)</b>
Change in liabilities:		
Gross	(530)	(1,023)
Reinsurance	23	179
	(507)	(844)
<b>Insurance contract liabilities and claims paid</b>	<b>(1,268)</b>	<b>(1,462)</b>



## 12 Other operating expenses

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
Administrative expenses		
- Staff costs (see analysis below)	1,003	789
- Other administrative expenses	645	479
Depreciation		
- Intangible assets (note 32)	107	75
- Property, plant and equipment (note 34)	40	32
- (Reversal) / impairment of intangible assets	(2)	6
Revaluation of property	10	6
<b>Total other operating expenses</b>	<b>1,803</b>	<b>1,387</b>
Staff costs are analysed as follows:		
Wages and salaries	748	569
Social security costs	76	61
Retirement benefit costs (defined benefit plans) (note 45)	174	147
Retirement benefit costs (defined contribution plans)	-	2
Share based payment schemes	(6)	-
Other	11	10
<b>Staff costs</b>	<b>1,003</b>	<b>789</b>

Excluded from Retirement benefit costs (defined benefit plans) is a gain of €733 million in relation to the impact of amendments to defined benefit pension schemes. The Group completed a review of its defined benefit pension schemes in April 2010 and a shared solution to address the deficit in the Bank of Ireland Staff Pensions Fund (BSPF) and other defined benefit schemes (note 45) involving the members of the schemes and the Group was developed. Based on the status of implementation of the shared solution at 31 December 2010, the Group has recognised a reduction in the deficit of the above pension schemes of €733 million net of any directly related expenses. This gain has been shown as a separate line item on the income statement.

Included in other administration expenses above is an amount of €65 million (nine month period ended 31 December 2009: €49 million) in relation to operating lease payments.

Included in other operating expenses for the nine month period ended 31 December 2009 is an impairment charge on intangible assets of €6 million which was previously shown as a separate line item on the income statement.

### Restructuring

The Group continues to maintain its focus on cost management and is implementing a range of initiatives to further reduce costs. During the twelve month period ended 31 December 2010 the Group incurred costs of €18 million in respect of restructuring activities (nine month period ended 31 December 2009: €nil).

### Staff numbers

In the twelve month period ended 31 December 2010 the average number of staff (full time equivalents) was 14,284 (nine month period ended 31 December 2009: 14,755) categorised as follows in line with the operating segments as stated in note 2.

	12 months ended 31 December 2010	9 months ended 31 December 2009
Retail Republic of Ireland	5,594	5,698
BoI Life	1,016	1,071
UK Financial Services	2,505	2,865
Capital Markets	1,342	1,557
Group Centre	3,827	3,564
<b>Total</b>	<b>14,284</b>	<b>14,755</b>

The increase in staff numbers in Group Centre reflects the ongoing centralisation of support functions in order to maximise operating efficiencies.

### 13 Auditors' remuneration

Notes	Rol (i) €m	Overseas (ii) €m	12 months ended 31 December 2010 Total €m	Restated* 9 months ended 31 December 2009 Total €m
<b>Audit and assurance services (excluding VAT)</b>				
Statutory audit	2.6	0.9	3.5	3.8
Other assurance services (iii)	3.8	0.4	4.2	4.3
	6.4	1.3	7.7	8.1
<b>Other services (excluding VAT)</b>				
Taxation services	0.2	0.2	0.4	0.3
Other non-audit services (iv)	-	-	-	-
<b>Auditors remuneration</b>	<b>6.6</b>	<b>1.5</b>	<b>8.1</b>	<b>8.4</b>

The figures in the above table relate to fees paid to PricewaterhouseCoopers (PwC). The Group Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors.

- (i) Fees paid to the Statutory Auditor, PricewaterhouseCoopers Ireland
- (ii) Fees to overseas auditors principally consist of fees to PwC in the UK
- (iii) Other assurance services consist primarily of fees in connection with reporting to regulators, review of the interim financial statements, letters of comfort, review of compliance with Government Guarantee Schemes, reporting on Sarbanes-Oxley, reporting accountants' work and other accounting matters.
- (iv) Other non-audit services consist primarily of fees for translation services and other assignments.

\*The comparative amounts have been restated to exclude VAT as this is collected by the auditor on behalf of the tax authorities and does not represent remuneration of the auditor.

### 14 Impairment charges on financial assets (excluding assets sold or held for sale to NAMA)

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
Loans and advances to customers (note 27)	1,887	2,371
Available for sale financial assets (AFS) (note 25)	168	2
<b>Impairment charges on financial assets (excluding assets sold or held for sale to NAMA)</b>	<b>2,055</b>	<b>2,373</b>

In the twelve month period ended 31 December 2010, the Group incurred impairment charges of €168 million on assets in its AFS portfolio. This includes a charge of €98 million on a holding of subordinated debt issued by Allied Irish Banks plc. The Group exchanged these bonds for cash in January 2011 without further loss. In addition, the Group incurred an impairment charge of €70 million on NAMA subordinated bonds following the decision by NAMA not to pay the discretionary coupon due on 1 March 2011.

The impairment charge in respect of assets sold or held for sale to NAMA (note 15) for the twelve month period ended 31 December 2010 and the nine month period ended 31 December 2009 is based on loans sold to NAMA during 2010 together with loans classified as held for sale to NAMA at 31 December 2010. The analysis of the impairment charge for the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been re-presented on this basis to allow comparability with no change to the total impairment charge.

In the prior period financial statements, the amount disclosed in respect of impairment charges on financial assets (excluding assets held for sale to NAMA at 31 December 2009) was €1,826 million.

**15 Impairment charges on assets sold or held for sale to NAMA**

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Impairment charges on assets sold or held for sale to NAMA (note 28)</b>	<b>229</b>	<b>1,684</b>

The impairment charge in respect of assets sold or held for sale to NAMA for the twelve month period ended 31 December 2010 and the nine month period ended 31 December 2009 is based on loans sold to NAMA during 2010 together with loans classified as held for sale to NAMA at 31 December 2010. The analysis of the impairment charge for the nine month period ended 31 December 2009 between loans and advances to customers (note 14) and assets sold or held for sale to NAMA has been re-presented on this basis to allow comparability with no change to the total impairment charge.

In the prior period financial statements, the amount disclosed in respect of impairment charges on assets held for sale to NAMA at 31 December 2009 was €2,231 million

**16 Loss on sale of assets to NAMA including associated costs**

The loss on sale of assets to NAMA reflects those assets that were sold to NAMA in the twelve month period ended 31 December 2010 as set out below.

	12 months ended 31 December 2010 €m	€m
<b>Loss on sale of assets to NAMA</b>		
Fair value of consideration <sup>1</sup>		5,046
Assets transferred		
- Loans sold to NAMA (nominal value)	(9,340)	
- Derivatives sold to NAMA (fair value)	(61)	
- Impairment provisions at date of sale	2,237	(7,164)
Other items <sup>2</sup>		(123)
<b>Loss on sale of assets to NAMA</b>		<b>(2,241)</b>

<sup>1</sup> Fair value of consideration consists of NAMA senior bonds (representing 95% of the nominal consideration) and non-Government guaranteed subordinated bonds (representing 5% of the nominal consideration) (see note 25 and note 26).

<sup>2</sup> Other items includes provision for servicing liability, other related sale costs and adjustments in respect of movements in assets between the due diligence valuation date and the date at which they transferred to NAMA.

During the twelve month period ended 31 December 2010, the Group sold €9.4 billion of assets to NAMA, which carried impairment provisions at the date of sale of €2.2 billion. The fair value of the consideration for these assets amounted to €5.0 billion. After taking account of other items (which includes provision for servicing liability, other related sale costs and adjustments in respect of movements in assets between the due diligence valuation date and the date at which they transferred to NAMA), the Group incurred a loss on sale of assets to NAMA of €2.2 billion.

At 31 December 2010, the Group still held as eligible for transfer to NAMA €0.9 billion of assets (before impairment provisions), where the Group has an individual customer / sponsor exposure of greater than €20 million. At 31 December 2010, these assets are classified as assets held for sale to NAMA (note 28) as the Group expects to transfer them to NAMA during 2011. As set out in note 28, the Group expects to incur a loss on the sale of these assets to NAMA.

Further details are set out in note 28.

**17 Share of results of associates and joint ventures (after tax)**

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
First Rate Exchange Services (note 31)	37	27
Property unit trust (note 31)	7	10
Paul Capital Investments LLC (note 31)	-	1
Other joint ventures (note 31)	-	(1)
Associates (note 30)	5	(2)
<b>Share of results of associates and joint ventures (after tax)</b>	<b>49</b>	<b>35</b>

**18 Loss on disposal of business activities**

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
Iridian Asset Management LLC	-	(10)
Guggenheim Alternative Asset Management LLC	-	7
<b>Loss on disposal of business activities</b>	<b>-</b>	<b>(3)</b>

There were no disposals of business activities during the twelve month period ended 31 December 2010.

Interest income in the twelve month period ended 31 December 2010 includes a gain of €15 million arising on the re-measurement of a loan note received as consideration for the disposal of a business activity in the nine month period ended 31 December 2009, due to an increase in the expected cash flows.

See note 36 (Other assets and liabilities classified as held for sale) for details of businesses which were classified as other assets and liabilities classified as held for sale at 31 December 2010 and see note 61 (Post balance sheet events) for details of subsequent disposals.

**19 Taxation**

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Current tax</b>		
Irish Corporation Tax		
- Current year	(21)	(19)
- Prior year	11	5
Double taxation relief	2	1
Foreign tax		
- Current year	(29)	2
- Prior year	(2)	(1)
	(39)	(12)
<b>Deferred tax credit</b>		
Origination and reversal of temporary differences (note 44)	380	356
<b>Taxation credit</b>	<b>341</b>	<b>344</b>

## 19 Taxation (continued)

The reconciliation of tax on the loss before taxation at the standard Irish corporation tax rate to the Group's actual tax credit for the twelve month period ended 31 December 2010 and nine month period ended 31 December 2009 is as follows:

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
Loss before tax multiplied by the standard rate of corporation tax in the Republic of Ireland of 12.5% (2009: 12.5%)	119	227
Effects of:		
Gains arising on repurchase of subordinated liabilities	156	121
Foreign earnings subject to different rates of tax	51	70
Other adjustments for tax purposes	49	(12)
Previously unrecognised deferred tax assets	15	-
Share of results of associates and joint ventures shown post tax in the income statement	6	3
Elimination of investment return on treasury stock held for the benefit of policy holders	2	(1)
Impact of deferred tax rate change	(10)	-
Non-deductible expenses	(15)	(9)
Bol Life Companies - different basis of accounting	(32)	(55)
<b>Taxation credit</b>	<b>341</b>	<b>344</b>

Other adjustments for tax purposes for the nine months ended 31 December 2009 includes an amount of €3 million which was presented separately in the taxation reconciliation in the prior period financial statements.

The effective taxation rate for the twelve month period ended 31 December 2010 is a credit of 36%. The effective taxation rate for the nine month period ended 31 December 2009 is a credit of 19%. Excluding the impact of the gross-up for policyholder tax in the Life business, the elimination of the investment return on treasury stock held for policyholders in the Life business, the gain on liability management exercises, the impact of changes in pension schemes, the profit on gain / (loss) on disposal of business activities, the impact of coupon stopper on subordinated debt, the cost of restructuring programmes, and gains / (charges) arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss', the effective taxation rate was 14% compared to a rate of 16% for the nine month period ended 31 December 2009.

## 19 Taxation (continued)

### Tax effects relating to each component of other comprehensive income

	12 months ended 31 December 2010			9 months ended 31 December 2009		
	Pre tax amount €m	Tax (charge) / credit €m	Net of tax amount €m	Pre tax amount €m	Tax (charge) / credit €m	Net of tax amount €m
Net change in revaluation reserve	(18)	3	(15)	(60)	7	(53)
<b>Cash flow hedge</b>						
Changes in fair value	(205)	100	(105)	(555)	136	(419)
Transfer to income statement	520	(140)	380	676	(175)	(501)
Net change in cash flow hedge reserve	315	(40)	275	121	(39)	82
<b>Available for sale</b>						
Changes in fair value	(402)	48	(354)	1,110	(137)	973
Transfer to income statement						
- On asset disposal	(15)	2	(13)	(55)	6	(49)
- Impairment	168	(21)	147	-	-	-
Net change in reserve	(249)	29	(220)	1,055	(131)	924
Net actuarial gain / (loss) on defined benefit pension funds	465	(74)	391	(99)	25	(74)
Foreign exchange transaction gains	157	-	157	117	-	117
<b>Other comprehensive income for the period</b>	<b>670</b>	<b>(82)</b>	<b>588</b>	<b>1,134</b>	<b>(138)</b>	<b>996</b>

## 20 Loss per share

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

	12 months ended 31 December 2010 €m	9 months* ended 31 December 2009 €m
<b>Basic</b>		
Loss attributable to stockholders	(614)	(1,460)
Dividends on other equity interests	-	(4)
Dividend on 2009 Preference Stock	(231)	(210)
Repurchase of capital note (note 49)	24	-
<b>Loss attributable to ordinary stockholders</b>	<b>(821)</b>	<b>(1,674)</b>
Weighted average number of units of stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders	3,781	1,575
<b>Basic loss per share (cent)*</b>	<b>(21.7)</b>	<b>(106.3)</b>

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

## 20 Loss per share (continued)

As set out in note 49, there were 3,136 million new units of €0.10 ordinary stock issued in June 2010 at €0.55 per share on the basis of three new units of ordinary stock for every two units held under the terms of the rights issue. The actual cum rights price on 19 May 2010, the last day of quotation cum rights, was €1.432 per unit of ordinary stock and the theoretical ex-rights price per unit of €0.10 ordinary stock was therefore €0.9028 per share. The comparative loss per share figures have been calculated by applying a factor of 1.586176 to the average number of units of ordinary stock in issue for the nine month period ended 31 December 2009 in order to adjust for the bonus element of the rights issue.

### Diluted

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

	12 months ended 31 December 2010 €m	9 months* ended 31 December 2009 €m
<b>Diluted</b>		
Loss attributable to stockholders	(614)	(1,460)
Dividends on other equity interests	-	(4)
Dividend on 2009 Preference Stock	(231)	(210)
Repurchase of capital note (note 49)	24	-
<b>Loss attributable to ordinary stockholders</b>	<b>(821)</b>	<b>(1,674)</b>
Weighted average number of units of stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders	3,781	1,575
Effect of all dilutive potential ordinary stock	-	-
	3,781	1,575
<b>Diluted loss per share (cent)*</b>	<b>(21.7)</b>	<b>(106.3)</b>

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

Where a dividend on the 2009 Preference Stock is not paid in either cash or units of ordinary stock, that dividend must subsequently be paid in the form of units of ordinary stock before a subsequent dividend on the 2009 Preference Stock or dividend on ordinary stock can be paid. The dividend required for the twelve month period ended 31 December 2010 has been deducted in the calculation of basic and diluted loss per share.

For the twelve month period ended 31 December 2010 and the nine month period ended 31 December 2009 there was no difference in the weighted-average number of units of stock used for basic and diluted net loss per share as the effect of all potentially dilutive ordinary units of stock outstanding was anti-dilutive.

As at 31 December 2010 there were stock options over 9 million units of ordinary units of stock (31 December 2009: 12 million units of potential ordinary stock and warrants issued to the NPRFC over 335 million units of stock) which could potentially have a dilutive impact in the future, but which were anti-dilutive in the twelve month period ended 31 December 2010 and the nine month period ended 31 December 2009 respectively.

## 21 Trading securities

	31 December 2010 €m	31 December 2009 €m
Debt securities — listed	151	403
<b>Trading securities</b>	<b>151</b>	<b>403</b>

The Group holds a portfolio of bonds for trading purposes typically taking positions in sovereign, financial and corporate risk with an average rating of BBB+ (31 December 2009: AA-).

Included in the above is €137 million of bonds issued by or guaranteed by the Irish Government (31 December 2009: €nil).

## 22 Derivative financial instruments

The Group's use, objectives and policies on managing the risks that arise in connection with derivatives, including the policies for hedging, are included in the Risk Management Report from page 107. The notional amounts of certain types of financial instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit risk. The derivative instruments become assets or liabilities as a result of fluctuations in market rates or prices relative to their terms.

The fair values and notional amounts of derivative instruments held are set out in the following tables:

31 December 2010	Contract / notional amount €m	Assets €m	Fair Values Liabilities €m
<b>Derivatives held for trading</b>			
<b>Foreign exchange derivatives</b>			
Currency forwards	25,564	386	242
Currency swaps	1,051	48	57
Over the counter currency options	1,210	8	8
<b>Total foreign exchange derivatives held for trading</b>	<b>27,825</b>	<b>442</b>	<b>307</b>
<b>Interest rate derivatives</b>			
Interest rate swaps	221,716	2,121	2,287
Cross currency interest rate swaps	25,326	969	678
Forward rate agreements	11,420	5	5
Over the counter interest rate options	8,903	80	73
<b>Total interest rate derivatives held for trading</b>	<b>267,365</b>	<b>3,175</b>	<b>3,043</b>
<b>Equity contracts and credit derivatives</b>			
Equity index linked contracts held	5,334	134	107
Credit derivatives	420	-	-
<b>Total derivative assets / liabilities held for trading</b>	<b>300,944</b>	<b>3,751</b>	<b>3,457</b>
<b>Derivatives held for hedging</b>			
<b>Derivatives designated as fair value hedges</b>			
Interest rate swaps	22,388	701	556
Cross currency interest rate swaps	1,577	223	1
<b>Total designated as fair value hedges</b>	<b>23,965</b>	<b>924</b>	<b>557</b>
<b>Derivatives designated as cash flow hedges</b>			
Interest rate swaps	76,141	1,207	1,431
Currency forwards	23	1	-
Currency swaps	1,836	492	-
<b>Total designated as cash flow hedges</b>	<b>78,000</b>	<b>1,700</b>	<b>1,431</b>
<b>Total derivative assets / liabilities held for hedging</b>	<b>101,965</b>	<b>2,624</b>	<b>1,988</b>
<b>Total derivative assets / liabilities</b>	<b>402,909</b>	<b>6,375</b>	<b>5,445</b>



## 22 Derivative financial instruments (continued)

The fair values and notional amounts of derivative instruments held are set out in the following tables:

	Contract / notional amount €m	Assets €m	Fair Values Liabilities €m
<b>31 December 2009</b>			
<b>Derivatives held for trading</b>			
<b>Foreign exchange derivatives</b>			
Currency forwards	33,354	218	454
Currency swaps	957	58	20
Over the counter currency options	1,191	9	10
<b>Total foreign exchange derivatives held for trading</b>	<b>35,502</b>	<b>285</b>	<b>484</b>
<b>Interest rate derivatives</b>			
Interest rate swaps	182,704	2,078	2,175
Cross currency interest rate swaps	14,936	725	818
Forward rate agreements	17,643	14	15
Over the counter interest rate options	8,732	94	87
<b>Total interest rate derivatives held for trading</b>	<b>224,015</b>	<b>2,911</b>	<b>3,095</b>
<b>Equity contracts and credit derivatives</b>			
Equity index linked contracts held	5,493	148	123
Credit derivatives	721	-	-
<b>Total derivative assets / liabilities held for trading</b>	<b>265,731</b>	<b>3,344</b>	<b>3,702</b>
<b>Derivatives held for hedging</b>			
<b>Derivatives designated as fair value hedges</b>			
Interest rate swaps	28,554	634	595
Cross currency interest rate swaps	922	106	3
<b>Total designated as fair value hedges</b>	<b>29,476</b>	<b>740</b>	<b>598</b>
<b>Derivatives designated as cash flow hedges</b>			
Interest rate swaps	63,023	1,155	1,736
Currency forwards	28	-	1
Currency swaps	2,270	585	-
<b>Total designated as cash flow hedges</b>	<b>65,321</b>	<b>1,740</b>	<b>1,737</b>
<b>Total derivative assets / liabilities held for hedging</b>	<b>94,797</b>	<b>2,480</b>	<b>2,335</b>
<b>Total derivative assets / liabilities</b>	<b>360,528</b>	<b>5,824</b>	<b>6,037</b>

Derivatives classified as held for trading comprise derivatives entered into with trading intent as well as derivatives entered into with economic hedging intent to which the Group does not apply hedge accounting. Derivatives classified as held for hedging in the table above comprise only those derivatives to which the Group applies hedge accounting.

As set out in its risk management policy on page 110, the Group uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of €6.4 billion at 31 December 2010 (31 December 2009: €5.8 billion), €3.5 billion (31 December 2009: €3.8 billion) are available for offset against derivative liabilities under netting arrangements. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities.

Placements with other banks includes cash collateral of €1.8 billion (31 December 2009: €1.9 billion) placed with derivative counterparties in respect of the net derivative liability position of €2.1 billion (31 December 2009: €2.2 billion).

Net derivative assets of €2.9 billion (31 December 2009: €2.1 billion) are not covered by master netting arrangements or relate to counterparties covered by master netting arrangements with whom a net asset position was held at the balance sheet date. At 31 December 2010 cash collateral of €0.7 billion (31 December 2009: €0.5 billion) was held against these assets and is reported within Deposits from banks (note 37).

## 22 Derivative financial instruments (continued)

The Group designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships.

### Fair value hedges

Certain interest rate and cross currency interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate and foreign exchange exposure on the Group's fixed rate debt held and debt issued portfolios.

### Cash flow hedges

The Group designates certain interest rate and currency derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from variable assets and liabilities. Movements in the cash flow hedge reserve are shown in the statement of changes in equity (page 192).

The periods in which the hedged cash flows are expected to occur are shown in the table below.

31 December 2010	1 year €m	1 to 2 years €m	2 to 5 years €m	5 years €m	Total €m
Forecast receivable cash flows	214	285	1,038	460	1,997
Forecast payable cash flows	(1,217)	(1,663)	(919)	(772)	(4,571)

31 December 2009	1 year €m	1 to 2 years €m	2 to 5 years €m	5 years €m	Total €m
Forecast receivable cash flows	153	393	1,215	517	2,278
Forecast payable cash flows	(1,056)	(1,240)	(2,457)	(915)	(5,668)

The hedged cash flows are expected to impact the income statement in the following periods, excluding any hedge accounting adjustments that may be applied:

31 December 2010	1 year €m	1 to 2 years €m	2 to 5 years €m	5 years €m	Total €m
Forecast receivable cash flows	254	307	1,015	421	1,997
Forecast payable cash flows	(2,617)	(344)	(881)	(729)	(4,571)

31 December 2009	1 year €m	1 to 2 years €m	2 to 5 years €m	5 years €m	Total €m
Forecast receivable cash flows	203	418	1,189	468	2,278
Forecast payable cash flows	(3,159)	(550)	(1,104)	(855)	(5,668)

During the twelve month period ended 31 December 2010, there were no forecast transactions to which the Group has applied hedge accounting which were no longer expected to occur. For the nine month period ended 31 December 2009 hedge accounting had been applied to a forecast future borrowing of €190 million which was no longer expected to occur.

## 23 Other financial assets at fair value through profit or loss

	31 December 2010 €m	31 December 2009 €m
Equity securities	7,186	6,404
Government bonds	1,776	1,605
Unit trusts	786	1,013
Debt securities	202	587
Loans and advances	95	70
<b>Other financial assets at fair value through profit or loss</b>	<b>10,045</b>	<b>9,679</b>

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

At 31 December 2010, such assets amounted to €9,781 million (31 December 2009: €9,224 million), while the remaining €264 million (31 December 2009: €455 million) relates to other Group businesses.

## 24 Loans and advances to banks

	31 December 2010 €m	31 December 2009 €m
Placements with other banks	4,062	2,683
Mandatory deposits with central banks	3,102	2,107
Funds placed with central banks	216	223
Securities purchased with agreement to resell	79	20
	7,459	5,033
Less allowance for impairment on loans and advances to banks	(1)	(2)
<b>Loans and advances to banks</b>	<b>7,458</b>	<b>5,031</b>

Placements with other banks includes cash collateral of €1.8 billion (31 December 2009: €1.9 billion) placed with derivative counterparties in relation to net derivative liability positions (note 22).

For the purpose of disclosure of credit risk exposures, loans and advances to banks are included within other financial instruments of €38.6 billion (31 December 2009: €36.1 billion) in the Risk Management Report on page 124.

The Group has entered into transactions to purchase securities with agreement to resell and has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The fair value of this collateral at 31 December 2010 was €79 million (31 December 2009: €21 million).

An amount of €967 million included within mandatory deposits with central banks relates to collateral in respect of notes in circulation (31 December 2009: €838 million).

## 25 Available for sale financial assets

	31 December 2010 €m	31 December 2009 €m
Government bonds	3,736	1,055
Other debt securities		
- listed	11,197	18,438
- unlisted	593	1,391
Equity securities		
- listed	1	16
- unlisted	49	40
<b>Available for sale financial assets</b>	<b>15,576</b>	<b>20,940</b>

At 31 December 2010, available for sale financial assets of €12.9 billion (31 December 2009: €9.8 billion) had been pledged to third parties in sale and repurchase agreements. These securities continue to be recognised on the balance sheet. The Group has not derecognised any securities delivered in repurchase agreements.

Included within unlisted debt securities are non-Government guaranteed subordinated bonds issued by NAMA with a fair value of €98 million (31 December 2009: €nil). These bonds represented 5% of the nominal consideration received for assets sold to NAMA, with the remaining 95% received in the form of NAMA senior bonds (note 26). An impairment charge of €70 million has been incurred on the NAMA subordinated bonds (note 14).

The movement on available for sale financial assets is analysed as follows:

	31 December 2010 €m	31 December 2009 €m
At beginning of period	20,940	26,858
Revaluation, exchange and other adjustments	(105)	874
Additions	8,274	8,587
Sales	(4,328)	(3,385)
Redemptions	(9,047)	(12,004)
Amortisation	10	12
Impairment charge (note 14)	(168)	(2)
<b>At end of period</b>	<b>15,576</b>	<b>20,940</b>

During the twelve month period ended 31 March 2009 the Group reclassified available for sale financial assets with a carrying amount and fair value of €419 million to loans and advances to customers as they are no longer considered to be traded in an active market. At the date of this reclassification, the Group had the intention and ability to hold these assets for the foreseeable future or until maturity. The Group did not make any such reclassifications in the twelve month period ended 31 December 2010 or in the nine month period ended 31 December 2009.

	31 December 2010		31 December 2009	
	Carrying amounts €m	Fair Value €m	Carrying amounts €m	Fair Value €m
AFS financial assets reclassified to loans and advances to customers	432	454	424	432

Interest income of €14 million (nine month period ended 31 December 2009: €11 million) and an impairment charge of €24 million (nine month period ended 31 December 2009: €22 million) have been recognised in the income statement for the twelve month period ended 31 December 2010 in relation to these assets. If the assets had not been reclassified a fair value gain of €36 million (nine month period ended 31 December 2009: €56 million) would have been recognised in other comprehensive income and the impairment charge would have been €24 million (nine month period ended 31 December 2009: €24 million).

## 26 NAMA senior bonds

	31 December 2010 €m	31 December 2009 €m
<b>NAMA senior bonds</b>	<b>5,075</b>	<b>-</b>

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

An active market does not exist for the NAMA senior bonds. They have been classified as loans and receivables and accounted for in line with the Group's accounting policy on loans and receivables as set out on page 204.

At 31 December 2010, all NAMA senior bonds had been pledged to third parties in sale and repurchase agreements.

## 27 Loans and advances to customers

	31 December 2010 €m	31 December 2009 €m
Loans and advances to customers	117,510	119,926
Finance leases and hire purchase receivables (see analysis below)	1,922	2,510
	119,432	122,436
Less allowance for impairment charges on loans and advances to customers (note 29)	(4,975)	(2,997)
<b>Loans and advances to customers</b>	<b>114,457</b>	<b>119,439</b>
<b>Amounts include</b>		
Due from joint ventures	105	113

As at 31 December 2010, loans and advances to customers of €793 million (31 December 2009: €9,457 million) (net of impairment provision of €75 million (31 December 2009: €2,778 million)) were classified as loans held for sale to NAMA (note 28). The total loans and advances to customers above exclude these assets.

An assessment of the credit quality of these assets is set out on page 114 of the Risk Management Report.

### Finance leases and hire purchase receivables

Loans and advances to customers include finance leases and hire purchase receivables, which are analysed as follows:

	31 December 2010 €m	31 December 2009 €m
<b>Gross investment in finance leases:</b>		
Not later than 1 year	932	1,176
Later than 1 year and not later than 5 years	1,067	1,553
Later than 5 years	20	25
	2,019	2,754
Unearned future finance income on finance leases	(97)	(244)
<b>Net investment in finance leases</b>	<b>1,922</b>	<b>2,510</b>
The net investment in finance leases is analysed as follows:		
Not later than 1 year	913	1,072
Later than 1 year and not later than 5 years	993	1,415
Later than 5 years	16	23
	<b>1,922</b>	<b>2,510</b>

## 27 Loans and advances to customers (continued)

The Group's material leasing arrangements include the provision of instalment credit and leasing finance for both consumer and commercial customers.

At 31 December 2010, the accumulated allowance for uncollectable minimum lease payments receivable was €65 million (31 December 2009: €62 million).

### Securitisations

Loans and advances to customers include balances that have been securitised but not derecognised, comprising both residential mortgages and commercial loans. In general, the assets, or interests in the assets, are transferred to Special Purposes Entities (SPEs), which then issue securities to third party investors or to other entities within the Group. All of the Group's Securitisation SPEs are consolidated.

Refer to note 58 for further details on these SPEs, including details of entities that have issued liabilities internal to the Group and thus are capable of being pledged to monetary authorities.

## 28 Assets and liabilities held for sale to NAMA

At 31 December 2010, the Group had financial assets of €0.9 billion (nominal value) (31 December 2009: €12.2 billion) that it classified as assets held for sale to NAMA.

	31 December 2010 €m	31 December 2009 €m
<b>Assets held for sale to NAMA</b>		
Land and development loans	153	8,522
Associated loans (primarily investment loans)	715	3,713
	868	12,235
Impairment provisions	(75)	(2,778)
	793	9,457
Derivatives	7	93
Accrued interest	4	31
<b>Total assets held for sale to NAMA</b>	<b>804</b>	<b>9,581</b>
<b>Analysed by operating segment</b>		
Retail Republic of Ireland	5	2,470
UK Financial Services	618	2,765
Capital Markets	181	4,346
<b>Total assets held for sale to NAMA</b>	<b>804</b>	<b>9,581</b>
<b>Total liabilities held for sale to NAMA (Capital Markets)</b>	<b>-</b>	<b>1</b>

In April 2009, the Minister for Finance announced that NAMA would be established with the purpose of strengthening the Irish financial sector and the NAMA legislation was enacted into law in November 2009. The participation of Bank of Ireland in the NAMA programme was approved by stockholders at an Extraordinary General Court on 12 January 2010.

NAMA has the power to acquire from Participating Institutions, Eligible Bank Assets, that is, land and development loans and certain associated loans (which comprise non-land and non-development related loans to borrowers of land and development related loans, or loans to certain associated entities of borrowers who provided security in respect of the land or development related loans). The geographic distribution of the loans relates to exposures both within and outside Ireland. The Eligible Bank Assets include interest rate derivative contracts sold to borrowers by Participating Institutions that relate to hedging the interest rate exposure on the loans being acquired.

## 28 Assets and liabilities held for sale to NAMA (continued)

In acquiring such assets, NAMA applies a valuation methodology which takes account of the market value of the Eligible Bank Assets on 30 November 2009 and the long term economic value, on a loan by loan basis. As the loan quality, geographic distribution and type of loans vary from financial institution to financial institution, each loan is valued individually. As a result the aggregate discount applied to gross loan values in determining the consideration paid by NAMA varies from financial institution to financial institution. Participating Institutions are required to accept the valuations set by NAMA, subject only to certain limited rights of objection.

As consideration for Eligible Bank Assets transferred, NAMA issues to financial institutions a combination of Government guaranteed bonds, issued by NAMA (not less than 95% of the consideration) and subordinated bonds (not more than 5% of the consideration). These Government guaranteed bonds are marketable instruments that are capable of being pledged as funding collateral to monetary authorities such as the ECB.

Payments on the subordinated bonds, both annually (in respect of coupon payments) and in order to repay the subordinated bonds, are subject to the requirement that NAMA has sufficient funds based on a measure of financial performance of NAMA in totality (rather than on the financial performance of the Eligible Bank Assets acquired from any particular Participating Institution). The subordinated bonds are not guaranteed by the Irish Government and they are not expected to be marketable, they could have a value that is less than their nominal face value and the payment of interest and repayment of capital is dependent on the performance of NAMA.

The Eligible Bank Assets continue to be measured in accordance with the Group's accounting policies for measurement of financial assets and financial liabilities respectively, set out on pages 204 to 206. Loans and advances held for sale to NAMA are measured at amortised cost less any incurred impairment provisions, which continue to be calculated in accordance with the Group's accounting policy on impairment of financial assets, set out on pages 208 and 209.

The assets and liabilities will be derecognised when substantially all of the risks and rewards have transferred to NAMA, which will be the date when ownership of or the beneficial interest in the assets is legally transferred to NAMA. Until the date of derecognition, interest income on the assets continues to be recognised using the effective interest method.

Derivatives held for sale to NAMA continue to be measured at fair value through profit or loss.

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

The consideration received will be measured at fair value at initial recognition. Uncertainties remain as to the final discount which will be applicable. The Group estimates that the discount to gross loan value on the remaining loans held for sale to NAMA may be in a range of 20% to 30%. The Group will only be able to accurately quantify the ultimate gross loss on the sale of all the Group's Eligible Bank Assets to NAMA on completion of the relevant due diligence and the sale of the final portfolio of Eligible Bank Assets to NAMA.

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

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

The loss on disposal of Eligible Bank Assets will be tax deductible. However, the use of such tax losses in future years will be restricted as set out in part 10 of Schedule 3 of the National Asset Management Agency Act 2009 (the Act). This inserts a new section 396C into the Taxes Consolidation Act 1997 which limits the utilisation of tax losses carried forward by a financial institution participating in NAMA. It lengthens the period over which the deferred tax asset created will reverse by restricting the amount of profits against which trading losses can be utilised. The balance is available for indefinite carry forward. There is no time limit on the utilisation of these losses.

## 28 Assets and liabilities held for sale to NAMA (continued)

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

The notional amounts of interest rate derivative instruments held for sale to NAMA at 31 December 2010 was €264 million (31 December 2009: €2,349 million).

The movement on assets held for sale to NAMA during the year ended 31 December 2010 is analysed as follows:

	Assets Gross €m	Impairment Provision €m	Carrying Value €m
<b>Movement in assets held for sale to NAMA</b>			
<b>Opening balance at 1 January 2010</b>			
Loans held for sale (including accrued interest of €27 million)	12,266	(2,778)	9,488
Derivatives held for sale	93	-	93
	<b>12,359</b>	<b>(2,778)</b>	<b>9,581</b>
<b>Movements during the year</b>			
Sale of assets to NAMA	(9,401)	2,237	(7,164)
Changes to scope of NAMA	(2,107)	692	(1,415)
Changes in eligibility and other items	28	3	31
Impairment charges during the year (note 15)	-	(229)	(229)
<b>Closing Balance at 31 December 2010</b>	<b>879</b>	<b>(75)</b>	<b>804</b>
<b>Of which</b>			
Loans held for sale (including accrued interest of €4 million)	872	(75)	797
Derivatives held for sale	7	-	7
<b>Closing Balance at 31 December 2010</b>	<b>879</b>	<b>(75)</b>	<b>804</b>

During the twelve month period ended 31 December 2010, the Group transferred €9.4 billion of assets (before impairment provisions of €2.2 billion) to NAMA.

On 30 September 2010 the Government announced an amendment to the NAMA process to increase the lower limit for customer / sponsor exposure being eligible for transfer to NAMA from €5 million to €20 million. This change resulted in a reduction of €2.1 billion (before impairment provisions) in the amount of the Group's Eligible Bank Assets held for sale to NAMA.

On 28 November 2010 the Irish Government announced, as part of the EU/IMF Programme, an amendment to the NAMA process requiring the Group (and Allied Irish Banks plc) to sell to NAMA, (following the enactment of changes to the NAMA legislation and relevant due diligence) those remaining eligible land and development loans where the Group has an individual customer / sponsor exposure of less than €20 million which at 31 December 2010, was estimated to amount to €4.1 billion (before impairment provisions). The new Irish Government, which took office on 9 March 2011, stated in its programme for government that 'it would end further asset transfers to NAMA, which are unlikely to improve market confidence in either the banks or the state'. The Group has therefore not classified these assets as held for sale to NAMA at 31 December 2010.

Changes in eligibility and other items include:

- assets originally expected to be eligible which became ineligible following consultation with NAMA
- assets originally deemed ineligible but which became eligible due to the borrower having eligible assets with other NAMA participating financial institutions; and
- changes where assets were originally deemed to be eligible but following an individual review of the assets, they were subsequently deemed ineligible.



## 29 Impairment provisions

The following tables show the movement in the impairment provisions on loans and advances to customers, inclusive of loans and advances reclassified to loans held for sale to NAMA:

31 December 2010	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total impairment provisions €m
Impaired financial assets	1,077	3,657	6,279	371	11,384
Provision at 1 January 2010	359	1,152	3,884	380	5,775
Exchange adjustments	4	(5)	29	1	29
Amounts written off	(44)	(287)	(201)	(202)	(734)
Recoveries	1	2	(2)	4	5
Charge against income statement	417	623	949	127	2,116
Release of provision on sale of assets to NAMA	(20)	(22)	(2,195)	-	(2,237)
Other movements	8	12	65	11	96
<b>Provision at 31 December 2010</b>	<b>725</b>	<b>1,475</b>	<b>2,529</b>	<b>321</b>	<b>5,050</b>

The provision at 31 December 2010 is split as follows:

Loans and advances to customers	725	1,474	2,455	321	4,975
Loans held for sale to NAMA	-	-	75	-	75
<b>Provision at 31 December 2010</b>	<b>725</b>	<b>1,474</b>	<b>2,530</b>	<b>321</b>	<b>5,050</b>

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

The provision at 31 December 2009 is split as follows:

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

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

The impairment provisions of €5,050 million at 31 December 2010 comprises specific provisions (including collective provisions) of €4,239 million (31 December 2009: €4,612 million) and IBNR provisions of €811 million (31 December 2009: €1,163 million).

### 30 Interest in associates

	31 December 2010 €m	31 December 2009 €m
At beginning of period	23	22
Fair value and other movements	5	(2)
Increase in investments	5	3
Decrease in investments	(7)	-
<b>At end of period</b>	<b>26</b>	<b>23</b>

In presenting details of the associates of the Group, the exemption permitted by Regulation 10 of the European Communities (Credit Institutions: Accounts) Regulations, 1992 has been availed of and the Group will annex a full listing of associates to its annual return to the Companies Registration Office.

