Bank of Ireland

Annual Report

for the year ended 31 December 2011

Forward-Looking Statement

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

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

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

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

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

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www.bankofireland.com

Performance Summary

	Year ended 31 December 2011 €m	Year ended 31 December 2010[1] €m
Group performance on an underlying[2] basis		
Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA	**411**	**1,017**
Impairment charges on loans and advances to customers	(1,939)	(1,859)
Impairment charges on available for sale (AFS) financial assets	(21)	(168)
Assets sold to NAMA:		
- Impairment charges on assets sold to NAMA	(44)	(257)
- Gain / (loss) on sale of assets to NAMA	33	(2,241)
Share of results of associates and joint ventures (after tax)	39	49
Underlying[2] loss before tax	**(1,521)**	**(3,459)**
Total non-core items	1,331	2,509
Loss before tax	**(190)**	**(950)**
Group performance (underlying[2])		
Net interest margin	1.33%	1.46%
Per unit of €0.05 ordinary stock		
Basic loss per share (€ cent)	(0.7)	(21.5)
Underlying loss per share (€ cent)	(9.6)	(83.0)
Divisional performance		
Underlying[2] operating profit / (loss) before impairment charges on financial assets and loss on sale of assets to NAMA (€ million)		
Retail Ireland	285	438
Bank of Ireland Life	26	70
Retail UK	106	282
Retail UK (Stg£ million equivalent)	*94*	*242*
Corporate and Treasury	599	641
Group Centre	(574)	(414)
Consolidation[3]	(31)	-
Underlying[2] operating profit before impairment charges on financial assets and loss on sale to NAMA	**411**	**1,017**
Impairment charges on loans and advances to customers (€ million)		
Residential mortgages	469	404
Non-property SME and corporate	497	609
Property and construction	893	719
Consumer	80	127
Impairment charges on loans and advances to customers	**1,939**	**1,859**

[1] *The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.*

[2] *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, loss on disposal of loan books, 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', gain on disposal of business activities, gross-up for policyholder tax in the Life business, cost of restructuring programmes, impact of changes in pension benefits, investment return on treasury stock held for policyholders and impact of 'coupon stopper' on subordinated debt. See page 20 for further information.*

[3] *This relates to certain intergroup transactions which are eliminated at a Group level. However, at a divisional level they are reported as core income in the Corporate and Treasury division and non-core expense in the Retail UK division as part of the loss on deleveraging of financial assets. The line item above reconciles underlying operating profit before impairment charges on financial assets and loss on sale to NAMA at a divisional level to the Group level.*

Balance sheet and funding metrics	31 December 2011	31 December 2010
Stockholders' equity (€ billion)	10.2	7.4
Total assets (€ billion)	155	167
Total loans and advances to customers (after impairment provisions) (€ billion)[4]	102	114
Total customer deposits (€ billion)	71	65
Loan to deposit ratio[4]	144%	175%
Wholesale funding (€ billion)	51	70
Wholesale funding > 1 year to maturity (€ billion)	28	22
Wholesale funding < 1 year to maturity (€ billion)	23	48
Drawings from Monetary Authorities (net) (€ billion)	22	31
Capital		
Core tier 1 ratio	15.1%	9.7%
Core tier 1 ratio (PCAR / EBA stress test basis)[5]	14.3%	-
Total capital ratio	14.7%	11.0%
Risk weighted assets (€ billion)	67.1	79.0

4 *On the balance sheet on page 176, these amounts are presented on separate lines being Loans and advances to customers and Other assets classified as held for sale.*

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

Chairman's Review

2011 was yet another challenging year for our Group. Whilst the global economic outlook was more positive in the first half of 2011, heightened concerns regarding sovereign debt levels in the eurozone surfaced in the second half of the year. These factors extended beyond the financial system to the wider economy in Ireland and the UK which combined with fiscal re-balancing continuing to adversely impact on consumer and business confidence has resulted in a more uncertain outlook for 2012.

In Ireland, the export sector continues to be a key driver of economic recovery and foreign direct investment remained healthy, reflecting continued positive international sentiment towards Ireland. However, the domestic economy faces ongoing challenges with fragile consumer sentiment and weak consumer demand providing a considerable constraint on growth. These factors combined with the more uncertain global outlook have led, in recent months, to downward adjustments to economic growth forecasts.

Although financial markets have been volatile and challenging, we have maintained a disciplined approach to managing the Group through these turbulent times. We have kept a strong focus on our key priorities to successfully deliver against a number of core objectives that build on the foundations we have laid to ensure a sustainable future for Bank of Ireland.

Through our voluntary liability management exercises and the Rights Issue that we completed during 2011, we successfully generated and raised the incremental €4.2 billion in equity which meets the Core tier 1 capital required under the March 2011 Prudential Capital Assessment Review (PCAR). As part of the capital raising, a group of significant institutional investors and fund managers acquired major shareholdings in the Group. Their investment represented an important endorsement of the Group's strategy and confidence in the future for the Irish economy. On the completion of the capital raising programme, existing and new stockholders own 85% of the Group, with the State achieving its objective of maintaining a minimum of 15% shareholding in the Group.

We very much appreciate the opportunity which the Irish State provided to the Group to maximise the quantum of capital that could be generated from private capital sources, thereby minimising the contribution by the State whilst enabling our existing shareholders to participate in the capital raising through the Rights Issue. We are grateful to the State for their continuing support and investment in the Group. One of our key objectives is to reduce the risk to the State from its support, and to reward and ultimately repay that investment. During 2011, the Group paid approximately €547 million to the State in Eligible Liabilities Guarantee (ELG) scheme fees, and fees related to the 2011 Recapitalisation of the Bank. In addition, the Group also paid coupons of €214 million on the State's 2009 preference shares.

During the year, we improved our funding position. Through our strong focus on our deposit gathering initiatives, we increased our customer deposits by c.8%, particularly strong deposit growth was generated through our joint venture with the UK Post Office. In addition, despite ongoing difficult market conditions, we were able to increase the tenure of our term funding by raising €4.2 billion in unguaranteed secured term funding. Furthermore, we extended the maturity of €7.5 billion of ECB funding through the ECB's December 2011 Long Term Refinancing Operation (LTRO). We also achieved loan portfolio and lending business divestments totalling €8.6 billion out of our three year target of €10 billion. Given the quality and diversity of these loan portfolios, we were able to complete these divestments within the base case discounts assumed in the 2011 PCAR exercise. The substantial progress we have made on deleveraging the Group's balance sheet through divestments, net redemptions in our non-core loan portfolios and deposit growth has enabled us to improve our loan to deposit ratio and materially reduce our reliance on liquidity support from Monetary Authorities, repaying all drawings under the Exceptional Liquidity Assistance (ELA) arrangements.

Low interest rates, intense competition for deposits and the increased cost of money in the wholesale markets, together with the cost of the ELG scheme are continuing to depress our operating income whilst difficult economic conditions have meant that loan losses have remained elevated.

These economic conditions have resulted in significant challenges for a number of our customers. We continue to work with our customers facing financial difficulties and encourage customers to engage with us early about issues they have so that we can assess their financial needs and work with them to address them.

We operate in a demanding and evolving regulatory environment with greater prudential scrutiny of financial institutions. We continue to engage collaboratively with our regulators in a professional manner in order to progress reforms in the banking sector, ensuring we have a strong and stable banking system which is also able to support and serve its customers and the wider economy in the long term interests of all of its stakeholders.

Since our last Annual General Court on 15 June 2011, there have been significant changes to the composition of the board with seven directors retiring from the board, and with five new directors appointed. Des Crowley and Denis Donovan both executive directors, together with the non-executive Directors: Paul Haran, Dennis Holt, and Heather-Ann McSharry retired from the board on 15 June 2011. Rose Hynes (non-executive Director) and John O'Donovan (executive director) retired from the board on 31 December 2011. In terms of new non-executive Director appointments, Pat Butler and Patrick Mulvihill were co-opted to the board on 23 December 2011, and Patrick Haren and Kent Atkinson were co-opted to the board on 20 January 2012. In addition, on 1 February 2012 Andrew Keating was appointed an executive Director of the Group and Group Chief Financial Officer, replacing John O'Donovan who retired from that role. I would like to thank all Directors for their continuing commitment and support for our initiatives to further stabilise the Group during these challenging and uncertain times. A short biography and background of all of our Directors are set out on pages 149 to 155.

Our management and staff have also faced a difficult year but have shown great resilience and pride in our business by staying focussed and working together to serve the needs of our customers, without whom we would have no business. This support we provide to our customers is building long term relationships in our core businesses that will endure into the future. On behalf of the board, I thank all our colleagues in Bank of Ireland for their achievements and commitment during 2011.

Patrick J Molloy
Chairman
19 February 2011

Group Chief Executive's Review

2011 has been another challenging year for Bank of Ireland but also one in which we have made significant progress. We have remained focussed on our key priorities of developing our relationships with our customers whilst strengthening our capital, funding our balance sheet, actively managing our credit and other risks and rigorously managing our costs.

We further strengthened our capital position by the successful generation and raising of the €4.2 billion in incremental equity capital (including a 'buffer' of €0.5 billion) required under the 2011 Prudential Capital Assessment Review (2011 PCAR).

We also made substantial strides towards our deleveraging objectives by front-loading and completing €8.6 billion of our three year target of €10 billion in divestments of loan assets at a cost within the base case discounts assumed in PCAR 2011.

In addition, we achieved strong momentum and growth in our customer deposits in the second half of the year, following our capital raise, and as a result, our loan to deposit ratio has reduced from 175% at 31 December 2010 to 144% at 31 December 2011. The increase in customer deposits together with the balance sheet deleveraging, has significantly reduced the Group's requirement for wholesale funding by c.27% or €19 billion during the year ended 31 December 2011. We also raised €4.2 billion of unguaranteed secured term funding which, together with our participation in the ECB's December 2011 LTRO offering, increased the tenure of our wholesale funding. We are well on track for our funding targets.