### 31 Interest in joint ventures

	31 December 2010 €m	31 December 2009 €m
At beginning of period	194	151
Exchange adjustments	6	6
Share of results after tax (note 17)	44	37
- First Rate Exchange Service	37	27
- Property unit trust	7	10
- Paul Capital Investments LLC	-	1
- Other joint ventures	-	(1)
Dividends received	(35)	-
Reclassified to other assets held for sale - Paul Capital Investments LLC	(10)	-
<b>At end of period</b>	<b>199</b>	<b>194</b>

The share of results after tax for Paul Capital Investments LLC includes share of profit after tax of €2 million less an impairment of €2 million which was recognised on the reclassification of this investment to assets classified as held for sale. For further information see note 36.

**32 Intangible assets**

	Goodwill €m	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total Intangible assets - other €m
<b>Cost</b>					
At 1 January 2010	48	270	833	132	1,235
Exchange adjustments	3	4	4	3	11
Reclassification to other assets held for sale	(7)	(1)	-	-	(1)
Additions	-	-	35	15	50
Disposals / write-offs	-	(91)	(39)	-	(130)
<b>At 31 December 2010</b>	<b>44</b>	<b>182</b>	<b>833</b>	<b>150</b>	<b>1,165</b>
<b>Accumulated amortisation</b>					
At 1 January 2010	-	(226)	(497)	(53)	(776)
Exchange adjustments	-	(3)	(2)	(2)	(7)
Reclassification to other assets held for sale	-	1	-	-	1
Disposals / write-offs	-	91	39	-	130
Reversal of impairment	-	-	-	2	2
Charge for the period (note 12)	-	(11)	(85)	(11)	(107)
<b>At 31 December 2010</b>	<b>-</b>	<b>(148)</b>	<b>(545)</b>	<b>(64)</b>	<b>(757)</b>
<b>Net Book Value at 31 December 2010</b>	<b>44</b>	<b>34</b>	<b>288</b>	<b>86</b>	<b>408</b>

During the twelve month period ended 31 December 2010, Foreign Currency Exchange Corporation (FCE Corporation) was reclassified to other assets classified as held for sale (note 36).

	Goodwill €m	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total Intangible assets - other €m
<b>Cost</b>					
At 1 April 2009	334	278	828	144	1,250
Exchange adjustments	1	3	5	2	10
Reclassifications	-	(8)	8	-	-
Additions	-	11	31	5	47
Disposals / write-offs	(287)	(14)	(39)	(19)	(72)
<b>At 31 December 2009</b>	<b>48</b>	<b>270</b>	<b>833</b>	<b>132</b>	<b>1,235</b>
<b>Accumulated amortisation</b>					
At 1 April 2009	(287)	(231)	(473)	(61)	(765)
Exchange adjustments	-	(1)	(2)	1	(2)
Disposals / write-offs	287	14	39	19	72
Impairment	-	-	-	(6)	(6)
Charge for the period (note 12)	-	(8)	(61)	(6)	(75)
<b>At 31 December 2009</b>	<b>-</b>	<b>(226)</b>	<b>(497)</b>	<b>(53)</b>	<b>(776)</b>
<b>Net Book Value at 31 December 2009</b>	<b>48</b>	<b>44</b>	<b>336</b>	<b>79</b>	<b>459</b>

## 32 Intangible assets (continued)

### Impairment review - Goodwill and other intangible assets

Goodwill is reviewed annually for impairment or more frequently if events or circumstances indicate that impairment may have occurred, by comparing the carrying value of goodwill to its recoverable amount. An impairment charge arises if the carrying value exceeds the recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, where the value in use is the present value of the future cash flows expected to be derived from the asset.

### Impairment testing of goodwill

At 31 December 2010, total goodwill on the Group balance sheet was €44 million (31 December 2009: €48 million), which is outlined in the table below:

Goodwill at 31 December 2010	Burdale €m	Other €m	Total €m
At 1 January 2010	42	6	48
Exchange adjustments	2	1	3
Reclassified to other assets held for sale	-	(7)	(7)
At 31 December 2010	44	-	44

Goodwill at 31 December 2009	Burdale €m	Other €m	Total €m
At 1 April 2009	41	6	47
Exchange adjustments	1	-	1
At 31 December 2009	42	6	48

Goodwill is allocated to cash generating units at a level which represents the smallest identifiable group of assets that generate largely independent cash flows.

The calculation of the recoverable amount of goodwill for each of these cash generating units is based upon a value in use calculation that discounts expected pre-tax cash flows at an interest rate appropriate to the cash generating unit. The determination of both require the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which forecasted cash flows are available and to assumptions underpinning the sustainability of those cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect management's view of future performance.

The values assigned to key assumptions reflect past experience, performance of the business to date and management judgement. The recoverable amount calculations performed for the significant amounts of goodwill are sensitive to changes in the following key assumptions:

#### Cash flow forecasts

Cash flow forecasts are based on internal management information for a period of up to five years, after which a growth factor appropriate for the business is applied. Initial cash flows are based on performance in the twelve month period ended 31 December 2010 and the next four years' cash flows are consistent with approved plans for each business.

## 32 Intangible assets (continued)

### Growth rates

Growth rates beyond five years are determined by reference to local economic growth, inflation projections or long term bond yields. The assumed long term growth rate for Burdale is 2.23%.

### Discount rate

The discount rate applied to Burdale is the pre-tax weighted average cost of capital for the Group increased to include a risk premium to reflect the specific risk profile of the cash generating unit to the extent that such risk is not already reflected in the forecast cash flows. A rate of 12% has been used in the model.

Certain elements within these cash flow forecasts are critical to the performance of the business. The impact of changes in these cash flows, growth rate and discount rate assumptions has been assessed by the Directors in the review. The Directors consider that reasonable changes in key assumptions used to determine the recoverable amount of Burdale, would not result in any impairment of goodwill.

No impairment was identified in the twelve month period ended 31 December 2010 or in the nine month period ended 31 December 2009 in relation to Burdale.

## 33 Investment properties

	31 December 2010 €m	31 December 2009 €m
At beginning of period	1,265	1,413
Exchange adjustment	11	(17)
Revaluation	49	(98)
Reclassifications	(14)	-
Disposals	(7)	(33)
<b>At end of period</b>	<b>1,304</b>	<b>1,265</b>

Of the €1,304 million (31 December 2009: €1,265 million) €980 million (31 December 2009: €983 million) is held on behalf of Bol Life policyholders.

Investment properties are carried at fair value as determined by external qualified property surveyors appropriate to the variety of properties held. Fair values have been calculated using both current trends in the market and recent transactions for similar properties. The upward revaluation in the current year is primarily driven by an increase in the fair value of international investment property.

Rental income from investment property amounted to €97 million for the twelve month period ended 31 December 2010 (nine month period ended 31 December 2009: €86 million). Expenses directly attributable to investment property generating rental income amounted to €18 million for the twelve month period ended 31 December 2010 (nine month period ended 31 December 2009: €27 million). There were no expenses directly attributable to investment property not generating rental income for the twelve month period ended 31 December 2010 or the nine month period ended 31 December 2009.

### 34 Property, plant and equipment

	Freehold land and buildings and long leaseholds (held at fair value) €m	Adaptations (at cost) €m	Computer and other equipment (at cost) €m	Finance lease assets (at cost) €m	Payments on accounts and assets in the course of construction (at cost) €m	Total €m
<b>Cost or valuation</b>						
<b>At 1 January 2010</b>	207	148	642	7	11	1,015
Exchange adjustments	-	1	5	-	-	6
Additions	-	4	15	-	22	41
Disposals	(2)	(8)	(126)	-	-	(136)
Revaluation	(28)	-	-	-	-	(28)
Reclassifications	-	6	7	-	(15)	(2)
<b>At 31 December 2010</b>	<b>177</b>	<b>151</b>	<b>543</b>	<b>7</b>	<b>18</b>	<b>896</b>
<b>Accumulated depreciation</b>						
<b>At 1 January 2010</b>	-	(76)	(528)	(7)	-	(611)
Exchange adjustments	-	-	(1)	-	-	(1)
Disposals	-	6	122	-	-	128
Charge for the year (note 12)	-	(13)	(27)	-	-	(40)
<b>At 31 December 2010</b>	<b>-</b>	<b>(83)</b>	<b>(434)</b>	<b>(7)</b>	<b>-</b>	<b>(524)</b>
<b>Net book value at 31 December 2010</b>	<b>177</b>	<b>68</b>	<b>109</b>	<b>0</b>	<b>18</b>	<b>372</b>

The net book value of property, plant and equipment at 31 December 2010 held at fair value was €177 million, while that held at cost less accumulated depreciation and impairment amounted to €195 million. The historical cost of property, plant and equipment held at fair value at 31 December 2010 was €34 million (31 December 2009: €34 million).

	Freehold land and buildings and long leaseholds (held at fair value) €m	Adaptations (at cost) €m	Computer and other equipment (at cost) €m	Finance lease assets (at cost) €m	Payments on accounts and assets in the course of construction (at cost) €m	Total €m
<b>Cost or valuation</b>						
<b>At 1 April 2009</b>	272	146	668	7	23	1,116
Exchange adjustments	2	1	4	-	-	7
Additions	-	1	3	-	7	11
Disposals	(1)	(2)	(50)	-	-	(53)
Revaluation	(66)	-	-	-	-	(66)
Reclassifications	-	2	17	-	(19)	-
<b>At 31 December 2009</b>	<b>207</b>	<b>148</b>	<b>642</b>	<b>7</b>	<b>11</b>	<b>1,015</b>
<b>Accumulated depreciation</b>						
<b>At 1 April 2009</b>	-	(67)	(550)	(7)	-	(624)
Exchange adjustments	-	-	(4)	-	-	(4)
Disposals	-	1	48	-	-	49
Charge for the year (note 12)	-	(11)	(21)	-	-	(32)
Reclassifications	-	1	(1)	-	-	-
<b>At 31 December 2009</b>	<b>-</b>	<b>(76)</b>	<b>(528)</b>	<b>(7)</b>	<b>-</b>	<b>(611)</b>
<b>Net book value at 31 December 2009</b>	<b>207</b>	<b>72</b>	<b>114</b>	<b>-</b>	<b>11</b>	<b>404</b>

The net book value of property, plant and equipment at 31 December 2009 at fair value was €207 million, while that held at cost less accumulated depreciation amounted to €197 million.

### 34 Property, plant and equipment (continued)

#### Property

A revaluation of Group property was carried out as at 31 December 2010. All freehold and long leasehold (50 years or more unexpired) commercial properties were valued by Lisneys as external valuers, who also reviewed the valuation of all other property carried out by the Bank's professionally qualified staff. Valuations were made on the basis of open market value.

#### Future capital expenditure

The table below shows future capital expenditure in relation to both property, plant and equipment and intangible assets.

	31 December 2010 €m	31 December 2009 €m
Future capital expenditure:		
- contracted but not provided for in the financial statements	32	4
- authorised by the Directors but not contracted	40	1

#### Operating leases

The Group leases a number of branch and office premises to carry out its business. The commercial leases typically are 25 to 35 year operating leases with 5 yearly rent reviews. The majority of the rent reviews are on an upwards only basis. Some leases also include break options. The Group also holds a number of short term leases for less than 10 years and a number of long term leases at market rent with less than 110 years unexpired. On expiry of long term leases greater than 5 years the Group has rights of renewal in the majority of the leases.

Minimum future rentals are the rentals payable under operating leases up to the next available break option where this exists or to expiry date of the lease. Both the required break option notice period and the amount of any penalty rent have been included in the amounts payable below.

Minimum future rentals under non-cancellable operating leases are as follows:

	Payable 31 December 2010 €m	Receivable 31 December 2010 €m	Payable 31 December 2009 €m	Receivable 31 December 2009 €m
Not later than 1 year	69	4	65	3
Later than 1 year and not later than 5 years	214	8	219	8
Later than 5 years	416	1	442	2

The Group has entered into a small number of sub-leases as lessor which represent properties and components of properties surplus to the Group's own requirements.

Included in the operating lease rental receivable is an amount of €12 million in relation to sub-lease rental (nine month period ended 31 December 2009: €11 million).

### 35 Other assets

	31 December 2010 €m	31 December 2009 €m
Reinsurance asset	638	615
Value in force of life assurance business (note 59)	538	497
Interest receivable	541	503
Sundry and other debtors	396	379
Accounts receivable and prepayments	178	176
<b>Other assets</b>	<b>2,291</b>	<b>2,170</b>
Other assets are analysed as follows:		
Within 1 year	1,115	1,058
After 1 year	1,176	1,112
	<b>2,291</b>	<b>2,170</b>
The movement in the reinsurance asset is noted below:		
At beginning of period	615	437
New business	119	86
Changes in business	(96)	92
<b>At the end of the period</b>	<b>638</b>	<b>615</b>

### 36 Other assets and liabilities classified as held for sale

	31 December 2010 €m	31 December 2009 €m
<b>Assets classified as held for sale</b>		
Assets of Foreign Currency Exchange Corporation (FCE Corporation)	59	-
Assets of Bank of Ireland Asset Management (BIAM)	44	-
Assets of Bank of Ireland Securities Services (BoISS)	6	-
Share of net assets of Paul Capital Investments LLC	10	-
<b>Total</b>	<b>119</b>	<b>-</b>

	31 December 2010 €m	31 December 2009 €m
<b>Liabilities classified as held for sale</b>		
Liabilities of BIAM	29	-
Liabilities of FCE Corporation	23	-
<b>Total</b>	<b>52</b>	<b>-</b>

The Group's restructuring plan was formally approved by the European Commission in July 2010.

As outlined in note 60 the final EU Restructuring Plan included, amongst other actions, the disposal of BIAM (asset management business), Paul Capital Investments LLC (a private equity fund of funds manager), both of which are included in the Capital Markets Division, FCE Corporation (a US foreign exchange business), and the Group's stake in the Irish Credit Bureau Limited (whose net assets amount to less than €1 million); (both of which are included within Retail Republic of Ireland).



**36 Other assets and liabilities classified as held for sale (continued)**

On 22 October 2010, the sale of BIAM was announced to State Street Global Advisors for a cash consideration of €57 million. On 10 January 2011, all conditions of the sale were satisfied and the sale was completed. See note 61 for more information on this sale.

As at 31 December 2010 the Group considered that it was highly probable that the businesses of FCE Corporation, the Irish Credit Bureau Limited, Paul Capital Investments LLC, BIAM and BoISS would be disposed of within twelve months and accordingly, the assets and liabilities of these businesses are classified as assets and liabilities held for sale.

On 24 February 2011 the Group announced the sale of BoISS (securities services business included within the Capital Markets Division) to Northern Trust Corporation (note 61).

**37 Deposits from banks**

	31 December 2010 €m	31 December 2009 €m
Deposits from banks	4,685	4,639
Securities sold under agreement to repurchase	35,978	12,994
Other bank borrowings	412	270
<b>Deposits by banks</b>	<b>41,075</b>	<b>17,903</b>

Deposits from banks includes cash collateral of €0.7 billion (31 December 2009: €0.5 billion) received from derivative counterparties in relation to net derivative asset positions (note 22).

As a result of the challenging funding markets the Group has extended its usage of liquidity facilities provided by Monetary Authorities by means of both its pool of eligible collateral with the ECB and the additional liquidity facilities provided by the Central Bank. The Group's funding from these sources increased to €31 billion (net) at 31 December 2010 from €8 billion (net) at 30 June 2010 and €8 billion (net) at 31 December 2009.

**38 Customer accounts**

	31 December 2010 €m	31 December 2009 €m
Term deposits and other products	33,066	48,017
Demand deposits	16,541	22,131
Current accounts	15,836	14,664
<b>Customer accounts</b>	<b>65,443</b>	<b>84,812</b>

**Amounts include**

Due to associates and joint ventures	57	98
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Deposit accounts where a period of notice (typically 21 or 40 days) is required to make a withdrawal are classified within term deposits and other products as at 31 December 2010. The Group believes that this classification more appropriately reflects the nature of these products. The analysis at 31 December 2009 has been amended to reclassify an amount of €12.9 billion from demand deposits to term deposits and other products to reflect this change. An analysis of the contractual maturity profile of customer accounts is set out in note 50.

At 31 December 2010, the Group's largest 20 customer deposits amounted to 4% (31 December 2009: 11%) of customer accounts. Information on the contractual maturities of customer accounts is set out on page 129 in the Risk Management Report.

### 39 Debt securities in issue

	31 December 2010 €m	31 December 2009 €m
Bonds and medium term notes	21,081	25,571
Other debt securities in issue	7,612	17,573
<b>Debt securities in issue</b>	<b>28,693</b>	<b>43,144</b>

### 40 Liabilities to customers under investment and insurance contracts

	31 December 2010 €m	31 December 2009 €m
<b>Investment contract liabilities</b>		
Liabilities to customers under investment contracts, at fair value	5,271	5,050

The movement in gross life insurance contract liabilities can be analysed as follows:

	31 December 2010 €m	31 December 2009 €m
<b>Insurance contract liabilities</b>		
At beginning of period	6,658	5,634
New business	996	710
Changes in existing business	(466)	314
<b>At end of period</b>	<b>7,188</b>	<b>6,658</b>

Bank of Ireland Life (BoI Life) writes the following life assurance contracts that contain insurance risk:

#### Non-unit linked life assurance contracts

These contracts provide the policyholder with insurance in the event of death, critical illness or permanent disability (principally mortality and morbidity risk).

#### Non-unit linked annuity contracts

These contracts provide the policyholder with an income until death (principally longevity and market risk).

#### Linked insurance contracts

These contracts include both policies primarily providing life assurance protection and policies providing investment but with a level of insurance risk deemed to be significant (principally mortality and market risk).

Insurance contract liabilities, which consist of both unit linked and non-unit linked liabilities, are calculated in accordance with the Insurance Regulations. Unit linked liabilities reflect the value of the underlying funds in which the policyholder is invested. Non unit-linked liabilities are calculated using either a gross premium or net premium method of valuation.

The assumptions are also set out in accordance with the Insurance Regulations and contain a margin for adverse development. The key assumptions used in the valuation of insurance contract liabilities are:

Interest rate:	The interest rates are derived in accordance with the guidelines in the Insurance Regulations. Margins for risk are allowed for in the derived interest rates.
Mortality and morbidity:	The mortality and morbidity assumptions, which include an allowance for improvements in longevity for annuitants, are set with regard to the Group's actual experience and / or relevant industry data.
Maintenance expenses:	Allowance is made for future policy costs and expense inflation explicitly.

## 40 Liabilities to customers under investment and insurance contracts (continued)

### Options and guarantees

Bol Life has a very limited range of options and guarantees in its business portfolio as the bulk of the business is unit linked without investment guarantees. Where investment guarantees do exist they are either hedged with an outside party or matched through appropriate investment assets.

### Uncertainties associated with insurance contract cash flows and risk management activities

For life assurance contracts where death is the insured risk, the most significant factors that could adversely affect the frequency and severity of claims are the incidence of disease and general changes in lifestyle. Where the insured risk is longevity, advances in medical care are the key factor that increases longevity. The Group manages its exposures to insurance risks through a combination of applying strict underwriting criteria, asset and liability matching, transferring risk to reinsurers and the establishment of prudent insurance contract liabilities.

### Credit risk

Reinsurance programmes are in place to restrict the amount of cover on any single life. The Group uses a panel of highly rated reinsurance companies to diversify credit risk.

### Capital Management and Available Resources

The Group holds technical reserves to meet its liabilities to policyholders based on prudent actuarial assumptions. In addition, the Central Bank requires the Group's life assurance operation to hold shareholder equity that exceeds a statutory margin, the required minimum regulatory solvency margin. The table below sets out the shareholder equity held by the Group's life assurance business compared to the required minimum regulatory solvency margin as at 31 December 2010.

	31 December 2010 €m	31 December 2009 €m
Minimum regulatory solvency margin	170	173
Shareholder equity held for life business	351	345

## 41 Subordinated liabilities

	Notes	31 December 2010 €m	31 December 2009 €m
<b>Undated loan capital</b>			
Bank of Ireland UK Holdings plc			
€600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities	a, b	255 <sup>1,3,8</sup>	499
Stg£350 million 6.25% Guaranteed Callable Perpetual Preferred Securities	b, c	48 <sup>1,3,8</sup>	52
Bol Capital Funding (No 1) LP			
€600 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	d, e	213 <sup>1,3,8</sup>	342
Bol Capital Funding (No 2) LP			
US\$800 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	e, f	50 <sup>1,3,8</sup>	272
Bol Capital Funding (No 3) LP			
US\$400 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	e, g	15 <sup>1,3,8</sup>	139
Bol Capital Funding (No 4) LP			
Stg£500 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	e, h	6 <sup>1,3,8</sup>	40
Bank of Ireland			
Stg£75 million 13 <sup>3</sup> / <sub>8</sub> % Perpetual Subordinated Bonds	i	144	140
Bristol & West plc			
Stg£32.6 million 8 <sup>1</sup> / <sub>8</sub> % Non-Cumulative Preference Shares	j	38	37
		<b>769</b>	<b>1,521</b>
<b>Dated loan capital</b>			
€750 million 6.45% Subordinated Bonds 2010	k	-	754
€600 million Subordinated Floating Rate Notes 2017		48 <sup>2,6</sup>	599
€750 million Floating Rate Subordinated Notes 2017		93 <sup>2,6</sup>	749
Stg£400 million Fixed / Floating Rate Subordinated Notes 2018		67 <sup>2,6</sup>	449
US\$600 million Subordinated Floating Rate Notes due 2018		138 <sup>2,4,6</sup>	416
Stg£75 million 10 <sup>3</sup> / <sub>4</sub> % Subordinated Bonds 2018		37 <sup>6</sup>	96
€650 million Fixed / Floating Rate Subordinated Notes 2019		215 <sup>2,6</sup>	688
Stg£450 million Dated Callable Step-up Fixed / Floating Rate Subordinated Notes 2020		354 <sup>6</sup>	552
€1,002 million 10% Fixed Rate Subordinated Notes 2020	l	757 <sup>6</sup>	-
Stg£197 million 10% Fixed Rate Subordinated Notes 2020	m	105 <sup>6</sup>	-
CAD\$400 million Fixed / Floating Rate Subordinated Notes 2015		83 <sup>5,7</sup>	229
CAD\$145 million Fixed / Floating Rate Subordinated Notes 2018	n	109 <sup>7</sup>	-
		<b>2,006</b>	<b>4,532</b>
		<b>2,775</b>	<b>6,053</b>

<sup>1</sup> In June 2009 the Group repurchased certain amounts of these subordinated liabilities.

<sup>2</sup> In February 2010 the Group exchanged certain amounts of these subordinated liabilities for new notes.

<sup>3</sup> In June 2010 the Group exchanged certain amounts of these subordinated liabilities as part of a debt for equity exchange.

<sup>4</sup> In July 2010 the Group exchanged certain amounts of these subordinated liabilities for new notes.

<sup>5</sup> In September 2010 the Group exchanged certain amounts of these subordinated liabilities for new notes.

<sup>6</sup> In December 2010 the Group exchanged certain amounts of these subordinated liabilities for new senior debt securities which are included in debt securities in issue.

<sup>7</sup> On 10 February 2011, the Group completed a debt for debt exchange on the CAD\$ subordinated liabilities. For further information see note 61.

<sup>8</sup> In January 2010 the European Commission imposed restrictions on the Group's ability to make coupon payments on certain subordinated liabilities unless under a binding legal obligation to do so (a 'coupon stopper' provision). This 'coupon stopper' provision ceased on 31 January 2011.

Further information on 1-6 above is shown in note 9.

## 41 Subordinated liabilities (continued)

### Undated loan capital

(a) The securities are redeemable in whole or in part at the option of the Issuer subject to the prior consent of the Central Bank and of the Bank, at their principal amount together with any outstanding payments on 7 March 2011 or any coupon payment date thereafter. They bear interest at a rate of 7.40% per annum to 7 March 2011 and thereafter at a rate of 3 month Euribor plus 3.26% per annum, reset quarterly.

(b) The rights and claims of the holder of the Preferred Securities are subordinated to the claims of the senior creditors of the Issuer or of the Bank (as the case may be) in that no payment in respect of the Preferred Securities or the guarantee in respect of them shall be due and payable except to the extent that the Issuer or the Bank (as applicable) is solvent and could make such payment and still be solvent immediately thereafter. Upon any winding up of the Issuer or the Bank (in respect of claims under the guarantee), the holders of the Preferred Securities will rank *pari passu* with the holders of the most senior class or classes of preference shares or stock (if any) of the Issuer or of the Bank then in issue and in priority to all other shareholders of the Issuer and of the Bank.

(c) The securities are redeemable in whole but not in part at the option of the Issuer subject to the prior consent of the Central Bank and of the Bank, at their principal amount together with any outstanding payments on 7 March 2023 or any coupon date thereafter. They bear interest at a rate of 6.25% per annum to 7 March 2023 and thereafter at a rate of 6 month Stg£ Libor plus 1.70% per annum, reset semi annually.

(d) The securities are redeemable, subject to the prior approval of the Central Bank, on 3 March 2010 or any distribution payment date thereafter, in whole but not in part, at the option of Bol G.P. No. 1 Limited, which is the General Partner of the Issuer, at their principal amount plus any outstanding payments due. They bear interest at a rate of 6.25% per annum to 3 March 2007 and thereafter at a variable rate of interest per annum which is the lesser of (i) the aggregate of 0.10% per annum and the annual spot 10 year eur fixed versus 6 month Euribor swap rate and (ii) 8% per annum.

(e) The issuer will not pay any distributions and the guarantor will not make any payment in respect of distributions under the subordinated guarantee to the extent that such payment would exceed adjusted distributable reserves or even if adjusted distributable reserves are sufficient to the extent that such payment would breach or cause a breach of Capital Adequacy Regulations then applicable to the Group as determined by the Guarantor's Court of Directors; or to the extent that the Guarantor is not meeting its minimum capital requirements or is not meeting its solvency ratios; or provided a Deemed Declaration Notice has not been delivered, if the Guarantor's Court of Directors has resolved no distributions should be made; or if the Regulator has instructed the General Partner or the Guarantor not to make such payment.

The Preferred Securities, together with the subordinated guarantee, are intended to provide holders with rights on liquidation equivalent to non-cumulative Stg£1 and €1.27 preference stock of the Guarantor. Claims under the Preferred Securities in respect of any liquidation distributions will rank senior to the rights of the General Partner in respect of other partnership interests issued by the Issuer and *pari passu* with claims of the holders of all other preferred securities issued by the Issuer which rank *pari passu* with the Preferred Securities.

The rights and claims of the holders of the Preferred Securities rank (i) junior to all liabilities of the Guarantor including subordinated liabilities (in each case other than any liability of the Guarantor which constitutes Tier 1 capital or which is referred to in (ii) or (iii) below and any other liability expressed to rank *pari passu* with or junior to the subordinated guarantee), (ii) *pari passu* with parity securities issued by the Guarantor and any guarantee of the Guarantor ranking *pari passu* with the subordinated guarantee and (iii) senior to junior share capital.

(f) The securities are redeemable, subject to the prior approval of the Central Bank, on 1 February 2016 or any distribution payment date thereafter, in whole but not in part, at the option of Bol G.P. No. 1 Limited, which is the General Partner of the Issuer, at the liquidation preference amount plus any additional amounts and outstanding payments due. They bear interest at a rate of 5.571% per annum up to but excluding 1 February 2016 and thereafter at a floating rate of interest of 1.68% per annum above the rate for US\$ Libor 3 month US dollar deposits.

(g) The securities are redeemable, subject to the prior approval of the Central Bank, on 4 February 2016 or on every subsequent tenth anniversary date of 4 February 2016, in whole but not in part, at the option of Bol G.P. No. 1 Limited, which is the General Partner of the Issuer, at the liquidation preference amount plus any additional amounts and outstanding payments due. They bear interest at a rate of 6.107% per annum up to but excluding 4 February 2016 and thereafter at a floating rate of interest of 1.06% per annum above the rate for US\$ Libor 3 month US dollar deposits.

## 41 Subordinated liabilities (continued)

(h) The securities are redeemable, subject to the prior approval of the Central Bank, on 3 April 2017 or any distribution date thereafter, in whole but not in part, at the option of Bol G.P. No. 1 Limited, which is the General Partner of the Issuer, at the liquidation preference amount plus any additional amounts and outstanding payments due. They bear interest at a rate of 6.4295% per annum up to but excluding 3 April 2017 and thereafter at a floating rate of interest of 1.50% per annum above the rate for Stg£ Libor 3 month sterling deposits.

(i) The 13 <sup>3</sup>/<sub>8</sub>% Perpetual Subordinated Bonds which have a nominal value of Stg£75 million were revalued as part of the fair value adjustments on the acquisition by Bristol & West plc of the business of Bristol & West Building Society in July 1997. Bank of Ireland became the issuer of these bonds in 2007 in connection with the transfer of the business of Bristol & West plc to Bank of Ireland.

(j) These preference shares which are non-redeemable, non-equity shares rank equally amongst themselves as regards participation in profits and in priority to the ordinary shares of Bristol & West plc.

Holders of the Preference Shares are entitled to receive, in priority to the holders of any other class of shares in Bristol & West plc, a non-cumulative preference dividend at a fixed rate per annum payable in equal half yearly instalments in arrears on 15 May and 15 November each year. The preference dividend on the preference shares will only be payable to the extent that payment can be made out of profits available for distribution as at each dividend payment date in accordance with the provisions of the UK Companies Acts.

On 1 October 2007 in connection with the transfer of the business of Bristol & West plc to Bank of Ireland, Bank of Ireland entered into a Guarantee and Capital Maintenance Commitment (the Guarantee) with respect to the preference shares. Under the terms of the Guarantee, the liability of Bristol & West plc in relation to the ongoing payment of dividends and any repayment of capital in relation to the preference shares that remained following the transfer of business would be protected. Under the Guarantee, Bank of Ireland agreed subject to certain conditions to (i) contribute capital to Bristol & West plc to the extent required to ensure that Bristol & West plc has sufficient distributable reserves to pay the dividends on the preference shares and to the extent required, repay the preference share capital and (ii) guarantee Bristol & West plc's obligations to make repayment of the dividends and preference share capital.

In this connection the Guarantee contains provisions to the effect that the rights of Bank of Ireland's creditors under the Guarantee are subordinated to (i) unsubordinated creditors and debtors of Bank of Ireland and (ii) subordinated creditors of Bank of Ireland other than those whose claims rank, or are expressed to rank *pari passu* or junior to the payments under the Guarantee.

### Dated loan capital

Dated loan capital, which includes bonds and notes, constitute unsecured obligations of the Bank subordinated in right of payments to the claims of depositors and other unsubordinated creditors of the Bank and rank *pari passu* without any preference among themselves.

Interest rates on the floating rate and fixed rate subordinated liabilities (accommodated through swaps) are determined by reference to the relevant currency reference rate.

The table on page 265 provides a description of the dated loan capital:

- the currency of the issue;
- if the issue is fixed, floating or a combination of both;
- maturity.

(k) On 10 February 2010 the €750 million 6.45% subordinated bonds were redeemed on reaching their maturity date.

(l) On 12 February 2010 the Group issued €978 million dated Fixed Rate Subordinated Notes due February 2020 and in July 2010 the Group issued a further €24 million dated Fixed Rate Subordinated Notes due February 2020.

(m) On 12 February 2010 the Group issued Stg£197 million Fixed Rate Subordinated Notes due February 2020.

(n) On 22 September 2010 the Group issued CAD\$145 million dated Fixed / Floating Subordinated Notes due September 2018.

All of the above dated notes with the exception of the Stg£75 million 10% Subordinated Notes 2018 were issued under the Bank's Euro Note Programme.

## 42 Other liabilities

	31 December 2010 €m	31 December 2009 €m
Accrued interest payable	1,025	863
Notes in circulation	814	715
Sundry creditors	452	312
Accruals and deferred income	258	217
Other	553	671
<b>Other liabilities</b>	<b>3,102</b>	<b>2,778</b>

Other liabilities at 31 December 2010 and at 31 December 2009 are due within 1 year.

The Bank is authorised to issue bank notes in Northern Ireland under the Bankers (Ireland) Act, 1845 and the Bankers (Northern Ireland) Act, 1928.

## 43 Provisions

	Restructuring €m	Onerous Contracts €m	Legal €m	Total €m
As at 1 January 2010	22	11	109	142
Exchange adjustments	1	-	-	1
Charge to income statement	22	5	12	39
Utilised during the period	(7)	(4)	(96)	(107)
Unused amounts reversed during the period	(6)	-	(5)	(11)
<b>As at 31 December 2010</b>	<b>32</b>	<b>12</b>	<b>20</b>	<b>64</b>

	Restructuring €m	Onerous Contracts €m	Legal €m	Total €m
As at 1 April 2009	52	12	23	87
Exchange adjustments	2	1	-	3
Charge to income statement	-	1	88	89
Utilised during the period	(32)	(2)	(2)	(36)
Unused amounts reversed during the period	-	(1)	-	(1)
<b>As at 31 December 2009</b>	<b>22</b>	<b>11</b>	<b>109</b>	<b>142</b>

### Restructuring

The Group continues to maintain its focus on cost management and is implementing a range of initiatives to further reduce costs. The Group holds a provision of €32 million (31 December 2009: €22 million) in respect of restructuring activities.

It is expected that this provision will be used over the next 5 years.

### Legal

This provision includes certain legal claims brought against the Group by third parties. The main movement in legal provisions during the twelve month period ended 31 December 2010 is the payment of €91 million arising from the unfavourable court ruling in connection with a European property investment, which formed part of the legal provision at 31 December 2009.

It is expected that this provision will be used within the next 12 months.

## 43 Provisions (continued)

### Onerous Lease

Partly as a result of the Group's restructuring of its operations, the Group is a lessee in a number of non-cancellable leases over properties that it no longer occupies. The present value of future lease payments on these properties, less any rental income receivable from sub-leasing, has been provided for.

This provision relates to leases on properties ranging between 1 and 12 years.

## 44 Deferred tax

	31 December 2010 €m	31 December 2009 €m
The movement on the deferred tax account is as follows:		
At beginning of period	731	510
Income statement credit for period (note 19)	380	356
Available for sale financial assets – (credit) / charge to other comprehensive income	29	(131)
Cash flow hedges – charge to other comprehensive income	(40)	(39)
Revaluation / reclassification of property during period	3	7
Pension	(74)	25
Other movements	8	3
<b>At end of period</b>	<b>1,037</b>	<b>731</b>
Deferred tax assets and liabilities are attributable to the following items:		
<b>Deferred tax assets</b>		
Pensions and other post retirement benefits	63	243
Provision for loan impairment	12	12
Cash flow hedge reserve	39	80
Available for sale reserve	115	86
Unutilised tax losses	898	475
Other temporary differences	17	6
<b>Deferred tax assets</b>	<b>1,144</b>	<b>902</b>
<b>Deferred tax liabilities</b>		
Accelerated capital allowances:		
- on finance leases	(20)	(30)
- on equipment used by the Group	(4)	(17)
Property revaluation surplus	(16)	(19)
Life companies	(55)	(35)
Other temporary differences	(12)	(70)
<b>Deferred tax liabilities</b>	<b>(107)</b>	<b>(171)</b>
<b>Represented on the balance sheet as follows:</b>		
Deferred tax assets	1,128	865
Deferred tax liabilities	(91)	(134)
	<b>1,037</b>	<b>731</b>

The amount of deferred tax asset expected to be recovered within one year is €29 million. The amount of deferred tax liability expected to be settled within one year is €3 million.

In presenting the deferred tax balances above, under IAS 12, the Group offsets deferred tax assets and liabilities where:

- an entity has a legally enforceable right to set off current tax assets against current tax liabilities, and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.



#### 44 Deferred tax (continued)

Deferred tax liabilities have not been recognised for tax that may be payable if earnings of certain overseas subsidiaries were remitted to Ireland as the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Unremitted earnings for overseas subsidiaries totalled €375 million (31 December 2009: €1,222 million).

The deferred tax asset of €1,128 million (31 December 2009: €865 million) shown on the balance sheet is after jurisdictional netting (€1,144 million before jurisdictional netting, 31 December 2009: €902 million). This includes an amount of €898 million at 31 December 2010 (31 December 2009: €475 million) in respect of operating losses which are available to relieve future profits from tax. This deferred tax asset has been recognised on the basis that it is probable it will be recovered as the Directors are satisfied that it is probable that the Group will have sufficient future taxable profits against which the deferred tax can be utilised to the extent it has not already reversed.

Under current Irish and UK tax legislation there is no time restriction on the utilisation of trading losses. There is, however, a restriction on the utilisation of tax losses carried forward by a financial institution participating in NAMA. This lengthens the period over which the deferred tax asset will reverse by restricting the amount of profits against which the carried forward trading losses can be utilised. The balance continues to be available for indefinite carry forward and there is no time limit, under existing Irish and UK legislation, on the utilisation of these losses.

The UK Finance (No 2) Act 2010, which was passed into law on 27 July 2010, included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. Further announced changes will reduce the rate of corporation tax to 26% from 1 April 2011 (and not 27% as previously enacted), and by 1% per annum to 23% by 1 April 2014. These further changes were not substantively enacted at the balance sheet date and are therefore not reflected in these financial statements. The effect of the change enacted in the UK Finance (No 2) Act 2010 has been to reduce the deferred tax asset at 31 December 2010 by €9 million. The proposed reductions in the main rate of corporation tax by 1% per annum to 23% by 1 April 2014 are to be enacted separately each year. The overall effect of the future reductions from 27% to 23% would be to reduce the deferred tax asset at 31 December 2010 by an additional €41 million.

Deferred tax assets have not been recognised in respect of US tax losses of €69 million and US temporary differences of €3 million. €23 million of the tax losses expire in the period 2020 to 2028 with €46 million due to expire in 2029. There is no expiry date on the tax credits. Deferred tax assets have not been recognised in respect of these losses due to an annual limitation on use.

The deferred tax credit in the income statement comprises the following temporary differences:

	31 December 2010 €m	31 December 2009 €m
Current period losses	435	466
Pensions and other retirement benefits	(109)	6
Life companies	(30)	(58)
Other provisions	22	(30)
Accelerated tax depreciation	21	17
Other temporary differences	51	(43)
Prior year adjustment	(10)	(2)
<b>Total deferred tax</b>	<b>380</b>	<b>356</b>

## 45 Retirement benefit obligations

The Group operates a number of defined benefit and defined contribution schemes in Ireland and overseas. The defined benefit schemes are funded and the assets of the schemes are held in separate trustee administered funds. In determining the level of contributions required to be made to each scheme and the relevant charge to the income statement the Group has been advised by independent actuaries, Towers Watson.

The most significant defined benefit scheme in the Group is the Bank of Ireland Staff Pensions Fund (BSPF) which accounts for approximately 79% of the pension deficit on the consolidated Group balance sheet. The BSPF was closed to new members from 1 October 2006, with the exception of a number of new entry-level employees, (who joined from 1 October 2006 to 21 November 2007), who were offered a one-off option to join the scheme. All new employees in the Group from 21 November 2007 are eligible to become members of the Bank of Ireland Group Pensions Fund (BIGPF) or the Bank of Ireland Group UK Pension Fund. The BIGPF is a hybrid scheme which includes elements of both a defined benefit and a defined contribution scheme.

Retirement benefits under the BSPF and the other defined benefit plans are calculated by reference to pensionable service and pensionable salary at normal retirement date.

### Actuarial Valuation of the BSPF

The last formal valuation of the BSPF, using the Attained Age method, was carried out as at 31 March 2010. The Attained Age method measures liabilities taking account of the projected future levels of pensionable earnings at the time of commencement of benefits i.e. at normal retirement date.