The strategic shape of the Group has been re-confirmed with the EU Commission's approval of the Group's updated EU viability and restructuring plan, and we are ahead of schedule in implementing the business disposals required under the plan. With this clarity on the future strategic shape of the Group, we remain focussed on further developing our relationships with customers through proactively meeting their needs professionally and consistently on a mutually beneficial basis.

However, operating income remains under pressure and our loan losses continue to be at an elevated level.

Financial Performance

For the year ended 31 December 2011, the Group recorded a loss before tax of €190 million compared to a loss before tax of €950 million for the year ended 31 December 2010. The 2011 performance has been influenced by non-recurring items including the gains that the Group recognised in relation to the voluntary liability management exercises completed in 2011 partly offset by losses on divestment of certain loan portfolios under our deleveraging plan. Our trading environment continues to be difficult and while operating income and impairment charges remain under pressure, excluding non-core items, we are reporting a reduction in our underlying loss before tax for the year ended 31 December 2011 at €1,521 million compared to an underlying loss before tax of €3,459 million for the year ended 31 December 2010.

Total operating income for the year ended 31 December 2011 at c.€2.1 billion was 27% lower than the prior period reflecting the continuing low interest rate environment, intense competition for deposits in the Irish market, the elevated cost of wholesale funding, together with the high cost of the Eligible Liabilities Guarantee (ELG) scheme as well as lower net other income partly offset by some recovery in our lending margins and the interest income benefits from lower subordinated debt and the increased capital.

Total operating expenses fell by 8% to €1,647 million in 2011 compared to €1,785 million in 2010 reflecting continued rigorous cost management, including lower pension costs, reduced staff numbers, renegotiation and repositioning of all major outsourcing contracts with significant service enhancements and future cost benefits partly offset by continued investment in process and infrastructure improvements that support our customer service offerings and are delivering operational efficiencies.

Impairment charges on loans and advances to customers, banks and AFS remain elevated being €1,960 million for the year ended 31 December 2011 compared to the €2,027 million recorded in 2010.

Asset Quality

The environment in which the Group operates remains difficult, particularly in Ireland reflecting the impact of the significant contraction in the Irish economy, the fiscal adjustment programme, high unemployment levels, elevated levels of business insolvencies, together with the fall in property values which has taken place and ongoing illiquidity in the Irish property markets. Improvements in our UK Mortgage, Corporate Banking and unsecured consumer books have been offset by continued deterioration in the arrears profile in our Irish Mortgage book and ongoing weakness in the property sector, with Irish business customers who have a high dependency on the domestic economy continuing to face difficult conditions, which are impacting on their credit profile. Impairment charges peaked at €2.9 billion in 2009. While impairment charges have reduced since then, they have remained at an elevated level of c.€1.9 billion in 2010 and 2011. We expect the impairment charges to reduce from this level trending over time towards a more normalised impairment charge as the Irish economy recovers. The pace of the reduction will be particularly dependent on the future performance of our Irish Residential mortgage book and commercial real estate markets.

The final asset transfers to NAMA were completed in October 2011. In total, c.€10 billion of assets have now transferred to NAMA at an average loss on disposal, including impairments, of 44%.

Capital position further strengthened
Under the 2011 PCAR, the Group was required to generate incremental equity capital of €4.2 billion, together with a €1.0 billion Contingent Capital instrument to be provided by the State. We successfully generated and raised the required equity capital through a combination of voluntary liability management exercises and a Rights Issue. The equity capital raised and generated was primarily from private sources with the State investing c.€0.2 billion in equity capital to ensure that the State maintained its desired minimum 15% shareholding in the Bank. The Capital Raising exercises brought onto our Share Register a number of significant international institutional investors and fund managers.

At 31 December 2011, our Core tier 1 and Total capital ratios were 15.1% (14.3% PCAR / EBA stress test basis) and 14.7% respectively, compared to our 31 December 2010 Core tier 1, and Total capital ratios of 9.7%, and 11.0% respectively. Risk weighted assets continue to decline in line with the deleveraging of the Group's balance sheet partly offset by some RWA re-weighting based on credit model experience.

Further progress on balance sheet reductions
The Group's deleveraging plan envisages reducing the size of our loan book from €114 billion at 31 December 2010 to c.€90 billion at 31 December 2013, by divesting €10 billion of certain loan portfolios / lending businesses, and net redemptions of c.€14 billion. During the course of 2011, the Group undertook a range of divestment initiatives across our international businesses achieving divestments totalling €8.6 billion. These were achieved at an average discount of 7.1% and were well within the base case discounts assumed as part of the March 2011 PCAR process. We expect to be able to complete the remaining divestments well within the envisaged time frame and we expect that the aggregate discounts on our €10 billion divestments will be achieved within the overall base case discount assumed in PCAR 2011. Non-core loan book redemptions and repayments have performed in line with our expectations. Consequently after one year, we are more than half way towards our three year loan book deleveraging target.

Good progress on funding and liquidity
Wholesale funding markets remained difficult in 2011, particularly for eurozone banks. Heightened concerns regarding European sovereign debt resulted in renewed instability in financial markets in the second half of the year adversely impacting market sentiment, restricting access to wholesale funding markets for both sovereigns and financial institutions across Europe. However, despite the difficult funding environment, the Group raised unguaranteed secured term funding of €4.2 billion utilising securities backed by our UK mortgage portfolios. This term funding together with our participation in the ECB's December 2011 LTRO to the extent of €7.5 billion enabled us to lengthen the tenure of our wholesale funding such that 55% of our wholesale funding at 31 December 2011 had a remaining maturity of more than one year, compared to 32% at 31 December 2010.

We achieved strong momentum and growth in our customer deposits in the second half of the year, representing good progress towards our goal of funding our loan books by customer deposits and term funding. We increased our deposit base by 8%, which, together with the reduction in the size of our loan books, resulted in an improvement in our loan to deposit ratio to 144% at 31 December 2011 compared to 175% at 31 December 2010. Despite euro turmoil and a difficult and very competitive market, retail customer deposits in Ireland increased by 2% while retail deposits in the UK increased by 25%.

Increased deposits, balance sheet reductions and the raising of term funding have enabled us to significantly reduce the liquidity we receive from Monetary Authority sources such that drawings under exceptional liquidity facilities from the Central Bank at 31 December 2010 of €8 billion were repaid during the financial year to a €nil position at 31 December 2011.

The quantum of our deposits and funding which had recourse to the State's ELG scheme reduced from an average of c.€69 billion during 2010 to an average of c.€44 billion during 2011 reflecting the aforementioned reduction in wholesale funding requirements and increases in the quantum of deposits in Ireland and the UK which have recourse to non-ELG deposit protection schemes. In December 2011, we obtained approval to accept non-ELG covered deposits from corporate customers. Since the beginning of this year, we have begun to offer such deposit products to corporate customers. Although the total volume received to date has been relatively low, we are encouraged by the early take up, as this represents an important step towards normalisation of the deposit market for us. We will also be progressing other initiatives to disengage from the ELG scheme in a prudent manner, as market conditions allow.

Continued support for our customers
Bank of Ireland remains committed to supporting, protecting and growing both existing and new customer relationships in our core Irish and international businesses while contributing positively to economic recovery, particularly in Ireland. We have met our lending commitments in 2011 in terms of the provision of lending capacity of €3 billion to the SME sector in Ireland, complemented by delivering on our commitments for the provision of specialised loans and venture capital funds for that sector. At the time of the recapitalisation in July 2011, Bank of Ireland also committed to the Minister of Finance to provide lending capacity of €3.5 billion and €4 billion for the years ending 31 December 2012 and 31 December 2013 respectively for new or increased credit facilities for SMEs. The Group has continued to provide lending

capacity to the Irish owner occupier mortgage market providing one in every two mortgages to Irish customers in H2 2011, albeit in a very subdued market. Our Irish Corporate Banking and Treasury businesses continued to strongly support our Irish Corporate customers with a consistent long-term relationship based approach to their needs.

In the UK, our successful joint venture with the UK post office continues to exceed our expectations in terms of the number of new savings customers that we have attracted as well as strong retention of existing customers. Sales of our other financial services products through the Post Office were in line with our expectations. Our commitment to the UK market and the robustness of that commitment is demonstrated and underpinned by our establishment of our UK regulated banking subsidiary in November 2010.

We have continued to invest in meeting our customers' needs through developing new products and service offerings and enhancing our infrastructure. We are making a significant investment in improving our payment systems and eBanking and telebanking / mobile propositions.

Our People

My colleagues throughout the Group have shown great resilience and pride in our business by staying focussed and working together on our collective priorities and goals. They have striven to serve the needs of our customers with professionalism and empathy. They have made, and continue to make, improvements to our business, benefitting our customers and other stakeholders, and I thank all my colleagues at Bank of Ireland for this.

Outlook

Through the implementation of our strategy and by focusing on our key priorities, we have made substantial progress on de-risking, deleveraging and strengthening the Group's balance sheet. The future strategic shape of the Group has been clarified giving us strong market positions in our chosen markets for our core businesses. We have been making material embedded reductions in our cost base with a more robust and efficient infrastructure being delivered.

Trading conditions in our Irish and UK markets remain challenging with economic growth now forecast to be lower than previously envisaged and weak consumer and business confidence in the domestic economies continuing to prevail. This is adversely impacting on the demand for our products and progress towards the normalisation of impairment charges in our loan books. It is now anticipated that euro and sterling interest rates will remain lower for a longer period than previously expected and whilst funding markets have shown some improvement they remain volatile. Consequently, recovery in our net interest margins has become more difficult.

We remain focussed on all of our targets and their achievement over time. We remain on track to meet our balance sheet restructuring and cost reduction targets within the previously envisaged time-frames. However, the timing and pace of achieving our income related targets are dependent on the pace of economic recovery and the trajectory of interest rates.

Having made considerable progress on our balance sheet and cost priorities, which will continue to require very close attention, we remain very focussed on our other key priorities in 2012 with an emphasis on the management of credit risks, reducing the cost of funding (including the cost of ELG) and improving margins and fee income whilst further developing our customer franchises in our core businesses.

Richie Boucher
19 February 2012

Operating and Financial Review

Basis of Presentation

This Operating and Financial Review is presented on an underlying basis. For an explanation of underlying see page 20.

The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.

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.

References to 'the State' throughout this document should be taken to refer to the Republic of Ireland, its Government and, where and if relevant, Government departments, agencies and local Government bodies.

Overview and Market Environment

Global economy

The global economy slowed in 2011 with the consensus expecting weaker growth in 2012. Markets have been volatile, reflecting concerns about sovereign debt developments in the eurozone and the scale of the growth slowdown, notably in the eurozone and the UK. Risk aversion has been a recurring feature, in large part driven by developments in the euro debt crisis with the latter remaining a key risk to the global outlook. The ECB has responded by easing monetary policy and providing longer term funding to the banking sector in an effort to avoid a credit crunch. European Governments are also in the process of agreeing new fiscal rules which it is hoped will strengthen public finances in member countries and hence boost investor confidence. The US, in contrast, has ended 2011 on a stronger note and the consensus expects that outperformance relative to Europe will continue in 2012.

Irish Economy[1]

After a strong first half to 2011 when Ireland recorded two consecutive quarters of growth for the first time in five years, the economy disappointed in Q3 with GDP falling by 1.9% after increases of 1.8% in Q1 and 1.4% in Q2. That outcome implies that even with a modest rebound in the final quarter, GDP growth will be 1%[2] at best for 2011 as a whole. The composition of growth has been as expected with net exports providing the main stimulus which offset further falls in domestic spending. Export growth has slowed, however, to an annual rate of 2.4% in Q3 2011 from 10.4% in the same quarter of 2010, and risks to the Irish economy exist on the external front, given the slowdown in Europe and the ongoing debt crisis.

Domestic demand continued to fall in 2011 and a further decline is expected in 2012. Households have increased their savings ratio and repaid debt with rising inflation and job losses impacting adversely for consumers. Consumption is also likely to fall in 2012, although a deceleration in inflation may limit the expected decline in real incomes. The labour market remains weak, with employment still showing no signs of stabilising, and the unemployment rate has remained above 14%. Capital spending has been volatile on a quarterly basis, notably investment in machinery and equipment, but remains on a downward trend, although the strong inflow of Foreign Direct Investment in 2011 may translate into a recovery in capital spending at some stage in 2012.

Mortgage lending is contracting on an annual basis and residential property prices are still falling, although lending to non-financial corporates has risen modestly over recent months. Commercial property prices are also still in decline, and are now some 65% below the peak[3]. The Government finances are improving and the fiscal targets under the EU / IMF programme are being met, with a deficit of under 10% of GDP last year[4]. The Government plans to impose further austerity measures until 2014 to reduce this deficit to under 3% of GDP in 2015[4].

UK Economy

Growth has slowed in the UK and the economy has already posted one quarter of negative growth (Q4 2011) and at least one more quarter of contraction is likely. Growth for 2011 as a whole was 0.9% and may not be much better than 0.5% for 2012[5]. Unemployment in the UK stood at 8.4%[6] in the three months to the end of December 2011 and the consensus forecast is for it to be higher in the face of sub-trend economic growth. Mortgage approvals have picked up of late but at around 50,000[7] a month are about half the level recorded in a more normal economic and credit environment. The UK property sectors have showed signs of uneven recovery since 2009 but uncertainty remains around the pace and scale of future performance: residential prices have risen by c.10% from the trough in February 2009 according to the Nationwide index, but are still 11% below the peak, while the pace of capital growth recorded in commercial property has slowed in 2011[3].

[1] *CSO*
[2] *Bank of Ireland Economic Research Unit*
[3] *IPD UK & Irish Commercial Property index*
[4] *Department of Finance*
[5] *Reuters Consensus Forecasts*
[6] *Office for National Statistics*
[7] *Bank of England*

PCAR / PLAR 2011

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

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

The equity capital requirement was set to cover:

- the higher target capital ratios set by the Central Bank of a minimum Core tier 1 ratio (PCAR / EBA stress test basis)[1] 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;
- a conservative loss on disposal assumption for relevant loans previously expected to transfer to NAMA (these loans are no longer transferring to NAMA); and
- a prudent estimate of losses arising from deleveraging under an adverse stress scenario.

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

Details of the Group's 2011 Recapitalisation of the Bank are set out below.

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

2011 Recapitalisation of the Bank

Core tier 1 capital generated	€m	€m
Gain on liability management exercises conducted as part of the 2011 recapitalisation of the Bank[2]	1,786	
Equity issued as part of Debt for Equity Offers	665	
Proceeds from the Rights Issue	1,908	
		4,359
Less:		
Fees and other costs		(146)
Core tier 1 capital generated[3]		**4,213**

Tier 2 capital generated	€m	€m
Contingent Capital note (nominal value)	1,000	
Less placing fee	(15)	
Tier 2 capital generated[3]		**985**

[2] Gains generated forming part of Core tier 1 capital includes: (a) the gain on LME pursuant to the 2011 PCAR of €1,804 million, (b) the increase in retained earnings on the repurchase of the US$150 million FRN of €40 million, (c) less taxation of €45 million and (d) less other items amounting to €13 million. The gain on liability management exercises of €1,789 million shown in the income statement on page 174, includes gains of €17 million relating to liability management exercises undertaken in February 2011 and March 2011, is net of costs of €32 million but excludes items (b), (c) and (d) above.

[3] Excludes the impact of the capital contribution arising on the issue of the Contingent Capital note (see note 49).

2011 Recapitalisation of the Bank (continued)

Summary:

- The Group's 2011 Recapitalisation of the Bank generated €4.2 billion of additional Core tier 1 capital.
- In July 2011 the Group completed a Rights Issue which generated €1.9 billion of equity capital.
- In July 2011 the Group issued a Contingent Capital note to the State with a nominal amount of €1 billion and a maturity of five years. This Contingent Capital note is classified as a subordinated liability and it qualifies as Tier 2 capital.
- The Group generated €2.1 billion from liability management exercises between June 2011 to November 2011 as part of the 2011 Recapitalisation of the Bank.
- The Group incurred costs of €146 million in relation to the 2011 Recapitalisation of the Bank.
- The Group completed the 2011 PCAR capital requirement of €4.2 billion in December 2011 with the closing of the Kildare / Brunel securitisation liability management exercise and the repurchase of a number of capital securities which generated a Core tier 1 gain of €0.35 billion.

2011 Recapitalisation of the Bank

The Group's 2011 Recapitalisation of the Bank was completed in December 2011 and included a number of elements:

(i) debt for equity offers (including a cash offer) and the compulsory acquisition of eligible debt securities;
(ii) further burden sharing with remaining subordinated bondholders;
(iii) a potential State Placing;
(iv) a Rights Issue; and
(v) the issue of a Contingent Capital note.

Liability Management Exercises

In the year ended 31 December 2011, the Debt for Equity offers including certain Canadian Dollar 2015 notes, the completion of the Kildare / Brunel securitisation liability management exercise and the repurchase of a number of Capital securities generated Core tier 1 capital of €2,451 million.

State Placing and Rights Issue

While the National Pensions Reserve Fund Commission (NPRFC) was originally granted an option to make a direct placing of up to 795 million units of ordinary stock at €0.10, it was announced on 8 July 2011 that the NPRFC would not be proceeding with this option.

On 8 July 2011 the Group announced a Rights Issue, underwritten by the NPRFC, of 19.1 billion units of ordinary stock at a price of €0.10 per unit to generate gross proceeds of €1.9 billion.

The Rights Issue closed on 26 July 2011 and the results were as follows:

- valid acceptances were received from the State in respect of its 36% holding of ordinary stock (representing 6.9 billion units);
- valid acceptances were received from other non-Government shareholders in respect of their 23.5% holding of ordinary stock (representing 4.5 billion units);
- 1.4 billion units of ordinary stock (7.5%) was placed in the rump issue; and
- in accordance with the transaction agreement with the State, the State subscribed for the remaining 6.3 billion units of ordinary stock (33%) at the issue price of €0.10 cent per unit.

Fees and Other Costs

Total fees and other costs of €146 million were payable in connection with the Debt for equity offers (including the Debt for cash offers) and the underwritten Rights Issue.

Significant investment in Bank of Ireland

On 25 July 2011, the Irish Government announced its agreement to sell up to 10.5 billion units of ordinary stock at €0.10 per unit (subject to certain conditions) to a group of significant institutional investors and fund managers. These investors are Fairfax Financial Holdings, WL Ross, Capital Research, Fidelity Investments and Kennedy Wilson. The Bank has been advised that each of these investors will manage their individual stockholdings independently.

Reduction in Government stockholding

Following the completion of the 2011 Recapitalisation of the Bank and the significant investment in Bank of Ireland, the State's stockholding in the Bank reduced to 15.1% of the Bank's fully diluted ordinary stock while the combined stockholding of the new group of significant institutional investors and fund managers is 34.9%.

Contingent Capital note

In July 2011 the Group issued a Contingent Capital note to the State with a nominal amount of €1 billion and a maturity of five years. This Contingent Capital note is classified as a subordinated liability and it qualifies as Tier 2 capital. Further details are set out in note 49.

A placing fee of €15 million was payable to the State.