The valuation disclosed that the fair value of scheme assets represented 85% of the benefits that had accrued to members after allowing for expected future increases in earnings and pensions and after taking account of the impact of the changes in pension benefits set out below. The actuary recommended that the contribution rate increase to 29% of salaries (inclusive of employee contributions) from 16.7% previously, in the funding programme following the conclusion of the valuation. The next formal valuation is expected to be made as at 31 March 2013. The BSPF is also currently in deficit as per the statutory funding standard and as a result the Trustees and the Bank will be submitting a funding proposal to the Pensions Board to address this deficit within the required timescales issued by the Pensions Board.

The actuarial valuations are available for inspection to the members of the schemes but are not available for public inspection.

### Group pensions review

During 2010, the Group completed a review to address the IAS 19 pension deficit in the defined benefit pension schemes sponsored by the Group.

Arising from this review the Group proposed a number of amendments to these schemes including:

- Limits were placed on future increases in members' pensionable salaries;
- Limits were placed on future levels of discretionary pension increases and reductions were applied to guaranteed pension increases in respect of future service in certain arrangements; and
- Member contributions were introduced in schemes which were previously non-contributory.

By 31 December 2010, the relevant amendments had been implemented, in respect of five of the Group's defined benefit pension schemes including the BSPF, covering the substantial majority of defined benefit scheme members.

Active members in each scheme were asked individually to formally accept the changes and the defined benefit pension scheme deficit at 31 December 2010 reflects the level of acceptances at that date which amounted to greater than 99% of the active members of the impacted schemes.

The amendments to future increases in pensionable salary have been recognised as a curtailment gain of €413 million. The amendments to future discretionary increases have been recognised as negative past service cost of €324 million. As a result the total income statement impact of the amendments, net of directly related expenses, amounted to a gain of €733 million.

As part of the Group Pension Review the Group indicated that it would be prepared to pay additional discretionary contributions of up to €750 million over a five to seven year period if the benefit restructuring changes were accepted and implemented. The acceptance rate for the changes from active members to date is greater than 99%. The precise amounts and timing of these discretionary payments will be set out as part of the relevant agreements with the Trustees. In this regard, the Group has paid additional discretionary contributions to the defined benefit pension schemes of €68 million during 2010 and it expects to pay additional discretionary contributions of €90 million in 2011.

## 45 Retirement benefit obligations (continued)

The financial assumptions used in measuring the Group's defined benefit pension liability under IAS 19 are set out in the table below.

Financial assumptions	31 December 2010 % p.a.	31 December 2009 % p.a.
<b>Irish schemes</b>		
Inflation rate	2.00	2.10
Discount rate	5.50	5.60
Rate of general increase in salaries	2.50*	2.73*
Rate of increase in pensions in payments	1.90*	2.49*
Rate of increase to deferred pensions	2.00	2.10
<b>UK schemes</b>		
Consumer Price Inflation	3.00	3.00**
Discount rate	5.50	5.70
Rate of general increase in salaries	4.00*	4.33*
Rate of increase in pensions in payments	3.34*	3.82*
Rate of increase to deferred pensions	3.00	3.50

\* Weighted average increase across all Group schemes.

\*\* At 31 December 2009, Consumer Price Inflation assumption was 3.00% and Retail Price Inflation assumption was 3.50%.

### Mortality assumptions

The mortality assumptions adopted are based on the results of the Society of Actuaries in Ireland mortality investigations presented in the last quarter of 2008.

Post retirement mortality assumptions (Main Scheme)	At 31 December 2010 years	At 31 December 2009 years
<b>Longevity at age 70 for current pensioners</b>		
Males	16.9	16.7
Females	18.4	18.3
<b>Longevity at age 60 for active members currently aged 60 years</b>		
Males	26.6	26.4
Females	28.3	28.1
<b>Longevity at age 60 for active members currently aged 40 years</b>		
Males	29.3	29.2
Females	30.5	30.4

## 45 Retirement benefit obligations (continued)

The expected long term rates of return and market value of assets of the material defined benefit schemes on a combined basis as at 31 December 2010 and 31 December 2009 were as follows:

%	31 December 2010 Expected long term rates of return				31 December 2009 Expected long term rates of return			
	Rol %	UK %	Fund %	Market Value €m	Rol %	UK %	Fund %	Market Value €m
Equities	7.25	8.00	55.1	2,274	7.25	8.25	54.8	2,047
Debt securities	4.44	4.52	34.3	1,415	4.6	5.0	36.8	1,373
Property	6.00	6.00	6.4	263	6.3	6.35	6.8	255
Cash and other	2.60	4.10	4.2	174	3.0	4.4	1.6	59
Total market value of schemes' assets				4,126				3,734
Actuarial value of liabilities of funded schemes				(4,540)				(5,356)
Aggregate deficit in funded schemes				(414)				(1,622)
Unfunded schemes				(9)				(9)
Net defined benefit pension deficit				(423)				(1,631)
Defined contribution schemes				(1)				(1)
				<b>(424)</b>				<b>(1,632)</b>
This is shown in the balance sheet as:-								
Retirement benefit obligations				435				1,638
Retirement benefit asset				(11)				(6)
				<b>424</b>				<b>1,632</b>

The scheme assets have been valued on a bid basis.

The expected rates of return on individual asset classes is estimated using current and projected economic and market factors at the measurement date, based on the global asset model employed by the independent actuaries. The overall expected return on scheme assets is based upon the weighted average of the assumed returns on the major asset classes. The expected long term rate of return on the total of the Group schemes' assets as at 31 December 2010 is 6.06% (31 December 2009: 6.2%).

The expected returns on the debt securities are derived from gilt yields and corporate bond yields. Approximately 64% (31 December 2009: 65%) of the value of debt securities is held in a Liability Driven Investment portfolio.

The retirement benefit schemes' assets include Bank of Ireland stock amounting to €2 million (31 December 2009: €3 million) and property occupied by Bank of Ireland Group companies to the value of €25 million (31 December 2009: €25 million).

The following table sets out the components of the cost of the defined benefit schemes for the twelve month period ended 31 December 2010 and the nine month period ended 31 December 2009.

Components of pension expenses	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
Current service cost	128	91
Past service cost	(324)	2
Curtailments	(413)	(3)
Expected return on retirement benefit scheme assets	(233)	(142)
Interest on pension scheme liabilities	279	199
<b>Cost of providing defined retirement benefits</b>	<b>(563)</b>	<b>147</b>

## 45 Retirement benefit obligations (continued)

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Actual return on scheme assets</b>		
Expected return on scheme assets	233	142
Actuarial gain on scheme assets	86	574
<b>Actual return on scheme assets</b>	<b>319</b>	<b>716</b>

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Movement in defined benefit obligations during the period</b>		
Defined benefit obligations at beginning of period	5,365	4,481
Current service cost	128	91
Actual member contributions	14	11
Past service cost	(324)	2
Interest cost	279	199
Actuarial (gain) / loss on scheme liabilities	(410)	643
Benefits paid	(137)	(100)
Curtailments	(413)	(3)
Currency loss	47	41
<b>Defined benefit obligation at end of period</b>	<b>4,549</b>	<b>5,365</b>

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Movement in the fair value of scheme assets during the period</b>		
Fair value of scheme assets at beginning of period	3,734	3,003
Expected return	233	142
Actual member contributions	14	11
Actuarial gain on scheme assets	86	574
Contributions by employer	180*	93
Benefits paid	(137)	(100)
Currency gain	16	11
<b>Fair value of scheme assets at end of period</b>	<b>4,126</b>	<b>3,734</b>

\* Includes €68 million of additional contributions related to the Group Pensions Review set out on page 271.

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Statement of Other Comprehensive Income (SOI)</b>		
Actuarial gain on scheme assets	86	574
Experience gain on liabilities	115	33
Gain / (loss) on change of assumptions (financial and demographic)	295	(676)
Currency loss	(31)	(30)
<b>Total gain / (loss) recognised in the SOI during the period before adjustment of tax</b>	<b>465</b>	<b>(99)</b>
Cumulative amount of losses recognised in SOI to end of period	(620)	(1,085)

## 45 Retirement benefit obligations (continued)

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m	12 months ended 31 March 2009 €m	12 months ended 31 March 2008 €m	12 months ended 31 March 2007 €m
<b>History of experience gains and losses</b>					
Actuarial gain / (loss) on scheme assets:					
Amount	86	574	(1,176)	(823)	144
Percentage of scheme assets	2.1%	15.4%	(39.2%)	(20.7%)	3.2%
Experience gain / (loss) on scheme liabilities:					
Amount	115	33	63	(58)	(126)
Percentage of scheme liabilities	2.5%	0.6%	1.4%	(1.2%)	(2.5%)
Total actuarial gain / (loss) recognised in SOCI*					
Amount	465	(99)	(624)	(244)	213
Percentage of scheme liabilities	10.2%	(1.8%)	(13.9%)	(5.1%)	4.2%

\* Statement of other comprehensive income

	31 December 2010 €m	31 December 2009 €m	31 March 2009 €m	31 March 2008 €m	31 March 2007 €m
<b>Defined benefit pension schemes</b>					
Present value of obligations	4,549	5,365	4,481	4,762	5,092
Scheme assets	4,126	3,734	3,003	3,967	4,505
<b>Deficit within schemes</b>	<b>423</b>	<b>1,631</b>	<b>1,478</b>	<b>795</b>	<b>587</b>

The deficit at 31 December 2010 includes a deficit of €358 million (31 December 2009: €1,474 million) relating to the defined benefit schemes recognised on the balance sheet of the Bank.

Expected employer contributions and expected employee contributions for the twelve month period ended 31 December 2011 are €217 million (inclusive of €90 million of additional contributions related to the Group pensions review set out on page 271) and €15 million respectively.

### Sensitivity analysis for each of the key assumptions used to measure the scheme liabilities at 31 December 2010

Factor	Change in assumption	BSPF Impact on actuarial liabilities
Discount rate	Decrease 0.1%	Increase 1.8%
Rate of Inflation	Decrease 0.1%	Decrease 1.5%
Rate of salary growth	Decrease 0.1%	Decrease 0.2%
Life expectancy	Increase by 1 year	Increase 2.1%

While the table above shows the impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

## 46 Contingent liabilities and commitments

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

	31 December 2010 Contract amount €m	31 December 2009 Contract amount €m
<b>Contingent liabilities</b>		
Acceptances and endorsements	35	27
Guarantees and irrevocable letters of credit	1,482	1,599
Other contingent liabilities	599	799
	<b>2,116</b>	<b>2,425</b>
<b>Commitments</b>		
Documentary credits and short term trade related transactions	185	186
Undrawn note issuance and revolving underwriting facilities	100	121
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- revocable or irrevocable with original maturity of 1 year or less	16,655	15,837
- irrevocable with original maturity of over 1 year	6,601	8,887
	<b>23,541</b>	<b>25,031</b>

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

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

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

**Other contingent liabilities** primarily include performance bonds and are generally short term commitments to third parties which are not directly dependent on the customers credit worthiness. The Group is party to legal actions arising out of its normal business operations. The Directors believe that adequate provision has been made in respect of these litigations. The other contingent liabilities disclosed include an amount relating to one matter under litigation. This amount has not been separately disclosed as, in line with the exemption in IAS 37, doing so could be prejudicial to the claim and the Group is satisfied that this litigation is not expected to have a significant adverse effect on its financial position.

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

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

For further information on the Group's credit risk management process in relation to the above, please refer to section 2.1 in the Risk Management Report.

## 47 Capital stock

Authorised	31 December 2010	31 December 2009
<b>Eur€</b>	<b>€m</b>	<b>€m</b>
24 billion units of €0.10 ordinary stock (31 December 2009: 2 billion units of €0.64 ordinary stock)	2,400	1,280
2 billion units of €0.54 deferred stock (31 December 2009: nil)	1,080	-
100 million units of non-cumulative preference stock of €1.27 each	127	127
100 million units of undesignated preference stock of €0.25 each	25	25
3.5 billion units of non-cumulative 2009 Preference Stock of €0.01 each	35	35
<b>Stg£</b>	<b>£m</b>	<b>£m</b>
100 million units of non-cumulative preference stock of Stg£1 each	100	100
100 million units of undesignated preference stock of Stg£0.25 each	25	25
<b>US\$</b>	<b>\$m</b>	<b>\$m</b>
8 million units of non-cumulative preference stock of US\$25 each	200	200
100 million units of undesignated preference stock of US\$0.25 each	25	25
<b>Allotted and fully paid</b>	<b>31 December 2010 €m</b>	<b>31 December 2009 €m</b>
5.2937 billion units of €0.10 ordinary stock (31 December 2009: 0.993 billion units of €0.64 ordinary stock)	529	636
1.2106 billion units (31 December 2009: nil) of €0.54 deferred stock	654	-
27.7 million units of €0.10 (31 December 2009: 33.2 million units of €0.64) treasury stock	2	21
1.9 million units of non-cumulative preference stock of Stg£1 each	3	3
3.0 million units of non-cumulative preference stock of €1.27 each	4	4
1.837 billion units of non-cumulative 2009 Preference Stock of €0.01 each (31 December 2009 3.5 billion units)	18	35
	<b>1,210</b>	<b>699</b>

### Ordinary stock

The weighted average number of units of ordinary stock in issue at 31 December 2010, used in the earnings per share calculation, excludes treasury stock which does not represent ordinary stock in issue. Treasury stock does not rank for dividend. While own stock held for the benefit of life assurance policyholders legally rank for dividend, in line with accounting standards this dividend does not accrue in the Group financial statements.

	Ordinary Stock		Treasury Stock	
Movements in ordinary and treasury stock (units)	31 December 2010	31 December 2009	31 December 2010	31 December 2009
At beginning of period	993,001,864	994,107,002	33,223,815	32,118,677
Stock option scheme	-	-	-	-
Sharesave scheme	-	(1,189)	-	1,189
Long term performance stock plan (LTPSP)	11,890	6,733	-	(6,733)
Recapitalisation of the Bank and dividend on 2009 Preference Stock	4,295,184,741	-	-	-
Stock sold / (purchased) and held for the benefit of life assurance policyholders	5,520,953	(1,110,682)	(5,520,953)	1,110,682
<b>At 31 December</b>	<b>5,293,719,448</b>	<b>993,001,864</b>	<b>27,702,862</b>	<b>33,223,815</b>



## 47 Capital stock (continued)

### Renominalisation of ordinary stock

As part of the 2010 recapitalisation of the Bank (note 49) the Bank's ordinary stock was renominalised by Stockholders at the Extraordinary General Court held on 19 May 2010. This resulted in the nominal value of each unit of ordinary stock being reduced from €0.64 per unit to €0.10 per unit.

Each existing unit of ordinary stock at the date of renominalisation was subdivided into one unit of ordinary stock of €0.10 (€0.10 ordinary stock) and one unit of deferred stock of €0.54 in the capital of Bank of Ireland (deferred stock). The purpose of the issue of deferred stock was to ensure that the reduction in the nominal value of the ordinary stock did not result in a reduction in the capital of Bank of Ireland. Each ordinary stockholder's proportionate interest in the issued ordinary stock of Bank of Ireland remained unchanged as a result of the renominalisation.

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

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

The authorised ordinary stock was increased from 2 billion units at a par value of €0.64 to 24 billion units at a par value of €0.10.

During the twelve month period ended 31 December 2010 the total ordinary stock in issue increased from 993,001,864 units of nominal value of €0.64 each to 5,293,719,448 units of nominal value of €0.10 each as a result of:

- 11,890 units of ordinary stock were issued under the 2000 LTPSP scheme under the matching stock rule;
- 4,295,184,741 units of ordinary shares were issued in relation to the 2010 recapitalisation of the Bank (note 49).

11,215,125 units of ordinary stock held by the Group's life assurance company as at 31 December 2009 are categorised as own shares. Overall, there was a net disposal of 5,520,953 units of ordinary stock by the life assurance company during the twelve month period ended 31 December 2010. At 31 December 2010 the Group's life assurance company held 5,694,172 units of ordinary stock as own shares.

All units of ordinary stock in issue carry the same voting rights. All issued stock is fully paid.

## 47 Capital stock (continued)

### Preference stock - Stg£1 each and €1.27 each

The preference stock is non-redeemable. The holders of preference stock are entitled to receive at the discretion of the Bank a non-cumulative preferential dividend, which in the case of the sterling preference stock is payable in sterling, in a gross amount of Stg£1.2625 per unit per annum and in the case of euro preference stock is payable in euro in a gross amount of €1.523686 per unit per annum, in equal semi-annual instalments, in arrears, on February 20 and August 20 in each year.

On a winding up of, or other return of capital by, the Bank (other than on a redemption) the holders of preference stock will be entitled to receive an amount equal to the amount paid up on each unit of the preference stock held (including the premium) out of the surplus assets available for distribution to the holders of ordinary stock.

The preference stockholders are not entitled to vote at any General Court except in certain exceptional circumstances when a restricted vote may apply. Such circumstances did arise during 2010 and consequently the Preference Stockholders were entitled to vote at the Extraordinary and General Meetings of the Bank.

The Bank has an obligation to increase the cash dividend payable on each unit of preference stock so that the sum of the cash dividend paid or payable together with the associated dividend tax credit shall equal the appropriate gross amounts.

As at 31 December 2010 and 31 December 2009 1,876,090 units of sterling preference stock and 3,026,598 units of euro preference stock were in issue.

### 2009 Preference Stock:

On 31 March 2009, 3.5 billion units of 2009 Preference Stock and warrants were issued to the NPRFC. As part of the recapitalisation of the Bank in the twelve month period ended 31 December 2010 (note 49), a total of 1,662,958,696 units of 2009 Preference Stock were converted to ordinary stock and the warrants were cancelled.

	31 December 2010 units	31 December 2009 units
<b>2009 Preference Stock</b>		
At beginning of period	3,500,000,000	3,500,000,000
NPRFC Placing subscription	(1,036,000,000)	-
Rights Issue – NPRFC allocation	(626,958,696)	-
<b>At end of period</b>	<b>1,837,041,304</b>	<b>3,500,000,000</b>

Further information on 2009 Preference Stock is shown in note 56.

### Use of ordinary stock in employee schemes

#### (a) Employee Stock Issue Scheme

At the 2006 Annual General Court the stockholders approved the establishment of a new Employee Stock Issue Scheme to replace the scheme originally approved by the stockholders in 1997. Under this scheme, which has an Irish and a UK version in order to conform with the relevant revenue legislation in both jurisdictions, all employees in Ireland and the UK are eligible to participate provided that they have been employed by the Group in one of the schemes' participating companies for the previous financial year and are still employed by the Group on the date the annual results are announced. Each year the Court may set aside an element of Group profit before taxation for allocation to the trustees of the scheme to enable them to acquire units of ordinary stock on behalf of the scheme participants.

Currently the amount set aside is related to overall Group performance. The maximum award permitted under the scheme is 6% of a participant's salary. To date, annual distributions under the schemes have ranged between nil and 6% of each participants salary. There was no award in the twelve month period ended 31 December 2010 or in the nine month period ending 31 December 2009.

In addition, if an employee elects for the free stock award, they become eligible to purchase additional stock at market price from gross salary subject to Revenue Commissioners and HM Revenue & Customs rules respectively.

## 47 Capital stock (continued)

### (b) Sharesave Scheme (SAYE Scheme)

At the 1999 Annual General Court the stockholders approved the establishment of an SAYE Scheme. Under this scheme, which has an Irish and UK version in order to conform with the relevant revenue legislation in both jurisdictions, all employees in Ireland and the UK are eligible to participate provided that they are employed by the Group on the invitation to participate date and they are still in the employ of the Group on the date that the options are granted.

The Sharesave Options grants have been re-stated following the Group's 2010 Rights Issue with the associated number of shares adjusted upwards by a factor of 1.586176 and the equivalent share price discounted by a factor of 0.630447. These are technical adjustments only and ensure that the aggregate exercise price of an option remains the same before and after the adjustment.

The table below shows the adjusted option price for each year, and the discount which the original option price represented of the market price of that time.

Grant Dates		SAYE 2007	SAYE 2006	SAYE 2003
Option Price	ROI	€4.39	€7.74	€4.94
	UK	€4.68	€8.25	€5.28
Discount	ROI	25%	25%	25%
	UK	20%	20%	20%

The difference between Irish and UK option prices reflects the maximum discounts permitted under Revenue Commissioners and HM Revenue & Customs rules respectively.

As at 31 December 2010, there are outstanding options under the scheme over 1,789,807 units of ordinary stock. Provided the participant's savings contracts are complete, these options are ordinarily exercisable by August 2011 between February 2009 and August 2011.

2010	ROI			UK			Total
	2003 5yr	2006 3yr	2007 3yr	2003 5yr	2006 3yr	2007 3yr	
Outstanding at beginning of period	51,706	747,203	2,022,116	2,582	146,664	312,994	3,283,265
Lapsed	(51,706)	(746,726)	(469,651)	(2,582)	(146,664)	(76,129)	(1,493,458)
Outstanding at end of period	-	477	1,552,465	-	-	236,865	1,789,807
Weighted average exercise price	€4.94	€7.74	€4.39	€5.28	€8.25	€4.68	€4.43

\* No options were either granted or exercised in the twelve month period ended 31 December 2010 or in the nine month period ended 31 December 2009.

## 47 Capital stock (continued)

### (c) Stock Option Scheme

Options to subscribe for units of ordinary stock are granted under the terms of the Stock Option Scheme. The scheme was approved by the stockholders at the Annual General Court in 1996 - the Bank of Ireland Group Stock Option Scheme - 1996, and its successor scheme, the Bank of Ireland Group Executive Stock Option Scheme - 2004 which was approved by stockholders at the Annual General Court held in 2004. Key executives may participate in the current scheme at the discretion of the Remuneration Committee. Under the current scheme, the total value of options granted may not exceed 100% of an executive's salary. The subscription price per unit of stock shall not be less than the market value of the stock at the date of grant.

The exercise of options granted between 2004 and 2007 is conditional upon underlying earnings per share achieving a cumulative growth of at least 5% per annum compound above the increase in the Consumer Price Index over the three year performance period, commencing with the period in which the options are granted. If this performance condition is not achieved the options lapse. For options granted in 2008 25% will become capable of exercise if the Group's underlying earnings per share growth is 3% per annum compounded commencing with the period in which the options are granted. The performance conditions for options granted in 1996 up to and including 2005 have been satisfied. Options may not be transferred or assigned and may be exercised only between the third and tenth anniversaries of their grant.

The options below are pre the Group's 2010 Rights Issue. The Group Remuneration Committee exercised its discretion to not make any technical adjustments to these grants.

	31 December 2010		31 December 2009	
	Number of options	Weighted average exercise price (€)	Number of options	Weighted average exercise price (€)
Outstanding at beginning of period	7,950,045	€10.35	9,367,967	€10.85
Expired during period	(1,519,850)	€12.87	(1,417,922)	€13.65
Outstanding at end of period	6,430,195	€9.75	7,950,045	€10.35
Exercisable at end of period	3,964,163	€10.15	4,485,663	€11.13

No options were either granted or exercised in the twelve month period ended 31 December 2010 or in the nine month period ended 31 December 2009.

Exercise Price Range (€)	Number of options
1.22 – 9.75	2,567,682
10.54 – 10.77	2,067,499
11.05 – 13.68	1,795,014
<b>Total</b>	<b>6,430,195</b>

Outstanding options under the Stock Option Scheme are exercisable at price ranges above. The weighted average remaining contractual life of the outstanding options under the Stock Option Scheme is less than 1 year.

### (d) Long Term Incentive Plan

The Bank of Ireland Group Long Term Incentive Plan – 2004 (LTIP) was approved by the stockholders at the Annual General Court in July 2004. Its predecessor plan, the Long Term Performance Stock Plan – 1999 (LTPSP), was approved by the stockholders at the Annual General Court in July 1999. The LTIP links the number of units of stock receivable by participants to the Group's Total Shareholder Return (TSR). TSR represents stock price growth plus dividends.

Each year selected senior executives participating in the plan receive a conditional award of a number of units of ordinary stock. The maximum award for Executive Directors and Group Executive Committee members cannot exceed 100% (150% for the Group CEO) of their annual salary at the time of the award.

## 47 Capital stock (continued)

Provided the Group's Return on Equity (ROE) over the three year performance period is on average at least 20%, then the proportion of these units which actually vest on the third anniversary of the date of the original award is based on the Group's TSR growth relative to a comparator group of financial services companies, as follows:

The Bank's total shareholder return performance relative to the Comparator Companies	% of units of stock subject to an award which may be issued or transferred
Equal to or better than the company ranked second	100%
Between the company ranked median and the company ranked second	Greater than 35% and less than 100% (Pro rata based on the Bank's performance relative to the Comparator Companies)
Equal to the median	35%
Below median	nil

If the Group's ROE over the three year performance period is on average below 20%, then the award lapses.

Under the LTPSP, a minimum of 80% of the vested stock must be retained for two years from maturity of award. After the two year retention period, an additional award of 20% is made. If the award is retained for an additional five years, a further award of 30% is made.

	December 2010		December 2009	
	Number of conditional units	Weighted average grant price (€)	Number of conditional units	Weighted average grant price (€)
Outstanding at beginning of period	1,743,720	8.40	2,488,162	9.86
Vested during period	(11,890)	6.92	-	-
Expired during period	(630,477)	12.74	(744,442)	13.27
Outstanding at end of period	1,101,353	5.93	1,743,720	8.40

*The above units of stock are pre the Group's 2010 Rights Issue. The Group Remuneration Committee exercised its discretion to not make any technical adjustments to these grants.*

Outstanding conditional units of stock under the LTIP were awarded at prices ranging between €1.215 to €8.10.

The weighted average remaining contractual life of the outstanding options under the LTIP Scheme is less than one year (the potential matching awards of 30% on the previous LTPSP schemes are excluded from this calculation).

### (e) Limitations on Employee Stock Issue and Stock Option Schemes

All of the above stock issue and stock option schemes are subject to a range of flow rate controls approved by the stockholders and which conform to current institutional investor guidelines.

## 48 Stock Premium

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Stock premium account</b>		
Balance at the beginning of the period	4,092	4,092
Dividend on 2009 Preference Stock paid in ordinary stock (note 49)	(118)	-
Premium on issue of ordinary stock (note 49)	1,409	-
Transaction costs, net of tax	(121)	-
Reduction in stock premium on conversion of preference stock (note 49)	(155)	-
Reduction in stock premium transferred to retained earnings	(800)	-
Loss on cancellation of warrants	(381)	-
<b>Balance at the end of the period</b>	<b>3,926</b>	<b>4,092</b>

On 1 December 2010, the High Court approved a reduction in the Group's Stock Premium account of €800 million. As a result, this amount has been transferred to Retained Earnings.

For more detail on the other movements in stock premium see note 49 Recapitalisation of the Bank.

## 49 Recapitalisation of the Bank

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

- **Placing:** The placing, comprised the Institutional Placing<sup>1</sup> and the NPRFC Placing<sup>1</sup>. The institutional placing involved the issue of 326,797,386 units of ordinary stock at a price of €1.53 per unit of ordinary stock. The price at which the ordinary stock was issued to placees represented a 15% discount to the closing price of €1.80 of the Existing Stock<sup>1</sup> on 23 April 2010 (being the last practicable date prior to announcement of the proposals). Placees were considered qualifying stockholders for the purposes of the rights issue in respect of their ordinary stock. Pursuant to the NPRFC Placing<sup>1</sup> the NPRFC agreed to subscribe for 575,555,556 units of ordinary stock at a price of €1.80 per unit of ordinary stock (being the closing price on 23 April 2010). The consideration for the NPRFC's subscription was the conversion of 1,036,000,000 units of 2009 Preference Stock (at their subscription price of €1.00 per unit of 2009 Preference Stock) to units of ordinary stock. The ordinary stock issued pursuant to the NPRFC Placing<sup>1</sup> was eligible for participation in the rights issue as if such ordinary stock was held on the Record Date (17 May 2010);
- **Rights Issue:** The NPRFC's consideration for the take up of its rights in respect of the NPRFC Coupon ordinary stock and its holding of ordinary stock as a result of the NPRFC Placing<sup>1</sup> was the conversion of 626,958,696 units of 2009 Preference Stock at their subscription price of €1.00 each to 1,139,924,901 units of ordinary stock at the rights issue price of €0.55;
- **Debt for Equity Offers:** Under the debt for equity offers, holders of certain of the Group's subordinated liabilities and the US\$150 million Perpetual Floating Rate Primary Capital Notes exchanged these securities for (a) Allotment Instruments (which automatically converted into ordinary stock on 10 September 2010); or (b) cash proceeds from the allotment of ordinary stock to be sold on their behalf; or (c) a combination thereof. On 10 September 2010, the allotment instrument matured and 71,990,958 units of ordinary stock were issued. Between 30 June 2010 and 10 September 2010, the carrying value of the allotment instrument reduced by €11 million due to a reduction in the number of units of ordinary stock expected to be issued. This reduction was recognised in the income statement.
- **Warrant Cancellation:** The warrants held by the NPRFC were cancelled in return for the payment of €491 million in cash by the Bank to the NPRFC. The cancellation of the warrants had no impact on capital stock but the impact was to reduce other reserves by €110 million and stock premium by €381 million as shown in the consolidated statement of changes in equity (see pages 192 and 193). In the Group's interim financial statements at 30 June 2010, the charge of €381 million was presented as a reduction in retained earnings. Having subsequently clarified the legal position in respect of the relevant sections of company law applicable to the Bank at the date of the cancellation of the warrants, the amount has now been classified as a reduction in stock premium.

The following table shows the impact of the capital raising initiatives and the dividend on the 2009 Preference Stock (which was paid in ordinary stock) on ordinary stock, deferred stock, 2009 Preference Stock and stock premium. These movements are reflected in the statement of changes in equity on page 192 and 193.

	Ordinary Stock		Deferred Stock		2009 Preference Stock		Stock Premium
	Number	€m	Number	€m	Number	€m	€m
<b>Government</b>							
<b>Dividend on 2009 Preference Stock paid in units of ordinary stock<sup>(a)</sup></b>	<b>184,394,378</b>	<b>118</b>	-	-	-	-	<b>(118)</b>
NPRFC placing <sup>(b)</sup>	575,555,556	58	-	-	(1,036,000,000)	(11)	(47)
NPRFC rights <sup>(b)</sup>	1,139,924,901	114	-	-	(626,958,696)	(6)	(108)
<b>Conversion of 2009 Preference Stock</b>		<b>172</b>				<b>(17)</b>	<b>(155)</b>
<b>Other</b>							
Institutional placing <sup>(c)</sup>	326,797,386	32	-	-	-	-	467
Rights issue <sup>(c)</sup>	981,992,918	98	-	-	-	-	442
Debt for equity offers <sup>(d)</sup>	1,086,519,602	108	-	-	-	-	500
<b>Issue of ordinary stock</b>	-	<b>238</b>	-	-	-	-	<b>1,409</b>
<b>Transaction costs charged to stock premium</b>	-	-	-	-	-	-	<b>(121)</b>
<b>Loss on cancellation of warrants</b>	-	-	-	-	-	-	<b>(381)</b>
<b>Renominalisation of share capital</b>	-	<b>(654)</b>	<b>1,210,621,289</b>	<b>654</b>	-	-	-
	<b>4,295,184,741</b>	<b>(126)</b>	<b>1,210,621,289</b>	<b>654</b>	<b>(1,662,958,696)</b>	<b>(17)</b>	<b>634</b>

(a) Paid in units of €0.64 cents prior to renominalisation of share capital

(b) Settled through the conversion of 2009 Preference Stock into units of ordinary stock

(c) Issue of new shares for cash

(d) Issue of ordinary stock in exchange for debt instruments.

<sup>1</sup> Defined in Capital Stock and Government Guarantee - Defined Terms, page 367.

## 50 Liquidity risk

The tables below summarise the maturity profile of the Group's financial liabilities (excluding those arising from insurance and investment contracts in BoI Life and those arising on derivative financial instruments) at 31 December 2010 and 31 December 2009 based on contractual undiscounted repayment obligations. Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,271 million and €7,188 million respectively (31 December 2009: €5,050 million and €6,658 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts. The Group does not manage liquidity risk on the basis of contractual maturity. Instead the Group manages liquidity risk based on expected cash flows. The balances will not agree directly to the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

### As at 31 December 2010

Contractual maturity	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Deposits from banks	359	37,892	433	2,467	85	41,236
Customer accounts	32,377	17,913	10,893	4,666	522	66,371
Debt securities in issue	-	4,902	3,935	15,480	7,756	32,073
Subordinated liabilities	-	176	138	1,196	3,631	5,141
Contingent liabilities	2,116	-	-	-	-	2,116
Commitments	16,940	-	-	6,601	-	23,541
<b>Total</b>	<b>51,792</b>	<b>60,883</b>	<b>15,399</b>	<b>30,410</b>	<b>11,994</b>	<b>170,478</b>

### As at 31 December 2009

Contractual maturity	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Deposits from banks	128	8,386	8,205	1,075	241	18,035
Customer accounts	36,795	31,484	12,625	4,361	692	85,957
Debt securities in issue	-	14,120	11,043	12,813	10,548	48,524
Subordinated liabilities	-	859	87	839	5,715	7,500
Contingent liabilities	2,425	-	-	-	-	2,425
Commitments	16,144	-	-	8,887	-	25,031
<b>Total</b>	<b>55,492</b>	<b>54,849</b>	<b>31,960</b>	<b>27,975</b>	<b>17,196</b>	<b>187,472</b>

As set out in note 22, derivatives held for trading comprise derivatives entered into with trading intent as well as derivatives entered with economic hedging intent to which the Group does not apply hedge accounting. Derivatives held with hedging intent also include all derivatives to which the Group applies hedge accounting.

The table below summarises the maturity profile of the Group's derivative liabilities. The Group manages liquidity risk based on expected cash flows, therefore the undiscounted cash flows payable on derivatives liabilities held with hedging intent are classified according to their contractual maturity, while derivatives held with trading intent have been included at fair value in the 'demand' time bucket.

### As at 31 December 2010

Derivative financial instruments	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
<b>Derivatives held with hedging intent</b>						
Gross settled derivative liabilities - outflows	-	1,689	1,433	5,900	1,615	10,637
Gross settled derivative liabilities - inflows	-	(1,557)	(1,288)	(5,447)	(1,454)	(9,746)
Gross settled derivative liabilities - net flows	-	132	145	453	161	891
Net settled derivative liabilities	-	600	1,373	2,177	453	4,603
<b>Total derivatives held with hedging intent</b>	<b>-</b>	<b>732</b>	<b>1,518</b>	<b>2,630</b>	<b>614</b>	<b>5,494</b>
Derivative liabilities held with trading intent	1,879	-	-	-	-	1,879
<b>Total derivative cash flows</b>	<b>1,879</b>	<b>732</b>	<b>1,518</b>	<b>2,630</b>	<b>614</b>	<b>7,373</b>



## 50 Liquidity risk (continued)

As at 31 December 2009

	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Derivative financial instruments						
<b>Derivatives held with hedging intent</b>						
Gross settled derivative liabilities - outflows	-	3,787	2,316	4,257	854	11,214
Gross settled derivative liabilities - inflows	-	(3,698)	(2,104)	(3,766)	(842)	(10,410)
Gross settled derivative liabilities - net flows	-	89	212	491	12	804
Net settled derivative liabilities	-	554	1,326	1,402	100	3,382
<b>Total derivatives held with hedging intent</b>	-	<b>643</b>	<b>1,538</b>	<b>1,893</b>	<b>112</b>	<b>4,186</b>
Derivative liabilities held with trading intent	1,795	-	-	-	-	1,795
<b>Total derivative cash flows</b>	<b>1,795</b>	<b>643</b>	<b>1,538</b>	<b>1,893</b>	<b>112</b>	<b>5,981</b>

## 51 Measurement basis of financial assets and financial liabilities

The table below analyses the carrying amounts of the financial assets and financial liabilities by accounting treatment and by balance sheet heading.

	At fair value through profit or loss			At fair value through Other Comprehensive income (OCI)			Insurance contracts €m	Total €m
	Derivatives designated as fair value hedging instruments €m	Held for trading €m	Designated upon initial recognition €m	Available for sale €m	Cash flow hedge derivatives €m	Loans and advances / Held at amortised cost €m		
<b>31 December 2010</b>								
<b>Financial assets</b>								
Cash and balances at central banks	-	-	-	-	-	1,014	-	1,014
Items in the course of collection from other banks	-	-	-	-	-	491	-	491
Trading securities	-	151	-	-	-	-	-	151
Derivative financial instruments	924	3,751	-	-	1,700	-	-	6,375
Other financial assets at fair value through profit or loss	-	-	10,045	-	-	-	-	10,045
Loans and advances to banks	-	-	-	-	-	7,458	-	7,458
Available for sale financial assets	-	-	-	15,576	-	-	-	15,576
NAMA senior bonds	-	-	-	-	-	5,075	-	5,075
Loans and advances to customers	-	-	-	-	-	114,457	-	114,457
Assets held for sale to NAMA	-	7	-	-	-	797	-	804
Interest in associates	-	-	26	-	-	-	-	26
<b>Total financial assets</b>	<b>924</b>	<b>3,909</b>	<b>10,071</b>	<b>15,576</b>	<b>1,700</b>	<b>129,292</b>	<b>-</b>	<b>161,472</b>
<b>Financial liabilities</b>								
Deposits from banks	-	-	412	-	-	40,663	-	41,075
Customer accounts	-	-	1,471	-	-	63,972	-	65,443
Items in course of transmission to other banks	-	-	-	-	-	293	-	293
Derivative financial instruments	557	3,457	-	-	1,431	-	-	5,445
Liabilities to customers under investment contracts	-	-	5,271	-	-	-	-	5,271
Debt securities in issue	-	-	545	-	-	28,148	-	28,693
Insurance contract liabilities	-	-	-	-	-	-	7,188	7,188
Subordinated liabilities	-	-	83	-	-	2,692	-	2,775
<b>Total financial liabilities</b>	<b>557</b>	<b>3,457</b>	<b>7,782</b>	<b>-</b>	<b>1,431</b>	<b>135,768</b>	<b>7,188</b>	<b>156,183</b>

## 51 Measurement basis of financial assets and financial liabilities (continued)

31 December 2009	At fair value through profit or loss			At fair value through other Comprehensive income			Insurance contracts €m	Total €m
	Derivatives designated as fair value hedging instruments €m	Held for trading €m	Designated upon initial recognition €m	Available for sale €m	Cash flow hedge derivatives €m	Loans and advances / Held at amortised cost €m		
<b>Financial assets</b>								
Cash and balances at central banks	-	-	-	-	-	4,241	-	4,241
Items in the course of collection from other banks	-	-	-	-	-	400	-	400
Trading securities	-	403	-	-	-	-	-	403
Derivative financial instruments	740	3,344	-	-	1,740	-	-	5,824
Other financial assets at fair value through profit or loss	-	-	9,679	-	-	-	-	9,679
Loans and advances to banks	-	-	-	-	-	5,031	-	5,031
Available for sale financial assets	-	-	-	20,940	-	-	-	20,940
Loans and advances to customers	-	-	-	-	-	119,439	-	119,439
Assets held for sale to NAMA	-	93	-	-	-	9,488	-	9,581
Interest in associates	-	-	23	-	-	-	-	23
<b>Total financial assets</b>	<b>740</b>	<b>3,840</b>	<b>9,702</b>	<b>20,940</b>	<b>1,740</b>	<b>138,599</b>	<b>-</b>	<b>175,561</b>
<b>Financial liabilities</b>								
Deposits from banks	-	-	2	-	-	17,901	-	17,903
Customer accounts	-	-	1,720	-	-	83,092	-	84,812
Items in course of transmission to other banks	-	-	-	-	-	198	-	198
Derivative financial instruments	598	3,702	-	-	1,737	-	-	6,037
Liabilities to customers under investment contracts	-	-	5,050	-	-	-	-	5,050
Debt securities in issue	-	-	472	-	-	42,672	-	43,144
Insurance contract liabilities	-	-	-	-	-	-	6,658	6,658
Subordinated liabilities	-	-	229	-	-	5,824	-	6,053
Liabilities held for sale to NAMA	-	1	-	-	-	-	-	1
<b>Total financial liabilities</b>	<b>598</b>	<b>3,703</b>	<b>7,473</b>	<b>-</b>	<b>1,737</b>	<b>149,687</b>	<b>6,658</b>	<b>169,856</b>

The fair value and contractual amount due on maturity of financial liabilities designated at fair value upon initial recognition are shown in the table below.

	31 December 2010		31 December 2009	
	Fair values €m	Contractual amount due on maturity €m	Fair values €m	Contractual amount due on maturity €m
Deposits from banks	412	412	2	2
Customer accounts	1,471	1,628	1,720	1,775
Liabilities to customers under investment contracts	5,271	5,271	5,050	5,050
Debt securities in issue	545	915	472	494
Subordinated liabilities	83	166	229	264
<b>Financial liabilities designated at fair value through profit or loss</b>	<b>7,782</b>	<b>8,392</b>	<b>7,473</b>	<b>7,585</b>

For financial assets and financial liabilities which are recognised and subsequently measured at fair value through profit or loss or through other comprehensive income, a description of the methods and assumptions used to calculate those fair values is set out in note 52.

## 52 Fair values of financial assets and financial liabilities

The Group's accounting policy on valuation of financial instruments is set out on pages 204 to 206, while page 221 gives details on the critical accounting estimates and judgements made by management in relation to the fair value of financial instruments. The fair value of a financial instrument is defined as the amount for which an asset could be exchanged, or a liability settled, in an arms length transaction between knowledgeable willing parties.

Where possible, the Group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation techniques which may include discounted cash flow models or comparisons to instruments with characteristics either identical or similar to those of the instruments held by the Group.

These techniques are subjective in nature and involve assumptions which are based upon management's view of market conditions at period end which may not necessarily be indicative of any subsequent fair value. Furthermore, minor changes in the assumptions used could have a significant impact on the resulting estimated fair values, and, as a result, readers of these financial statements are advised to use caution when using this data to evaluate the Group's financial position.

The concept of fair value assumes realisation of financial instruments by way of a sale. However, in many cases, particularly in respect of loans and advances to customers, the Group intends to realise assets through collection over time. As such, the fair values calculated do not represent the value of the Group as a going concern at 31 December 2009 or 31 December 2010.

### (a) Financial assets and financial liabilities recognised and subsequently measured at fair value

All financial instruments are initially recognised at fair value. The Group subsequently measures trading securities, other financial assets and financial liabilities designated at fair value through profit or loss, derivatives and available for sale financial assets at fair value in the balance sheet. These instruments are shown as either at fair value through profit or loss (FVTPL) or at fair value through Other Comprehensive Income (OCI) in note 51 on the measurement basis of financial assets and financial liabilities. A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below.

#### Financial assets held for trading

These instruments are valued using observable market prices, directly from a recognised pricing source or an independent broker or investment bank.

#### Other financial assets at fair value through profit or loss

These consist of assets designated at fair value through profit or loss, which are predominantly held for the benefit of unit linked policyholders, with any changes in valuation accruing to the policyholders. These assets consist principally of bonds, equities and unit trusts, which are traded on listed exchanges, are actively traded and have readily available prices. Substantially all of these assets are valued using valuation techniques which use observable market data.

#### Derivative financial instruments

The Group's derivative financial instruments are valued using valuation techniques commonly used by market participants. These consist of discounted cash flow and options pricing models, which typically incorporate observable market data, principally interest rates, basis spreads, foreign exchange rates, equity prices and counterparty credit. A small number of derivative financial instruments are valued using non-observable inputs. However, changing one or more assumptions used in the valuation of these derivatives would not have a significant impact as they are entered into to hedge the exposure arising on certain customer accounts (see below), leaving the Group with no net valuation risk due to the non-observable inputs.

#### Assets and liabilities held for sale to NAMA - derivatives

In the case of derivatives held for sale to NAMA, counterparty credit is not considered observable and is significant to their valuation. The effect of changing the assumptions in relation to counterparty credit to a range of reasonably possible alternatives would be to increase the fair value of these derivatives by up to €3 million or to decrease their fair value by up to €3 million, with a corresponding impact on the income statement.

#### Interest in associates

Investments in associates which are venture capital investments are valued in accordance with the 'International Private Equity and Venture Capital Valuation Guidelines'. This requires the use of various inputs such as discounted cash flow analysis and comparison with the earnings multiples of listed comparative companies amongst others. Although the valuation of unquoted equity instruments is subjective by nature, the relevant methodologies are commonly applied by other market participants and have been consistently applied over time. Using reasonably possible assumptions would not have a material impact on the value of these assets.

## 52 Fair values of financial assets and financial liabilities (continued)

### Available for sale financial assets

For available for sale financial assets for which an active market exists, fair value has been determined directly from observable market prices or yields through a recognised pricing source or an independent broker, price-provider or investment bank.

A small number of assets have been valued using vendor prices, which are not considered to represent observable market data. The effect of using reasonably possible alternative assumptions would be to decrease their fair value by up to €5 million or to increase their fair value by up to €15 million, with a corresponding impact on the statement of other comprehensive income.

NAMA subordinated debt does not trade in an active market for which observable market data is available. Its fair value has been estimated using a discounted cash flow valuation technique incorporating observable yields on bonds trading in active markets, and movements in those yields during the twelve month period ended 31 December 2010. The effect of using reasonably possible alternative assumptions would be to decrease the fair value of this debt by up to €25 million or to increase its fair value by up to €13 million, with a corresponding impact on the income statement.

### Debt securities in issue and subordinated liabilities

These instruments comprise debt securities in issue and subordinated liabilities with a fair value of €628 million (31 December 2009: €701 million) which are measured at fair value through profit or loss, the fair value of which is based on valuation techniques incorporating significant unobservable market data. The significant unobservable input is the Group's credit spread, the estimation of which has become more judgemental in current market circumstances. The Group estimates this spread by reference to recent transactions in the same instrument or in similar instruments issued by the Group.

The effect of changing the estimated credit spread on subordinated liabilities using reasonably possible alternatives would be to decrease their fair value by up to €12 million or to increase their fair value by up to €3 million, with a corresponding impact on the income statement. The effect of changing the estimated credit spread on the debt securities in issue to a range of reasonably possible alternatives would be to decrease their fair value by up to €82 million or to increase their fair value by up to €82 million, with a corresponding impact on the income statement.

### Customer accounts and deposits by banks

Customer accounts and deposits by banks designated at fair value through profit or loss consist of deposits which contain an embedded derivative (typically an equity option). These instruments are typically valued using valuation techniques which use observable market data. The impact of changes in the Groups own credit spread is not significant to the fair value of these deposits.

A small number of customer accounts are valued using additional non-observable inputs. However, changing one or more assumptions used in the valuation of these customer accounts would not have a significant impact as these customer accounts are hedged with offsetting derivatives (see above), leaving the Group with no net valuation risk due to those non-observable inputs.

### Liabilities to customers under insurance and investment contracts

The accounting policy for these instruments is set out on page 214 and 215. In accordance with the accounting policy, the fair value of liabilities to customers under both insurance and investment unit linked contracts is contractually linked to the fair value of the financial assets within the policyholders' unit linked funds. The value of the unit linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the balance sheet date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable.

### (b) Financial assets and liabilities not subsequently measured at fair value

For financial assets and financial liabilities which are not subsequently measured at fair value on the balance sheet, the Group discloses their fair value in a way that permits them to be compared to their carrying amounts. The methods and assumptions used to calculate the fair values of these assets and liabilities are set out below.

### Loans and advances to banks

The estimated fair value of floating rate placements and overnight placings is their carrying amount. The estimated fair value of fixed interest bearing placements is based on discounted cash flows using prevailing money market interest rates for assets with similar credit risk and remaining maturity.

## 52 Fair values of financial assets and financial liabilities (continued)

### Loans and advances to customers

Loans and advances are carried net of provisions for impairment. The fair value of both fixed and variable rate loans and advances to customers is calculated using a valuation technique which involves the discounting of estimated future cash flows at current market rates, incorporating the impact of current credit spreads and margins. The fair value reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans.

### NAMA senior bonds

NAMA senior bonds are classified as loans and receivables and are carried net of provisions for impairment. Their fair value has been estimated by using a valuation technique which takes into consideration the Government guarantee, collateral and other support, and valuations in the repo market.

### Assets held for sale to NAMA

Assets held for sale to NAMA are measured on the same basis in the balance sheet as prior to their classification as held for sale, in line with the Group's accounting policy for assets held for sale to NAMA, set out on page 211.

Assets held for sale to NAMA at 31 December 2010 include €0.9 billion of assets (before impairment provisions of €75 million) that are due to transfer to NAMA.

The Group is currently unable to accurately quantify the ultimate expected loss on the future transfer of assets to NAMA. The Group estimates that the discount to gross loan value on the remaining loans held for sale to NAMA may be in a range of 20% to 30%. For the purposes of presenting the fair value of the total portfolio of assets held for sale to NAMA, the Group has applied a 25% discount (being the mid point of the Group's expected range) to all such loans.

### Deposits from banks and customer accounts

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

### Debt securities in issue and subordinated liabilities

The fair values of these instruments are calculated based on quoted market prices where available. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate to the Group for the remaining term to maturity. The yield curve used incorporates the effect of changes in the Group's own credit spread.

### (c) Fair value hierarchy

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

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

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

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

**52 Fair values of financial assets and financial liabilities (continued)**

31 December 2010	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
<b>Financial assets held at fair value</b>				
Trading securities	151	-	-	151
Derivative financial instruments	-	6,343	32	6,375
Assets held for sale to NAMA - derivatives	-	-	7	7
Other financial assets at FVTPL	9,428	600	17	10,045
AFS financial assets	14,167	1,209	200	15,576
Interest in associates	-	-	26	26
	<b>23,746</b>	<b>8,152</b>	<b>282</b>	<b>32,180</b>
<b>As a % of fair value assets</b>	<b>73.8%</b>	<b>25.3%</b>	<b>0.9%</b>	<b>100%</b>
<b>Financial liabilities held at fair value</b>				
Deposits from banks	-	412	-	412
Customer accounts	-	1,429	42	1,471
Derivative financial instruments	-	5,418	27	5,445
Liabilities to customers under investment contracts	-	5,271	-	5,271
Insurance contract liabilities	-	7,188	-	7,188
Debt securities in issue	-	-	545	545
Subordinated liabilities	-	-	83	83
	<b>-</b>	<b>19,718</b>	<b>697</b>	<b>20,415</b>
<b>As a % of fair value liabilities</b>	<b>-</b>	<b>96.6%</b>	<b>3.4%</b>	<b>100%</b>

31 December 2009	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
<b>Financial assets held at fair value</b>				
Trading securities	403	-	-	403
Derivative financial instruments	-	5,788	36	5,824
Assets held for sale to NAMA - derivatives	-	-	93	93
Other financial assets at FVTPL	8,987	692	-	9,679
AFS financial assets	18,921	1,687	332	20,940
Interest in associates	-	-	23	23
	<b>28,311</b>	<b>8,167</b>	<b>484</b>	<b>36,962</b>
<b>As a % of fair value assets</b>	<b>76.6%</b>	<b>22.1%</b>	<b>1.3%</b>	<b>100%</b>
<b>Financial liabilities held at fair value</b>				
Deposits from banks	-	2	-	2
Customer accounts	-	1,658	62	1,720
Derivative financial instruments	-	6,017	20	6,037
Liabilities held for sale to NAMA - derivatives	-	-	1	1
Liabilities to customers under investment contracts	-	5,050	-	5,050
Insurance contract liabilities	-	6,658	-	6,658
Debt securities in issue	-	-	472	472
Subordinated liabilities	-	-	229	229
	<b>-</b>	<b>19,385</b>	<b>784</b>	<b>20,169</b>
<b>As a % of fair value liabilities</b>	<b>-</b>	<b>96.1%</b>	<b>3.9%</b>	<b>100%</b>

## 52 Fair values of financial assets and financial liabilities (continued)

### Movements in level 3 assets

31 December 2010	Other financial assets at FVTPL €m	Derivative financial instruments €m	Derivatives held for sale to NAMA €m	Available for sale financial assets €m	Interest in associates €m	Total €m
Opening Balance	-	36	93	332	23	484
Total gains or losses in:						
- Profit or loss						
- Net trading expense	-	6	(16)	-	-	(10)
- Impairment charges	-	-	-	(70)	-	(70)
- Share of results of associates	-	-	-	-	5	5
- Other Comprehensive income	-	-	-	(6)	-	(6)
Additions	17	1	-	182	5	205
Disposals	-	-	(54)	(145)	(7)	(206)
Redemptions	-	(14)	(16)	(4)	-	(34)
Transfers out of level 3						
- from level 3 to level 2	-	-	-	(89)	-	(89)
Transfers into level 3						
- from level 2 to level 3	-	3	-	-	-	3
<b>Closing balance</b>	<b>17</b>	<b>32</b>	<b>7</b>	<b>200</b>	<b>26</b>	<b>282</b>
Total gains / (losses) for the period included in profit or loss for assets held in level 3 at the end of the reporting period	-	6	(16)	(70)	5	(76)
Other transfers						
- from level 1 to level 2	-	-	-	76	-	76
- from level 2 to level 1	-	-	-	18	-	18

The transfer from level 3 to level 2 arose as a result of an ability to obtain observable market prices in the current year which were unavailable in the prior period.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to their fair value measurement.

## 52 Fair values of financial assets and financial liabilities (continued)

### Movements in level 3 assets

31 December 2009	Trading securities €m	Derivative financial instruments €m	Derivatives held for sale to NAMA €m	Available for sale financial assets €m	Interest in associates €m	Total €m
Opening Balance	7	116	-	403	22	548
Total gains or losses in:						
- Profit or loss						
- Net trading expense	-	(27)	-	-	-	(27)
- Share of results of associates	-	-	-	-	(2)	(2)
- Other income	-	-	-	2	-	2
- Other Comprehensive income	-	-	-	4	-	4
Additions	-	-	-	102	3	105
Disposals	-	-	-	(216)	-	(216)
Redemptions	-	(53)	-	(31)	-	(84)
Transfers out of level 3	-					
- from level 3 to level 1	(7)	-	-	(14)	-	(21)
- from level 3 to level 2	-	-	-	(2)	-	(2)
Transfers into level 3						
- from level 2 to level 3	-	-	93	84	-	177
<b>Closing balance</b>	<b>-</b>	<b>36</b>	<b>93</b>	<b>332</b>	<b>23</b>	<b>484</b>
Total gains / (losses) for the period included in profit or loss for assets held in level 3 at the end of the reporting period	-	(26)	(55)	2	(2)	(81)
Other transfers						
- from level 1 to level 2	9	-	-	255	-	264
- from level 2 to level 1	-	-	-	152	-	152

Transfer from level 3 to level 1 resulted from an ability to obtain observable market prices in the current period which were unavailable in the prior year.

The transfer of derivatives held for sale to NAMA from level 2 to level 3 resulted from the unobservable inputs becoming significant to their fair value measurement.

The transfer of AFS assets from level 2 to level 3 resulted from inputs which were observable at 31 March 2009 becoming unobservable in the nine month period ended 31 December 2009.



**52 Fair values of financial assets and financial liabilities (continued)****Movements in level 3 liabilities**

	Customer accounts €m	Derivative financial instruments €m	Derivatives held for sale to NAMA €m	Debt securities in issue €m	Subordinated liabilities €m	Total €m
<b>31 December 2010</b>						
Opening Balance	62	20	1	472	229	784
Total gains or losses in:						
- Profit or loss						
- Net trading expense	1	7	-	(124)	(59)	(175)
- Other Comprehensive income	-	-	-	-	21	21
Additions	2	6	-	252	-	260
Disposals	-	-	(1)	-	-	(1)
Redemptions and maturities	(57)	-	-	(55)	(108)	(220)
Transfers out of level 3						
- from level 3 to level 2	-	(10)	-	-	-	(10)
Transfers into level 3						
- from level 2 to level 3	34	4	-	-	-	38
<b>Closing balance</b>	<b>42</b>	<b>27</b>	<b>-</b>	<b>545</b>	<b>83</b>	<b>697</b>
Total gains / (losses) for the period included in profit or loss for liabilities held at the end of the reporting period	39	12	-	(124)	(53)	(126)

The transfer from level 3 to level 2 arose as a result of an ability to obtain observable market prices in the current year which were unavailable in the prior period.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to their fair value measurement.

**Movements in level 3 liabilities**

	Customer accounts €m	Derivative financial instruments €m	Derivatives held for sale to NAMA €m	Debt securities in issue €m	Subordinated liabilities €m	Total €m
<b>31 December 2009</b>						
Opening Balance	69	56	-	566	229	920
Total gains or losses in:						
- Profit or loss						
- Net trading expense	1	(23)	-	(28)	20	(30)
- Other Comprehensive income	-	-	-	-	(20)	(20)
New derivative transactions	-	10	-	-	-	10
Redemptions and maturities	(8)	(23)	-	(66)	-	(97)
Transfers into level 3						
- from level 2 to level 3	-	-	1	-	-	1
<b>Closing balance</b>	<b>62</b>	<b>20</b>	<b>1</b>	<b>472</b>	<b>229</b>	<b>784</b>
Total gains / (losses) for the period included in profit or loss for liabilities held at the end of the reporting period	(1)	13	-	(16)	(20)	(24)

There were no transfers out of level 3 during the nine month period ended 31 December 2009.

There were no transfers to level 3 from level 1. The only transfer into level 3 from level 2 was in relation to derivative liabilities held for sale to NAMA.

The transfer of derivatives held for sale to NAMA from level 2 to level 3 resulted from the unobservable inputs becoming significant to the fair value measurement.

## 52 Fair values of financial assets and financial liabilities (continued)

The carrying amount and the fair value of the Group's financial assets and financial liabilities as at 31 December 2010 and 31 December 2009 are set out in the table below.

	31 December 2010		31 December 2009	
	Carrying amount €m	Fair values €m	Carrying amount €m	Fair values €m
<b>Financial instruments held for trading</b>				
Debt securities <sup>(1)</sup>	151	151	403	403
<b>Derivative financial instruments - trading</b>				
Foreign exchange contracts <sup>(1)</sup>	135	135	(199)	(199)
Interest rate contracts <sup>(1)</sup>	132	132	(184)	(184)
Equity and commodity contracts <sup>(1)</sup>	27	27	25	25
<b>Non-trading financial instruments</b>				
<b>Assets</b>				
Cash and balances at central banks <sup>(1)</sup>	1,014	1,014	4,241	4,241
Items in course of collection from other banks <sup>(1)</sup>	491	491	400	400
Loans and advances to banks	7,458	7,454	5,031	5,028
Loans and advances to customers	114,457	103,172	119,439	116,846
Assets held for sale to NAMA <sup>(2)</sup>	804	661	9,581	7,910
Available for sale financial assets <sup>(1)</sup>	15,576	15,576	20,940	20,940
NAMA senior bonds	5,075	5,075	-	-
Other financial assets at fair value through profit or loss <sup>(1)</sup>	10,045	10,045	9,679	9,679
<b>Liabilities</b>				
Deposits from banks	41,075	41,047	17,903	17,829
Customer accounts	65,443	65,545	84,812	84,680
Items in the course of transmission to other banks <sup>(1)</sup>	293	293	198	198
Debt securities in issue	28,693	26,060	43,144	41,419
Liabilities to customers under investment contracts <sup>(1)</sup>	5,271	5,271	5,050	5,050
Insurance contract liabilities <sup>(1)</sup>	7,188	7,188	6,658	6,658
Subordinated liabilities	2,775	1,150	6,053	4,585
Liabilities held for sale to NAMA <sup>(2)</sup>	-	-	1	1
<b>Derivative financial instruments - hedging</b>				
Interest rate contracts and foreign exchange contracts <sup>(1)</sup>	636	636	(145)	(145)

<sup>(1)</sup> The fair value of these financial instruments is equal to the carrying value. These instruments are either carried at market value or have minimal credit losses and are either short term in nature or repriced frequently.

<sup>(2)</sup> Assets held for sale to NAMA are measured on the same basis in the balance sheet as prior to their classification as held for sale. The Group is currently unable to accurately quantify the ultimate expected loss on the transfer to NAMA. The Group estimates that the discount to gross loan value on the remaining loans held for sale to NAMA may be in a range of 20% to 30%. For the purposes of presenting the fair value of the total portfolio of assets held for sale to NAMA, the Group has applied a 25% discount (being the mid point of the Group's expected range) to all such loans. As the loans held for sale to NAMA are financial instruments they are carried at amortised cost less impairment provisions.

## 53 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	31 December 2010 €m	31 December 2009 €m
Cash and balances at central banks	1,014	4,241
Loans and advances to banks (with an original maturity of less than 3 months)	7,121	4,946
<b>Cash and cash equivalents</b>	<b>8,135</b>	<b>9,187</b>

## 54 Profit or loss of the parent company

The parent company of the Group is the Governor and Company of the Bank of Ireland (the Bank). In accordance with Section 148(8) of the Companies Act, 1963 and Section 7(1A) of the Companies (Amendment) Act, 1986, the Bank is availing of the exemption of presenting its individual income statement to the Annual General Court and from filing it with the Registrar of Companies. The Bank's profit after tax for the twelve month period ended 31 December 2010 determined in accordance with IFRS is €1,248 million. The loss after tax determined in accordance with IFRS for the nine month period ended 31 December 2009 was €1,861 million.

## 55 Related party transactions

The Bank is a corporation established in Ireland in 1783 under Royal Charter with a primary listing on the Irish Stock Exchange and a premium listing on the London Stock Exchange.

In the US the Bank's ordinary stock is traded on the New York Stock Exchange in the form of American Depositary Shares (ADSs), each ADS representing the right to receive four units of ordinary stock and evidenced by American Depositary Receipts (ADRs).

A number of banking transactions are entered into between the Bank and its subsidiaries in the normal course of business. These include loans, deposits and foreign currency transactions; the volumes outstanding at the year end are set out in notes 27 and 38.

### (a) Irish Government

During the twelve month period ended 31 March 2009, the Irish Government initially became a related party of the Bank through both the Bank's participation in the Government Guarantee Scheme and the 2010 recapitalisation of the Bank by the NPRFC. Between February 2010 and June 2010, the Government took ownership of 36% of the units of ordinary stock in the Bank through;

- the receipt, in ordinary stock, of the dividend due on 20 February 2010 on the 2009 Preference Stock;
- the NPRFC placing; and
- the NPRFC subscription to the Bank's rights issue.

Details of individually or collectively significant transactions with the Irish Government and entities under its control or joint control are set out in note 56.

### (b) Associates and joint ventures

The Group provides and receives from its associates and joint ventures certain banking and financial services on similar terms to third party transactions which are not material to the Group. These include loans, deposits and foreign currency transactions; the volumes outstanding at the year end are set out in notes 27 and 38.

Where appropriate under tax rules, the Group claims from or surrenders tax losses to its associates and joint ventures. In these cases, payment, equal to the value of the losses claimed or surrendered, is made to or received from the associate and joint venture concerned.

## 55 Related party transactions (continued)

### (c) Pension funds

The Group provides a number of normal banking and financial services to various pension funds operated by the Group for the benefit of its employees (principally to the Bank of Ireland Staff Pensions Fund (BSPF)), which are conducted on similar terms to third party transactions and which are not material to the Group. Further details on retirement benefit obligations are set out in note 45.

The Group occupies a number of premises owned by the Group's various pension schemes; the total value of these properties at 31 December 2010 is €25 million (31 December 2009: €25 million).

The total rental income paid to the Group's pension scheme during the twelve month period ended 31 December 2010 was €2.1 million (nine month period ended 31 December 2009: €1.6 million).

The pension scheme assets included Bank of Ireland stock amounting to €2 million at 31 December 2010 (31 December 2009: €3 million).

During the twelve month period ended December 2010, fees of €5.1 million (nine month period ended 31 December 2009: €3.8 million) were paid to the Group by the BSPF.

At 31 December 2010 €2,825 million (31 December 2009: €2,604 million) of the BSPF assets were managed by Bank of Ireland Asset Management Limited (BIAM) and Bank of Ireland Security Services (BoISS) acted as custodian for these assets. As set out in note 61, BIAM was sold to State Street Global Advisors (SSGA) in January 2011. The pension scheme assets continue to be managed by SSGA. The sale of BoISS to Northern Trust was announced in February 2011. Northern Trust will continue to act as custodian for these assets.

At 31 December 2010 €9 million (31 December 2009: €6 million) of the BSPF assets were managed by Paul Capital Investments LLC.

## 55 Related party transactions (continued)

### (d) Transactions with Key Management Personnel

The following information is presented in accordance with the Companies Act 1990 (as amended by the Companies (Amendment) Act 2009). For the purposes of the Companies Act disclosures, Directors means the Court of Directors and any past Directors who were Directors during the relevant period. For the purposes of IAS 24: Related Party Disclosures, key management personnel (KMP) comprise the Directors of the Court, the members of the Group Executive Committee (GEC), the Group Secretary and any past KMP who was a KMP during the relevant period. In addition to the Executive Directors, the GEC comprises the Group Chief Governance Risk Officer, the Chief Credit and Market Risk Officer, the Head of Group HR and the Head of Group Manufacturing.

Directors' emoluments are set out in the Remuneration Report on pages 173 to 174 and details of compensation paid to key management personnel are provided below.

### (i) Loans to Directors

Companies Acts disclosure	<sup>2</sup> Balance as at 1 January 2010 €'000	<sup>2</sup> Balance as at 31 December 2010 €'000	<sup>***</sup> Aggregate maximum amount outstanding during the 12 months ended 31 December 2010 €'000
<b>Loans</b>			
<b>Current Directors</b>			
<b>R Boucher</b>			
Mortgage total	235	206	235
Other loans total*	708	687	732
Credit card total	3	1	15
<b>Total</b>	<b>946</b>	<b>894</b>	<b>982</b>
<b>T Considine</b>			
Credit card total	1	1	3
<b>Total</b>	<b>1</b>	<b>1</b>	<b>3</b>
<b>D Crowley</b>			
Mortgages total	614	496	614
Other loan total	18	10	18
Credit cards total <sup>1</sup> *	14	15	26
Current accounts total <sup>1</sup>	-	-	2
<b>Total</b>	<b>646</b>	<b>521</b>	<b>660</b>
<b>D Donovan</b>			
Credit card total	-	-	2
<b>Total</b>	<b>-</b>	<b>-</b>	<b>2</b>
<b>P Haran</b>			
Mortgage total	120	105	120
Credit card total	2	-	2
<b>Total</b>	<b>122</b>	<b>105</b>	<b>122</b>
<b>J Kennedy</b>			
Mortgages total	1,301	776	1,301
Other loan total	98	-	98
Credit card total	-	-	2
Current account total	-	-	4
<b>Total</b>	<b>1,399</b>	<b>776</b>	<b>1,405</b>

\* Currency converted at 31 December 2009 rate, 31 December 2010 rate and average rate for the twelve month period.

<sup>1</sup> On terms similar to those available to staff generally.

<sup>2</sup> Balance includes principal and interest.

<sup>\*\*\*</sup> Items explained on page 301.

## 55 Related party transactions (continued)

	<sup>2</sup> Balance as at 1 January 2010 €'000	<sup>2</sup> Balance as at 31 December 2010 €'000	<sup>***</sup> Aggregate maximum amount outstanding during the 12 months ended 31 December 2010 €'000
<b>H A McSharry</b>			
Mortgages total	120	92	120
Credit card total	5	1	8
<b>Total</b>	<b>125</b>	<b>93</b>	<b>128</b>
<b>P Molloy</b>			
Other loan total	500	127	500
Credit card total <sup>1</sup>	7	15	15
<b>Total</b>	<b>507</b>	<b>142</b>	<b>515</b>
<b>J O' Donovan</b>			
Credit card total <sup>1</sup>	2	1	6
<b>Total</b>	<b>2</b>	<b>1</b>	<b>6</b>
<b>J Walsh</b>			
Credit card total	1	1	3
Current account total	-	-	28
<b>Total</b>	<b>1</b>	<b>1</b>	<b>31</b>
<b>P Kennedy</b>			
Mortgages total	4,666	5,078	5,078
Credit card total	7	3	7
Current account total	-	-	175
<b>Total</b>	<b>4,673</b>	<b>5,081</b>	<b>5,260</b>
<b>Past Directors</b>			
<b>D McCourt</b>			
Mortgage total	348	348	348
Other loans total	45	79	79
Credit card total	3	3	3
<b>Total</b>	<b>396</b>	<b>430</b>	<b>430</b>
<b>T Neill</b>			
Credit card total	3	-	3
<b>Total</b>	<b>3</b>	<b>-</b>	<b>3</b>

All Directors have other transactions with the Bank. The nature of these transactions includes investments, pension funds, deposits, life assurance and current accounts with credit balances. The balances on these accounts are included in the aggregate figure for deposits on page 301.

Other than as indicated, all loans to Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectability or present other unfavourable features.

<sup>1</sup> On terms similar to those available to staff generally.

<sup>2</sup> Balance includes principal and interest.

<sup>\*\*\*</sup> Items explained on page 301.

**55 Related party transactions (continued)**

There are no provisions or expenses in respect of any failure or anticipated failure to repay any of the above loans or interest thereon. There is no interest which having fallen due on the above loans has not been paid.

D Holt, R Hynes and P O'Sullivan had no loans with the Group during the twelve month period ended 31 December 2010.

**(ii) Loans to connected persons on favourable terms**

	Balance as at 31 December 2010 €'000	***Maximum amounts outstanding during the 12 months ended 31 December 2010 €'000	Number of persons as at 31 December 2010
<b>Connected Persons<sup>1</sup> of the following Directors:</b>			
D Crowley	1	4	1
P Molloy	2	8	2

The above arrangements are on favourable terms similar to those available to staff generally.

**(iii) Loans to connected persons - Central Bank licence condition disclosures**

On 11 August 2009 the Central Bank, imposed a licence condition (the condition) on the Bank under the Central Bank Act 1971, requiring disclosure in the annual audited financial statements of details of:

- (a) the aggregate amount of lending to all connected persons, as defined in Section 26 of the Companies Act 1990 and
- (b) the aggregate maximum amount outstanding during the period for which those financial statements are being prepared.

Disclosure of such loans is only required where a Director is appointed or re-appointed after the date of imposition of the condition. Disclosure is also subject to certain de minimis exemptions and to exemptions for loans relating to principal private residences where the total of such loans to an individual connected person do not exceed €1 million.

At the Annual General Court on 19 May 2010, all Directors (except for J Walsh and T Considine) retired. D McCourt and T Neill did not offer themselves for re-election. The Governor was elected and all other Directors were re-elected on that date.

The following information is presented in accordance with the condition as defined above:

	Balance at 31 December 2010 €'000	***Maximum amounts outstanding during the 12 months ended 31 December 2010 €'000	Number of persons as at 31 December 2010
<b>Connected persons<sup>1</sup> of the following Directors</b>			
Persons connected to P Molloy	640	35,195	1
Persons connected to H A McSharry	264	530	1
Persons connected to P Kennedy	2,109	2,183	1

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

\*\*\* Items explained on page 301.

**(iv) Key management personnel (KMP) - loans and deposits (IAS 24)**

Key management personnel including Directors hold products with Group companies in the ordinary course of business. All loans to non-executive Directors are made in the ordinary course of business on substantially the same terms (except as indicated by <sup>1</sup> on page 297), including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to key management personnel other than non-executive Directors are made on terms similar to those available to staff generally and / or in the ordinary course of business on normal commercial terms.

## 55 Related party transactions (continued)

The aggregate amounts outstanding and the number of KMP concerned, in respect of all loans, quasi-loans and credit transactions between the Bank and its key management personnel, as defined above, including members of their close families and entities influenced by them together with the disclosure of the year end balances and maximum amounts outstanding during the year are shown in the table below:

IAS 24 Disclosure				***Maximum amounts outstanding during the 12 months ended 31 December 2010	Total number of KMP as at 1 January 2010	Total number of KMP as at 31 December 2010
2010	Key Management Personnel	Balance as at 1 January 2010 €'000	Balance as at 31 December 2010 €'000	2010 €'000		
	Loans	10,458	13,999	17,055	22	20
	Deposits	20,519	17,353	39,696	26	22
2009	Key Management Personnel	Balance as at 1 April 2009 €'000	Balance as at 31 December 2009 €'000	***Maximum amounts outstanding during the 9 months ended 31 December 2009 €'000	Total number of KMP as at 1 April 2009	Total number of KMP as at 31 December 2009
	Loans	9,301	10,458	11,551	20	22
	Deposits	17,991	20,519	32,584	21	26

<sup>†</sup> These figures include credit card exposures at the maximum statement balance. In all cases key management personnel have not exceeded their approved limits. The maximum approved credit limit on any credit card held by key management personnel is €30,000.

<sup>\*\*</sup> The maximum amount outstanding was calculated using the maximum balance on each account. The single highest maximum outstanding liability during the twelve month period ended 31 December 2010 for any member of key management personnel and their close family did not exceed €4.2 million. In some cases with investment type products (i.e. funds based products, life assurance and other policies) the maximum balance amounts were not available and the greater of the balance at the start of the period and the balance at the end of the period has been included as the maximum balance amount. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.

The comparative figure for deposits at 31 December 2009 has been adjusted from €20.514 million to €20.519 million. This arises as a result of a recalculation of the value of a life assurance product.

KMP have other protection products with the Bank. The nature of these products includes mortgage protection, life assurance and critical illness cover. It also includes general insurance products which are underwritten by a number of external insurance companies and for which the Bank acts as an intermediary only. None of these products has any encashment value at 31 December 2010.

Included in the above figures are loans to key management personnel (other than non-executive Directors) and close family members of KMP on terms similar to those available to staff generally, amounting to €1.673 million, (31 December 2009: €1.881 million).

There are no provisions or expenses in respect of any failure or anticipated failure to repay any of the above loans or interest thereon.

Guarantees amounting to €0.88 million at 31 December 2010 (nine month period ended 31 December 2009: €1.14 million) in favour of the Group have been entered into by two Directors and the Group has entered into guarantees in favour of one Director amounting to €0.05 million at 31 December 2010 (nine month period ended 31 December 2009: €0.08 million). The Group has entered into a guarantee in favour of a business entity of one Director amounting to €0.8 million which is backed by collateral in the form of a cash deposit amounting to €0.8 million (nine month period ended 31 December 2009: €0.8 million). Two guarantees by the Group amounting to €0.04 million at 31 December 2009, in favour of a Director and the connected person of a Director, were cancelled in March 2010. There were no calls on these guarantees during the periods ended 31 December 2009 and 31 December 2010. There have been no further guarantees entered into, either in favour of the Group or in favour of KMP / Directors at 31 December 2010.



## 55 Related party transactions (continued)

	12 months ended 31 December 2010 €'000	9 months ended 31 December 2009 €'000
<b>(v) Compensation of key management personnel</b>		
<b>Remuneration</b>		
Salaries and other short term benefits <sup>(1)</sup>	6,102	5,591
Post employment benefits <sup>(2)</sup>	(685)	2,039
Payment in lieu of notice	-	412
Total remuneration before amounts waived	5,417	8,042
Amounts waived <sup>(3)</sup>	(294)	(237)
	<b>5,123</b>	<b>7,805</b>

<sup>(1)</sup> Comprises gross salary, fees, cash in lieu of pension, car allowance and other short term benefits paid in the period. In the nine month period ended 31 December 2009, a bonus was paid to only one individual in line with their contractual position. This individual was not an executive director.

<sup>(2)</sup> This comprises Employer contributions paid to pension funds. In addition in April 2010, the Group CEO, R. Boucher, voluntarily waived his contractual option to retire at 55 on a pension without actuarial reduction. This figure includes an amount in respect of this change.

<sup>(3)</sup> The Executive Directors and members of the GEC who were in office on 1 May 2009 agreed to waive an amount equal to at least 10% of their salary until 31 December 2011.

## 56 Summary of relations with the Irish Government

Throughout the twelve month period ended 31 December 2010 and the nine month period 31 December 2009, the Irish Government, through both the Group's participation in the Government Guarantee Schemes and the investment by the NPRFC in the ordinary stock and the 2009 Preference Stock of the Bank, is a related party of the Group.

### (a) The Credit Institutions (Stabilisation) Act, 2010

The Credit Institutions (Stabilisation) Act, 2010 (the Stabilisation Act) was signed into law on 21 December 2010. The Stabilisation Act provides for extensive powers to recapitalise and restructure the Irish banking system. It automatically applies to all bodies who have received financial support from the State and hence it applies to the Group. The Group has not been subject to any orders under the Act to date. Under the Stabilisation Act, the Directors owe certain duties to the Minister namely: the facilitation of credit in the economy of the State; to protect the interests of the State under the Guarantee under the Credit Institutions (Financial Support) Act 2008; to protect the interest of taxpayers; to restore confidence in the banking sector; and to align the interests of Directors with the public interest and the other purposes of the Act.

The Stabilisation Act provides a number of new powers to the Minister for Finance (the Minister) including the following:

**(i) Direction orders:** A proposed direction order can be made by the Minister in order to prevent or remedy an imminent breach of the regulatory capital requirements applicable to a relevant financial institution or to enable it to meet the regulatory capital targets set by the Central Bank. Where such an order is made it may require the relevant financial institution to: issue shares to the Minister or another person nominated by him on terms and conditions and for a consideration determined by the Minister; apply for the de-listing of the relevant financial institution's shares or the suspension of that listing; increase the authorised share capital of the relevant financial institution; and make a specified alteration to the Memorandum or Articles of Association – irrespective of the rights of shareholders and of pre-emption rights.

**(ii) Special management orders:** A proposed special management order enables a special manager, appointed by the Minister, to take control of a relevant financial institution for up to six months. The special manager is tasked with maintaining the relevant financial institution as a going concern with a view to preserving and restoring the financial position of the relevant financial institution and he/she has the power to sell any or all of the assets or liabilities of the financial institution. The effect of the appointment of the special manager is to prevent any insolvency proceedings (winding up, receivership, examinership) from being instituted. The powers of a general meeting can be taken over entirely by the special manager, and all functions vested in Directors will vest in the special manager. While a special manager is in place the relevant financial institution may not convene or hold any general meeting, the rights and powers of shareholders and members are suspended, and no derivative actions may be brought by members. A special manager may remove Directors and officers as well as employees and consultants.