Summary Consolidated Income Statement on an Underlying[2] Basis

	Table	Year ended 31 December 2011 €m	Year ended 31 December 2010[1] €m	Change %
Net interest income (before the cost of the ELG scheme)	1	1,983	2,511	(21%)
Government guarantee fees	2	(449)	(343)	31%
Net other income	3	524	634	(17%)
Operating income (net of insurance claims)		**2,058**	**2,802**	**(27%)**
Operating expenses	4	(1,647)	(1,785)	(8%)
Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA		**411**	**1,017**	**(60%)**
Impairment charges on loans and advances to customers	5	(1,939)	(1,859)	4%
Impairment charges on available for sale (AFS) financial assets	6	(21)	(168)	(88%)
Assets sold to NAMA:				
- Impairment charges on assets sold to NAMA	7	(44)	(257)	(83%)
- Gain / (loss) on sale of assets to NAMA	8	33	(2,241)	-
Share of results of associates and joint ventures (after tax)		39	49	(20%)
Underlying[2] loss before tax		**(1,521)**	**(3,459)**	**(56%)**
Non-core items:				
- Gain on liability management exercises		1,789	1,413	
- Loss on disposal of loan books		(565)	-	
- 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'		56	360	
- Gain on disposal of business activities		34	15	
- Gross-up for policyholder tax in the Life business		10	22	
- Cost of restructuring programmes		3	(18)	
- Impact of changes in pension benefits		2	733	
- Investment return on treasury stock held for policyholders		2	20	
- Impact of 'coupon stopper' on subordinated debt		-	(36)	
Loss before tax		**(190)**	**(950)**	
Tax credit		230	341	
Profit / (loss) for the period		**40**	**(609)**	
Profit attributable to non-controlling interests		(5)	5	
Profit / (loss) attributable to stockholders		45	(614)	
Profit / (loss) for the period		**40**	**(609)**	

[1] *A number of reclassifications have been made to the income statement presentation for the year ended 31 December 2010:*
- *CIFS fees of €68 million have been reclassified from Net other income to Government guarantee fees.*
- *The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.*

[2] *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, loss on disposal of loan books, 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', gain on disposal of business activities, gross-up for policyholder tax in the Life business, cost of restructuring programmes, impact of changes in pension benefits, investment return on treasury stock held for policyholders and impact of 'coupon stopper' on subordinated debt. See page 20 for further information.*

Operating income (net of insurance claims)

Net interest income

Table: 1

Net interest income / Net interest margin	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m	Change %
Net interest income (before the cost of the ELG scheme)	1,983	2,511	(21%)
IFRS income classifications	(102)	(175)	(42%)
Net interest income (before the cost of the ELG scheme) after IFRS income classifications	**1,881**	**2,336**	**(19%)**
Average interest earning assets (€bn)	**142**	**160**	**(11%)**
Net interest margin	**1.33%**	**1.46%**	**(13bps)**

The year on year 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 the '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 are adjusted between net interest income and net other income and are shown in the table above.

Net interest income (after IFRS income classifications) of €1,881 million for the year ended 31 December 2011 has decreased by €455 million compared to €2,336 million for the year ended 31 December 2010 due primarily to:

- lower net interest income due to an 11% reduction in average interest earning assets arising from sale of assets to NAMA, disposal of loan portfolios and loan repayments; and
- a lower net interest margin of 1.33% in the year ended 31 December 2011 compared with 1.46% in the year ended 31 December 2010.

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

- 16 basis points decrease due to higher costs of wholesale funding;
- 10 basis points decrease due to the higher cost of customer deposits as a result of intense competition and the low interest rate environment; and
- 4 basis points decrease due to balance sheet structure, being the change in mix of both assets and liabilities in the year ended 31 December 2011 compared to the comparable prior year.

partly offset by:

- 13 basis points increase due to higher asset pricing; and
- 4 basis points increase due to savings on the cost of subordinated debt.

The net interest margin (after the cost of the ELG scheme) reduced from 1.24% in the year ended 31 December 2010 to 1.01% in the year ended 31 December 2011.

Table: 2

Government guarantee fees	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m	Change %
- ELG	449	275	63%
- CIFS	-	68	-
Total Government guarantee fees	**449**	**343**	**31%**

Government guarantee fees of €449 million for the year ended 31 December 2011 compares to a charge of €343 million for the year ended 31 December 2010. The increase of €106 million reflects the higher fee structure associated with the ELG scheme partly offset by the reduction in the level of liabilities guaranteed. The CIFS Scheme expired in September 2010. Further information is set out in note 57.

Net other income

Table: 3

Net other income	**Year ended 31 December 2011 €m**	Year ended 31 December 2010[1] €m	Change €m
Net other income	524	634	(110)
IFRS income classifications	102	175	(73)
Net other income after IFRS income classifications	**626**	**809**	**(183)**

Net other income after IFRS income classifications	**Year ended 31 December 2011 €m**	Year ended 31 December 2010[1] €m	Change €m
Other income from Retail Banking and Corporate and Treasury businesses	512	526	(14)
Other income from Bank of Ireland Life	169	180	(11)
	681	**706**	**(25)**
Other items:			
BIAM, BoISS and FCE Corporation (disposed during the year ended 31 December 2011)	31	97	(66)
Investment variance - Bank of Ireland Life	(28)	9	(37)
Transfer from available for sale reserve on asset disposal	(28)	15	(43)
Economic assumption changes - Bank of Ireland Life	(19)	(14)	(5)
NAMA related adjustments	14	(30)	44
European property investment provision	(13)	-	(13)
Change in valuation of international investment properties	(12)	26	(38)
	(55)	**103**	**(158)**
Net other income after IFRS income classifications	**626**	**809**	**(183)**

[1] *A reclassification has been made to the presentation for the year ended 31 December 2010 as CIFS fees of €68 million have been reclassified from Net other income to Government guarantee fees.*

Net other income, after adjusting for IFRS income classifications, for the year ended 31 December 2011 decreased by €183 million compared to the year ended 31 December 2010.

Other income from Banking and Corporate and Treasury businesses decreased by €14 million reflecting decreased fees on products and services.

Other income from Bank of Ireland Life decreased by €11 million.

Other items within Net other income, after adjusting for IFRS income classifications, which amount to a net charge of €55 million for the year ended 31 December 2011 were €158 million lower than the net gain of €103 million for the year ended 31 December 2010, reflecting:

- a reduction of €66 million in fees from asset management activities arising from the disposal of BIAM, BoISS and FCE Corporation in the year ended 31 December 2011;
- a negative movement of €37 million in the investment variance in Bank of Ireland Life reflecting a charge of €28 million in the year ended 31 December 2011 compared to a gain of €9 million in the year ended 31 December 2010;
- a negative movement of €43 million relating to transfers from the available for sale reserve on asset disposals reflecting a charge of €28 million in the year ended 31 December 2011 compared to a gain of €15 million in the year ended 31 December 2010;
- a negative movement of €5 million in economic assumption changes in Bank of Ireland Life due to an adverse variance on the risk discount rate;
- a positive movement of €44 million due to a charge of €30 million in the year ended 31 December 2010 arising from the impact of credit deterioration on the fair value of derivatives held for sale to NAMA and a gain of €14 million in the year ended 31 December 2011;
- a provision of €13 million in the year ended 31 December 2011 relating to a court hearing in connection with a European property investment; and
- a movement of €38 million due to the change in value of international investment properties in the year ended 31 December 2011 (a charge of €12 million) being lower than the year ended 31 December 2010 (a gain of €26 million).

Operating expenses

Table: 4 Operating expenses	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m	Change %
Staff costs (including pension costs)	862	1,010	(15%)
Other costs	785	775	1%
Operating expenses	**1,647**	**1,785**	**(8%)**
Average staff numbers (full time equivalents)	**13,671**	**14,284**	**(4%)**
Point in time staff numbers (at 31 December 2011)	**13,234**	**14,235**	**(7%)**

Operating expenses of €1,647 million for the year ended 31 December 2011 were €138 million lower compared to operating expenses of €1,785 million for the year ended 31 December 2010 due to lower staff numbers from the disposals of BIAM, BoISS and FCE Corporation, lower pension costs and continued tight management of all costs partly offset by an increase in regulatory and other costs.

Staff costs (including pension costs) of €862 million for the year ended 31 December 2011 were €148 million lower when compared to €1,010 million for the year ended 31 December 2010 as a result of lower staff numbers and lower pension costs. Average staff numbers (full time equivalents) for the year ended 31 December 2011 of 13,671 were 613 lower than average staff numbers (full time equivalents) for the year ended 31 December 2010 of 14,284. Pension costs reflected the implementation of benefit changes in the Group's defined benefit pension schemes in 2010.

Other costs of €785 million for the year ended 31 December 2011 were €10 million higher when compared to €775 million for the year ended 31 December 2010 primarily due to costs relating to property impairment, the transition of IT outsourcing contracts and costs related to the PCAR / PLAR 2011 process.

The Group continues to maintain its tight focus on cost management and the implementation of certain new outsourcing contracts together with ongoing increases in the levels of consolidation, standardisation and simplification of the Group's operations is expected to lead to further cost reductions over the medium term.

Impairment charges on loans and advances to customers

Table: 5

Impairment charges on loans and advances to customers	Year ended 31 December 2011 €m	Year ended 31 December 2010[1] €m	Change %
Residential mortgages	469	404	16%
- Retail Ireland	*444*	*341*	*30%*
- Retail UK	*25*	*63*	*(60%)*
Non-property SME and corporate	497	609	(18%)
- Republic of Ireland SME	*281*	*291*	*(3%)*
- UK SME	*74*	*126*	*(41%)*
- Corporate	*142*	*192*	*(26%)*
Property and construction	893	719	24%
- Investment	*593*	*448*	*32%*
- Land and development	*300*	*271*	*11%*
Consumer	80	127	(37%)
Total impairment charges on loans and advances to customers	**1,939**	**1,859**	**4%**

[1] The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.

Impairment charges on loans and advances to customers of €1,939 million for the year ended 31 December 2011 were €80 million or 4% higher compared to impairment charges of €1,859 million for the year ended 31 December 2010.

The impairment charge on **Residential mortgages** increased by €65 million from €404 million for the year ended 31 December 2010 to €469 million for the year ended 31 December 2011. The impairment charge on Retail Ireland mortgages was €444 million for the year ended 31 December 2011. The impairment charge in the year ended 31 December 2010 of €341 million included an amount of approximately €100 million, to reflect a change in the Group's assumption of the expected peak to trough decline in residential property prices from 45% to 55% in the impairment provisioning models for Retail Ireland mortgages.