## 56 Summary of relations with the Irish Government (continued)

**(iii) Subordinated liabilities orders:** The Stabilisation Act also gives the Minister power to make proposed subordinated liabilities orders which can enable the postponement, termination, suspension or modification of rights, liabilities, terms and any obligations associated with subordinated liabilities including: payment of interest; payment of principal; due date; applicable law; declaration of events of default, and enforcement issues. In making such an order the Minister can take into account issues such as the amount of indebtedness of a financial institution relative to its assets; the extent of financial support already provided to the financial institution by the State; the level of equity investment in the financial institution by the State; the viability of the financial institution in the absence of financial support; the present and likely future ability to raise equity capital from market sources; and the effectiveness of liability management exercises undertaken by that financial institution in respect of its subordinated liabilities.

When making an order the Minister may also arrange for the granting of equity interests to creditors affected by a subordinated liabilities order. Where the Minister has made a subordinated liabilities order no winding up proceedings can be instituted by a subordinated creditor, on the grounds that the relevant financial institution has failed to honour the terms of a subordinated liability.

**(iv) Transfer orders:** The Minister is empowered to make proposed transfer orders in respect of the assets or liabilities of a relevant financial institution. The legislation also enables the Minister to provide a financial incentive (a payment, loan, guarantee or other financial assistance) to any persons to become a transferee of assets or liabilities. Under the Act the rights and liabilities of the transferor move to the transferee. If a transfer order includes foreign assets the transferor and transferee are obliged to do all in their power to give effect to the transfer or assignment. Where foreign law does not permit the transfer or assignment of an asset or liability the transferor is subject to duties, obligations and liabilities as nearly corresponding to those of a trustee in relation to the assets or liability.

In the case of each of the orders described above, the High Court must approve a proposed order made by the Minister. The relevant financial institution may be consulted unless there are exceptional circumstances, including an imminent threat to the financial stability of the relevant financial institution, an imminent threat to the financial stability of the State or the Minister has reasonable grounds to believe that confidentiality relating to the proposed order would not be maintained. The relevant financial institution has five days, following the making of an order, to contest it in the High Court but can do so only on the grounds of unreasonableness or that there is a manifest error of law in the order. In each instance the discretion of the High Court to set aside or vary the order is severely limited.

**(v) Company Management Powers:** The Stabilisation Act gives the Minister extensive powers in respect of Directors, senior management, and the governance of a relevant financial institution through its members in general meetings. These powers apply irrespective of whether any of the orders listed above is in place. The Minister is given the power to remove a director, officer or employee of a relevant financial institution without the need for notice or (in the case of a director) approval by any board or general meeting. The Minister is also given the power to appoint any person to the board of a relevant financial institution irrespective of the provisions of the memorandum or articles of association of the relevant company.

There is no requirement for approval by a general meeting or a board of any action taken by the Minister pursuant to the Act.

Under the Stabilisation Act, the Directors have a duty to have regard to certain matters, namely: the facilitation of credit in the economy of the State; to protect the interests of the State under the Guarantee under the Credit Institutions (Financial Support) Act 2008; to protect the interest of taxpayers; to restore confidence in the banking sector; and to align the interests of Directors with the public interest and the other purposes of the Act. The duty is owed to the Ministers on behalf of the State and takes priority over any other duty of the Directors to the extent of inconsistency.

The Stabilisation Act also enables the Minister to impose a series of requirements on relevant financial institutions including: provision of information on the rights and liabilities of the relevant financial institutions for the purposes of making a subordinated liabilities order; provision of information concerning assets and liabilities in order to facilitate a transfer order; to make a specified application to a specified authority or person on terms specified by the Minister; to suspend a specified activity for a specified period (not exceeding 6 months); to draw up or amend one or more restructuring plans; and to change the management of the relevant financial institution by taking steps to restructure its executive management responsibilities.

## 56 Summary of relations with the Irish Government (continued)

### (vi) Miscellaneous Powers:

When providing financial support facilitated by the Stabilisation Act, the Minister is entitled to impose terms and conditions which any other provider of financial support would be entitled to impose.

The Competition Act does not apply insofar as any issue of share capital under an order is in respect of the four key powers.

The Stabilisation Act disappplies any consequence that would have followed from the making of any order under the Stabilisation Act, including, for example: the occurrence of an event of default; an obligation to repay money; the triggering of any mandatory repayment event; an obligation to return collateral or the imposition of any condition on the relevant agreement.

The Stabilisation Act enables the Minister, having consulted the Governor of the Central Bank, to make an order declaring that a relevant financial institution shall not be taken to be a relevant financial institution during a specified period if the making of such an order: provides assurance required to promote the financial stability of the relevant financial institution; removes or reduces the likelihood of further state investment in the financial institution; facilitates the return to normal operations of the financial institution; facilitates the return to normal operations of the banking sector generally; facilitates the acquisition of an interest in that financial institution by a person other than the State where the Minister believes that such an acquisition will contribute to the prior objectives.

The Stabilisation Act enables the Minister to express, in writing, an intention in relation to the future exercise, in respect of a relevant financial institution, of his or her powers under the Act. The expression of intention shall be to the effect that, if specified circumstances exist, the Minister does not intend to exercise the powers or a specified power conferred by the Act in relation to the relevant financial institution.

The provisions of the Stabilisation Act have effect notwithstanding (1) the Companies Acts, (2) any other rule of law or equity, (3) any code of practice, (4) the Listing Rules, (5) the Bye-Laws or (6) any agreement. In addition, Section 46 provides that nothing that needs to be done to make effective any order or direction of the Minister shall require any shareholder resolution.

To date, the following orders have been made under the Stabilisation Act:

- In December 2010, the High Court issued a direction order directing Allied Irish Banks plc (AIB) to issue immediately approximately €3.7 billion (net of expenses) of new equity capital to the National Pensions Reserve Fund Commission.
- In February 2011, the High Court issued two transfer orders facilitating the immediate transfer of the deposit books and corresponding assets of Anglo Irish Bank Corporation Limited (Anglo) and Irish Nationwide Building Society (INBS) to Allied Irish Banks plc and Irish Life & Permanent plc (ILP) respectively. Certain employees who dealt with the deposit taking activities in Anglo and INBS also transferred to the acquiring banks.

### Central Bank and Credit Institutions (Resolution) Bill

On 28 February 2011 the Central Bank and Credit Institutions (Resolution) Bill (the Resolution Bill) was published. This draft legislation is expected to eventually supersede the Stabilisation Act.

Under the new Resolution Bill the Central Bank will receive the authority to take over, run and break up troubled financial institutions (domestic and foreign, including IFSC banks), as it seeks to minimise the cost of a bank failure for taxpayers (this power rests with the Minister for Finance under the Stabilisation Act until the end of 2012). A special resolution fund is also to be set up, with a levy to be placed on banks to cover the cost of the Central Bank assuming control of a financial institution. The Central Bank will also receive the power to make an application to the High Court to appoint a special manager to run troubled banks and is also allowed to remove any staff, Directors or consultants. It can also create 'bridge banks' to take control of deposits and loans of a failed financial institution pending their transfer to another bank. The introduction of the new Resolution Bill could have a significant adverse impact on the Group's operations.

### (b) Guarantee schemes

#### Credit Institutions (Financial Support) Scheme 2008

Under this scheme, the Irish Government guaranteed relevant deposits and debt securities raised by Irish covered financial institutions<sup>1</sup>. The Group entities participating in the Scheme were the Governor and Company of the Bank of Ireland, Bank of Ireland Mortgage Bank, ICS Building Society and Bank of Ireland (IOM) Limited.

The Credit Institutions (Financial Support) Scheme 2008 (the CIFS Scheme) and the CIFS guarantee expired on 29 September 2010.

<sup>1</sup> Defined in *Capital Stock and Government Guarantee - Defined Terms*, page 367.

## 56 Summary of relations with the Irish Government (continued)

Total fees paid under the CIFS Scheme amounted to €68 million for the twelve month period ended 31 December 2010 (€105 million for the nine month period to 31 December 2009).

### Credit Institutions (Eligible Liabilities Guarantee) Scheme

On 11 January 2010, the four Group entities participating in the CIFS Scheme were accepted into the Irish Government's Eligible Liabilities Guarantee Scheme (the ELG Scheme). On 21 July 2010, Bank of Ireland (UK) plc was also accepted into the ELG Scheme.

The purpose of the ELG Scheme was to update and revise the guarantee under the CIFS Scheme. The ELG scheme provides a guarantee for relevant customer deposits and provides flexibility to issue certain debt securities in both un-guaranteed and guaranteed form (up to a maximum maturity of 5 years).

Eligible liabilities include:

- deposits to the extent not covered by deposit protection schemes in Ireland or any other jurisdiction;
- senior unsecured certificates of deposit;
- senior unsecured commercial paper;
- other senior unsecured bonds and notes; and
- other forms of senior unsecured debt which may be specified by the Minister, consistent with EU State aid rules and the EU Commission's Banking Communication, and subject to prior consultation with the EU Commission.

Dated subordinated debt and covered bonds are not guaranteed under the ELG Scheme.

The ELG Scheme is approved by the European Commission until 30 June 2011 (debt securities and deposits issued under the ELG Scheme prior to 30 June 2011 will be covered up to maturity, subject to a maximum maturity of five years). In advance of the 30 June 2011 expiry date, the ELG Scheme will be subject to a further review by the European Commission. Arising from this review, the European Commission could require the amendment or cessation of the ELG Scheme.

A fee is payable in respect of each liability guaranteed under the ELG Scheme. This amounted to €275 million for the twelve month period ended 31 December 2010 (€nil for the nine month period to 31 December 2009). Refer to note 4.

At December 2010, €39.3 billion of customer deposits and wholesale funding (excluding subordinated liabilities) continue to be covered under the ELG Scheme.

### European Communities (Deposit Guarantee Schemes) Regulations, 1995

Under the European Communities (Deposit Guarantee Schemes) Regulations, 1995 (the 'Deposit Protection Scheme') as amended by the Irish Government on 20 September 2008, deposits of up to €100,000 per depositor per licensed financial institution regulated by the Central Bank are guaranteed.

This Scheme covers:

- current accounts;
- demand deposit accounts; and
- term deposit accounts.

A contribution is required from each credit institution at a level of 0.2% per annum of eligible deposits held at all branches of the credit institution.

## 56 Summary of relations with the Irish Government (continued)

### (c) 2009 Preference Stock

On 31 March 2009, 3.5 billion units of 2009 Preference Stock and warrants were issued to the NPRFC.

The application of the €3.5 billion proceeds of 2009 Preference Stock and warrants was as follows; €35 million to capital stock, €3,317 million to stock premium and €148 million to other equity reserves (€50 million core tranche warrants (cancelled in May 2010), €60 million secondary tranche warrants (cancelled in May 2010) and €38 million of transaction expenses). Of the €38 million in transaction expenses, €30 million was paid to the NPRFC.

See page 307 for information on the subsequent changes to the 2009 Preference Stock and the cancellation of the warrants.

The terms and conditions attaching to the 2009 Preference Stock are outlined below:

The 2009 Preference Stock is perpetual.

The 2009 Preference Stock originally entitled the NPRFC to receive a non-cumulative cash dividend at a fixed rate of 8 per cent of the issue price per annum (increased to 10.25 per cent on 19 May 2010), payable annually in arrears on 20 February at the discretion of the Bank. If a cash dividend is not paid by the Bank, the Bank shall issue units of ordinary stock to the NPRFC to be settled on a day determined by the Bank, in its sole discretion, provided that this must occur no later than the day on which the Bank subsequently redeems or repurchases or pays a dividend on the 2009 Preference Stock or any class of capital stock. The number of units of ordinary stock that the Bank would be required to issue in the event of non-payment of a cash dividend is calculated by dividing the amount of the unpaid dividend by the Thirty Day Average Price<sup>1</sup>.

If the dividend on the 2009 Preference Stock is not paid in any particular year, the Bank is precluded from paying any dividend on ordinary stock until the Bank resumes the payment of dividends on the 2009 Preference Stock in cash. The Bank will also be precluded from paying any dividend on ordinary stock where the payment of such a dividend would reduce the distributable reserves of the Bank to such an extent that the Bank would be unable to pay the next dividend due for payment on the 2009 Preference Stock.

The repayment of the capital paid up (inclusive of premium) on the 2009 Preference Stock ranks *pari passu* with the repayment of the paid up nominal value (excluding premium) of the ordinary stock on a winding up or other return of capital of the Bank.

The 2009 Preference Stock ranks ahead of ordinary stock as regards dividends and the repayment of premium on the ordinary stock on a winding up or other return of capital of the Bank. It ranks *pari passu* as regards dividends with other stock or securities which constitute Core tier 1 capital of the Bank (other than ordinary stock and other than dividends to Non-controlling Interests).

The 2009 Preference Stock is transferable in minimum lots of 50,000 units. If transferred to a person who is not a Government Entity<sup>1</sup>, it will cease to carry any voting rights or the right to appoint Directors to the Court referred to below.

The 2009 Preference Stock may be repurchased at the option of the Bank, in whole or in part, at a price per unit equal to the issue price of €1.00 per unit within the first five years from the date of issue and thereafter at a price per unit of €1.25, provided in either case that the consent of the Central Bank to the repurchase of the 2009 Preference Stock is obtained. The 2009 Preference Stock is not capable of being repurchased if it would breach or cause a breach of Irish banking capital adequacy requirements from time to time applicable to the Bank subject to regulatory approval. The Bank may only redeem the 2009 Preference Stock in accordance with company law, and with the approval of the Central Bank, out of profits available for distribution or the proceeds of a fresh issue of stock or an issue of securities treated by the Central Bank as constituting core tier 1 capital.

If the ordinary stock to be issued in the event of non-payment of cash dividends on the 2009 Preference Stock is not settled on the dividend payment date to which it relates, the NPRFC is entitled to exercise the voting rights of that as yet unissued ordinary stock from the dividend payment date (although such voting rights will have no effect on the Bank's unfettered discretion in respect of (i) the payment of dividends on the 2009 Preference Stock or any other securities of the Bank ranking *pari passu* with, or junior to, the 2009 Preference Stock or the issuance of ordinary stock in the event of non-payment of cash dividends on the 2009 Preference Stock; or (ii) the redemption or repurchase of the 2009 Preference Stock or any other securities of the Bank ranking *pari passu* with, or junior to, the 2009 Preference Stock).

The 2009 Preference Stock held by the NPRFC carries the right to 'top-up' the NPRFC's total voting rights to 25% of the total voting rights on any resolution proposed at a General Court in relation to the appointment or removal of a Director of the Bank or any

<sup>1</sup> Defined in Capital Stock in Government Guarantee - Defined Terms, section of Other information, page 367.

## 56 Summary of relations with the Irish Government (continued)

resolutions to approve a change of control of the Bank (being a change in the holding of more than 50% of the voting stock of the Bank or of substantially all of the Bank's business and assets) where the NPRFC's ordinary voting rights through its holding of Ordinary Stock (or other securities issued in future) falls below this level. This entitlement applies to the NPRFC for so long as it holds any units of 2009 Preference Stock.

While the NPRFC or a Government Entity holds the 2009 Preference Stock the implementation of any existing, or the adoption of any proposed, Capital Stock Resolution<sup>1</sup> shall be subject to the prior written consent of the Minister for Finance.

In connection with the investment by the NPRFC the Bank agreed to implement a Banks Customer Package, including:

- (a) Increasing credit capacity to SME and first-time buyers.
- (b) Establishing an environmental and clean energy and innovation fund.
- (c) Complying with new codes of practice in relation to lending to SME and mortgage arrears.
- (d) Engaging with the Central Bank in relation to improving customer communications and financial education.
- (e) Participating in an independent review of credit availability.
- (f) Working with the IDA, Enterprise Ireland and with State agencies to ensure the supply of appropriate finance to contractors engaged on major projects sponsored by those agencies.
- (g) Providing additional funds for venture capital.
- (h) Ensuring prompt payment arrangements in future customer contracts.

During the twelve month period ended 31 December 2010 a number of changes took place in relation to the 2009 Preference Stock, as set out below.

### (i) Dividend

In February 2010, the Bank issued to the NPRFC 184,394,378 units of ordinary stock, being the number of units equal to the aggregate cash amount of the 2010 dividend on the 2009 Preference Stock, of €250.4 million, divided by the Thirty Day Average Price. This equated to a share price of €1.3582. This increased the units of ordinary stock of the Bank in issue at that date to 1,188,611,367.

The 2011 dividend on the 2009 Preference Stock was paid in cash to the NPRFC on 21 February 2011. Further information on this is outlined in note 61.

### (ii) NPRFC Placing

As described in more detail in note 49, the NPRFC subscribed for 575,555,556 units of ordinary stock at a price of €1.80 per unit of ordinary stock (being the closing price on 23 April 2010). The consideration for the NPRFC's subscription was the conversion of 1,036,000,000 units of 2009 Preference Stock (at their subscription price of €1.00 per unit of 2009 Preference Stock) to units of ordinary stock. The ordinary stock issued pursuant to the NPRFC Placing was eligible for participation in the Rights Issue as if such ordinary stock was held on the Record Date (17 May 2010).

### (iii) Rights issue

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

### (iv) Fees

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

### (v) Shareholding

As set out in note 49 and as a result of (i), (ii) and (iii) above, the Government obtained a 36% interest in the ordinary stock of the Bank during the twelve month period ended 31 December 2010 but had its warrants cancelled and its holding of 2009 Preference Stock reduced. As a result the NPRFC's holding of 2009 Preference Stock reduced from 3,500,000,000 units to 1,837,041,305 units during the twelve month period ended 31 December 2010.

### (vi) Coupon and voting rights

As part of the Government's participation in the 2010 recapitalisation of the Bank, the rights attaching to the 2009 Preference Stock were amended to increase the non-cumulative dividend to a fixed rate of 10.25% (from 8% previously) of the issue price per annum, payable annually in arrears at the discretion of the Bank.



## 56 Summary of relations with the Irish Government (continued)

As the holder of the units of 2009 Preference Stock the NPRFC currently has the right to directly appoint 25% of the directors of the Bank (such 25% to include any directors nominated by the Minister for Finance pursuant to the CIFS Guarantee Scheme) where the total number of Directors is 15 or less, or four Directors where the total number of Directors is 16, 17 or 18. The tabling of any resolution at a General Court of the Bank to alter the capital structure of the Group requires the prior approval in writing of the Minister for Finance. These rights apply in full for so long as the NPRFC or any Government Preference Stockholder holds any units of 2009 Preference Stock and they are not reduced in line with any reduction in the number of units of 2009 Preference Stock held.

### The Warrants

The Bank also entered into a warrant instrument on 31 March 2009 pursuant to which the Bank issued 334,737,148 warrants to the NPRFC. These warrants were cancelled in return for the payment of €491 million in cash by the Bank to the NPRFC. For further information please refer to note 48 and note 49.

### (d) National Asset Management Agency (NAMA)

Please refer to note 28 for details on NAMA.

### (e) National Asset Management Agency Investment Limited (NAMAIL)

On 30 March 2010, the Group, through its wholly-owned subsidiary New Ireland Assurance Company plc, acquired 17 million B shares in NAMAIL, corresponding to one-third of the 51 million B shares issued by NAMAIL. The balance of the B shares were acquired in equal proportion by Irish Life Assurance and major pension and institutional clients of AIB Investment Managers. The cost to the Group of acquiring these B shares was €17 million. NAMAIL have also issued 49 million A shares to NAMA. As a result the Group holds 17 per cent of the total ordinary share capital of NAMAIL. NAMAIL is a holding company and its subsidiaries include the entities to which NAMA Participating Institutions transfer Eligible Bank Assets and which issue the NAMA senior bonds and NAMA subordinated debt as consideration for those assets.

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

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

The Group had no involvement with NAMAIL prior to 30 March 2010.

### (f) Indemnity on Ministerial Guarantee

On 23 December 2010, the Bank entered into a facility deed (the deed) with the Central Bank. This provides for an uncommitted facility to the Group, guaranteed by the Minister for Finance up to a maximum amount of €10 billion or such increased amount as the Central Bank may, in its absolute discretion determine. Its initial term was one month from the date of execution, which has been extended for a further three month period to 23 April 2011. In entering into the deed, the Bank entered into a counter indemnity agreement with the Minister for Finance. This agreement, dated 23 December 2010, indemnifies the Minister for Finance in respect of any payments made by him under the guarantee in favour of the Central Bank in respect of any indebtedness under the deed. It is co-terminous with payment of interest and prepayment of principal in full under the deed.

## 56 Summary of relations with the Irish Government (continued)

### (g) Bonds issued by or guaranteed by the Irish Government

In addition to bonds issued by the entities set out in section (h) below, the Group held the following bonds issued or guaranteed by the Irish Government at 31 December 2010:

	31 December 2010 €m	31 December 2009 €m
Irish Government bonds	3,811	1,583
NAMA senior bonds	5,075	-
<b>Total</b>	<b>8,886</b>	<b>1,583</b>

### (h) Other transactions with the Irish Government and entities under its control or joint control

In addition to the matters set out in sections (a) to (g) of this note, the Group enters into other transactions in the normal course of business with the Irish Government, its agencies and entities under its control or joint control. These relationships were in place prior to those entities becoming related parties of the Bank. Transactions considered to be undertaken in the normal course of business include the provision of banking services, including money market transactions, dealing in Government Securities and trading in financial instruments issued by certain banks. Other than as set out below, none of these transactions are considered to individually or collectively significant.

During the nine month period ended 31 December 2009, Anglo Irish Bank (including its subsidiaries and joint ventures) was under the control of the Irish Government and is considered to have been a related party of the Group under IAS 24 (revised): Related Party Disclosures. In that nine month period, there were no individually significant transactions with Anglo Irish Bank. Any collectively significant transactions were undertaken in the normal course of business as described above. At 31 December 2009, the Group held €329 million of bonds issued by Anglo Irish Bank.

During the twelve month period ended 31 December 2010, the following entities (including their subsidiaries and joint ventures) came under the control of the Government and also became related parties of the Group under IAS 24 (revised): Related Party Disclosures, on the dates indicated:

- Irish Nationwide Building Society (31 March 2010)
- EBS (28 May 2010)
- Allied Irish Banks plc (23 December 2010)

In the period since they have become related parties of the Group, there have been no individually significant transactions with these entities or with Anglo Irish Bank, other than the impairment of the Group's investment in a holding of subordinated debt issued by AIB as outlined in note 14. Any collectively significant transactions were undertaken in the normal course of business as described above. At 31 December 2010, the Group held bonds issued by the entities set out above as follows:

	31 December 2010 €m
Allied Irish Banks plc	222
Anglo Irish Bank plc	89
EBS	-
Irish Nationwide Building Society	105
<b>Total</b>	<b>416</b>



## 57 Principal undertakings

The principal Group undertakings at 31 December 2010 were:

Name	Principal activity	Country of incorporation	Statutory year end
Bank of Ireland International Finance Limited*	International asset financing	Ireland	31 December
Bank of Ireland (I.O.M.) Limited	Retail banking	Isle of Man	31 December
Bank of Ireland Life Holdings Limited*	Life assurance and pensions	Ireland	31 December
Bank of Ireland Mortgage Bank*	Mortgage lending and mortgage covered securities	Ireland	31 December
Bank of Ireland (UK) plc*	Retail financial services	England & Wales	31 December
First Rate Exchange Services Holdings Limited <sup>1</sup>	Foreign exchange	England & Wales	31 March
ICS Building Society*	Building society	Ireland	31 December
Midasgrange Limited (t/a Post Office Financial Services, POFS) <sup>2</sup>	Retail financial services	England & Wales	31 March

\* Direct subsidiary of the Governor and Company of the Bank of Ireland

<sup>1</sup> This entity is a joint venture with the UK Post Office, in which the Group holds 50% of the equity of the business.

<sup>2</sup> This is a venture with Post Office Limited in the UK in which the Group holds 50.01% of the equity of the business.

All the Group undertakings are included in the consolidated accounts. Unless stated otherwise, the Group owns 100% of the equity of the principal Group undertakings and 100% of the voting shares of all these undertakings and in the case of ICS Building Society, 100% of the investment shares.

The addresses of the above undertakings are given on pages 371 to 372.

In presenting details of the principal subsidiary undertakings, the exemption permitted by Regulation 10 of the European Communities (Credit Institutions: Accounts) Regulations, 1992 has been availed of and the Bank will annex a full listing of Group undertakings to its annual return to the Companies Registration Office.

### Bank of Ireland Mortgage Bank (BoIMB)

BoIMB's principal activities are the issuance of Irish residential mortgages and mortgage covered securities in accordance with the Asset Covered Securities Act 2001 and the Asset Covered Securities (Amendment) Act 2007. Such loans may be made directly by the Bank or may be purchased from Bank of Ireland and other members of the Group or third parties.

At 31 December 2010, the total amount outstanding in respect of mortgage covered securities issued was €10.2 billion (31 December 2009: €9 billion). At 31 December 2010, the total amount of principal outstanding in the mortgage covered pool including mortgage assets and cash was €14.7 billion (31 December 2009: €12.7 billion).

From time to time, BoIMB issues other debt securities comprising the BoIMB's obligation to the Central Bank under the terms of the Mortgage Backed Promissory Note (MBPN) programme. At 31 December 2010 there were €3.6 billion such debt securities in issue (31 December 2009: €3.5 billion). These obligations had been secured by way of a first floating charge to the Central Bank over all its right, title, interest and benefit, in a relevant amount of loans and advances to customers

The bank had pledged under the terms of the floating charge to maintain the assets so charged free from any encumbrance and otherwise than in the ordinary course of business not to sell, transfer, lend or otherwise dispose of any part of the charged assets without prior written consent of the Central Bank. The deed of floating charge was executed by BoIMB and dated 5 July 2004 in favour of the Central Bank. The mortgages in the MBPN programme were secured by a floating charge over Irish Residential Mortgage Credit Assets which were not in the covered assets pool.

### Restrictions on the transfer of funds by subsidiaries

There are certain regulatory restrictions on the ability of subsidiaries to transfer funds to the parent company in the form of cash dividends, loans or advances. Subject to this, there are no further significant restrictions on any of the parent company's subsidiaries in paying dividends or repaying loans and advances. All regulated banking and insurance subsidiaries are required to maintain capital at levels agreed with the regulators; this may impact those subsidiaries' ability to make distributions. The impact of such restrictions is not expected to have material effect on the Group's ability to meet its cash obligations.

## 58 Other subsidiaries

The Group has a number of subsidiaries where it does not own more than half of the voting power in the company but which are consolidated. Details of these subsidiaries are listed below.

Activity	Company	31 December 2010		31 December 2009	
		Gross assets millions	Notes in issue millions	Gross assets millions	Notes in issue millions
Acquiring mortgage loans and other financial assets and issuing mortgage backed securities.	Brunel	Stg£2,887	Stg£2,806	Stg£3,451	Stg£3,354
	Colston No 1 PLC <sup>1</sup>	Stg£3,867	Stg£3,158	Stg£4,093	Stg£3,500
	Colston No 2 PLC <sup>1</sup>	Stg£2,288	Stg£1,892	Stg£4,408	Stg£3,909
	Colston No 3 PLC <sup>1</sup>	Stg£2,763	Stg£2,222	Stg£4,493	Stg£3,863
	Colston No 4 PLC <sup>1</sup>	Stg£2,106	Stg£1,642	Stg£4,276	Stg£3,526
	Kildare Securities Limited	€1,799	€1,721	€1,937	€1,892
	Melepard CDO 1 Limited <sup>1</sup>	€1,208	€1,208	€1,188	€1,208
	Morrigan CMBS I Limited <sup>1</sup>	€1,214	€1,210	€1,758	€1,755
	Morrigan CMBS 2 plc <sup>4</sup>	-	-	Stg£776	Stg£776
	Pirus Securities Limited <sup>1</sup>	€2,039	€1,627	€2,020	€1,688
	Bowbells plc <sup>1</sup>	Stg£7,701	Stg£5,699	-	-
Acquiring other financial assets and issuing debt securities.	Avondale Securities <sup>3</sup>	€713	€318	€829	€318
Acquiring a pool of acquisition finance loans assets which it has issued a series of loan notes to finance.	Partholon CDO 1 plc <sup>2</sup>	€360	€390	€371	€404

The assets of these entities are consolidated in the Group's financial statements and are collateral for the obligations of the companies above. The creditors of these entities have no recourse to the Group.

<sup>1</sup> The Group holds all the notes issued by these entities.

<sup>2</sup> The Group holds 25% of the subordinated loan notes. The Group also holds €28 million of Caa3 rated notes which it intends to hold until maturity. This investment is eliminated on consolidation.

<sup>3</sup> The asset backing Avondale Securities' notes consists of future cash-flows arising from a defined block of unit-linked insurance and investment policies which are held on the balance sheet of a related group company, Bank of Ireland Life. At an interest rate of 1.36%, the present value of the defined block of policies is €713 million at 31 December 2010 and was €829 million at 31 December 2009.

<sup>4</sup> Morrigan CMBS 2 plc ceased operations and the notes were redeemed in full during the twelve month period ended 31 December 2010.

Activity	Company	31 December 2010		31 December 2009	
		Gross assets millions	Borrowings millions	Gross assets millions	Borrowings millions
Acquiring mortgage loans and other financial assets and guaranteeing mortgage backed securities issued by Bank of Ireland.	Bank of Ireland Covered Bonds LLP	Stg£5,219	Stg£4,001 <sup>1</sup>	Stg£4,615	Stg£4,500 <sup>1</sup>

<sup>1</sup> All the borrowings of Bank of Ireland Covered Bonds LLP have been advanced by other Group companies.

**59 Life assurance business**

	<b>31 December 2010 €m</b>	<b>31 December 2009 €m</b>
<b>Value of the In Force Asset</b>		
At beginning of period	497	468
Income statement movement in value of the in force (gross of tax)	41	29
<b>At end of period</b>	<b>538</b>	<b>497</b>

The Group recognises as an asset the value of the in force assurance business in respect of insurance contracts. The value of the in force asset has been calculated in accordance with the achieved profits embedded value methodology in the Statement of Recommended Practice issued by the Association of British Insurers which came into force in 2002. The value of the in force asset, which is presented gross of attributable tax, represents the present value of future profits expected to arise from these contracts as at the balance sheet date. It is determined by projecting future surpluses and other cash flows arising from insurance contracts and discounting at an appropriate rate. The useful life of the asset is based on the length of the underlying individual policies upon which the asset is calculated. This useful life is expected to be 6.75 years (31 December 2009: 6.77 years).

The key economic and experience assumptions used in the calculation of the value of the in force business are set out below:

	<b>31 December 2010</b>	<b>31 December 2009</b>
Risk discount rate	7.75%	8.25%
Unit growth rate	5.75%	6.5%
Shareholder tax rate	12.5%	12.5%

The process used in determining the key economic and experience assumptions is set out below:

<b>Risk discount rate:</b>	The risk discount rate is the rate used to discount the surpluses that will arise on insurance business in the long term funds. The interest rates used to calculate policyholder liabilities are derived in accordance with the guidelines in the Insurance Regulations. Margins for risk are allowed for in the derived interest rates. The impact of the changes to the discount and other rate assumptions gave rise to a charge of €14 million for the twelve month period ended 31 December 2010, compared to a gain of €3 million for the nine month period ended 31 December 2009. The discount rate applied to future cashflows was decreased from 8.25% at 31 December 2009 to 7.75% at 31 December 2010.
<b>Unit growth rate:</b>	The unit growth rate is the assumed rate of return on the unit linked assets before taxation and management fees in future years. The growth rate reflects the mix of assets held. The unit growth assumption was decreased from 6.5% at 31 December 2009 to 5.75% at 31 December 2010.
<b>Shareholder tax rate:</b>	The current rate of corporation tax is assumed to be maintained over the term of the business. Deferred tax is allowed for on the release of retained surplus in the life business.
<b>Mortality and morbidity:</b>	Mortality and morbidity assumptions, which include allowances for improvements in longevity for annuitants, are set by reference to the Group's actual experience and / or relevant industry data.
<b>Persistency:</b>	Persistency rates refer to the rate of policy termination for insurance policies. These rates are based on historical experience and management's views on future experience.
<b>Maintenance expenses:</b>	Allowance is made for future policy costs by reference to current and expected future costs. Explicit allowance is made for future expense inflation.

## 59 Life assurance business (continued)

### Sensitivities

The table below indicates the stand alone impact of changes in the key assumptions on profit after tax and shareholder equity.

	31 December 2010	31 December 2009
1% increase in risk discount rate	(€29 million)	(€27 million)
1% decrease in risk discount rate	€32 million	€30 million
10% improvement in mortality	€8 million	€10 million
10% deterioration in persistency	(€15 million)	(€18 million)
5% improvement in maintenance expenses	€7 million	€6 million
1% increase in equity markets	€2 million	€2 million

While the table above shows the impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

## 60 EU restructuring plan

The European Commission approved the terms of the EU Restructuring Plan on 15 July 2010 which is required in the context of a review by the European Commission resulting from the State aid which has been received by the Group.

The terms of the EU Restructuring Plan include, amongst other actions, the disposal of New Ireland Assurance Company plc, BIAM (Bank of Ireland Asset Management) (asset management business), ICS Building Society (Irish intermediary sourced mortgage business), FCE Corporation (US foreign exchange business), and the Group's stakes in Paul Capital Investments LLC (a private fund of funds manager) and in the Irish Credit Bureau Limited, and the wind-down or disposal of, the Group's UK intermediary sourced mortgage business and certain discontinued international corporate lending portfolios.

It also includes certain behavioural measures including:

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

As outlined in note 36, the Group met one of the terms of the EU Restructuring Plan when on 10 January 2011, the sale of BIAM was completed to State Street Global Advisors. The assets and liabilities of BIAM have been classified as assets and liabilities held for sale on the balance sheet at 31 December 2010.

The Group has also reclassified the assets and liabilities of FCE Corporation, Irish Credit Bureau, and Paul Capital Investments LLC as held for sale, as the Group believes it is probable a sale will be completed for these businesses within twelve months. Please refer to note 36.

At 31 December 2010, the other business and loan portfolios outlined above did not meet the criteria for classification as held for sale.

Following the 2011 PCAR review, the Minister for Finance advised that the State will be submitting new restructuring plans for Irish banks (including the Group) to the European Commission for approval under State aid rules in respect of the implications of the changes necessary for the future banking landscape in Ireland. At this stage, there is no certainty that the European Commission will not require additional measures to limit any competition distortions that might result from any State aid received by the Group, additional to the deleveraging of assets included in the Group's Deleveraging plan over and above those already included in the approved EU Restructuring Plan.

## 61 Post balance sheet events

The following non-adjusting events occurred between the reporting date and the date of approval of the financial statements:

### Sale of Bank of Ireland Asset Management (BIAM)

On 22 October 2010, the Group announced the sale of BIAM to State Street Global Advisors for a cash consideration of approximately €57 million, subject to certain conditions. On 10 January 2011, all conditions of the sale were satisfied and the sale was completed. The Group made a profit on disposal of approximately €40 million, which will be included in the income statement for the twelve month period ended 31 December 2011. The assets and liabilities of BIAM have been classified as assets and liabilities held for sale on the balance sheet at 31 December 2010.

### Exchange of subordinated debt securities

In February 2011, the Group exchanged securities with a nominal value of CAD\$138 million. These securities were exchanged at a discount into the following new senior debt securities: €30 million, 6.75% coupon, maturity 30 January 2012 and CAD\$34 million, 6.75% coupon, maturity 30 January 2012. The gain from the exchange offer was €16 million after tax. Further information on the Group's subordinated liabilities is outlined in note 41.

### Dividends

Following the expiry on 31 January 2011 of the prohibition by the EU Commission on discretionary dividend and coupon payments on the Group's capital instruments, coupon payments on such instruments recommenced on 1 February 2011. On 21 February 2011, the Group paid dividends on its euro and sterling preference stock of €3.7 million and the dividend of €214.5 million with respect to the 2009 Preference Stock held by the NPRFC.

### Ratings Downgrade

Subsequent to 31 December 2010, Standard & Poor's, Moody's Investor Services, Fitch Ratings and DBRS downgraded the long term ratings for the Group as set out in the table below:

BOI - Senior Debt	5 April 2011	31 December 2010
Standard & Poor's	BB+ ( <i>Creditwatch Negative</i> )	BBB+ ( <i>Creditwatch Negative</i> )
Moody's	Ba1 ( <i>Review for possible downgrade</i> )	Baa2 ( <i>Negative</i> )
Fitch	BBB ( <i>Ratings watch Negative</i> )	BBB ( <i>Stable</i> )
DBRS	BBB (High) ( <i>Negative Trend</i> )	A (High) ( <i>Negative Trend</i> )

The downgrade has impacted the Group's contingent collateral with the BoIMB Mortgage Backed Promissory Note programme no longer eligible for use with the ECB. However the Group is utilising the underlying security released to increase availability under its Asset Covered Bond programme which remains eligible with the ECB. In addition the downgrade will require the Group to move interest swaps, in which it was originally the counterparty, related to Colston 1, Brunel, Kildare and Bow Bells to another counterparty.

## 61 Post balance sheet events (continued)

### Sale of Bank of Ireland Securities Services (BoISS)

On the 24 February 2011, the Group announced the sale of BoISS (a securities services business within the Capital Markets Division) to Northern Trust Corporation. The assets and liabilities of BoISS have been classified as assets and liabilities held for sale on the balance sheet as at 31 December 2010.

### Prudential Capital Assessment Review

The Central Bank has undertaken a Prudential Capital Assessment Review (PCAR) and a Prudential Liquidity Assessment Review (PLAR) in 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 measures to be implemented with a view to deleveraging the banking system and reducing reliance on short term wholesale funding and liquidity support from Monetary Authorities.

The 2011 PCAR is based on future loan loss estimates under stress scenarios undertaken by BlackRock Solutions (BlackRock) on behalf of the Central Bank with aggressively conservative assumptions on the performance of the Group's loans under these stress conditions. The BlackRock methodology applies, in the Group's view, a 'repossess and sale' approach under stress scenarios with stressed residential and commercial property values as the primary driver of loan losses in both mortgage and investment property portfolios and places less emphasis on customers' repayment capacity including contracted income streams. The approach is materially different to the methodology in previous reviews of potential future loan losses by the Group and other leading international risk consultants, including Oliver Wyman.

As with any stress test, the adverse stress scenario is designed to cover 'what-if' situations reflecting even more stressed macroeconomic conditions than might reasonably be expected to prevail.

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.

The equity capital requirement has been 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;
- the adverse stress scenario loan loss estimates;
- notwithstanding that the land and development loans of the Group where an individual customer / sponsor exposure less than €20 million at 31 December 2010 are 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
- an estimate of losses arising from deleveraging under an adverse stress scenario.

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

## 61 Post balance sheet events (continued)

The Group is working actively, with its advisors, on initiatives with a view to meeting the €4.2 billion equity capital requirement through a combination of capital management initiatives, other capital markets sources, and support from existing shareholders. The Minister for Finance has stated that the Group will be provided with time in order to generate / raise the additional capital requirement from private sources. Any capital that cannot be generated / raised from private sources to meet this capital requirement will be invested by the State. The Group expects to be in a position to make an announcement on its capital plans in the coming weeks.