Excluding this item the year on year increase in the impairment charge was €203 million reflecting increasing default arrears (90 days or more past due), in the owner occupied and particularly in the Buy to let segments. This increase is primarily attributed to the general economic downturn in Ireland and affordability issues including falling disposable incomes and high unemployment levels. In addition, the rise in arrears since August 2011 appears to have been impacted by the implementation of the new code of conduct on mortgage arrears and the considerable public speculation about potential Government policy measures regarding customers in arrears.

While there has been some stabilisation in rents in 2011, overall rent levels are significantly down on peak (estimated to be down approximately 26% from peak[2]) and Buy to let borrowers are increasingly impacted by rising repayments as interest only periods come to an end, which particularly impacted default arrears in the second half of the year.

The impairment charge on Retail UK mortgages of €25 million for the year ended 31 December 2011 was €38 million lower compared with the year ended 31 December 2010. Default arrears (3+ payments past due) and the associated impairment charge on Retail UK mortgages (particularly in the Buy to let and self certified segments) in the year ended 31 December 2011, were lower than the year ended 31 December 2010, in an environment where residential property prices performed better than the Group had expected.

The impairment charge on the **Non-property SME and corporate** loan portfolio was €497 million for the year ended 31 December 2011 compared to €609 million for the year ended 31 December 2010.

Challenging economic conditions in Ireland, a continuation of poor consumer sentiment and the increase in the level of business insolvencies have negatively impacted trading conditions and caused

[2] Per 'The Daft.ie rental report – An analysis of recent trends in the Irish rental market 2011, Quarter 4'.

Impairment charges on loans and advances to customers (continued)

general pressure on the Irish SME sector. Those sectors correlated with consumer spending or the property markets are particularly impacted. As a result the level of impairment charge, while it reduced in the year ended 31 December 2011 as compared to the year ended 31 December 2010, continues to be at an elevated level.

In the UK SME segment, rising inflation and concerns regarding the impact of fiscal austerity have combined to leave UK economic conditions subdued. The year on year reduction primarily reflects the non-reccurence of impairment charges on a small number of large individual cases in the year ended 31 December 2010.

Larger Irish corporate customers trading internationally and non-Irish based corporate customers continued to experience more favourable economic conditions with the impairment charge in the Corporate business lower in the year ended 31 December 2011 as compared with the year ended 31 December 2010.

The impairment charge of €893 million on the **Property and construction** portfolio for the year ended 31 December 2011 has increased by €174 million compared to the impairment charge of €719 million for the year ended 31 December 2010. The Property and construction portfolio amounted to €21 billion at 31 December 2011 comprising €17 billion of investment property loans and €4 billion of land and development loans.

The impairment charge on the investment property element of the Property and construction portfolio was €593 million for the year ended 31 December 2011 compared to €448 million for the year ended 31 December 2010.

The increase in the level of impaired loans and associated impairment charges is due to lower rental income arising from reduced market rents and higher vacancy rates for more prolonged periods, together with a requirement for increased incentives to attract new tenants. In addition, weaker consumer spending and sentiment is adversely affecting trading performance, yields and asset values across the retail and investment property sector. Falling asset values in the Republic of Ireland and Northern Ireland in particular, have also adversely impacted the level of the impairment charge in the year ended 31 December 2011.

The impairment charge on the land and development element of the Property and construction portfolio was €300 million for the year ended 31 December 2011 compared to €271 million for the year ended 31 December 2010 reflecting lower house prices, over supply of residential housing stock, and illiquid property markets in the Republic of Ireland and in Northern Ireland.

The impairment charge of €80 million on **Consumer** loans for the year ended 31 December 2011 is €47 million lower compared to the impairment charge of €127 million for the year ended 31 December 2010.

Consumer loans have reduced significantly reflecting accelerated repayments and subdued demand for new loans and other credit facilities. Default arrears and impairment charges were better than expectations, in both the Republic of Ireland and the UK.

Impairment charge on available for sale (AFS) financial assets

Table: 6

Impairment charges on available for sale (AFS) financial assets	**Year ended 31 December 2011 €m**	Year ended 31 December 2010 €m
Allied Irish Banks plc subordinated bonds	-	98
NAMA subordinated bonds	-	70
Irish Life and Permanent plc subordinated bonds	16	-
Other	5	-
Impairment charges on available for sale (AFS) financial assets	**21**	**168**

An impairment charge on available for sale (AFS) financial assets of €21 million was incurred in the year ended 31 December 2011 due primarily to a charge of €16 million on subordinated debt issued by Irish Life and Permanent plc. In the year ended 31 December 2010, the Group incurred an impairment charge of €168 million. This included a charge of €98 million on a holding of subordinated debt issued by Allied Irish Banks plc. 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.

Impairment charges on assets sold to NAMA

Impairment charges on assets sold to NAMA of €44 million for the year ended 31 December 2011 reduced by €213 million compared to the impairment charge of €257 million for the year ended 31 December 2010 as assets transfers to NAMA were largely completed in the prior year.

Table: 7

Impairment charges on assets sold to NAMA	**Year ended 31 December 2011 €m**	Year ended 31 December 2010[1] €m
Residential mortgages	1	13
Non-property SME and corporate	-	14
Property and construction	43	230
Impairment charges on assets sold to NAMA	**44**	**257**

[1] *The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.*

Gain / (loss) on sale of assets to NAMA

Table: 8 Gain / (loss) on sale of assets to NAMA		**Year ended 31 December 2011 €m**		Year ended 31 December 2010 €m
Fair value of consideration[1]		246		5,046
Assets transferred				
- Loans sold to NAMA (nominal value)	(498)		(9,340)	
- Derivatives sold to NAMA (fair value)	-		(61)	
- Impairment provisions at date of sale	198	(300)	2,237	(7,164)
Other items		(3)		(123)
		(57)		**(2,241)**
Adjustment to consideration in respect of assets transferred during 2010[2]		90		-
Gain / (loss) on sale of assets to NAMA		**33**		**(2,241)**

1 *The consideration consists of the fair value of NAMA senior bonds (representing 95% of the nominal consideration) and the fair value of NAMA subordinated bonds (representing 5% of the nominal consideration) (see note 26 and note 27).*

2 *As at 31 December 2010, the final NAMA due diligence process was still ongoing for €3.6 billion of assets transferred to NAMA. Given the uncertainty over the final consideration for these transferred assets, the Group was required to estimate the amount receivable from NAMA. The ultimate amount received from NAMA was greater than originally anticipated by €90 million.*

Non-core items

Underlying performance 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 in the year ended 31 December 2011:

Loss on disposal of loan books

The Group announced the deleveraging of financial assets with a carrying value of €8.6 billion during 2011 of which €7.6 billion had been completed and derecognised by 31 December 2011 with the remaining €1 billion of assets expected to settle in early 2012. The assets of €1 billion which the Group has contracted to sell but where the sale had not completed by 31 December 2011 are reported as other assets classified as held for sale as at 31 December 2011 and further information is shown in note 17.

An analysis of the deleveraging completed during 2011 is set out below:

Year ended 31 December 2011	Consideration received (net of costs) €bn	Carrying value of assets derecognised €bn	Total loss on deleveraging €bn
Retail UK division			
UK Investment Property loan portfolio	1.2	1.5	(0.3)
UK Mortgage loan portfolio	1.3	1.4	(0.1)
Corporate and Treasury division			
Project Finance loan portfolios	0.8	0.9	(0.1)
US Investment Property loan portfolio	0.8	0.8	-
Other international loans	2.9	3.0	(0.1)
Total	**7.0**	**7.6**	**(0.6)**

Gain on liability management exercises

Gains of €1,789 million were recognised in the year ended 31 December 2011 reflecting the successful completion in July 2011 of the Debt for Equity Exchange (including a cash offer) together with other liability management exercises completed by the Group during the year ended 31 December 2011. A gain of €1,413 million was recognised in the year ended 31 December 2010. Further information is set out in note 9.

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'

Gains of €56 million were recognised during the year ended 31 December 2011 arising from the impact of the change in credit spreads relating to the Group's own debt and deposits accounted for at 'fair value through profit or loss'. These liabilities consist of certain subordinated debt, certain structured senior debt and tracker deposits. A gain of €360 million was recognised during the year ended 31 December 2010.

Gain on disposal of business activities

The gain on disposal of business activities in the year ended 31 December 2011 primarily reflects the sale of BIAM in January 2011 which generated a non-core gain of €39 million, the sale of BoISS in June 2011 which generated a non-core gain of €32 million and the sale of FCE Corporation in August 2011 which generated a non-core gain of €8 million partly offset by a charge of €45 million relating to the impairment of the goodwill in Burdale following the announcement on 19 December 2011 of the sale of this business to Wells Fargo International Banking Corporation. Further information is set out in note 19.

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.

Cost of restructuring programmes

The Group recognised a gain of €3 million reflecting the release of restructuring provisions in the year ended 31 December 2011. The Group recognised a charge of €18 million in the year ended 31 December 2010 in relation to restructuring programmes.

Impact of changes in pension benefits

The Group recognised a gain of €2 million on its pension schemes during the year ended 31 December 2011. During 2010, the Group implemented a number of changes to its defined benefit pension schemes which resulted in a gain of €733 million in the year ended 31 December 2010. Further information is set out in note 46.

Non-core items (continued)

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 €2 million reflects the impact of the stock price movement between 31 December 2010 and 31 December 2011 and the number of units of Bank of Ireland stock held by Bank of Ireland Life during that period. Units of stock held by Bank of Ireland Life for policyholders at 31 December 2011 were 23 million units (31 December 2010: 6 million units).

Impact of 'coupon stopper' on subordinated debt
While there was no impact in the year ended 31 December 2011, the Group recognised a charge of €36 million in the year ended 31 December 2010 reflecting the confirmation from the European Commission during 2010 that a 'coupon stopper' provision would cease after one year.

Taxation

The taxation credit for the Group was €230 million for the year ended 31 December 2011 compared to a taxation credit of €341 million for the year ended 31 December 2010. Excluding the impact of non-core items, the effective tax rate for the year ended 31 December 2011 is 11% (taxation credit) which is lower than the comparable rate for the year ended 31 December 2010 of 14% (taxation credit) due to changes in the geographic mix of losses and the effect on deferred tax of the reduction in the UK corporation tax rate from 27% to 25% with effect from 1 April 2012.

Summary Consolidated Balance Sheet

Summary Consolidated Balance Sheet	Table	31 December 2011 €bn	31 December 2010 €bn	Change %
Loans and advances to customers[1] (after impairment provisions)	9	102	114	(11%)
Assets held for sale to NAMA (after impairment provisions)		-	1	-
Liquid assets	10	31	30	3%
Other assets	16	22	22	-
Total assets		**155**	**167**	**(7%)**
Customer deposits	11	71	65	8%
Wholesale funding	12	51	70	(27%)
Subordinated liabilities	13	1	3	(67%)
Other liabilities	16	22	22	-
Total liabilities		**145**	**160**	**(10%)**
Stockholders' equity	15	10	7	43%
Total liabilities and stockholders' equity		**155**	**167**	**(7%)**
Loan to deposit ratio		**144%**	**175%**	
Core tier 1 ratio		**15.1%**	**9.7%**	
Core tier 1 ratio (PCAR / EBA stress test basis)		**14.3%**	-	

[1] *On the balance sheet on page 176, these amounts are presented on separate lines being Loans and advances to customers and Other assets classified as held for sale.*

Loans and advances to customers

Table: 9

Composition by portfolio **Loans and advances to customers**	**31 December 2011** **€bn**	**%**	31 December 2010 €bn	%
Residential mortgages	57	53%	60	51%
- Retail Ireland	*28*	*26%*	*28*	*24%*
- Retail UK	*29*	*27%*	*32*	*27%*
- Retail UK (Stg£bn equivalent)	*25*	*-*	*28*	*-*
Non-property SME and corporate	27	25%	31	26%
- Republic of Ireland SME	*11*	*11%*	*11*	*9%*
- UK SME	*4*	*3%*	*4*	*3%*
- Corporate	*12*	*11%*	*16*	*14%*
Property and construction	21	19%	24	20%
- Investment	*17*	*16%*	*20*	*17%*
- Land and development	*4*	*3%*	*4*	*3%*
Consumer	3	3%	4	3%
Loans and advances to customers (before impairment provisions)	**108**	**100%**	**119**	**100%**
Impairment provisions	(6)		(5)	
Loans and advances to customers (after impairment provisions)	**102**		**114**	**(11%)**
This is presented in the balance sheet on page 176 as:				
Loans and advances to customers	100		114	
Other assets classified as held for sale	2		-	
Loans and advances to customers (after impairment provisions)	**102**		**114**	**(11%)**

The Group's **loans and advances to customers (after impairment provisions)** at 31 December 2011 of €102 billion reflects a decrease of 11% when compared to the Group's loans and advances to customers of €114 billion at 31 December 2010. The key drivers of the decrease include significant progress on the deleveraging plan which includes the partial divestment of the following portfolios:

- UK Investment Property loan portfolio;
- UK Mortgage loan portfolio;
- Project Finance loan portfolios;
- US Investment Property loan portfolio; and
- Other international loans.

For further information on the disposal of loan portfolios see note 17.

Other drivers include net loan repayments and generally subdued demand for new loans, notwithstanding the Group's efforts to generate new business from the Group's core franchises as well as the increase in impairment provisions partly offset by foreign exchange movements.

On a constant currency basis the Group's loans and advances to customers (after impairment provisions) at 31 December 2011 fell by 11% (€13 billion) when compared to the Group's loans and advances to customers of €114 billion at 31 December 2010.

As set out in the table above, the composition of the Group's loans and advances to customers by division at 31 December 2011 was broadly consistent with the composition at 31 December 2010 as set out in the table above.

The stock of impairment provisions on loans and advances to customers of €6.4 billion at 31 December 2011 reflects an increase of €1.4 billion when compared to the stock of impairment provisions of €5.0 billion on loans and advances to customers at 31 December 2010.

For further information on the assets held for sale see note 30. Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the Risk Management Report. See page 48 to 128.

Assets held for sale to NAMA

The Group's **assets held for sale to NAMA** (after impairment provisions) at 31 December 2011 were €nil. During the year ended 31 December 2011, the reduction in assets of €0.8 billion held for sale to NAMA reflects transfers to NAMA of €0.3 billion and changes in the eligibility of assets of €0.5 billion.

Liquid assets

Table: 10 **Liquid assets**	**31 December 2011 €bn**	31 December 2010 €bn
Cash at other banks	8	7
Cash and balances at Central Banks	8	3
Government bonds	5	4
- Ireland	*4*	*3*
- UK	*1*	*1*
NAMA senior bonds	5	5
Covered bonds	4	4
Senior bank bonds	1	7
	31	**30**

The Group's holding of liquid assets at 31 December 2011 of €31 billion has increased by €1 billion when compared to 31 December 2010. Of the €31 billion Group liquid assets, c.€8 billion relates to Bank of Ireland (UK) plc holdings and c.€1 billion relates to Isle of Man holdings. Liquid assets in excess of regulatory liquidity requirements were held in Bank of Ireland (UK) plc as the Group awaits regulatory approval for the transfers of loans to Bank of Ireland (UK) plc. The Group expects its excess holdings of liquid assets in Bank of Ireland (UK) plc to reduce during 2012 as regulatory approval is received.

In the year ended 31 December 2011, a quantity of the NAMA bonds have been repaid with 25% of the redemptions expected in 2013, 80% of the redemptions expected by 2017 and 100% of the redemptions expected by 2019.

Further details of the AFS portfolio and information on NAMA bonds are set out on pages 82 and 83.

Customer deposits

Table: 11 Customer deposits	31 December 2011 €bn	31 December 2010 €bn
Retail Ireland	36	35
- Deposits	*25*	*24*
- Current account credit balances	*11*	*11*
Retail UK	27	21
Retail UK (Stg£bn equivalent)	22	18
- UK Post Office	*16*	*11*
- Other Retail UK	*6*	*7*
Corporate and Treasury	8	9
- Corporate and Treasury deposits	*8*	*8*
- BoISS related	*-*	*1*
Total customer deposits	**71**	**65**
Loan to deposit ratio	**144%**	**175%**

Group customer deposits were €71 billion at 31 December 2011 compared to €65 billion at 31 December 2010 as set out in the table above. Following the successful recapitalisation of the Group in July 2011 the Group has experienced a strong growth in deposit balances (growing by €8 billion between July 2011 and December 2011). Key drivers of this increase included a significant Group wide focus on deposit gathering, new product developments and maximisation of cross selling and new business opportunities through our distribution channels in Ireland and the UK.

The Group's loan to deposit ratio was 144% at 31 December 2011, compared to 175% at 31 December 2010 which is in line with the targets that were set out in the PCAR / PLAR 2011.

During 2011, despite continuing intense competition, the Group's retail customer deposit base in Ireland increased by €1 billion or 2% supported by the launch of a number of successful personal and business deposit products and ongoing management of maturing deposits and new business opportunities. The Group did not purchase any deposit books in 2011 and the Retail book continues to be of a granular nature. Current account credit balances amounted to €11.3 billion at 31 December 2011 as compared with €11.5 billion at 31 December 2010.

The Group's retail deposit gathering activities in its joint venture with the UK Post Office continue to exceed expectations on both retention rates and new deposit growth as balances amounted to £16 billion at 31 December 2011, which represents an increase of £5.0 billion or 44% since 31 December 2010. The Group's deposit gathering strategy in the UK has been successfully underpinned by the incorporation in November 2010 of the Group's UK licensed banking subsidiary – Bank of Ireland (UK) plc. Deposits in the Group's offshore unit declined by €0.6 billion in 2011, however stabilised in the second half of the year following the recapitalisation of the Group.

Corporate and Treasury deposits amounted to €7.7 billion at 31 December 2011 as compared with €9.4 billion at 31 December 2010. The net decrease of €1.7 billion is a result of the disposal of BoISS whose customers had placed deposits of c.€1 billion with the Group at 31 December 2010, and a reduction in corporate balances in the first half of 2011. Corporate balances experienced growth of c.€1 billion in the second half of the year following the recapitalisation of the Group indicating a stabilisation of the Group's core corporate deposit base.

Customer deposits at 31 December 2011 of €71 billion (31 December 2010: €65 billion) do not include €2.2 billion (31 December 2010: €1.9 billion) of savings and investment-type products sold by Bank of Ireland Life. These products have a fixed term (typically of five years) and consequently are an additional stable source of retail funding for the Group.

At 31 December 2011, €43 billion of the Group's customer deposits are guaranteed under the Irish Deposit Guarantee Scheme (DGS) and the UK Financial Services Compensation Scheme (FSCS) (31 December 2010: €35 billion), while €26 billion are covered by the Eligible Liabilities Guarantee Scheme (31 December 2010: €29 billion).

On a constant currency basis the Group's customer deposits at 31 December 2011 grew by 7% (€4.3 billion) when compared to the Group's customer deposits at 31 December 2010.