### Deleveraging

The 2011 PCAR incorporates a deleveraging plan (PLAR) which anticipates a loan to deposit ratio of less than 122.5% for the Group by 31 December 2013.

This plan augments the asset reductions contained in the Group's approved EU Restructuring and Viability Plan which are underway and ahead of target. The deleveraging plan envisages portfolios of customer loans continuing to be wound down or disposed of on an orderly basis over a three year period resulting in an expected reduction in the Group's non-core loan portfolios of approximately €30 billion between December 2010 and December 2013.

The loan portfolios / lending businesses of the Group, that are being / will be run down or disposed of over time, include:

- portfolios of UK Intermediary sourced Mortgages;
- selected international niche businesses such as project finance, asset based lending and certain previously identified international corporate banking portfolios;
- certain international commercial investment property portfolios; and
- land and development loans where the Group has an individual customer / sponsor exposure less than €20 million.

These portfolios are estimated at approximately €39 billion of loans and advances to customers.

It is envisaged that the international portfolios will be significantly wound down or sold in the period to 31 December 2013 on a basis that will balance the advantage of stronger liquidity ratios with the need to maximise value from the disposal of such assets without pressure to concede to the risk of 'fire sales'.

Prior to the date of approval of these financial statements, but subsequent to 31 December 2010, the following lending businesses, which have been identified for deleveraging, met the criteria to be classified as held for sale, with disposal expected to be completed within twelve months.

- Burdale, a UK asset-based lending business forming part of the Capital Markets division, with assets consisting of loans and advances to customers of €691 million.
- The project finance business (excluding its Irish business), forming part of the Capital Markets division, and consisting of loans and advances to customers of €2,700 million.

In addition, a tranche of the UK intermediary sourced mortgage portfolio is now expected to be sold within twelve months.

These businesses have not been classified as assets held for sale on the balance sheet at 31 December 2010, as they did not meet the criteria at that date.

## 62 Approval of financial statements

The Court of Directors approved the financial statements on 13 April 2011

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# Bank balance sheet

as at 31 December 2010

	Notes	31 December 2010 €m	31 December 2009 €m
<b>ASSETS</b>			
Cash and balances at central banks		914	4,202
Items in the course of collection from other banks		193	400
Trading securities	d	151	403
Derivative financial instruments	e	5,946	5,232
Other financial assets at fair value through profit or loss	f	94	70
Loans and advances to banks	g	59,340	35,540
Available for sale financial assets	h	17,261	21,826
NAMA senior bonds	i	5,075	-
Loans and advances to customers	j	75,203	96,856
Assets held for sale to NAMA	k	791	9,450
Shares in Group undertakings	l	2,839	2,033
Intangible assets – other	n	312	353
Property, plant and equipment	o	320	345
Current tax asset		85	45
Deferred tax assets	w	1,026	777
Other assets	p	781	671
Retirement benefit asset		10	6
<b>Total assets</b>		<b>170,341</b>	<b>178,209</b>
<b>EQUITY AND LIABILITIES</b>			
Deposits from banks	q	87,952	43,715
Customer accounts	r	50,632	88,665
Items in the course of transmission to other banks		155	198
Derivative financial instruments	e	5,850	6,496
Debt securities in issue	s	12,448	26,389
Other liabilities	u	3,815	1,983
Provisions	v	54	131
Retirement benefit obligations		368	1,480
Subordinated liabilities	t	2,700	5,286
Liabilities held for sale to NAMA		-	1
<b>Total liabilities</b>		<b>163,974</b>	<b>174,344</b>
<b>Equity</b>			
Capital stock	y	1,210	699
Stock premium account	z	3,920	4,090
Retained earnings		2,594	213
Other reserves		(1,357)	(1,137)
<b>Stockholders' equity</b>		<b>6,367</b>	<b>3,865</b>
<b>Total equity and liabilities</b>		<b>170,341</b>	<b>178,209</b>

**Patrick J Molloy**  
Governor

**Dennis Holt**  
Deputy Governor

**Richie Boucher**  
Group Chief Executive

**Helen Nolan**  
Secretary

# Bank statement of changes in equity

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>CAPITAL STOCK</b>		
Balance at the beginning of the period	699	699
Dividend on 2009 Preference Stock paid in ordinary stock	118	-
Issue of ordinary stock	238	-
Conversion of 2009 Preference Stock	155	-
<b>Balance at the end of the period</b>	<b>1,210</b>	<b>699</b>
<b>Stock premium account</b>		
Balance at the beginning of the period	4,090	4,090
Dividend on 2009 Preference Stock paid in ordinary stock	(118)	-
Premium on issue of ordinary stock	1,409	-
Transaction costs, net of tax	(125)	-
Reduction in stock premium on conversion of preference stock	(155)	-
Reduction in stock premium transferred to retained earnings	(800)	-
Loss on cancellation of warrants	(381)	-
<b>Balance at the end of the period</b>	<b>3,920</b>	<b>4,090</b>
<b>Retained earnings</b>		
Balance at the beginning of the period	213	2,149
Profit / (loss) for period attributable to stockholders	1,248	(1,861)
Equity dividends	-	-
Dividends on other equity interests	-	(4)
Profit / (loss) retained	1,248	(1,865)
Transfer from stock premium	800	-
Transfer from share based payments reserve	4	11
Net actuarial gain / (loss) on defined benefit pension schemes	327	(82)
Other movements	2	-
<b>Balance at the end of the period</b>	<b>2,594</b>	<b>213</b>
<b>Other Reserves:</b>		
<b>Available for sale reserve</b>		
Balance at the beginning of the period	(264)	(1,039)
Net changes in fair value	(601)	934
Deferred tax on reserve movements	53	(109)
Transfer to income statement		
- On asset disposal	(10)	(50)
- Impairment	168	-
<b>Balance at the end of the period</b>	<b>(654)</b>	<b>(264)</b>
<b>Cash flow hedge reserve</b>		
Balance at the beginning of the period	(503)	(577)
Net changes in fair value	(97)	(202)
Transferred to income statement		
- Net interest income	412	351
- Net trading expense (foreign exchange)	(2)	(40)
Deferred tax on reserve movements	(41)	(35)
<b>Balance at the end of the period</b>	<b>(231)</b>	<b>(503)</b>
<b>Foreign exchange reserve</b>		
Balance at the beginning of the period	(687)	(767)
Exchange adjustments during the period	85	80
<b>Balance at the end of the period</b>	<b>(602)</b>	<b>(687)</b>

## Bank statement of changes in equity (continued)

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Capital reserve</b>		
Balance at the beginning of the period	48	48
<b>Balance at the end of the period</b>	<b>48</b>	<b>48</b>
<b>Share based payments reserve</b>		
Balance at the beginning of the period	22	33
Charge to the income statement	(6)	-
Transfer to retained earnings	(4)	(11)
<b>Balance at the end of the period</b>	<b>12</b>	<b>22</b>
<b>Revaluation reserve</b>		
Balance at the beginning of the period	23	71
Revaluation of property	(18)	(54)
Deferred tax on revaluation of property	4	7
Other movement	-	(1)
<b>Balance at the end of the period</b>	<b>9</b>	<b>23</b>
<b>Other equity reserves</b>		
<b>US\$150 million capital note</b>		
Balance at the beginning of the period	114	114
Repurchase of capital note	(53)	-
<b>Balance at the end of the period</b>	<b>61</b>	<b>114</b>
<b>Core and secondary tranche warrants</b>		
Balance at the beginning of the period	110	110
Cancellation warrants	(110)	-
<b>Balance at the end of the period</b>	<b>-</b>	<b>110</b>
<b>Total other reserves</b>	<b>(1,357)</b>	<b>(1,137)</b>
<b>Total stockholders' equity</b>	<b>6,367</b>	<b>3,865</b>

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# Bank cash flow statement

for the twelve month period ended 31 December 2010

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Cash flows from operating activities</b>		
Profit / (loss) before taxation	687	(2,369)
Dividend received from Group undertakings	(1,420)	(787)
Depreciation and amortisation	124	91
Impairment charges on financial assets (including assets held for sale or sold to NAMA)	1,782	3,684
Loss on sale of assets to NAMA including associated costs	2,437	-
Impairment of intangibles	(2)	6
Decline in value of property below cost	9	2
Net change in prepayments and interest receivable	(22)	183
Net change in accruals and interest payable	77	5
Loans and advances written off net of recoveries	4	(112)
Interest expense on subordinated liabilities and other capital instruments	226	146
Profit on disposal of available for sale financial assets	(10)	(50)
Credit for share based payments	(6)	-
Charge for provisions	30	79
(Gain) / charge for retirement benefit obligation	(583)	122
Impairment of shares in Group undertakings	2	19
Gain of repurchase of subordinated debt	(856)	-
Gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	(360)	6
Amortisation of premiums and discounts	(5)	(10)
Amortisation of debt issue expenses	7	2
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>2,121</b>	<b>1,017</b>
Net change in items in the course of collection from other banks	170	78
Net change in trading securities	252	(278)
Net change in derivative financial instruments	(1,605)	528
Net change in other financial assets at fair value through profit or loss	(24)	(47)
Net change in loans and advances to banks	(5,482)	(1,140)
Net change in loans and advances to customers	7,015	3,508
Net change in other assets	(138)	222
Net change in deposits from banks	26,821	(9,539)
Net change in customer accounts	(21,742)	2,760
Net change in debt securities in issue	(15,140)	(413)
Net change in other liabilities	1,590	(89)
Effect of exchange translation and other adjustments	165	(1,487)
<b>Net cash flows from operating assets and liabilities</b>	<b>(8,118)</b>	<b>(5,897)</b>

## Bank cash flow statement (continued)

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Net cash flows from operating activities before taxation</b>	<b>(5,997)</b>	<b>(4,880)</b>
Taxation refunded	4	80
<b>Net cash flows from operating activities</b>	<b>(5,993)</b>	<b>(4,800)</b>
Investing activities (section a)	4,189	7,119
Financing activities (section b)	(589)	(135)
<b>Net change in cash and cash equivalents</b>	<b>(2,393)</b>	<b>2,184</b>
Opening cash and cash equivalents	8,815	6,811
Effect of exchange translation adjustments	301	(180)
<b>Closing cash and cash equivalents (note ad)</b>	<b>6,723</b>	<b>8,815</b>
<b>(a) Investing activities</b>		
Additions to available for sale financial assets	(7,745)	(8,426)
Disposal of available for sale financial assets	12,035	15,564
Additions to property, plant and equipment	(40)	(10)
Disposal of property, plant and equipment	2	3
Additions to intangible assets	(40)	(41)
Disposal of intangible assets	1	-
Increase in investment in subsidiaries	(1,444)	(758)
Dividend received from Group undertakings	1,420	787
<b>Cash flows from investing activities</b>	<b>4,189</b>	<b>7,119</b>
<b>(b) Financing activities</b>		
Redemption in subordinated liabilities	(750)	-
Interest paid on subordinated liabilities	(255)	(131)
Net proceeds from institutional placing and rights issue	908	-
Cancellation of warrants	(491)	-
Dividends on other equity interests	(1)	(4)
<b>Cash flows from financing activities</b>	<b>(589)</b>	<b>(135)</b>

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# Notes to the Bank financial statements

## a Comparative period

On 17 February 2010, the Governor & Company of the Bank of Ireland announced that it was changing its fiscal year end from 31 March to 31 December to align its financial calendar with that of its peer banks.

These financial statements cover the twelve month period from 1 January 2010 to 31 December 2010, while the comparative period covers the nine month period from 1 April 2009 to 31 December 2009. As a result, the amounts presented in the financial statements are not entirely comparable.

## b Accounting policies

The Bank financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) and with those parts of the Companies Acts, 1963 to 2009 applicable to companies reporting under IFRS, with the European Communities (Credit Institutions: Accounts) Regulations 1992 and with the Asset Covered Securities Acts 2001 to 2007. The EU adopted version of IAS 39 Financial Instruments — Recognition and Measurement relaxes some of the hedge accounting rules in IAS 39 Financial Instruments — Recognition and Measurement. The Bank has availed of this, hence these financial statements have been prepared in accordance with IFRS as adopted by the EU and IFRS as issued by the IASB.

The financial information has been prepared under the historical cost convention, as modified to include the fair valuation of certain financial instruments and land and buildings. The accounting policies of the parent company are the same as those of the Group which are set out in the Group accounting policies section of the Annual Report on pages 196 to 216 where applicable.

## c Auditors remuneration

	Notes	12 months ended 31 December 2010 Total €m	9 months ended 31 December 2009 Total €m
<b>Audit and assurance services (excluding VAT)</b>			
Statutory audit		2.0	2.2
Other assurance services	(i)	3.5	3.6
		5.5	5.8
<b>Other services (excluding VAT)</b>			
Taxation services		-	-
Other non-audit services		-	-
<b>Auditors remuneration</b>		<b>5.5</b>	<b>5.8</b>

The figures in the above table relate to fees paid to the Statutory Auditor, PricewaterhouseCoopers Ireland. The Group Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors.

- (i) Other assurance services consist primarily of fees in connection with reporting to regulators, review of the interim financial statements, letters of comfort, review of compliance with Government Guarantee Schemes, reporting on Sarbanes-Oxley, reporting accountants' work and other accounting matters.

**d Trading securities**

	31 December 2010 €m	31 December 2009 €m
Debt securities – listed	151	403
<b>Trading securities</b>	<b>151</b>	<b>403</b>

The Bank holds a portfolio of bonds for trading purposes typically taking positions in sovereign, financial and corporate risk with an average rating of BBB+ (31 December 2009; AA-).

Included in the above is €137 million of bonds issued by or guaranteed by the Irish Government (31 December 2009: €nil).

**e Derivative financial instruments**

Information on derivatives is outlined in note 22 to the consolidated financial statements.

The fair values and notional amounts of derivative instruments held are set out in the following tables:

31 December 2010	Contract / notional amount €m	Assets €m	Fair Values Liabilities €m
<b>Derivatives held for trading</b>			
<b>Foreign exchange derivatives</b>			
Currency forwards	25,557	385	242
Currency swaps	1,033	48	55
Over the counter currency options	1,210	8	8
<b>Total foreign exchange derivatives held for trading</b>	<b>27,800</b>	<b>441</b>	<b>305</b>
<b>Interest rate derivatives</b>			
Interest rate swaps	267,863	2,565	2,722
Cross currency interest rate swaps	25,022	969	679
Forward rate agreements	11,420	5	5
Over the counter interest rate options	8,903	80	73
<b>Total interest rate derivatives held for trading</b>	<b>313,208</b>	<b>3,619</b>	<b>3,479</b>
<b>Equity contracts and credit derivatives</b>			
Equity index linked contracts held	5,334	134	107
Credit derivatives	420	-	-
<b>Total derivative assets / liabilities held for trading</b>	<b>346,762</b>	<b>4,194</b>	<b>3,891</b>
<b>Derivatives held for hedging</b>			
<b>Derivatives designated as fair value hedges</b>			
Interest rate swaps	16,005	321	537
Cross currency interest rate swaps	1,577	223	1
<b>Total designated as fair value hedges</b>	<b>17,582</b>	<b>544</b>	<b>538</b>
<b>Derivatives designated as cash flow hedges</b>			
Interest rate swaps	76,048	1,207	1,421
Currency forwards	23	1	-
<b>Total designated as cash flow hedges</b>	<b>76,071</b>	<b>1,208</b>	<b>1,421</b>
<b>Total derivative assets / liabilities held for hedging</b>	<b>93,653</b>	<b>1,752</b>	<b>1,959</b>
<b>Total derivative assets / liabilities</b>	<b>440,415</b>	<b>5,946</b>	<b>5,850</b>
<b>Amounts include:</b>			
Due from / to Group undertakings	32,725	73	430

**e Derivative financial instruments (continued)**

The fair values and notional amounts of derivative instruments held are set out in the following tables:

31 December 2009	Contract / notional amount €m	Assets €m	Fair values Liabilities €m
<b>Derivatives held for trading</b>			
<b>Foreign exchange derivatives</b>			
Currency forwards	33,354	218	454
Currency swaps	943	58	20
Over the counter currency options	1,191	9	10
<b>Total foreign exchange derivatives held for trading</b>	<b>35,488</b>	<b>285</b>	<b>484</b>
<b>Interest rate derivatives</b>			
Interest rate swaps	209,164	1,774	2,658
Cross currency interest rate swaps	13,158	638	820
Forward rate agreements	17,643	14	15
Over the counter interest rate options	8,734	94	87
<b>Total interest rate derivatives held for trading</b>	<b>248,699</b>	<b>2,520</b>	<b>3,580</b>
<b>Equity contracts and credit derivatives</b>			
Equity index linked contracts held	5,493	148	122
Credit derivatives	721	-	-
<b>Total derivative assets / liabilities held for trading</b>	<b>290,401</b>	<b>2,953</b>	<b>4,186</b>
<b>Derivatives held for hedging</b>			
<b>Derivatives designated as fair value hedges</b>			
Interest rate swaps	35,950	1,018	577
Cross currency interest rate swaps	922	106	3
<b>Total designated as fair value hedges</b>	<b>36,872</b>	<b>1,124</b>	<b>580</b>
<b>Derivatives designated as cash flow hedges</b>			
Interest rate swaps	63,023	1,155	1,729
Currency forwards	28	-	1
<b>Total designated as cash flow hedges</b>	<b>63,051</b>	<b>1,155</b>	<b>1,730</b>
<b>Total derivative assets / liabilities held for hedging</b>	<b>99,923</b>	<b>2,279</b>	<b>2,310</b>
<b>Total derivative assets / liabilities</b>	<b>390,324</b>	<b>5,232</b>	<b>6,496</b>
<b>Amounts include:</b>			
Due from / to Group undertakings	33,016	9	535

Derivatives classified as held for trading comprise derivatives entered into with trading intent as well as derivatives entered into with economic hedging intent to which the Bank does not apply hedge accounting. Derivatives classified as held for hedging in the table above comprise only those derivatives to which the Bank applies hedge accounting.

As set out in its risk management policy on page 110, the Bank uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of €5.9 billion at 31 December 2010 (31 December 2009: €5.2 billion), €3.5 billion (31 December 2009: €3.8 billion) are available for offset against derivative liabilities under netting arrangements. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities.

Placements with other banks includes cash collateral of €1.8 billion (31 December 2009: €1.9 billion) placed with derivative counterparties in respect of the net derivative liability position of €2.5 billion (31 December 2009: €1.4 billion).

Net derivative assets of €2.4 billion (31 December 2009: €2.7 billion) are not covered by master netting arrangements or relate to counterparties covered by master netting arrangements with whom a net asset position was held at the balance sheet date. At 31 December 2010 cash collateral of €0.7 billion (31 December 2009: €0.5 billion) was held against these assets and is reported within Deposits from banks (note q).



**e Derivative financial instruments (continued)**

The periods in which the hedged cash flows are expected to occur are shown in the table below.

	Up to 1 year	Between 1 to 2 years	Between 2 to 5 years	More than 5 years	Total
31 December 2010	€m	€m	€m	€m	€m
Forecast receivable cash flows	214	285	1,038	460	1,997
Forecast payable cash flows	(208)	(320)	(909)	(765)	(2,202)
	Up to 1 year	Between 1 to 2 years	Between 2 to 5 years	More than 5 years	Total
31 December 2009	€m	€m	€m	€m	€m
Forecast receivable cash flows	153	393	1,215	517	2,278
Forecast payable cash flows	(168)	(504)	(1,139)	(903)	(2,714)

The hedged cash flows are expected to impact the income statement in the following periods, excluding any hedge accounting adjustments that may be applied:

	Up to 1 year	Between 1 to 2 years	Between 2 to 5 years	More than 5 years	Total
31 December 2010	€m	€m	€m	€m	€m
Forecast receivable cash flows	254	307	1,015	421	1,997
Forecast payable cash flows	(277)	(331)	(872)	(722)	(2,202)
	Up to 1 year	Between 1 to 2 years	Between 2 to 5 years	More than 5 years	Total
31 December 2009	€m	€m	€m	€m	€m
Forecast receivable cash flows	204	418	1,189	467	2,278
Forecast payable cash flows	(282)	(512)	(1,076)	(844)	(2,714)

During the twelve month period ended 31 December 2010, there were no forecast transactions to which the Bank has applied hedge accounting which were no longer expected to occur. For the nine month period ended 31 December 2009 hedge accounting had been applied to a forecast future borrowing of €190 million which was no longer expected to occur.

**f Other financial assets at fair value through profit or loss**

	31 December 2010 €m	31 December 2009 €m
Loans and advances to customers	94	70
<b>Other financial assets at fair value through profit or loss</b>	<b>94</b>	<b>70</b>

## g Loans and advances to banks

	31 December 2010 €m	31 December 2009 €m
Placements with other banks	56,047	33,277
Mandatory deposit with central banks	2,999	2,022
Funds placed with central banks	216	223
Securities purchased with agreement to resell	79	20
	59,341	35,542
Less allowance for impairment on loans and advances to banks	(1)	(2)
<b>Loans and advances to banks</b>	<b>59,340</b>	<b>35,540</b>
<b>Amounts include:</b>		
Due from Group undertakings <sup>1</sup>	52,685	30,875

<sup>1</sup> The movement in the balances shown from 31 December 2009 to 31 December 2010 is primarily driven by the impact of Bank of Ireland (UK) plc. Further information on Bank of Ireland (UK) plc is shown in note l.

Placements with other banks includes cash collateral of €1.8 billion (31 December 2009: €1.9 billion) placed with derivative counterparties in relation to net derivative liability positions (note e).

For the purpose of disclosure of credit risk exposures, loans and advances to banks are included within other financial instruments of €88 billion (31 December 2009: €63 billion) in note m on page 340.

The Bank has entered into transactions to purchase securities with agreement to resell and has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The fair value of this collateral at 31 December 2010 was €79 million (31 December 2009: €21 million).

The Bank is required to maintain some mandatory deposits with the Central Bank and the Bank of England which amounted to €2,999 million at 31 December 2010 (31 December 2009: €2,022 million). Such mandatory deposits are included within loans and advances to banks.

An amount of €967 million included within mandatory deposits with central banks relates to collateral in respect of notes in circulation (31 December 2009: €838 million).

**h Available for sale financial assets**

	<b>31 December 2010 €m</b>	<b>31 December 2009 €m</b>
Government bonds	3,183	1,055
Other debt securities		
- listed	10,441	17,624
- unlisted	3,636	3,131
Equity securities		
- listed	1	16
<b>Available for sale financial assets</b>	<b>17,261</b>	<b>21,826</b>
<b>Amounts include:</b>		
Due from Group undertakings	3,404	2,265

At 31 December 2010, available for sale financial assets of €12.9 billion (31 December 2009: €9.8 billion) had been pledged to third parties in sale and repurchase agreements. These securities continue to be recognised on the balance sheet. The Bank has not derecognised any securities delivered in repurchase agreements.

Included within unlisted debt securities are non-Government guaranteed subordinated bonds issued by NAMA with a fair value of €98 million (31 December 2009: €nil). These bonds represented 5% of the nominal consideration received for assets sold to NAMA, with the remaining 95% received in the form of NAMA senior bonds (note i).

The movement on available for sale financial assets is analysed as follows:

	<b>31 December 2010 €m</b>	<b>31 December 2009 €m</b>
At beginning of period	21,826	28,223
Revaluation, exchange and other adjustments	(280)	731
Additions	7,913	8,426
Sales	(3,337)	(3,151)
Redemptions	(8,698)	(12,413)
Amortisation	5	10
Impairment charge	(168)	-
<b>At end of period</b>	<b>17,261</b>	<b>21,826</b>

During the twelve month period ended 31 March 2009 the Bank reclassified available for sale financial assets with a carrying amount and fair value of €38 million to loans and advances to customers as they are no longer considered to be traded in an active market. At the date of this reclassification, the Bank had the intention and ability to hold these assets for the foreseeable future or until maturity. The Bank did not make any such reclassifications in the twelve month period ended 31 December 2010 or in the nine month period ended 31 December 2009.

**h Available for sale financial assets (continued)**

The table below sets out the carrying amounts and fair values of the reclassified assets:

	31 December 2010		31 December 2009	
	Carrying amounts €m	Fair Value €m	Carrying amounts €m	Fair Value €m
AFS financial assets reclassified to loans and advances to customers	42	54	35	63

Interest income of €3 million (nine month period ended 31 December 2009: €2 million) has been recognised in the income statement for the twelve month period ended 31 December 2010 in relation to these assets. No impairment charge was taken in the twelve month period ended 31 December 2010 or in the nine month period ended 31 December 2009. If these assets had not been reclassified to loans to customers, no impairment charge would have been taken in the period. If the assets had not been reclassified a fair value loss of €1 million (nine month period ended 31 December 2009: €25 million) would have been recognised in other comprehensive income.

**i NAMA senior bonds**

	31 December 2010 €m	31 December 2009 €m
NAMA senior bonds	5,075	-

NAMA senior bonds represented 95% of the nominal consideration received for assets sold to NAMA, with the remaining 5% received in the form of non-Government guaranteed subordinated bonds (note h).

An active market does not exist for the NAMA senior bonds. They have been classified as loans and receivables and accounted for in line with the Bank's accounting policy on loans and receivables as set out on page 204.

At 31 December 2010, all NAMA senior bonds had been pledged to third parties in sale and repurchase agreements.

**j Loans and advances to customers**

	<b>31 December 2010 €m</b>	31 December 2009 €m
Loans and advances to customers	77,918	98,186
Finance leases and hire purchase receivables (see analysis below)	800	1,082
	<b>78,718</b>	<b>99,268</b>
Less allowance for impairment charges on loans and advances to customers	(3,515)	(2,412)
<b>Loans and advances to customers<sup>1</sup></b>	<b>75,203</b>	<b>96,856</b>
<b>Amounts include:</b>		
Due from Group undertakings	15,394	16,623

<sup>1</sup> Loans and advances to customers above have been impacted by Bank of Ireland (UK) plc, which commenced trading on 1 November 2010. Further information is shown in note l.

As at 31 December 2010, loans and advances to customers of €780 million (31 December 2009: €9,326 million) (net of impairment provision of €72 million (31 December 2009: €2,736 million)) were classified as loans held for sale to NAMA (note k). The total loans and advances to customers above exclude these assets.

**Finance leases and hire purchase receivables**

Loans and advances to customers include finance leases and hire purchase receivables, which are analysed as follows:

	<b>31 December 2010 €m</b>	31 December 2009 €m
<b>Gross investment in finance leases:</b>		
Not later than 1 year	449	570
Later than 1 year and not later than 5 years	411	602
Later than 5 years	5	5
	<b>865</b>	<b>1,177</b>
Unearned future finance income on finance leases	(65)	(95)
<b>Net investment in finance leases</b>	<b>800</b>	<b>1,082</b>
The net investment in finance leases is analysed as follows:		
Not later than 1 year	444	524
Later than 1 year and not later than 5 years	352	553
Later than 5 years	4	5
	<b>800</b>	<b>1,082</b>

The Bank's material leasing arrangements include the provision of instalment credit and leasing finance for both consumer and commercial customers.

## k Assets and liabilities held for sale to NAMA

The gross loans and advances to customers held for sale to NAMA are €852 million excluding accrued interest (31 December 2009: €12,062 million). Provisions for impairments against these assets at 31 December 2010 amounted to €72 million (31 December 2009: €2,736 million).

	31 December 2010 €m	31 December 2009 €m
<b>Assets held for sale to NAMA (net of impairment provisions)</b>		
Loans and advances to customers		
- Retail Republic of Ireland	5	2,395
- UK Financial Services	602	2,747
- Capital Markets	173	4,184
	<b>780</b>	<b>9,326</b>
Derivative financial instruments held for sale to NAMA		
- Capital Markets	7	93
Accrued interest	4	31
	<b>791</b>	<b>9,450</b>
	31 December 2010 €m	31 December 2009 €m
<b>Liabilities held for sale to NAMA</b>		
Derivative financial instruments		
- Capital Markets	-	1
	<b>-</b>	<b>1</b>

The notional amounts of interest rate derivative instruments held for sale to NAMA at 31 December 2010 was €264 million (31 December 2009: €2,349 million).

The movement on assets held for sale to NAMA during the twelve month period ended 31 December 2010 is analysed as follows:

	Loans and advances to customers Gross €m	Impairment Provision €m	Carrying Value €m
<b>Reconciliation of movement in assets held for sale to NAMA</b>			
<b>Opening balance at 1 January 2010</b>			
Loans held for sale (including accrued interest of €31 million)	12,093	(2,736)	9,357
Derivatives held for sale	93	-	93
	<b>12,186</b>	<b>(2,736)</b>	<b>9,450</b>
<b>Movements during the year</b>			
Sale of assets to NAMA	(9,311)	2,217	(7,094)
Changes to scope of NAMA	(2,072)	689	(1,383)
Other items including changes in eligibility and other movements	60	(23)	37
Impairment charges during the year	-	(219)	(219)
<b>Closing Balance at 31 December 2010</b>	<b>863</b>	<b>(72)</b>	<b>791</b>
<b>Of which</b>			
Loans held for sale (including accrued interest of €4 million)	856	(72)	784
Derivatives held for sale	7	-	7
<b>Closing Balance at 31 December 2010</b>	<b>863</b>	<b>(72)</b>	<b>791</b>

Further information on NAMA is shown in note 28 to the consolidated financial statements.

**I Shares in Group undertakings**

	31 December 2010 €m	31 December 2009 €m
<b>At beginning of period</b>	<b>2,033</b>	<b>1,309</b>
Exchange adjustments	24	(15)
Increase in investments	2,638	758
Share redemption	(1,854)	-
Impairment of investments	(2)	(19)
<b>At end of period</b>	<b>2,839</b>	<b>2,033</b>
Group undertakings of which		
- Credit Institutions	2,032	635
- Others	807	1,398
	<b>2,839</b>	<b>2,033</b>

On 17 September 2009, the Bank invested a nominal amount in a new, wholly owned UK subsidiary Bank of Ireland (UK) plc. During the twelve month period ended 31 December 2010 the Bank increased its investment in Bank of Ireland (UK) plc by €1,350 million.

On 1 November 2010, the Bank transferred part of its UK banking business to Bank of Ireland (UK) plc. The main business that transferred from the Bank was Business Banking UK and certain UK residential and commercial mortgage book. There was no gain or loss on this transfer.

**m Credit risk exposures**

The following tables should be read in conjunction with the credit risk information contained in the Risk Management Report on pages 104 to 113.

	31 December 2010 €m	31 December 2009 €m
<b>Maximum exposure to credit risk (before collateral or other credit enhancements)</b>		
Loans and advances to banks (note g)	59,340	35,540
Loans and advances to customers (note j)	75,203	96,856
Assets held for sale to NAMA (note k)	791	9,450
NAMA senior bonds (note i)	5,075	-
Financial assets at fair value through profit or loss		
- Trading securities (note d)	151	403
- Other financial assets (note f)	94	70
Derivative financial instruments (note e)	5,946	5,232
Available for sale financial assets <sup>1</sup> (note h)	17,260	21,810
Interest receivable	470	435
<b>Total on balance sheet</b>	<b>164,330</b>	<b>169,796</b>
Contingent liabilities and commitments (note x)	17,213	22,318
<b>Total maximum exposure</b>	<b>181,543</b>	<b>192,114</b>

<sup>1</sup> Assets held for sale to NAMA include derivatives and accrued interest.

<sup>2</sup> Other financial assets include Government bonds, unit trusts, debt securities and loans and advances but excludes equity securities as they are not subject to credit risk.

<sup>3</sup> Available for sale financial assets excludes equity securities (see note e).

## m Credit risk exposures (continued)

### Asset Quality - Loans and advances to customers and loans held for sale to NAMA

The tables and analysis below summarise the Bank's Total loans over the following categories: 'neither past due nor impaired', 'past due but not impaired' and 'impaired'. Exposures are based on the gross amount before provisions for impairment.

31 December 2010	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
<b>Loans and advances to customers</b>					
Financial assets neither past due nor impaired	20,435	31,498	13,592	1,864	67,389
Financial assets past due but not impaired	1,438	402	1,243	151	3,234
Impaired	158	2,720	4,912	305	8,095
<b>Total</b>	<b>22,031</b>	<b>34,620</b>	<b>19,747</b>	<b>2,320</b>	<b>78,718</b>
<b>31 December 2010</b>					
<b>Loans held for sale to NAMA</b>					
Financial assets neither past due nor impaired	-	-	443	-	443
Financial assets past due but not impaired	-	-	11	-	11
Impaired	-	-	398	-	398
<b>Total</b>	<b>-</b>	<b>-</b>	<b>852</b>	<b>-</b>	<b>852</b>



## m Credit risk exposures (continued)

### Asset Quality - Loans and advances to customers and loans held for sale to NAMA (Total loans)

The tables and analysis below summarise the Bank's Total loans over the following categories: 'neither past due nor impaired', 'past due but not impaired' and 'impaired'. Exposures are based on the gross amount before provisions for impairment.

31 December 2009	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Loans and advances to customers					
Financial assets neither past due nor impaired	30,667	37,373	18,978	2,708	89,726
Financial assets past due but not impaired	1,965	606	968	227	3,766
Impaired	73	2,108	3,208	387	5,776
<b>Total</b>	<b>32,705</b>	<b>40,087</b>	<b>23,154</b>	<b>3,322</b>	<b>99,268</b>

31 December 2009	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Loans held for sale to NAMA					
Financial assets neither past due nor impaired	1	97	5,287	-	5,385
Financial assets past due but not impaired	-	2	215	-	217
Impaired	-	112	6,348	-	6,460
<b>Total</b>	<b>1</b>	<b>211</b>	<b>11,850</b>	<b>-</b>	<b>12,062</b>

31 December 2009	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Total loans					
Financial assets neither past due nor impaired	30,668	37,470	24,265	2,708	95,111
Financial assets past due but not impaired	1,965	608	1,183	227	3,983
Impaired	73	2,220	9,556	387	12,236
<b>Total</b>	<b>32,706</b>	<b>40,298</b>	<b>35,004</b>	<b>3,322</b>	<b>111,330</b>

## m Credit risk exposures (continued)

### Financial Assets 'neither past due nor impaired': Loans and advances to customers & loans held for sale to NAMA

The tables below provide an analysis of Total loans 'neither past due nor impaired' by asset classification based on an assessment of the credit quality of the borrower.

31 December 2010					
Risk profile Loans and advances to customers neither past due nor impaired	Residential mortgages €m	Non- Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
High quality	20,142	19,068	1,797	1,079	42,086
Satisfactory quality	293	7,670	5,675	722	14,360
Acceptable quality	-	3,268	4,322	63	7,653
Lower quality but not past due nor impaired	-	1,492	1,798	-	3,290
<b>Total</b>	<b>20,435</b>	<b>31,498</b>	<b>13,592</b>	<b>1,864</b>	<b>67,389</b>
31 December 2010					
Risk profile Loans held for sale to NAMA neither past due nor impaired	Residential mortgages €m	Non- Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
High quality	-	-	38	-	38
Satisfactory quality	-	-	90	-	90
Acceptable quality	-	-	255	-	255
Lower quality but not past due nor impaired	-	-	60	-	60
<b>Total</b>	<b>-</b>	<b>-</b>	<b>443</b>	<b>-</b>	<b>443</b>

## m Credit risk exposures (continued)

### Financial Assets 'neither past due nor impaired': Loans and advances to customers & loans held for sale to NAMA (Total loans)

The tables below provide an analysis of Total loans 'neither past due nor impaired' by asset classification based on an assessment of the credit quality of the borrower.

31 December 2009

Risk profile Loans and advances to customers neither past due nor impaired	Residential mortgages €m	Non- Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
High quality	30,667	21,633	779	1,730	54,809
Satisfactory quality	-	10,631	11,007	893	22,531
Acceptable quality	-	3,777	6,166	85	10,028
Lower quality but not past due nor impaired	-	1,332	1,026	-	2,358
<b>Total</b>	<b>30,667</b>	<b>37,373</b>	<b>18,978</b>	<b>2,708</b>	<b>89,726</b>

31 December 2009

Risk profile Loans held for sale to NAMA neither past due nor impaired	Residential mortgages €m	Non- Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
High quality	1	5	524	-	530
Satisfactory quality	-	40	1,974	-	2,014
Acceptable quality	-	32	2,234	-	2,266
Lower quality but not past due nor impaired	-	20	555	-	575
<b>Total</b>	<b>1</b>	<b>97</b>	<b>5,287</b>	<b>-</b>	<b>5,385</b>

31 December 2009

Risk profile Total loans neither past due nor impaired	Residential mortgages €m	Non- Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
High quality	30,668	21,638	1,303	1,730	55,339
Satisfactory quality	-	10,671	12,981	893	24,545
Acceptable quality	-	3,809	8,400	85	12,294
Lower quality but not past due nor impaired	-	1,352	1,581	-	2,933
<b>Total</b>	<b>30,668</b>	<b>37,470</b>	<b>24,265</b>	<b>2,708</b>	<b>95,111</b>

## m Credit risk exposures (continued)

### Financial Assets 'Past due but not impaired': Loans and advances to customers & loans held for sale to NAMA

The tables below provide an aged analysis of financial assets 'past due but not impaired' by asset classification. Amounts arising from operational / timing issues that are outside the control of customers are generally excluded.

#### 31 December 2010

##### Loans and advances to customers past due but not impaired

	Residential mortgages €m	Non- Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Past due up to 30 days	566	251	656	76	1,549
Past due 31 – 60 days	233	78	182	53	546
Past due 61 – 90 days	125	73	405	22	625
Past due more than 90 days	514	-	-	-	514
<b>Total</b>	<b>1,438</b>	<b>402</b>	<b>1,243</b>	<b>151</b>	<b>3,234</b>

#### 31 December 2010

##### Loans held for sale to NAMA past due but not impaired

	Residential mortgages €m	Non- Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Past due up to 30 days	-	-	-	-	-
Past due 31 – 60 days	-	-	11	-	11
Past due 61 – 90 days	-	-	-	-	-
Past due more than 90 days	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>11</b>

## m Credit risk exposures (continued)

### Financial Assets 'Past due but not impaired': Loans and advances to customers & loans held for sale to NAMA (Total loans)

The tables below provide an aged analysis of financial assets 'past due but not impaired' by asset classification. Amounts arising from operational / timing issues that are outside the control of customers are generally excluded.