Wholesale funding

Table: 12 Wholesale funding sources	31 December 2011 €bn	 %	31 December 2010 €bn	 %
Secured funding	40	78%	53	76%
- Monetary authority (gross)	*23*	*45%*	*33*	*47%*
- Covered bonds (asset backed securities)	*6*	*12%*	*7*	*10%*
- Securitisations	*4*	*8%*	*5*	*7%*
- Private market repo	*7*	*14%*	*8*	*11%*
Unsecured funding	11	22%	17	24%
- Senior debt	*9*	*18%*	*13*	*19%*
- Bank deposits	*2*	*4%*	*3*	*4%*
- Commercial Paper and Certificates of Deposits	*-*	*-*	*1*	*1%*
Total Wholesale funding	**51**	**100%**	**70**	**100%**
Wholesale funding > 1 year to maturity	28	55%	22	32%
Wholesale funding < 1 year to maturity	23	45%	48	68%
Drawings from Monetary Authorities (net)	22	-	31	-

Wholesale funding requirements reduced from €70 billion at 31 December 2010 to €51 billion at 31 December 2011 primarily due to:

- loan book divestments;
- loan repayments and redemptions;
- an increase in Group customer deposits; and
- recapitalisation proceeds.

The Group's senior unsecured debt at 31 December 2011 of €9 billion has reduced by €4 billion from €13 billion at 31 December 2010.

During 2011, the Group has raised secured term funding from private market sources amounting to c.€4.2 billion with an average maturity (at date of issue) of 2.4 years and an average spread equivalent to 250 basis points over three month Euribor.

In early December 2011, the Group announced it will not call notes issued by the Brunel and Kildare securitisation vehicles on the relevant call dates in March 2012 and April 2012, with any future redemption decisions being taken on an economic basis and having regard to prevailing market conditions.

In December 2011, the Group participated in the ECB three year Long Term Refinancing Operation (LTRO) raising c.€7.5 billion funding with a maturity in January 2015 by converting the term of its existing drawings from short term to longer term with no new drawings.

In January 2011, following changes to the ECB eligibility criteria for sterling denominated collateral, the Group issued and retained Government guaranteed own-use bonds which are eligible for ECB monetary policy operations. These bonds have a liquidity value of €8.45 billion. They have consistently rolled over on a quarterly basis and the current maturity date is April 2012.

The drawings under the exceptional liquidity facilities from the Central Bank at 31 December 2010 of €8 billion were repaid during the financial year such that drawings at 31 December 2011 were €nil.

At 31 December 2011, 55% of wholesale funding had a term to maturity of greater than one year compared with 32% at 31 December 2010, reflecting secured term funding raised and the participation in the ECB three year LTRO. The Group's unsecured maturities are €2.7 billion in 2012 and €2.6 billion in 2013.

The refinancing requirement for the Group from unsecured wholesale maturities remains low in 2012 and in subsequent years. This reflects the overall reduction in wholesale funding achieved to date and expected futher reductions in wholesale funding in line with PLAR targets.

Subordinated liabilities

Table: 13 Movement in subordinated liabilities	31 December 2011 €m
Balance at 31 December 2010	2,775
Exchange or repurchase of subordinated liabilities	(2,258)
Other (call option)	(100)
Outstanding subordinated liabilities in issue	**417**
Contingent Capital note (table 14)	1,009
Balance at 31 December 2011	**1,426**

At 31 December 2011, the Group's **subordinated liabilities** amounted to €1.4 billion compared to €2.8 billion at 31 December 2010.

In February 2011, the Group exchanged €103 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 additional Core tier 1 capital of €46 million whilst reducing Total capital by a net €56 million.

In June 2011, as part of the 2011 Capital raise the Group launched a number of Liability Management Exercises between June 2011 and December 2011 which resulted in a reduction of €2.2 billion in subordinated liabilities and generated €2.1 billion of Core tier 1 capital.

In addition, the Group exercised call options in respect of €0.1 billion of subordinated liabilities which generated further Core tier 1 capital for the Bank of €0.1 billion.

Table: 14 Issue of Contingent Capital note	31 December 2011 €m
Nominal value	1,000
Fee paid on issue	(15)
Net cash proceeds received	**985**
Capital contribution[1]	(116)
Value of Contingent Capital note on issue date	**869**

[1] *The Central Bank of Ireland has applied a prudential filter to exclude this capital contribution from regulatory capital. The amount of the capital contribution excluded from regulatory capital will reduce to nil over the term of the note.*

This is presented in the balance sheet on page 176 as:	Issue date (29 July 2011) €m	Movement €m	31 December 2011 €m
Subordinated liability	(960)	(49)	(1,009)
Embedded derivative asset	91	(8)	83
	(869)	**(57)**	**(926)**

In July 2011, the Group issued a Contingent Capital note (CCN) with a nominal value of €1 billion and a maturity of five years to the State and received cash of €985 million, (net of a fee of €15 million). For further information see page 278.

The Capital contribution of €116 million reflects the difference between the net proceeds received and the fair value of the note on date of issue.

The embedded derivative asset reflects the embedded option to convert the note to ordinary capital stock of the Bank in the event of the Bank's Core tier 1 falling below 8.25%. The embedded derivative asset value of €83 million at 31 December 2011 reflects a charge of €8 million attributed to the mark to market movement on the derivative during the period. The charge of €49 million at 31 December 2011 reflects a fair value hedge adjustment and an effective interest rate adjustment on the subordinated liability for the period.

Stockholders' equity

Table: 15

Movements in Stockholders' Equity	**Year ended 31 December 2011 €m**	Year ended 31 December 2010 €m
Stockholders' equity at beginning of period	**7,351**	**6,387**
Movements:		
Profit / (loss) attributable to stockholders	45	(614)
Dividends on preference stock	(222)	-
Capital Raising		
Net new equity capital issued	2,557	1,006
Foreign exchange movements	180	157
Cash flow hedge reserve movement	314	275
Pension fund obligations	(117)	391
Available for sale (AFS) reserve movements	103	(220)
Reissue of stock / treasury stock	(1)	(7)
Other movements	(8)	(24)
Stockholders' equity at end of period	**10,202**	**7,351**

Stockholders' equity increased from €7,351 million at 31 December 2010 to €10,202 million at 31 December 2011, primarily due to new equity capital issued during 2011.

The profit attributable to stockholders of €45 million for the year ended 31 December 2011 compares to the loss attributable to stockholders of €614 million in the year ended 31 December 2010.

On 21 February 2011, the Group paid a dividend of €214.5 million on the 2009 Preference Stock (€1.8 billion outstanding) held by the NPRFC and dividends due of €3.7 million on its euro and sterling Preference Stock. On the 17 August 2011, the Group paid dividends due of €3.4 million on its euro and sterling Preference Stock.

Net new equity capital issued comprised of the following elements:

- proceeds of Rights Issue €1,908 million;
- ordinary shares issued as part of debt for equity swap €665 million; and
- capital contribution on Contingent Capital note €116 million.

partly offset by:

- cost of LME / Rights Issue €114 million; and
- redemption of Upper tier 2 note (US$150 million FRN) €18 million.

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% strengthening of the sterling aginst euro in the year ended 31 December 2011.

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.

The movement in retirement benefit obligations is primarily driven by movements in asset values and changes to key assumptions used in the calculation of the schemes' liabilities, including the discount rate, the inflation rate, the rate of increases in salaries and in pension payments.

The AFS reserve movement in the year ended 31 December 2011 is driven by tightening credit spreads, particularly on the portfolio of Irish Government bonds and the transfer of €21 million to the income statement arising from the impairment of bonds including Irish Life and Permanent plc.

Other assets and other liabilities

Table: 16 Other assets and other liabilities	31 December 2011 €bn	31 December 2010 €bn
Other assets	22	22
- Bank of Ireland Life assets	*12*	*13*
- Derivative financial instruments	*6*	*6*
- Deferred tax asset	*1*	*1*
- Other assets	*3*	*2*
Other liabilities	22	22
- Bank of Ireland Life liabilities	*12*	*13*
- Derivative financial instruments	*6*	*5*
- Other liabilities	*4*	*4*

Other assets, at 31 December 2011, include derivative financial instruments with a positive fair value of €6.4 billion compared to a positive fair value of €6.4 billion at 31 December 2010.

At 31 December 2011, the deferred tax asset was €1.4 billion, an increase of €0.3 billion compared to €1.1 billion at 31 December 2010.

Other liabilities, at 31 December 2011, include derivative financial instruments with a negative fair value of €6.0 billion compared to a negative fair value of €5.4 billion at 31 December 2010. The increase 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 euro / sterling exchange rate) and interest rates on the negative fair value of the derivatives during the year ended 31 December 2011.

Other liabilities, at 31 December 2011, also includes a pension deficit of €0.4 billion (31 December 2010: €0.4 billion).

At 31 December 2011, Bank of Ireland Life assets and liabilities were €12.0 billion, a decrease of €0.5 billion compared to €12.5 billion at 31 December 2010, primarily due to adverse investment returns on policyholder managed funds in the year.

Capital

Regulatory capital and key capital ratios

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

Risk Weighted Assets (RWA) - Basel II	31 December 2011 €bn	31 December 2010 €bn
Credit risk	61.5	71.4
Market risk	1.1	1.9
Operational risk	4.5	5.7
Total RWA	**67.1**	**79.0**

Capital (continued)

Key Capital Ratios	31 December 2011 €bn	31 December 2011 % of RWA	31 December 2010 €bn	31 December 2010 % of RWA
Core tier 1	10.1	15.1%	7.7	9.7%
Core tier 1 (PCAR / EBA stress test basis)[1]	9.6	14.3%	-	-
Tier 1	9.7	14.4%	7.7	9.7%
Total capital	9.9	14.7%	8.7	11.0%

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

Risk Weighted Assets (RWA) at 31 December 2011 are €11.9 billion lower than 31 December 2010. This decrease is mainly due to a reduction in the quantum of loans and advances to customers and the impact of a higher level of impaired loans at 31 December 2011 as compared to 31 December 2010 partly offset by the impact of foreign exchange movements and RWA re-weighting based on credit model experience.

The **Core tier 1 ratio** at 31 December 2011 of 15.1% (14.3% PCAR / EBA stress test basis) compares to 9.7% at 31 December 2010. The net increase of 5.4% is primarily due to the Core tier 1 capital generated of €4.2 billion following the 2011 recapitalisation of the Bank together with the impact of lower RWA's partly offset by underlying losses in the year ended 31 December 2011.