31 December 2009

	Residential mortgages €m	Non- Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Loans and advances to customers past due but not impaired					
Past due up to 30 days	804	426	495	112	1,837
Past due 31 – 60 days	316	110	324	80	830
Past due 61 – 90 days	184	70	149	29	432
Past due more than 90 days	661	-	-	6	667
<b>Total</b>	<b>1,965</b>	<b>606</b>	<b>968</b>	<b>227</b>	<b>3,766</b>

31 December 2009

	Residential mortgages €m	Non- Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Loans held for sale to NAMA past due but not impaired					
Past due up to 30 days	-	2	95	-	97
Past due 31 – 60 days	-	-	15	-	15
Past due 61 – 90 days	-	-	105	-	105
Past due more than 90 days	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>2</b>	<b>215</b>	<b>-</b>	<b>217</b>

31 December 2009

	Residential mortgages €m	Non- Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Total loans past due but not impaired					
Past due up to 30 days	804	428	590	112	1,934
Past due 31 – 60 days	316	110	339	80	845
Past due 61 – 90 days	184	70	254	29	537
Past due more than 90 days	661	-	-	6	667
<b>Total</b>	<b>1,965</b>	<b>608</b>	<b>1,183</b>	<b>227</b>	<b>3,983</b>

## m Credit risk exposures (continued)

31 December 2010

Impaired financial assets	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Impaired financial assets	158	2,720	5,310	305	8,493
Allowance at beginning of year	87	819	3,880	353	5,139
Exchange adjustments	4	(4)	32	1	33
Amounts written off	(12)	(80)	(168)	(185)	(445)
Recoveries	2	1	(2)	2	3
Charge against income statement	24	589	889	112	1,614
Transfers (to Bank of Ireland (UK) plc)	(27)	(115)	(436)	(27)	(605)
Other movements	2	23	31	9	65
Amounts released to NAMA	-	(22)	(2,195)	-	(2,217)
<b>Allowance at end of year</b>	<b>80</b>	<b>1,211</b>	<b>2,031</b>	<b>265</b>	<b>3,587</b>

31 December 2009

Impaired financial assets	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Impaired financial assets	73	2,220	9,556	387	12,236
Allowance at beginning of year	49	356	840	272	1,517
Exchange adjustments	2	(2)	22	-	22
Amounts written off	(16)	(34)	-	(62)	(112)
Recoveries	-	-	(1)	2	1
Charge against income statement	50	473	3,005	156	3,684
Other movements	2	26	14	(15)	27
<b>Allowance at end of year</b>	<b>87</b>	<b>819</b>	<b>3,880</b>	<b>353</b>	<b>5,139</b>

### Financial assets renegotiated that would otherwise be past due or impaired

Renegotiated loans are those facilities at 31 December 2010 which if not renegotiated during the twelve month period ended 31 December 2010 would have been classified as 'impaired' loans or as 'past due but not impaired' loans. The carrying value of these loans at 31 December 2010 is €4,555 million (31 December 2009: €5,728 million) and represents borrowers whose loan terms and conditions have been amended in recognition of a change in the borrowers' circumstances. Renegotiated loans are primarily included in the 'acceptable quality' and lower quality but not 'past due nor impaired' classifications and are not deemed to represent a risk of loss at the reporting date.

### Reposessed collateral

During the twelve month period ended 31 December 2010, the Bank took possession of collateral held as security, as follows:

	31 December 2010 €m	31 December 2009 €m
Residential properties		
- Ireland	3	-
- UK and other	79	65
	82	65
Other	26	12
<b>Total</b>	<b>108</b>	<b>77</b>

Reposessed collateral is sold as soon as practicable, with the proceeds applied against outstanding indebtedness.

## m Credit risk exposures (continued)

### Asset quality: Other Financial Instruments

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

	31 December 2010 €m	31 December 2009 €m
<b>Other financial instruments</b>		
High quality	86,411	61,968
Satisfactory quality	1,509	768
Acceptable quality	200	217
Lower quality but not past due nor impaired	69	125
<b>Neither past due nor impaired</b>	<b>88,189</b>	<b>63,078</b>
Impaired	153	9
<b>Total</b>	<b>88,342</b>	<b>63,087</b>

Other financial instruments above have been impacted by Bank of Ireland (UK) plc, which commenced trading on 1 November 2010. Further information is shown in note I.

## n Intangible assets

	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total €m
<b>Cost</b>				
<b>At 1 January 2010</b>	<b>213</b>	<b>724</b>	<b>59</b>	<b>996</b>
Exchange adjustments	3	4	1	8
Additions	1	30	9	40
Disposals / write-offs	(81)	(39)	-	(120)
<b>At 31 December 2010</b>	<b>136</b>	<b>719</b>	<b>69</b>	<b>924</b>
<b>Accumulated amortisation</b>				
<b>At 1 January 2010</b>	<b>(177)</b>	<b>(442)</b>	<b>(24)</b>	<b>(643)</b>
Exchange adjustments	(3)	(1)	-	(4)
Disposals / write-offs	81	38	-	119
Reversal of impairment	-	-	2	2
Charge for the year	(9)	(72)	(5)	(86)
<b>At 31 December 2010</b>	<b>(108)</b>	<b>(477)</b>	<b>(27)</b>	<b>(612)</b>
<b>Net Book Value at 31 December 2010</b>	<b>28</b>	<b>242</b>	<b>42</b>	<b>312</b>

## n Intangible assets (continued)

	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total €m
<b>Cost</b>				
<b>At 1 April 2009</b>	<b>223</b>	<b>720</b>	<b>56</b>	<b>999</b>
Exchange adjustments	3	5	2	10
Reclassification	(7)	7	-	-
Additions	7	33	1	41
Disposals / write-offs	(13)	(41)	-	(54)
<b>At 31 December 2009</b>	<b>213</b>	<b>724</b>	<b>59</b>	<b>996</b>
<b>Accumulated amortisation</b>				
<b>At 1 April 2009</b>	<b>(182)</b>	<b>(427)</b>	<b>(14)</b>	<b>(623)</b>
Exchange adjustments	(2)	(2)	(1)	(5)
Disposals / write-offs	13	40	(6)	47
Charge for the year	(6)	(53)	(3)	(62)
<b>At 31 December 2009</b>	<b>(177)</b>	<b>(442)</b>	<b>(24)</b>	<b>(643)</b>
<b>Net Book Value at 31 December 2009</b>	<b>36</b>	<b>282</b>	<b>35</b>	<b>353</b>

## o Property, plant and equipment

	Freehold land and buildings and long leaseholds (held at fair value) €m	Adaptations (at cost) €m	Computer and other equipment (at cost) €m	Finance lease assets (at cost) €m	Payments on accounts and assets in the course of construction (at cost) €m	Total €m
<b>Cost or valuation</b>						
<b>At 1 January 2010</b>	<b>160</b>	<b>134</b>	<b>579</b>	<b>7</b>	<b>11</b>	<b>891</b>
Exchange adjustments	-	-	6	-	-	6
Additions	-	4	14	-	22	40
Disposals / write-offs	(2)	(3)	(92)	-	-	(97)
Revaluation	(27)	-	-	-	-	(27)
Reclassifications	-	6	8	-	(15)	(1)
<b>At 31 December 2010</b>	<b>131</b>	<b>141</b>	<b>515</b>	<b>7</b>	<b>18</b>	<b>812</b>
<b>Accumulated depreciation and amortisation</b>						
<b>At 1 January 2010</b>	<b>-</b>	<b>(70)</b>	<b>(470)</b>	<b>(6)</b>	<b>-</b>	<b>(546)</b>
Exchange adjustments	-	-	(3)	-	-	(3)
Disposals / write-offs	-	4	91	-	-	95
Charge for the year	-	(13)	(24)	(1)	-	(38)
<b>At 31 December 2010</b>	<b>-</b>	<b>(79)</b>	<b>(406)</b>	<b>(7)</b>	<b>-</b>	<b>(492)</b>
<b>Net book value at 31 December 2010</b>	<b>131</b>	<b>62</b>	<b>109</b>	<b>-</b>	<b>18</b>	<b>320</b>

The net book value of property, plant and equipment at 31 December 2010 held at fair value was €131 million, while that held at cost less accumulated depreciation and impairment amounted to €189 million. The historical cost of property, plant and equipment held at fair value at 31 December 2010 was €19 million (31 December 2009: €19 million).



## o Property, plant and equipment (continued)

	Freehold land and buildings and long leaseholds (held at fair value) €m	Adaptations (at cost) €m	Computer and other equipment (at cost) €m	Finance lease assets (at cost) €m	Payments on accounts and assets in the course of construction (at cost) €m	Total €m
<b>Cost or valuation</b>						
<b>At 1 April 2009</b>	<b>216</b>	<b>132</b>	<b>598</b>	<b>7</b>	<b>23</b>	<b>976</b>
Exchange adjustments	1	1	5	-	-	7
Additions	-	1	2	-	7	10
Disposals / write-offs	(1)	(2)	(43)	-	-	(46)
Revaluation	(56)	-	-	-	-	(56)
Reclassifications	-	2	17	-	(19)	-
<b>At 31 December 2009</b>	<b>160</b>	<b>134</b>	<b>579</b>	<b>7</b>	<b>11</b>	<b>891</b>
<b>Accumulated depreciation and amortisation</b>						
<b>At 1 April 2009</b>	<b>-</b>	<b>(61)</b>	<b>(488)</b>	<b>(6)</b>	<b>-</b>	<b>(555)</b>
Exchange adjustments	-	-	(4)	-	-	(4)
Disposals / write-offs	-	1	41	-	-	42
Charge for the year	-	(10)	(19)	-	-	(29)
<b>At 31 December 2009</b>	<b>-</b>	<b>(70)</b>	<b>(470)</b>	<b>(6)</b>	<b>-</b>	<b>(546)</b>
<b>Net book value at 31 December 2009</b>	<b>160</b>	<b>64</b>	<b>109</b>	<b>1</b>	<b>11</b>	<b>345</b>

The net book value of property, plant and equipment at 31 December 2009 at fair value was €160 million, while that held at cost less accumulated depreciation amounted to €185 million.

### Property

A revaluation of Bank property was carried out as at 31 December 2010. All freehold and long leasehold (50 years or more unexpired) commercial properties were valued by Lisneys as external valuers, who also reviewed the valuation of all other property carried out by the Bank's professionally qualified staff. Valuations were made on the basis of open market value.

### Future capital expenditure

The table below shows future capital expenditure in relation to both property, plant and equipment and intangible assets.

	31 December 2010 €m	31 December 2009 €m
<b>Future Capital Expenditure</b>		
- contracted but not provided for in the financial statements	32	4
- authorised by the Directors but not contracted	40	1

## o Property, plant and equipment (continued)

### Operating leases

The Bank leases a number of branch and office premises to carry out its business. The commercial leases typically are 25 to 35 year operating leases with 5 yearly rent reviews. The majority of the rent reviews are on an upwards only basis. Some leases also include break options. The Bank also holds a number of short term leases for less than 10 years and a number of long term leases at market rent with less than 110 years unexpired. On expiry of long term leases greater than 5 years the Bank has rights of renewal in the majority of the leases.

Minimum future rentals are the rentals payable under operating leases up to the next available break option where this exists or to expiry date of the lease. Both the required break option notice period and the amount of any penalty rent have been included in the amounts payable below.

Minimum future rentals under non-cancellable operating leases are as follows:

	Payable 31 December 2010 €m	Receivable 31 December 2010 €m	Payable 31 December 2009 €m	Receivable 31 December 2009 €m
Not later than 1 year	66	4	58	3
Later than 1 year and not later than 5 years	206	7	197	7
Later than 5 years	412	1	375	2

The Bank has entered into a small number of sub-leases as lessor which represent properties and components of properties surplus to the Bank's own requirements.

Included in the operating lease rental receivable is an amount of €10 million in relation to sub-lease rental (nine month period ended 31 December 2009: €10 million).

## p Other assets

	31 December 2010 €m	31 December 2009 €m
Interest receivable	470	435
Sundry and other debtors	211	123
Accounts receivable and prepayments	100	113
<b>Other assets</b>	<b>781</b>	<b>671</b>
Other assets are analysed as follows:		
Within 1 year	781	671
After 1 year	-	-
	<b>781</b>	<b>671</b>

**q Deposits from banks**

	31 December 2010 €m	31 December 2009 €m
Deposits from banks	51,562	30,455
Securities sold under agreement to repurchase	35,978	12,994
Other bank borrowings	412	266
<b>Deposits by banks</b>	<b>87,952</b>	<b>43,715</b>
<b>Amounts include:</b>		
Due to Group undertakings <sup>1</sup>	49,060	26,114

<sup>1</sup> The movement in the balances shown from 31 December 2009 to 31 December 2010 is primarily driven by the impact of Bank of Ireland (UK) plc. Further information on Bank of Ireland (UK) plc is shown in note I.

Deposits from banks includes cash collateral of €0.7 billion (31 December 2009: €0.5 billion) received from derivative counterparties in relation to net derivative asset positions (note e).

As a result of the challenging funding markets the Bank has extended its usage of liquidity facilities provided by Monetary Authorities by means of both its pool of eligible collateral with the ECB and the additional liquidity facilities provided by the Central Bank. The Bank's funding from these sources increased to €29 billion (net) at 31 December 2010 from €8 billion (net) at 31 December 2009.

**r Customer accounts**

	31 December 2010 €m	31 December 2009 €m
Term deposits and other products	27,294	52,948
Demand deposits	2,723	10,424
Current accounts	20,615	25,293
<b>Customer accounts<sup>1</sup></b>	<b>50,632</b>	<b>88,665</b>
<b>Amounts include:</b>		
Due to Group undertakings	8,656	11,216

<sup>1</sup> Customer accounts above have been impacted by Bank of Ireland (UK) plc, which commenced trading on 1 November 2010. Further information is shown in note I.

At 31 December 2010, the Bank's largest 20 customer deposits amounted to 4% (31 December 2009: 11%) of customer accounts.

**s Debt securities in issue**

	31 December 2010 €m	31 December 2009 €m
Bonds and medium term notes	11,996	16,432
Other debt securities in issue	452	9,957
<b>Debt securities in issue</b>	<b>12,448</b>	<b>26,389</b>

## t Subordinated liabilities

	31 December 2010 €m	31 December 2009 €m
<b>Undated loan capital</b>		
Stg£75 million 13 <sup>3</sup> / <sub>8</sub> % Perpetual Subordinated Bonds	144	140
	<b>144</b>	<b>140</b>
<b>Dated loan capital</b>		
€750 million 6.45% Subordinated Bonds 2010	-	754
€600 million Subordinated Floating Rate Notes 2017	48 <sup>2,4a</sup>	599
€750 million Floating Rate Subordinated Notes 2017	93 <sup>2,4a</sup>	749
Stg£400 million Fixed / Floating Rate Subordinated Notes 2018	180 <sup>2,4b</sup>	449
US\$600 million Subordinated Floating Rate Notes due 2018	138 <sup>2,4a</sup>	416
Stg£75 million 10% Subordinated Bonds 2018	104 <sup>4b</sup>	96
€650 million Fixed / Floating Rate Subordinated Notes 2019	215 <sup>2,4a</sup>	688
Stg£500 million Fixed / Floating Rate Subordinated Notes 2036	6 <sup>1</sup>	614
Stg£450 million Dated Callable Step-up Fixed / Floating Rate Subordinated Notes September 2020	586 <sup>4b</sup>	552
€1,002 million 10% Fixed Rate Subordinated Notes 2020	757 <sup>4a</sup>	-
Stg£197 million 10% Fixed Rate Subordinated Notes 2020	237 <sup>4b</sup>	-
CAD\$400 million Fixed / Floating Rate Subordinated Notes 2015	83 <sup>3,5</sup>	229
CAD\$145 million Fixed / Floating Rate Subordinated Notes 2018	109 <sup>5</sup>	-
	<b>2,556</b>	<b>5,146</b>
	<b>2,700</b>	<b>5,286</b>

<sup>1</sup> These notes do not appear in the consolidated financial statements as they are eliminated on consolidation. Information on all the other bonds and notes included above is shown in note 41 to the consolidated financial statements.

<sup>2</sup> In February 2010, the Bank exchanged certain amounts of these subordinated liabilities for new notes.

<sup>3</sup> In September 2010, the Bank exchanged certain amounts of these subordinated liabilities for new notes.

<sup>4a</sup> In December 2010, the Bank exchanged certain amounts of these subordinated liabilities for new senior debt securities.

<sup>4b</sup> In December 2010, other Group companies exchanged certain amounts of these subordinated liabilities for new senior debt securities. However the amount in issue on the Bank's balance remains unchanged.

<sup>5</sup> On 10 February 2011, the Group completed a debt for debt exchange on the CAD\$ subordinated liabilities. For further information see note 61 to the consolidated financial statements.

## u Other liabilities

	31 December 2010 €m	31 December 2009 €m
Accrued interest payable	709	672
Notes in circulation	814	715
Sundry creditors	278	218
Accruals and deferred income	67	25
Other short positions	1,680	-
Other	267	353
<b>Other liabilities</b>	<b>3,815</b>	<b>1,983</b>

Other liabilities at 31 December 2010 and 31 December 2009 are due within 1 year.

The Bank entered into a short position resulting from a sale of liquid assets to Bank of Ireland (UK) plc, further information on Bank of Ireland (UK) plc is shown in note l.

The Bank is authorised to issue bank notes in Northern Ireland under the Bankers (Ireland) Act, 1845 and the Bankers (Northern Ireland) Act, 1928.

## v Provisions

	Restructuring €m	Onerous Contracts €m	Legal €m	Total €m
<b>As at 1 January 2010</b>	<b>20</b>	<b>10</b>	<b>101</b>	<b>131</b>
Exchange adjustments	(1)	(1)	-	(2)
Charge to income statement	22	5	14	41
Utilised during the period	(7)	(3)	(96)	(106)
Unused amounts reversed during the period	(6)	-	(5)	(11)
Other movements	-	-	1	1
<b>As at 31 December 2010</b>	<b>28</b>	<b>11</b>	<b>15</b>	<b>54</b>

	Restructuring €m	Onerous Contracts €m	Legal €m	Total €m
<b>As at 1 April 2009</b>	<b>50</b>	<b>12</b>	<b>23</b>	<b>85</b>
Exchange adjustments	2	1	-	3
Charge to income statement	-	1	80	81
Utilised during the period	(27)	(2)	(2)	(31)
Unused amounts reversed during the period	-	(2)	-	(2)
Other movements	(5)	-	-	(5)
<b>As at 31 December 2009</b>	<b>20</b>	<b>10</b>	<b>101</b>	<b>131</b>

### Restructuring

The Bank continues to maintain its focus on cost management and is implementing a range of initiatives to further reduce costs. The Bank holds a provision of €28 million (31 December 2009: €20 million) in respect of restructuring activities.

It is expected that this provision will be used over the next 5 years.

### Legal

This provision includes certain legal claims brought against the Bank by third parties. The main movement in legal provisions during the twelve month period ended 31 December 2010 was the payment of €91 million arising from the unfavourable court ruling in connection with a European property investment, which formed part of the legal provision disclosed at 31 December 2009.

It is expected that this provision will be used within the next twelve months.

The Bank interim accounts published on 18 February 2011 included a charge to the income statement of €0.2 billion in respect of certain loans transferred by the Bank to its wholly-owned subsidiary, Bank of Ireland (UK) plc (BoI UK) on 1 November 2010. As part of the transfer, the Bank warranted to BoI UK that the assets transferred contained no eligible assets for the purposes of the NAMA Act, such that NAMA would require such assets to be transferred to NAMA. The Bank is required to indemnify BoI UK against loss incurred arising out of such a transfer to NAMA. On 28 November 2010 the Government announced, as part of the EU/IMF Programme, an amendment to the NAMA process requiring the Bank (and Allied Irish Banks plc) to transfer to NAMA, (following the enactment of changes to the NAMA legislation and relevant due diligence) those remaining eligible land and development loans where the Bank has an individual customer / sponsor exposure of less than €20 million. The new Government, which took office on 9 March 2011, stated in its programme for government that 'it would end further asset transfers to NAMA, which are unlikely to improve market confidence in either the banks or the state'. The Bank therefore no longer expects a claim to arise under the warranty.

### Onerous Lease

Partly as a result of the Bank's restructuring of its operations, the Bank is a lessee in a number of non-cancellable leases over properties that it no longer occupies. The present value of future lease payments on these properties, less any rental income receivable from sub-leasing, has been provided for.

This provision relates to leases on properties ranging between one and twelve years.

**w Deferred tax**

	<b>31 December 2010 €m</b>	<b>31 December 2009 €m</b>
The movement on the deferred tax account is as follows:		
At beginning of period	777	421
Income statement credit for period	287	464
Available for sale financial assets – (credit) / charge to other comprehensive income	53	(109)
Cash flow hedges – charge to other comprehensive income	(41)	(35)
Revaluation / reclassification of property during period	3	7
Pensions	(62)	25
Other movements	9	4
<b>At end of period</b>	<b>1,026</b>	<b>777</b>
Deferred tax assets and liabilities are attributable to the following items:		
<b>Deferred tax assets</b>		
Pensions and other post retirement benefits	55	222
Provision for loan impairment	12	12
Other provisions	4	5
Cash flow hedge reserve	40	80
Available for sale reserve	88	35
Unutilised tax losses	849	466
Other temporary differences	7	4
<b>Deferred tax assets</b>	<b>1,055</b>	<b>824</b>
<b>Deferred tax liabilities</b>		
Accelerated capital allowances / (charges):		
- on finance leases	(2)	(2)
- on equipment used by the Bank	2	(11)
Property revaluation surplus	(16)	(19)
Other temporary differences	(13)	(15)
<b>Deferred tax liabilities</b>	<b>(29)</b>	<b>(47)</b>
<b>Represented on the balance sheet</b>	<b>1,026</b>	<b>777</b>

The amount of deferred tax asset expected to be recovered within one year is €27 million. None of the deferred tax liability is expected to be settled within one year.

This note should be read in conjunction with note 44 to the consolidated financial statements.

## x Contingent liabilities and commitments

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

	31 December 2010 Contract amount €m	31 December 2009 Contract amount €m
<b>Contingent liabilities</b>		
Acceptances and endorsements	35	27
Guarantees and irrevocable letters of credit	1,005	1,115
Other contingent liabilities	572	799
	<b>1,612</b>	<b>1,941</b>
<b>Commitments</b>		
Documentary credits and short term trade related transactions	185	186
Undrawn note issuance and revolving underwriting facilities	100	121
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- revocable or irrevocable with original maturity of 1 year or less	11,421	14,592
- irrevocable with original maturity of over 1 year	3,895	5,478
	<b>15,601</b>	<b>20,377</b>

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

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

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

**Other contingent liabilities** primarily include performance bonds and are generally short term commitments to third parties which are not directly dependent on the customers credit worthiness. The Bank is party to legal actions arising out of its normal business operations. The Directors believe that adequate provision has been made in respect of these litigations. The other contingent liabilities disclosed include an amount relating to one matter under litigation. This amount has not been separately disclosed as, in line with the exemption in IAS 37, doing so could be prejudicial to the claim and the Bank is satisfied that this litigation is not expected to have a significant adverse effect on its financial position.

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

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

## y Capital stock

Authorised	31 December 2010	31 December 2009
<b>Eur€</b>	<b>€m</b>	<b>€m</b>
24 billion units of €0.10 ordinary stock (31 December 2009: 2 billion units of €0.64 ordinary stock)	2,400	1,280
2 billion units of €0.54 deferred stock (31 December 2009: nil)	1,080	-
100 million units of non-cumulative preference stock of €1.27 each	127	127
100 million units of undesignated preference stock of €0.25 each	25	25
3.5 billion units of non-cumulative 2009 Preference Stock of €0.01 each	35	35
<b>Stg£</b>	<b>£m</b>	<b>£m</b>
100 million units of non-cumulative preference stock of Stg£1 each	100	100
100 million units of undesignated preference stock of Stg£0.25 each	25	25
<b>US\$</b>	<b>\$m</b>	<b>\$m</b>
8 million units of non-cumulative preference stock of US\$25 each	200	200
100 million units of undesignated preference stock of US\$0.25 each	25	25
	<b>31 December 2010 €m</b>	<b>31 December 2009 €m</b>
<b>Allotted and fully paid</b>		
5.2994 billion units of €0.10 ordinary stock (31 December 2009: 0.993 billion units of €0.64 ordinary stock)	529	643
1.2106 billion units (31 December 2009: nil) of €0.54 deferred stock	654	-
22.0 million units of €0.10 (31 December 2009: 33.2 million units of €0.64) treasury stock	2	14
1.9 million units of non-cumulative preference stock of Stg£1 each	3	3
3.0 million units of non-cumulative 2009 Preference Stock of €1.27 each	4	4
1.837 billion units of non-cumulative Preference Stock of €0.01 each (31 December 2009: 3.5 billion units)	18	35
	<b>1,210</b>	<b>699</b>

	Ordinary Stock		Treasury Stock	
Movements in ordinary and treasury stock (units)	31 December 2010	31 December 2009	31 December 2010	31 December 2009
At beginning of period	1,004,216,989	1,004,211,445	22,008,690	22,014,234
Stock option schemes	-	-	-	-
Sharesave scheme	-	(1,189)	-	1,189
Long term performance stock plan (LTPSP)	11,890	6,733	-	(6,733)
Recapitalisation of the Bank and dividend on 2009 Preference Stock	4,295,184,741	-	-	-
<b>At end of period</b>	<b>5,299,413,620</b>	<b>1,004,216,989</b>	<b>22,008,690</b>	<b>22,008,690</b>

For further information on Capital stock refer to note 47 and note 49 to the consolidated financial statements.

Treasury stock in the table above represents units of ordinary stock which have been purchased by the Bank but not stock purchased by subsidiaries (including stock held by Bank of Ireland Life on behalf of policyholders). Comparative amounts have been re-presented to ensure consistent presentation with the current period.



## z Stock premium

	12 months ended 31 December 2010 €m	9 months ended 31 December 2009 €m
<b>Stock premium account</b>		
Balance at the beginning of the period	4,090	4,090
Dividend on 2009 Preference Stock paid in ordinary stock	(118)	-
Premium on issue of ordinary stock	1,409	-
Transaction costs, net of tax	(125)	-
Reduction in stock premium on conversion of preference stock)	(155)	-
Reduction in stock premium transferred to retained earnings	(800)	-
Loss on cancellation of warrants	(381)	-
<b>Balance at the end of the period</b>	<b>3,920</b>	<b>4,090</b>

On 1 December 2010, the High Court approved a reduction in the Bank's Stock Premium account of €800 million. As a result, this amount has been transferred to Retained Earnings.

For more details on the other movements in stock premium see note 48 and note 49 of the consolidated financial statements.

## aa Liquidity risk

The tables below summarise the maturity profile of the Bank's financial liabilities at 31 December 2010 and 31 December 2009 based on contractual undiscounted repayment obligations. The Bank does not manage liquidity risk on the basis of contractual maturity. Instead the Bank manages liquidity risk based on expected cash flows. The balances will not agree directly to the balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

As at 31 December 2010						
Contractual Maturity	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Deposits from banks	7,505	54,950	9,202	14,560	2,207	88,424
Customer accounts	23,338	14,866	4,943	5,991	1,904	51,042
Debt securities in issue	-	1,200	3,184	8,433	665	13,482
Subordinated liabilities	-	122	79	967	3,180	4,348
Contingent liabilities	1,612	-	-	-	-	1,612
Commitments	11,706	-	-	3,895	-	15,601
<b>Total</b>	<b>44,161</b>	<b>71,138</b>	<b>17,408</b>	<b>33,846</b>	<b>7,956</b>	<b>174,509</b>

As at 31 December 2009						
Contractual Maturity	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Deposits from banks	126	8,381	8,190	938	19	17,654
Customer accounts	35,717	27,475	10,746	4,068	650	78,656
Debt securities in issue	-	10,582	10,671	4,972	717	26,942
Subordinated liabilities	-	859	84	524	4,173	5,640
Contingent liabilities	1,941	-	-	-	-	1,941
Commitments	14,899	-	-	5,478	-	20,377
<b>Total</b>	<b>52,683</b>	<b>47,297</b>	<b>29,691</b>	<b>15,980</b>	<b>5,559</b>	<b>151,210</b>

**aa Liquidity risk (continued)**

The table below summarises the maturity profile of the Bank's derivative liabilities. The Bank manages liquidity risk based on expected cash flows, therefore the undiscounted cash flows payable on derivatives liabilities held with hedging intent are classified according to their contractual maturity, while derivatives held with trading intent have been included at fair value in the 'demand' time bucket.

As at 31 December 2010						
Derivative financial instruments	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
<b>Derivatives held with hedging intent</b>						
Gross settled derivative liabilities - outflows	-	1,688	1,429	5,874	1,015	10,006
Gross settled derivative liabilities - inflows	-	(1,557)	(1,287)	(5,439)	(964)	(9,247)
Gross settled derivative liabilities - net flows	-	131	142	435	51	759
Net settled derivative liabilities	-	599	1,371	2,172	452	4,594
<b>Total derivatives held with hedging intent</b>	-	730	1,513	2,607	503	5,353
Derivative liabilities held with trading intent	1,878	-	-	-	-	1,878
<b>Total derivative cash flows</b>	<b>1,878</b>	<b>730</b>	<b>1,513</b>	<b>2,607</b>	<b>503</b>	<b>7,231</b>
As at 31 December 2009						
Derivative financial instruments	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
<b>Derivatives held with hedging intent</b>						
Gross settled derivative liabilities - outflows	-	3,717	2,093	3,862	854	10,526
Gross settled derivative liabilities - inflows	-	(3,635)	(1,903)	(3,410)	(842)	(9,790)
Gross settled derivative liabilities - net flows	-	82	190	452	12	736
Net settled derivative liabilities	-	554	1,326	1,402	100	3,382
<b>Total derivatives held with hedging intent</b>	-	636	1,516	1,854	112	4,118
Derivative liabilities held with trading intent	1,795	-	-	-	-	1,795
<b>Total derivative cash flows</b>	<b>1,795</b>	<b>636</b>	<b>1,516</b>	<b>1,854</b>	<b>112</b>	<b>5,913</b>

## ab Measurement basis of financial assets and financial liabilities

The table below analyses the carrying amounts of the financial assets and financial liabilities by accounting treatment and by balance sheet heading.

31 December 2010	At fair value through profit or loss			At fair value through other comprehensive income			Total €m
	Derivatives designated as fair value hedging instruments €m	Held for trading €m	Designated upon initial recognition €m	Available for sale €m	Cash flow hedge derivatives €m	Loans and advances / Held at amortised cost €m	
<b>Financial assets</b>							
Cash and balances at central banks	-	-	-	-	-	914	914
Items in the course of collection from other banks	-	-	-	-	-	193	193
Trading securities	-	151	-	-	-	-	151
Derivative financial instruments	544	4,194	-	-	1,208	-	5,946
Other financial assets at fair value through profit or loss	-	-	94	-	-	-	94
Loans and advances to banks	-	-	-	-	-	59,340	59,340
Available for sale financial assets	-	-	-	17,261	-	-	17,261
NAMA senior bonds	-	-	-	-	-	5,075	5,075
Loans and advances to customers	-	-	-	-	-	75,203	75,203
Assets held for sale to NAMA	-	7	-	-	-	784	791
<b>Total financial assets</b>	<b>544</b>	<b>4,352</b>	<b>94</b>	<b>17,261</b>	<b>1,208</b>	<b>141,509</b>	<b>164,968</b>
<b>Financial liabilities</b>							
Deposits from banks	-	-	412	-	-	87,540	87,952
Customer accounts	-	-	1,394	-	-	49,238	50,632
Items in the course of transmission to other banks	-	-	-	-	-	155	155
Derivative financial instruments	538	3,891	-	-	1,421	-	5,850
Debt securities in issue	-	-	545	-	-	11,903	12,448
Other short positions*	-	1,680	-	-	-	-	1,680
Subordinated liabilities	-	-	83	-	-	2,617	2,700
<b>Total financial liabilities</b>	<b>538</b>	<b>5,571</b>	<b>2,434</b>	<b>-</b>	<b>1,421</b>	<b>151,453</b>	<b>161,417</b>

\*included within other liabilities on the Bank's balance sheet.

**ab Measurement basis of financial assets and financial liabilities**

The table below analyses the carrying amounts of the financial assets and financial liabilities by accounting treatment and by balance sheet heading.

	At fair value through profit or loss			At fair value through other comprehensive income		Loans and advances / Held at amortised cost €m	Total €m
	Derivatives designated as fair value hedging instruments €m	Held for trading €m	Designated upon initial recognition €m	Available for sale €m	Cash flow hedge derivatives €m		
31 December 2009							
<b>Financial assets</b>							
Cash and balances at central banks	-	-	-	-	-	4,202	4,202
Items in the course of collection from other banks	-	-	-	-	-	400	400
Trading securities	-	403	-	-	-	-	403
Derivative financial instruments	1,124	2,953	-	-	1,155	-	5,232
Other financial assets at fair value through profit or loss	-	-	70	-	-	-	70
Loans and advances to banks	-	-	-	-	-	35,540	35,540
Available for sale financial assets	-	-	-	21,826	-	--	21,826
Loans and advances to customers	-	-	-	-	-	96,856	96,856
Assets held for sale to NAMA	-	93	-	-	-	9,357	9,450
<b>Total financial assets</b>	<b>1,124</b>	<b>3,449</b>	<b>70</b>	<b>21,826</b>	<b>1,155</b>	<b>146,355</b>	<b>173,979</b>
<b>Financial liabilities</b>							
Deposits from banks	-	-	2	-	-	43,713	43,715
Customer accounts	-	-	1,508	-	-	87,157	88,665
Items in the course of transmission to other banks	-	-	-	-	-	198	198
Derivative financial instruments	580	4,186	-	-	1,730	-	6,496
Debt securities in issue	-	-	472	-	-	25,917	26,389
Subordinated liabilities	-	-	229	-	-	5,057	5,286
Liabilities held for sale to NAMA	-	1	-	-	-	-	1
<b>Total financial liabilities</b>	<b>580</b>	<b>4,187</b>	<b>2,211</b>	<b>-</b>	<b>1,730</b>	<b>162,042</b>	<b>170,750</b>

## ac Fair values of financial assets and financial liabilities

### Fair value hierarchy

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

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

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

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

31 December 2010	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
<b>Financial assets held at fair value</b>				
Trading securities	151	-	-	151
Derivative financial instruments	-	5,914	32	5,946
Assets held for sale to NAMA - derivatives	-	-	7	7
Other financial assets at FVTPL	-	94	-	94
AFS financial assets	16,930	225	106	17,261
	<b>17,081</b>	<b>6,233</b>	<b>145</b>	<b>23,459</b>
<b>As a % of fair value assets</b>	72.8%	26.6%	0.6%	100%
<b>Financial liabilities held at fair value</b>				
Deposits from banks	-	412	-	412
Customer accounts	-	1,352	42	1,394
Derivative financial instruments	-	5,823	27	5,850
Debt securities in issue	-	-	545	545
Other short positions*	1,680	-	-	1,680
Subordinated liabilities	-	-	83	83
	<b>1,680</b>	<b>7,587</b>	<b>697</b>	<b>9,964</b>
<b>As a % of fair value liabilities</b>	<b>16.9%</b>	<b>76.1%</b>	<b>7%</b>	<b>100%</b>

\*included within other liabilities on the Bank's balance sheet.

**ac Fair values of financial assets and financial liabilities (continued)**

31 December 2009	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
<b>Financial assets held at fair value</b>				
Trading securities	403	-	-	403
Derivative financial instruments	-	5,103	36	5,139
Assets held for sale to NAMA - derivatives	-	-	93	93
Other financial assets at FVTPL	-	70	-	70
AFS financial assets	18,920	2,872	34	21,826
	<b>19,323</b>	<b>8,045</b>	<b>163</b>	<b>27,531</b>
<b>As a % of fair value assets</b>	<b>70%</b>	<b>29%</b>	<b>1%</b>	<b>100%</b>
<b>Financial liabilities held at fair value</b>				
Deposits from banks	-	2	-	2
Customer accounts	-	1,446	62	1,508
Derivative financial instruments	-	6,475	20	6,495
Liabilities held for sale to NAMA - derivatives	-	-	1	1
Debt securities in issue	-	-	472	472
Subordinated liabilities	-	-	229	229
	-	<b>7,923</b>	<b>784</b>	<b>8,707</b>
<b>As a % of fair value liabilities</b>	-	<b>91%</b>	<b>9%</b>	<b>100%</b>

## ac Fair values of financial assets and financial liabilities (continued)

## Movements in level 3 assets

31 December 2010	Derivative financial instruments €m	Derivatives held for sale to NAMA €m	Available for sale financial assets €m	Total €m
Opening Balance	36	93	34	163
Total gains or losses in:				
- Profit or loss	6	(16)	(70)	(80)
- Other Comprehensive income	-	-	(10)	(10)
Additions	1	-	168	169
Disposals	-	(54)	(16)	(70)
Redemptions	(14)	(16)	-	(30)
Transfers into level 3				
- from level 2 to level 3	3	-	-	3
<b>Closing balance</b>	<b>32</b>	<b>7</b>	<b>106</b>	<b>145</b>
Total gains / (losses) for the period included in profit or loss for assets held in level 3 at the end of the reporting period	6	(16)	(70)	(80)
Other transfers				
- from level 1 to level 2	-	-	76	76
- from level 2 to level 1	-	-	18	18

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to their fair value measurement.



## ac Fair values of financial assets and financial liabilities (continued)

## Movements in level 3 assets

31 December 2009	Trading <sup>1</sup> securities €m	Derivative financial instruments €m	Derivatives held for sale to NAMA €m	Available for sale financial assets €m	Total €m
Opening Balance	7	116	-	98	221
Total gains or losses in:					
- Profit or loss	-	(27)	-	6	(21)
Additions	-	-	-	15	15
Disposals	-	-	-	(71)	(71)
Redemptions	-	(53)	-	-	(53)
Transfers out of level 3					
- from level 3 to level 1	(7)	-	-	(14)	(21)
Transfers into level 3					
- from level 2 to level 3	-	-	93	-	93
<b>Closing balance</b>	<b>-</b>	<b>36</b>	<b>93</b>	<b>34</b>	<b>163</b>
Total gains / (losses) for the period included in profit or loss for assets held at the end of the reporting period	-	26	55	-	81
Other transfers					
- from level 1 to level 2	9	-	-	255	264
- from level 2 to level 1	-	-	-	152	152

<sup>1</sup> Financial asset at fair value through profit or loss

Transfer from level 3 to level 1 resulted from an ability to obtain observable market prices in the current period which were unavailable in the prior year.

The transfer of derivatives held for sale to NAMA from level 2 to level 3 resulted from the unobservable inputs becoming significant to their fair value measurement.

**ac Fair values of financial assets and financial liabilities (continued)****Movements in level 3 liabilities**

<b>31 December 2010</b>	<b>Customers accounts €m</b>	<b>Derivative financial instruments €m</b>	<b>Derivatives held for sale to NAMA €m</b>	<b>Debt securities in issue €m</b>	<b>Subordinated liabilities €m</b>	<b>Total €m</b>
Opening Balance	62	21	1	472	229	785
Total gains or losses in:						
- Profit or loss	1	6	-	(124)	(59)	(176)
- Other comprehensive income	-	-	-	-	21	21
Additions	2	6	-	252	-	260
Disposals	-	-	(1)	-	-	(1)
Redemptions and maturities	(57)	-	-	(55)	(108)	(220)
Transfers out of level 3						
- from level 3 to level 2	-	(10)	-	-	-	(10)
Transfers into level 3						
- from level 2 to level 3	34	4	-	-	-	38
<b>Closing balance</b>	<b>42</b>	<b>27</b>	<b>-</b>	<b>545</b>	<b>83</b>	<b>697</b>
Total gains / (losses) for the period included in profit or loss for liabilities held at the end of the reporting period	39	12	-	(124)	(53)	(126)

The transfer from level 3 to level 2 arose as a result of an ability to obtain observable market prices in the current period which were unavailable in the prior year.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to their fair value measurement.

**Movements in level 3 liabilities**

<b>31 December 2009</b>	<b>Customers accounts €m</b>	<b>Derivative financial instruments €m</b>	<b>Derivatives held for sale to NAMA €m</b>	<b>Debt securities in issue €m</b>	<b>Subordinated liabilities €m</b>	<b>Total €m</b>
Opening Balance	69	57	-	566	229	921
Total gains or losses in:						
- Profit or loss	1	(23)	-	(28)	20	(30)
- Other comprehensive income	-	-	-	-	(20)	(20)
New derivatives transactions	-	10	-	-	-	10
Redemptions and maturities	(8)	(23)	-	(66)	-	(97)
Transfers into level 3	-	-	-	-	-	-
- from level 2 to level 3	-	-	1	-	-	1
<b>Closing balance</b>	<b>62</b>	<b>21</b>	<b>1</b>	<b>472</b>	<b>229</b>	<b>785</b>
Total gains / (losses) for the period included in profit or loss for liabilities held at the end of the reporting period	(1)	13	-	(16)	(20)	(24)

There were no transfers out of level 3 during the nine month period ended 31 December 2009.

There were no transfers to level 3 from level 1. The only transfer into level 3 from level 2 was in relation to derivative liabilities held for sale to NAMA.

The transfer of derivatives held for sale to NAMA from level 2 to level 3 resulted from the unobservable inputs becoming significant to the fair value measurement.

**ac Fair values of financial assets and financial liabilities (continued)**

The carrying amount and the fair value of the Bank's financial assets and financial liabilities as at 31 December 2010 and 31 December 2009 are set out in the table below.

	31 December 2010		31 December 2009	
	Carrying amount €m	Fair values €m	Carrying amount €m	Fair values €m
<b>Financial instruments held for trading</b>				
Debt securities <sup>(1)</sup>	151	151	403	403
<b>Derivative financial instruments - trading</b>				
Foreign exchange contracts <sup>(1)</sup>	136	136	(199)	(199)
Interest rate contracts <sup>(1)</sup>	140	140	(1,060)	1,060
Equity and commodity contracts <sup>(1)</sup>	27	27	26	26
<b>Non-trading financial instruments</b>				
<b>Assets</b>				
Cash and balances at central banks <sup>(1)</sup>	914	914	4,202	4,202
Items in the course of collection from other banks <sup>(1)</sup>	193	193	400	400
Loans and advances to banks	59,340	59,275	35,540	35,538
Loans and advances to customers	75,203	64,453	96,856	94,645
Assets held for sale to NAMA <sup>(2)</sup>	791	649	9,450	7,921
Available for sale financial assets <sup>(1)</sup>	17,261	17,261	-	-
NAMA senior bonds	5,075	5,075	21,826	21,826
Other financial assets at fair value through profit or loss <sup>(1)</sup>	94	94	70	70
<b>Liabilities</b>				
Deposits from banks	87,952	87,887	43,715	43,614
Customer accounts	50,632	50,585	88,665	88,669
Items in the course of transmission to other banks <sup>(1)</sup>	155	155	198	198
Debt securities in issue	12,448	11,964	26,389	26,161
Other short positions <sup>(1)</sup>	1,680	1,680		
Subordinated liabilities	2,700	1,430	5,286	4,010
Liabilities held for sale to NAMA <sup>(2)</sup>	-	-	1	1
<b>Derivative financial instruments - hedging</b>				
Interest rate contracts and foreign exchange contracts <sup>(1)</sup>	207	207	31	31

<sup>(1)</sup> The fair value of these financial instruments is equal to the carrying value. These instruments are either carried at market value or have minimal credit losses and are either short term in nature or repriced frequently.

<sup>(2)</sup> Assets held for sale to NAMA are measured on the same basis in the balance sheet as prior to their classification as held for sale. The Group is currently unable to accurately quantify the ultimate expected loss on the transfer to NAMA. The Group estimates that the discount to gross loan value on the remaining loans held for sale to NAMA may be in a range of 20% to 30%. For the purposes of presenting the fair value of the total portfolio of assets held for sale to NAMA, the Group has applied a 25% discount (being the mid point of the Group's expected range) to all such loans. As the loans held for sale to NAMA are financial instruments they are carried at amortised cost less impairment provisions.

**ad Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	31 December 2010 €m	31 December 2009 €m
Cash and balances at central banks	914	4,202
Loans and advances to banks (with an original maturity of less than 3 months)	5,809	4,613
<b>Cash and cash equivalents</b>	<b>6,723</b>	<b>8,815</b>

**ae Retirement benefit obligations**

The deficit relating to defining benefit schemes in the Bank amounts to €358 million.

Financial assumptions used in deriving valuations of the Bank's defined benefit pension obligation are the same as those used in deriving the valuation of the Group (note 45).

	31 December 2010 €m	31 December 2009 €m
Total market value of schemes' assets	3,747	3,410
Actuarial value of liabilities of funded schemes	(4,096)	(4,875)
Aggregate deficit in funded schemes	(349)	(1,465)
Unfunded schemes	(9)	(9)
<b>Net defined benefit pension deficit</b>	<b>(358)</b>	<b>(1,474)</b>
This is shown in the balance sheet as:-		
Retirement benefit obligations	368	1,480
Retirement benefit asset	(10)	(6)
	<b>358</b>	<b>1,474</b>

The scheme assets have been valued on a bid basis.

**af Related party transactions**

The Bank is a corporation established in Ireland in 1783 under Royal Charter with a primary listing on the Irish Stock Exchange and a premium listing on the London Stock Exchange.

In the US the Bank's ordinary stock is traded on the New York Stock Exchange in the form of American Depositary Shares (ADSs), each ADS representing the right to receive four units of ordinary stock and evidenced by American Depositary Receipts (ADRs).

A number of banking transactions are entered into between the Bank and its subsidiaries in the normal course of business. These include loans, deposits and foreign currency transactions; the volumes outstanding at the year end are set out in notes g, h, q and r of the Bank financial statements.

Further information is shown in note 55 to the consolidated financial statements.

**ag Other**

(a) These financial statements are financial statements of the Bank only and are prepared in accordance with the Companies Act 1963 section 148 (1).

(b) The Bank is domiciled in Ireland.

(c) The Bank has given a letter of comfort to the regulatory authority of the Isle of Man in respect of its banking subsidiary Bank of Ireland (IOM) Limited for the protection of the depositors of that subsidiary.

(d) At 31 December 2010, the Bank had provided a guarantee under Section 17 of the Companies (Amendment) Act, 1986 for the following companies:

Premier Direct Management Limited, Premier Direct Insurance Services Limited, Tustin Limited, Hill Wilson Secretarial Limited, Bank of Ireland Insurance Services Limited, Bank of Ireland Asset Management (US) Limited, Bank of Ireland Asset Management Limited, Bank of Ireland Car Loans Limited, Bank of Ireland Commercial Finance Limited, Bank of Ireland International Finance Limited, Bank of Ireland Outsourcing Services Limited, Bank of Ireland Unit Trust Managers Limited, Bushfield Leasing Limited, Clonvern Limited, Edendork Leasing Limited, First Rate Enterprises Limited, Florenville Limited, IBI Corporate Finance Limited, Nerling Limited, Nestland Limited, Bank of Ireland Private Banking Limited.

Following the sale of BIAM to State Street Global Advisors (SSGA) on 10 January 2011, the Bank is released from the Section 17 guarantees previously provided to Bank of Ireland Asset Management Limited and Bank of Ireland Unit Trust Managers Limited. Further information on this post balance sheet event is shown in note 61 to the consolidated financial statements.

(e) Bank income statement

In accordance with Section 148(8) of the Companies Act, 1963 and Section 7(1A) of the Companies (Amendment) Act, 1986, the Bank is availing of the exemption of presenting its individual income statement to the Annual General Court and from filing it with the Registrar of Companies. The Bank's profit after tax for the twelve month period ended 31 December 2010 determined in accordance with IFRS is €1,248 million. The loss after tax determined in accordance with IFRS for the nine month period ended 31 December 2009 was €1,861 million.

Subsidiary information in relation to the Bank is contained in note 58 to the consolidated financial statements.

Post balance sheet events are shown in note 61 to the consolidated financial statements.

The Bank's approach to Risk Management and the market risk disclosures are set out in the Group Risk Management report on pages 89 to 150.

# Consolidated average balance sheet and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the twelve month period ended 31 December 2010 and the nine month period ended 31 December 2009. The calculations of average balances are based on daily, weekly or monthly averages, depending on the reporting unit. The average balances used are considered to be representative of the operations of the Group. The Group's operating divisions are managed on product margin basis, with funding and interest exposure managed centrally by Global Markets. The explanation of the underlying business trends in the Group's net interest margin, after adjusting for the impact of IFRS income classifications, is explained on pages 18 to 20.

## Average Balance Sheet

	12 month period ended 31 December 2010			9 month period ended 31 December 2009		
	Average Balance €m	Interest <sup>1</sup> €m	Rate %	Average Balance €m	Interest €m	Rate % <sup>2</sup>
<b>ASSETS</b>						
Loans and advances to banks	8,946	67	0.8	8,903	48	0.7
Loans and advances to customers (including assets held for sale to NAMA)	131,016	4,528	3.5	138,396	3,642	3.5
Available for sale financial assets	20,161	584	2.9	23,956	498	2.7
Other financial assets at fair value through profit or loss	172	-	-	255	-	-
<b>Total interest earning assets</b>	<b>160,294</b>	<b>5,179</b>	<b>3.2</b>	<b>171,510</b>	<b>4,188</b>	<b>3.3</b>
Allowance for impairment charges	(5,900)	-	-	(3,103)	-	-
Non interest earning assets	22,975	-	-	20,398	-	-
<b>Total Assets</b>	<b>177,370</b>	<b>5,179</b>	<b>2.9</b>	<b>188,805</b>	<b>4,188</b>	<b>3.0</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Deposits from banks	25,695	262 <sup>2</sup>	1.0	26,334	198	1.0
Customer accounts	67,979	1,272	1.9	73,463	995	1.8
Debt securities in issue	37,187	839 <sup>2</sup>	2.3	40,560	654	2.2
Subordinated liabilities	4,708	312	6.6	6,519	162	3.3
<b>Total interest earning liabilities</b>	<b>135,569</b>	<b>2,685</b>	<b>2.0</b>	<b>146,876</b>	<b>2,009</b>	<b>1.8</b>
Current accounts	9,564	-	-	9,332	-	-
<b>Non interest bearing liabilities</b>	<b>25,003</b>	<b>-</b>	<b>-</b>	<b>24,855</b>	<b>-</b>	<b>-</b>
<b>Stockholders' Equity</b>	<b>7,234</b>	<b>-</b>	<b>-</b>	<b>7,742</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and Stockholders' Equity</b>	<b>177,370</b>	<b>2,685</b>	<b>1.5</b>	<b>188,805</b>	<b>2,009</b>	<b>1.4</b>

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

<sup>1</sup> Excludes the cost of the ELG Scheme of €275 million which is included within interest expense.

<sup>2</sup> Rates for the nine month period are annualised.

# Consolidated income statement

for the twelve month period ended 31 December 2010

(EURO, US\$ & STG£)	€m	US\$m <sup>(1)</sup>	Stg£m <sup>(1)</sup>
Interest income	5,179	6,920	4,458
Interest expense	(2,960)	(3,955)	(2,548)
<b>Net interest income</b>	<b>2,219</b>	<b>2,965</b>	<b>1,910</b>
Net insurance premium income	969	1,295	833
Fee and commission income	633	846	545
Fee and commission expense	(257)	(343)	(221)
Net trading income	225	301	194
Life assurance investment income and gains	474	633	408
Gain on subordinated liability management	1,402	1,873	1,207
Other operating income	199	265	171
<b>Total operating income</b>	<b>5,864</b>	<b>7,835</b>	<b>5,047</b>
Insurance contract liabilities and claims paid	(1,268)	(1,694)	(1,091)
<b>Total operating income, net of insurance claims</b>	<b>4,596</b>	<b>6,141</b>	<b>3,956</b>
Other operating expenses	(1,803)	(2,409)	(1,552)
Impact of amendments to defined benefit pension scheme	733	979	631
<b>Operating profit before impairment charges on financial assets and impact of NAMA</b>	<b>3,526</b>	<b>4,711</b>	<b>3,035</b>
Impairment charges on financial assets (excluding assets held for sale to NAMA)	(2,055)	(2,746)	(1,769)
Impairment charges on assets sold or held for sale to NAMA	(229)	(306)	(197)
Loss on sale of assets to NAMA including associated costs	(2,241)	(2,994)	(1,929)
<b>Operating loss</b>	<b>(999)</b>	<b>(1,335)</b>	<b>(860)</b>
Share of results of associates and joint ventures (after tax)	49	65	42
Loss on disposal of business activities	-	-	-
<b>Loss before taxation</b>	<b>(950)</b>	<b>(1,270)</b>	<b>(818)</b>
Taxation credit	341	456	294
<b>Loss for the period</b>	<b>(609)</b>	<b>(814)</b>	<b>(524)</b>
Attributable to non-controlling interests	5	6	4
Attributable to stockholders	(614)	(820)	(528)
<b>Loss for the period</b>	<b>(609)</b>	<b>(814)</b>	<b>(524)</b>

<sup>(1)</sup> Converted at closing exchange rates as set out on page 202.

# Consolidated balance sheet

as at 31 December 2010

(EURO, US\$ & STG£)	€m	US\$m <sup>(1)</sup>	Stg£m <sup>(1)</sup>
<b>ASSETS</b>			
Cash and balances at central banks	1,014	1,355	873
Items in the course of collection from other banks	491	656	423
Trading securities	151	202	130
Derivative financial instruments	6,375	8,518	5,487
Other financial assets at fair value through profit or loss	10,045	13,423	8,646
Loans and advances to banks	7,458	9,965	6,419
Available for sale financial assets	15,576	20,813	13,407
NAMA senior bonds	5,075	6,781	4,368
Loans and advances to customers	114,457	152,937	98,512
Assets held for sale to NAMA	804	1,075	692
Interest in associates	26	35	22
Interest in joint ventures	199	266	171
Intangible assets – goodwill	44	59	38
Intangible assets – other	408	545	351
Investment properties	1,304	1,742	1,123
Property, plant and equipment	372	497	320
Deferred tax assets	1,128	1,507	971
Other assets	2,291	3,061	1,972
Current tax assets	125	167	108
Retirement benefit asset	11	15	9
Other assets classified as held for sale	119	159	102
<b>Total assets</b>	<b>167,473</b>	<b>223,778</b>	<b>144,144</b>
<b>EQUITY AND LIABILITIES</b>			
Deposits from banks	41,075	54,884	35,353
Customer accounts	65,443	87,445	56,327
Items in the course of transmission to other banks	293	392	252
Derivative financial instruments	5,445	7,276	4,687
Debt securities in issue	28,693	38,340	24,696
Liabilities to customers under investment contracts	5,271	7,043	4,537
Insurance contract liabilities	7,188	9,605	6,187
Other liabilities	3,102	4,145	2,670
Current tax liabilities	139	186	120
Provisions	64	85	55
Deferred tax liabilities	91	122	78
Retirement benefit obligations	435	581	374
Subordinated liabilities	2,775	3,708	2,388
Liabilities held for sale to NAMA	-	-	-
Other liabilities classified as held for sale	52	69	45
<b>Total liabilities</b>	<b>160,066</b>	<b>213,881</b>	<b>137,769</b>
<b>Equity</b>			
Capital stock	1,210	1,617	1,042
Stock premium account	3,926	5,246	3,379
Retained earnings	3,740	4,997	3,219
Other reserves	(1,510)	(2,018)	(1,300)
Own stock held for the benefit of life assurance policyholders	(15)	(20)	(13)
<b>Stockholders' equity</b>	<b>7,351</b>	<b>9,822</b>	<b>6,327</b>
Non-controlling interests	56	75	48
<b>Total equity</b>	<b>7,407</b>	<b>9,897</b>	<b>6,375</b>
<b>Total equity and liabilities</b>	<b>167,473</b>	<b>223,778</b>	<b>144,144</b>

<sup>(1)</sup> Converted at closing exchange rates as set out on page 202.



# Other disclosures

## TARGET 2

1. On 15 February 2008 a first floating charge was placed in favour of the Central Bank over all Bank of Ireland's right, title, interest and benefit, present and future, in and to the balances now or at any time standing to the credit of Bank of Ireland's account held as a TARGET 2 participant with the Central Bank (the Charged Property) where TARGET 2 is a real time gross settlement system for payments in euro with settlement in central bank money.

This floating charge contains a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the Central Bank, Bank of Ireland shall:

- (a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the charged property or any part thereof; or
- (b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the charged property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

2. On 15 February 2008 a first floating charge was placed in favour of the Central Bank over all Bank of Ireland's right, title, interest and benefit, present and future, in and to certain segregated securities (the Charged Property) listed in an Eligible Securities Schedule kept by Bank of Ireland for purposes of participating in TARGET 2 where TARGET 2 is a real time gross settlement system for payments in euro with settlement in central bank money.

This floating charge contains a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the Central Bank, Bank of Ireland shall:

- (a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the charged property or any part thereof; or
- (b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

# Capital stock and Government Guarantee

## Defined terms

Capital Stock Resolution	any resolution proposed at a General Court of the Bank to alter the capital stock of the Bank by way of: <ul style="list-style-type: none"> <li>(a) an increase in the capital stock of the Bank, the reissue of treasury stock or the allotment of any unissued capital stock of the Bank save for the issue of additional preference stock pursuant to the rights attaching to existing preference stock or the issue of capital stock to fund a repurchase or redemption of the 2009 Preference Stock; or</li> <li>(b) the redemption, consolidation, conversion or sub-division of the capital stock of the Bank save for the repurchase or redemption of the 2009 Preference Stock; or</li> <li>(c) any other changes in the capital structure of the Bank;</li> </ul>
Control Resolution	a resolution of those Stockholders who are entitled to so vote for the approval of any agreement or transaction (including a merger) whereby, or in consequence of which, control of the Bank, or substantially all of the Bank's business, is or may be acquired by any person or persons (excluding any government concert party) acting in concert and which for the avoidance of doubt shall include any resolution to approve a scheme of arrangement pursuant to section 201 of the Companies Act 1963 pursuant to which a takeover of the Bank (within the meaning of the Irish Takeover Panel Act 1997 Takeover Rules (as amended, replaced or substituted from time to time)) would be effected or approved or a merger or division of the Bank pursuant to European Communities (Mergers And Divisions of Companies) Regulations, 1987 (Statutory Instrument 137 of 1987) or a merger of the Bank pursuant to European Communities (Cross-Border Mergers) Regulations 2008 (Statutory Instrument 157 of 2008);
Covered Institution	means a credit institution or a subsidiary of a credit institution— <ul style="list-style-type: none"> <li>(a) that stands specified by order by the Minister under section 6(1) of the Credit Institutions (Financial Support) Act 2008; and</li> <li>(b) that has joined this Scheme in accordance with paragraph 5 of the Schedule to S.I. No. 411 of 2008.</li> </ul>
Government	the Government of Ireland;
Government Entity	<ul style="list-style-type: none"> <li>(i) the NTMA, the NPRFC, the NRPf, the Minister for Finance or any Minister or Department of the Government, in each case holding 2009 Preference Stock, but excludes any other holder of 2009 Preference Stock provided however this shall not include any occupational pension scheme approved by the Revenue Commissioners and registered with the Pension Board; and</li> <li>(ii) any custodian or nominee holding 2009 Preference Stock on behalf of the NPRFC, the Minister for Finance, any Minister or Department of the Government provided however that where such custodian or nominee holds 2009 Preference Stock for any other person, such holding shall be not be taken into account for the purpose of determining the voting rights of the Stockholder;</li> </ul>
Minister for Finance	the Minister for Finance of Ireland;
Thirty Day Average Price	<ul style="list-style-type: none"> <li>(i) 100 per cent. of the average daily closing price of the ordinary stock on the Irish Stock Exchange over the 30 dealing days immediately preceding the original scheduled dividend declaration date, (in the event that the ordinary stock issued in the event of non-payment of dividends on the 2009 Preference Stock is settled on the dividend payment date to which it relates); or</li> <li>(ii) 95 per cent. of the average daily closing price of the ordinary stock on the Irish Stock Exchange over the 30 dealing days immediately preceding the original scheduled dividend declaration date (in the event that the ordinary stock, issued in the event of non-payment of dividends on the 2009 Preference Stock, is settled after the dividend payment date to which it relates);</li> </ul>
Institutional Placing	the placing of ordinary stock with institutional investment (but excluding the NPRFC);
NPRFC Placing	the placing of ordinary stock with the NPRFC; and
Existing Stock	the units of ordinary stock in issue as at 31 December 2010.

# Stockholder information

## Holders of ordinary stock

Stockholder profile	31 December 2010 % by value	31 December 2009 % by value
Ireland	42%	9%
UK	6%	9%
US	13%	25%
Europe / other	8%	9%
Retail	31%	48%
	<b>100%</b>	<b>100%</b>

### Analysis of stockholdings

Stockholding range - units of stock	Number of stockholders	% of total holders	Stock held units	% of total stock
Up to 500	22,691	23.61%	4,580,590	0.10%
501 to 1,000	11,874	12.35%	9,139,511	0.17%
1,001 to 5,000	33,727	35.08%	85,927,216	1.62%
5,001 to 10,000	11,699	12.17%	84,873,355	1.60%
10,001 to 50,000	13,676	14.22%	283,767,103	5.36%
50,001 to 100,000	1,414	1.47%	98,491,161	1.86%
100,001 to 500,000	781	0.81%	153,185,847	2.89%
Over 500,000*	280	0.29%	4,573,754,665	86.40%
<b>Total</b>	<b>96,142</b>	<b>100.00%</b>	<b>5,293,719,448</b>	<b>100.00%</b>

\* Excludes stockholdings held by Bol Life

## Listings

The Governor and Company of the Bank of Ireland is a corporation established in Ireland in 1783 under Royal Charter. Its ordinary stock, of nominal value €0.10 per unit, has a primary listing on the Irish Stock Exchange and a premium listing on the London Stock Exchange. In the US the Bank's ordinary stock (symbol IRE) is traded on the New York Stock Exchange in the form of American Depositary Shares (ADSs), each ADS representing the right to receive four units of ordinary stock and evidenced by American Depositary Receipts (ADRs).

## Registrar

The Bank's Registrar is:  
Computershare Investor Services (Ireland) Limited,  
PO Box 954,  
Sandyford,  
Dublin 18.

Telephone: + 353 1 247 5414,  
Facsimile: + 353 1 216 3151  
or  
Contact via website: [www.investorcentre.com/ie/contactus](http://www.investorcentre.com/ie/contactus)

Stockholders may check their accounts on the Bank's stock register by accessing the Bank's website at <http://www.bankofireland.com/about-boi-group/investor-relations> and then clicking on Check your Stock. This facility allows stockholders to check their stockholdings and to download standard forms required to initiate changes in details held by the Registrar.

## Amalgamating your stockholdings

If you receive more than one copy of stockholder mailing with similar details on your accounts, it may be because the Bank has more than one record of stockholdings in your name. To ensure that you do not receive duplicate mailings in future and to reduce the cost and waste associated with this, please have all your stockholdings amalgamated into one account by contacting the Bank's Registrar, (we cannot merge joint accounts with sole accounts or vice versa).

## Stockholder enquiries

All enquiries concerning stockholdings should be addressed to the Bank's Registrar.

## Communication

It is the policy of the Bank to communicate with Stockholders by electronic means or through the [www.bankofireland.com](http://www.bankofireland.com) website in the interest of protecting the environment. Those stockholders who do not wish to receive documents or information by electronic means may request to receive the relevant information in paper form.

## Form 20-F

The Form 20-F for the twelve month period ended 31 December 2010 will be filed with the US Securities and Exchange Commission, Washington DC in due course. Copies will be available to download from the Bank's website ([www.bankofireland.com](http://www.bankofireland.com)) or on the website of the US Securities and Exchange Commission.

## Holders of American Depositary Shares

American Depositary Receipts (ADRs) are negotiable securities that are used to represent, among other things, a non-US company's publicly traded ordinary share capital. ADRs are traded and dividends are distributed in US dollars just like any US security, alleviating certain obstacles associated with investing directly in the home markets of non-US companies. The Bank of New York is the Depositary Bank for the Bank of Ireland's ADR Program.

### Address:

BNY Mellon Shareowner Services  
PO Box 358516  
Pittsburgh, PA 15252-8516  
Toll Free # for Domestic Calls: 1-866-257-5729  
Number for International Calls: 201-680-6825  
Email: [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)  
Website: [www.adrbnymellon.com](http://www.adrbnymellon.com)

## Internet address

Further information about the Bank of Ireland Group can be obtained from the internet at [www.bankofireland.com](http://www.bankofireland.com)

# Principal Business Units & Addresses

## REPUBLIC OF IRELAND

### Group Head Office

40 Mespil Road, Dublin 4  
Tel: + 353 1 661 5933  
Fax: + 353 1 661 5671  
Website: [www.bankofireland.com](http://www.bankofireland.com)

### Group Executive

Group Chief Executive  
Chief Executive, Capital Markets  
Chief Executive Officer, Retail (Ireland / UK)  
Head of Group Manufacturing  
Group Chief Financial Officer  
Chief Credit & Market Risk Officer  
Chief Governance Risk Officer  
Head of Group Human Resources

Richie Boucher  
Denis Donovan  
Des Crowley  
Liam McLoughlin  
John O'Donovan  
Vincent Mulvey  
Peter Morris  
Julie Sharp

### Branch Network

Network Offices  
1st Floor, Arena, Whitestown Way, Tallaght, Dublin 24  
Tel: + 353 1 460 6503  
Website: [www.bankofireland.com](http://www.bankofireland.com)  
Director Branch Network: Tim O'Neill

### Bank of Ireland Business Banking

40 Mespil Road, Dublin 4  
Tel: + 353 1 665 3400, Fax: + 353 1 665 3480  
Website: [www.bankofireland.com](http://www.bankofireland.com)  
Director: Mark Cunningham

1 Donegall Square South, Belfast, BT1 5LR  
Tel: +44 28 9043 3000, Fax: +44 28 9043 3010  
Website: [www.bankofireland.co.uk](http://www.bankofireland.co.uk)  
Director: Mark Cunningham

### Bank of Ireland Consumer Banking

Mortgages, Credit Cards, Personal Loans, Insurance  
New Century House, IFSC, Mayor Street Lower, Dublin 1  
Tel: + 353 1 611 3333, Fax: + 353 1 611 3100  
Website: [www.bankofireland.com](http://www.bankofireland.com)  
Director: Stephen Mason

Mortgages, Credit Cards, Personal Loans  
PO Box 27, One Temple Quay, Bristol BS99 7AX  
Tel: + 44 117 979 2222 and + 44 117 909 0900  
Fax: + 44 117 929 3787  
Director: Stephen Mason

### Bank of Ireland Wealth Management

Grattan House,  
50 – 55 Lower Baggot Street, Dublin 2  
Tel: + 353 1 703 9500, Fax: + 353 1 662 0811  
Website: [www.bankofirelandlife.ie](http://www.bankofirelandlife.ie)  
Chief Executive: Mick Sweeney

Bank of Ireland Insurance Services Ltd  
Bank of Ireland, Baggot Street, Dublin 2  
Tel: +353 1 611 3333, Fax: +353 1 6113844  
Email: [info@boiinsurance.ie](mailto:info@boiinsurance.ie)  
Managing Director: Eamon Slevin

### ICS Building Society

Mortgages and Deposits  
New Century House, IFSC, Mayor Street Lower, Dublin 1  
Tel: +353 1 611 3000, Fax: +353 1 611 3100  
Website: [www.icsmortgages.ie](http://www.icsmortgages.ie)  
Managing Director: Donal Heylin

### New Ireland Assurance Company plc

11/12 Dawson Street, Dublin 2  
Tel: + 353 1 617 2000, Fax: + 353 1 617 2800  
Email: [info@newireland.ie](mailto:info@newireland.ie)  
Website: [www.newireland.ie](http://www.newireland.ie)  
Managing Director: Sean Casey

## Principal Business Units &amp; Addresses

**Bank of Ireland Finance**

Colm House, 91 Pembroke Road, Ballsbridge, Dublin 4  
 Tel: + 353 1 614 0300, Fax: + 353 1 614 0301  
 Email: [info@bif.ie](mailto:info@bif.ie)  
 Website: [www.bif.ie](http://www.bif.ie)  
 Managing Director: Pat Creed

**Bank of Ireland (UK) plc**

Bow Bells House, 1 Bread Street, London EC4M 9BE  
 Tel: +44 28 9043 3000, Fax: +44 28 9043 3010  
 Website: [www.bankofireland.co.uk](http://www.bankofireland.co.uk)  
 Chief Executive Officer: David McGowan  
 Chief Financial Officer: Stephen Matchett  
 Chief Risk Officer: Mary King

**Bank of Ireland UK Financial Services**

PO Box 27, One Temple Quay, Bristol BS99 7AX  
 Tel: + 44 11 7909 0900, Fax: + 44 11 7929 3787  
 Website: [www.boiukfs.co.uk](http://www.boiukfs.co.uk)  
 Chief Executive: Des Crowley

**NIIB**

32 Central Avenue, Bangor  
 County Down BT20 3AS  
 Tel: +44 844 892 1848  
 Managing Director: James McGee

**Bank of Ireland Private Banking Ltd**

40 Mespil Road, Dublin 4  
 Tel: + 353 1 637 8600, Fax: + 353 1 637 8700  
 Email: [pbinfo@pb.boi.ie](mailto:pbinfo@pb.boi.ie)  
 Website: [www.privatebanking.ie](http://www.privatebanking.ie)  
 Managing Director: Brendan Mullin

**First Rate Exchange Services**

Falcon House, 115-123 Staines Road, Hounslow, TW3 3LL  
 Tel: + 44 208 577 9393, Fax: + 44 208 814 6685  
 Website: [www.firstrate.co.uk](http://www.firstrate.co.uk)  
 Managing Director: Gordon Gourlay

**Bank of Ireland (IOM) Ltd**

P O Box 246, Christian Road, Douglas, Isle of Man IM99 1XF  
 Tel: + 44 1624 644222, Fax: + 44 1624 644298  
 Website: [www.boioffshore.com](http://www.boioffshore.com)  
 Managing Director: Michael McKay

**Post Office Financial Services**

1st Floor, Eastcheap Court, 11 Philpot Lane  
 London EC3M 8BA  
 Tel: +44 208 814 3390, Fax: +44 207 929 3446  
 Chief Executive: Patrick Waldron

**Bank of Ireland Global Markets**

Colvill House, Talbot Street, Dublin 1  
 Tel: + 353 1 799 3000, Fax: + 353 1 799 3035  
 Email: [info@boigm.com](mailto:info@boigm.com)  
 Website: [www.treasuryspecialists.com](http://www.treasuryspecialists.com)  
 Chief Executive: Austin Jennings

**Bank of Ireland Corporate Banking**

50-55 Lower Baggot Street, Dublin 2.  
 Tel: + 353 1 604 4000  
 Email: [corporate.banking@boi.com](mailto:corporate.banking@boi.com)  
 Website: [www.bankofireland.ie/corporatebanking](http://www.bankofireland.ie/corporatebanking)  
 Chief Executive: Tom Hayes

**IBI Corporate Finance Ltd**

40 Mespil Road, Dublin 4  
 Tel: + 353 1 637 7800, Fax: + 353 1 637 7801  
 Website: [www.ibicorporatefinance.ie](http://www.ibicorporatefinance.ie)  
 Chief Executive: Tom Godfrey

# Abbreviations

<b>ABS</b>	Asset Backed Securities	<b>FCE</b>	Foreign Currency Exchange Corporation
<b>ACS</b>	Asset Covered Securities	<b>FIRB</b>	Foundation Internal Ratings Board
<b>ACSM</b>	Asset Covered Security Mortgages	<b>FRES</b>	First Rate Exchange Services
<b>ADR</b>	American Depository Receipts	<b>FRN</b>	Floating Rate Note
<b>ADS</b>	American Depository Shares	<b>FSA</b>	Financial Services Authority
<b>AFS</b>	Available for sale	<b>FSCS</b>	Financial Services Compensation Scheme
<b>AGC</b>	Annual General Court	<b>FSMA</b>	Financial Services and Market Act
<b>AIB</b>	Allied Irish Bank	<b>FVTPL</b>	Fair Value Through Profit or Loss
<b>ALCO</b>	Group Asset and Liability Committee	<b>FX</b>	Foreign Exchange
<b>ALM</b>	Group Asset and Liability Management	<b>GAAP</b>	Generally Accepted Accounting Practice
<b>APE</b>	Annual Premium Equivalent	<b>GAC</b>	Group Audit Committee
<b>BCG</b>	Boston Consulting Group	<b>GCC</b>	Group Credit Committee
<b>BIAM</b>	Bank of Ireland Asset Management	<b>GCR</b>	Group Credit Review
<b>BIF</b>	Bank of Ireland Finance	<b>GCRO</b>	Group Chief Risk Officer
<b>BIGPF</b>	Bank of Ireland Group Pension Fund	<b>GEC</b>	Group Executive Committee
<b>BIS</b>	Bank for International Settlements	<b>GIA</b>	Group Internal Audit
<b>BoI</b>	Bank of Ireland	<b>GLC</b>	Group Liquidity Committee
<b>BoI G.P.</b>	Bank of Ireland General Partner	<b>GRO</b>	Group Risk Office
<b>BoI Life</b>	Bank of Ireland Life	<b>GROR</b>	Group Regulatory and Operational Risk
<b>BoIGM</b>	Bank of Ireland Global Markets	<b>GRORC</b>	Group Regulatory and Operational Risk Committee
<b>BoIMB</b>	Bank of Ireland Mortgage Bank	<b>GRPC</b>	Group Risk Policy Committee
<b>BoISS</b>	Bank of Ireland Security Services	<b>HSE</b>	Health Service Executive
<b>bps</b>	Basis points	<b>IAS</b>	International Accounting Standards
<b>BSPF</b>	Bank of Ireland Staff Pensions Fund	<b>IASB</b>	International Accounting Standards Board
<b>BTL</b>	Buy to let	<b>IBF</b>	Irish Banking Federation
<b>CCMRO</b>	Chief Credit & Market Risk Officer	<b>IBNR</b>	Incurred but not Reported
<b>CDO</b>	Collateralised debt obligation	<b>ICAAP</b>	Internal Capital Adequacy Assessment Process
<b>CDR</b>	EU Capital Requirements Directive	<b>IDA</b>	Irish Development Authority Ireland
<b>CDs</b>	Certificates of deposit	<b>IFRIC</b>	International Financial Reporting Interpretations Committee
<b>CEBS</b>	Committee of European Banking Supervisors	<b>IFRS</b>	International Financial Reporting Standards
<b>CEO</b>	Chief Executive Officer	<b>IFSC</b>	International Financial Services Centre
<b>CGU</b>	Cash generating units	<b>IMF</b>	International Monetary Fund
<b>CIFS</b>	Credit Institutions (Financial Support) Scheme	<b>IOM</b>	Isle of Man
<b>CIROC</b>	Covered Institutions Remuneration Oversight Committee	<b>IPO</b>	Initial Public Offering
<b>CIS</b>	Credit Institution Stabilisation	<b>IRBA</b>	Internal Ratings Based Approach
<b>CMBS</b>	Commercial Mortgage Backed Securities	<b>ISDA</b>	International Swaps and Derivative Association
<b>CP</b>	Commercial Paper	<b>IT</b>	Information Technology
<b>CRC</b>	Court Risk Committee	<b>KMP</b>	Key Management Personnel
<b>CRD</b>	Capital Requirements Directive (European Union)	<b>KRAs</b>	Key Result Areas
<b>CSAs</b>	Collateral Support Agreements	<b>LGD</b>	Loss given default
<b>DWT</b>	Dividend withholding tax	<b>Libor</b>	London Inter Bank Offered Rate
<b>EAD</b>	Exposure at default	<b>LLC</b>	Limited Liability Company
<b>EBA</b>	Eligible Bank Assets	<b>LLP</b>	Limited Liability Partnership
<b>EBS</b>	Educational Building Society	<b>LP</b>	Limited Partnership
<b>Ecap</b>	Economic capital	<b>LTIP</b>	Long Term Incentive Plan
<b>ECB</b>	European Central Bank	<b>LTPSP</b>	Long Term Performance Stock Plan
<b>EEC</b>	European Economic Community	<b>MBPN</b>	Mortgage backed promissory note
<b>EGC</b>	Extraordinary General Court	<b>NAMA</b>	National Asset Management Agency
<b>EIR</b>	Effective interest rate	<b>NAMAIL</b>	National Asset Management Agency Investment Limited
<b>ELG</b>	Eligible Liabilities Guarantee Scheme	<b>NCA</b>	National Consumer Agency
<b>EPS</b>	Earnings per share	<b>NI</b>	Northern Ireland
<b>ESOS</b>	Executive Stock Option Scheme	<b>NIAC</b>	New Ireland Assurance Company
<b>ESRI</b>	Economic and Social Research Institute	<b>NPRF</b>	National Pensions Reserve Fund
<b>EU</b>	European Union	<b>NPRFC</b>	National Pensions Reserve Fund Commission
<b>EUETS</b>	European Union Emissions Trading Scheme	<b>NTMA</b>	National Treasury Management Agency
<b>Euribor</b>	Euro Inter Bank Offered Rate	<b>NYSE</b>	New York Stock Exchange
<b>EWMA</b>	Exponentially Weighted Moving Average	<b>OCI</b>	Other Comprehensive



## Abbreviations

### Business Review

<b>PBT</b>	Profit before tax
<b>PCAR</b>	Prudential Assessment Capital Review
<b>PD</b>	Probability of default
<b>PLAR</b>	Prudential Liquidity Assessment Review
<b>POFS</b>	Post Office Financial Services
<b>PPR</b>	Performance Planning & Review
<b>PRC</b>	Portfolio Review Committee
<b>PwC</b>	PricewaterhouseCoopers
<b>RAR</b>	Risk Adjusted Returns
<b>RAROC</b>	Risk adjusted return on economic capital

### Governance

<b>Repos</b>	Repurchase agreements
<b>RMBS</b>	Residual Mortgage Backed Securities
<b>RMC</b>	Risk Measurement Committee
<b>ROE</b>	Return on Equity
<b>RoI</b>	Republic of Ireland
<b>RWA</b>	Risk weighted assets
<b>SAYE</b>	Save as you earn
<b>SEAI</b>	Sustainable Energy Authority of Ireland
<b>SIC</b>	Standing Interpretations Committee
<b>SIVs</b>	Structured investment vehicles
<b>SME</b>	Small Medium Enterprises
<b>SOCI</b>	Statement of other comprehensive income
<b>SOx</b>	Sarbanes Oxley Act of 2002
<b>SPE</b>	Special Purpose Entity
<b>SSGA</b>	State Street Global Advisors
<b>SSI</b>	Stock Share Issue
<b>STP</b>	Strategic Transformation Programme

### Financial Statements

<b>TSB</b>	Trustee Savings Bank
<b>TSR</b>	Total shareholder return
<b>UKFS</b>	UK Financial Services
<b>VaR</b>	Value at Risk
<b>VAT</b>	Value Added Tax
<b>VIF</b>	Value of in force

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