The **Tier 1 ratio** at 31 December 2011 of 14.4% compares to 9.7% at 31 December 2010. The net increase of 4.7% is primarily due to the Core tier 1 capital generated of €4.2 billion following the 2011 recapitalisation of the Bank together with the impact of lower RWA's partly offset by underlying losses in the year ended 31 December 2011 and the exchange and repurchase of Tier 1 hybrid debt.

The **Total capital ratio** at 31 December 2011 of 14.7% compares to 11.0% at 31 December 2010. The net increase of 3.7% is primarily due to the Core tier 1 capital generated of €4.2 billion following the 2011 recapitalisation of the Bank together with the issue of a €1 billion Contingent Capital note (CCN) to the State and lower RWA's and lower regulatory deductions partly offset by underlying losses and the exchange and repurchase of Tier 1 and Tier 2 debt.

The Group issued a CCN with a nominal value of €1 billion and a maturity of five years to the State in July 2011. This Tier 2 classified note would convert into Bank of Ireland ordinary stock on a breach of the Core tier 1 or Common Equity tier 1 trigger ratio of 8.25% or on a 'Non-Viability event' as determined by the Central Bank. At 31 December 2011, the Core tier 1 ratio of the Group as calculated under the methodology set out in the CCN was 14.3%. Further details on the recapitalisation of the Bank are set out in note 49.

Divisional Performance - on an Underlying Basis

Income statement - underlying (loss) / profit before tax	**Year ended 31 December 2011 €m**	Year ended 31 December 2010 €m	Change %
Retail Ireland	(1,017)	(1,467)	(31%)
Bank of Ireland Life	26	70	(63%)
Retail UK	(324)	(558)	(42%)
Corporate and Treasury	386	(973)	-
Group Centre	(561)	(531)	6%
Consolidation[1]	(31)	-	-
Underlying loss before tax	**(1,521)**	**(3,459)**	**(56%)**
Non-core items	1,331	2,509	-
Loss before tax	**(190)**	**(950)**	**(80%)**

[1] *This relates to certain intergroup transactions which are eliminated at a Group level. However, at a divisional level they are reported as core income in the Corporate and Treasury division and non-core expense in the Retail UK division as part of the loss on deleveraging of financial assets. The line item above reconciles underlying operating profit before impairment charges on financial assets and loss on sale to NAMA at a divisional level to the Group level.*

Retail Ireland

Retail 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 and a comprehensive suite of retail and business products and services.

The year ended 31 December 2011 was particularly difficult for the Group's 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 further reduction in deposit margins. The impairment charge on loans and advances to customers remained elevated due to the economic downturn, high levels of unemployment, increased default arrears in the mortgage portfolio and low levels of transactions in both the residential and commercial property markets.

Retail Ireland reported an underlying loss before tax of €1,017 million for the year ended 31 December 2011 compared to an underlying loss before tax of €1,467 million for the year ended 31 December 2010 (which included charges of €775 million arising on assets that transferred to NAMA).

Retail Ireland: Income statement	**Year ended 31 December 2011 €m**	Year ended 31 December 2010[1] €m	Change %
Net interest income	849	1,010	(16%)
Net other income	297	347	(14%)
Operating income	**1,146**	**1,357**	**(16%)**
Operating expenses	(861)	(919)	(6%)
Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA	**285**	**438**	**(35%)**
Impairment charges on loans and advances to customers	(1,297)	(1,142)	14%
Assets sold to NAMA:			
- Impairment charges on assets sold to NAMA	*(9)*	*(100)*	*(91%)*
- Gain / (loss) on sale of assets to NAMA	*1*	*(675)*	*-*
Share of results of associates and joint ventures (after tax)	3	12	(75%)
Underlying loss before tax	**(1,017)**	**(1,467)**	**(31%)**
Loans and advances to customers (€bn)	*45*	*47*	
Customer deposits (€bn)	*36*	*35*	

[1] *The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.*

Loans and advances to customers (after impairment provisions) of €45 billion at 31 December 2011 were €2 billion lower than the loans and advances to customers (after impairment provisions) of €47 billion at 31 December 2010. This decrease is primarily a result of increased impairment provisions, loan repayments and subdued demand for new lending, particularly from Property and construction and unsecured consumer customers. Loan balances with Residential mortgages and SME customers were broadly unchanged as at 31 December 2011 as compared with 31 December 2010.

Customer deposits of €36 billion at 31 December 2011 were €1 billion higher than customer deposits of €35 billion at 31 December 2010. Despite continuing intense competition in the Irish deposit market during 2011, deposit volumes increased supported by the launch of a number of successful personal and business deposit products and ongoing management of maturing deposits and new business opportunities.

Net interest income of €849 million for the year ended 31 December 2011 was €161 million or 16% lower than net interest income of €1,010 million for the year ended 31 December 2010. This decrease is primarily a result of the higher cost of wholesale funding and the higher cost of deposits arising from intense competition, a reduction in average loan volumes following the transfer of loans to NAMA during 2010, scheduled loan repayments and subdued demand for new lending partly offset by improved lending margins.

Net other income of €297 million for the year ended 31 December 2011 was €50 million or 14% lower than net other income of €347 million for the year ended 31 December 2010. This decrease is primarily due to a decrease of €12 million in the value of international investment properties in the year ended 31 December 2011 compared to a gain of €26 million arising in the year ended 31 December 2010, a provision of €13 million relating to a court

Retail Ireland (continued)

hearing in connection with a European property investment together with the impact arising from the sale of FCE Corporation in August 2011 partly offset by an increase in retail banking fees and commissions.

Operating expenses of €861 million for the year ended 31 December 2011 have decreased by €58 million or 6% compared to €919 million for the year ended 31 December 2010. This decrease is primarily driven by lower pension costs, lower staff numbers, continued tight management of other costs and the impact of the sale of FCE Corporation partly offset by investments in technology to support our customer propositions.

The **share of results of associates and joint ventures (after tax),** gave rise to a gain of €3 million for the year ended 31 December 2011 compared to a gain of €12 million for the year ended 31 December 2010, primarily reflecting the Group's share of the increase in the market value of an international investment property in 2010. The value of this investment property was broadly unchanged during 2011.

Impairment charges on loans and advances to customers of €1,297 million for the year ended 31 December 2011 is €155 million higher compared to the impairment charge of €1,142 million for the year ended 31 December 2010. The impairment charge on loans and advances to customers remained elevated due to the economic downturn, high levels of unemployment, increased default arrears in the mortgage portfolio and low levels of transactions in both the residential and commercial property markets.

Impairment charges on loans and advances to customers	**Year ended 31 December 2011 €m**	Year ended 31 December 2010[1] €m	Change %
Residential mortgages	444	341	30%
- Owner occupied mortgages	*182*	*176*	*3%*
- Buy to let mortgages	*262*	*165*	*59%*
Non-property SME and corporate	281	291	(3%)
Property and construction	520	420	24%
- Investment	*354*	*260*	*36%*
- Land and development	*166*	*160*	*4%*
Consumer	52	90	(42%)
Impairment charges on loans and advances to customers	**1,297**	**1,142**	**14%**

[1] The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.

The impairment charge in the year ended 31 December 2010 included an amount of approximately €100 million, to reflect a change in the Group's assumption of the expected peak to trough decline in residential property prices from 45% to 55% in the impairment provisioning models for Retail Ireland mortgages; the Group estimated that €60 million related to the owner occupied segment and €40 million related to the Buy to let segment.

The impairment charge on Retail Ireland mortgages of €444 million for the year ended 31 December 2011 reflects increasing default arrears (90 days or more past due), in the owner occupied and particularly in the Buy to let segments. This increase is primarily attributed to the general economic downturn in Ireland and affordability issues including falling disposable incomes and high unemployment levels.

In addition, the rise in arrears since August 2011 appears to have been impacted by the implementation of the new code of conduct on mortgage arrears and the considerable public speculation about potential Government policy measures regarding customers in arrears.

While there has been some stabilisation in rents in 2011, overall rent levels are significantly down on peak (estimated to be down approximately 26% from peak[1]) and Buy to let borrowers are increasingly impacted by rising repayments as interest only periods come to an end, which particularly impacted default arrears in the second half of the year.

[1] Per 'The Daft.ie rental report – An analysis of recent trends in the Irish rental market 2011, Quarter 4'.

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Retail Ireland (continued)

The impairment charge on **Non-property SME and corporate** of €281 million for the year ended 31 December 2011 is €10 million lower compared to the impairment charge of €291 million for the year ended 31 December 2010.

Challenging economic conditions in Ireland, a continuation of poor consumer sentiment and the increase in the level of business insolvencies have negatively impacted trading conditions and caused general pressure on the Irish SME sector. Those sectors correlated with consumer spending or the property markets are particularly impacted. As a result the level of impairment charge, while it reduced in the year ended 31 December 2011 as compared to the year ended 31 December 2010, continues to be at an elevated level.

The impairment charge on **Property and construction** of €520 million for the year ended 31 December 2011 is €100 million higher compared to the impairment charge of €420 million for the year ended 31 December 2010.

The impairment charge on the investment property element of the Property and construction portfolio has increased from €260 million at 31 December 2010 to €354 million at 31 December 2011. In particular, weaker consumer spending and sentiment is adversely affecting trading performance, yields and asset values across the retail and investment property sector. More generally, the increase in the level of impaired loans and associated impairment charges is due to lower rental income arising from reduced market rents and higher vacancy rates for more prolonged periods, together with a requirement for increased incentives to attract new tenants. Falling asset values in the Republic of Ireland have also adversely impacted the level of impairment charge in the year ended 31 December 2011.

The impairment charge for Land and Development and the proportion of the book that is impaired have increased in the year ended 31 December 2011 as compared with the year ended 31 December 2010, reflecting lower house prices, over supply of residential housing stock, and illiquid property markets in the Republic of Ireland.

The impairment charge of €52 million on **Consumer** loans for the year ended 31 December 2011 is €38 million lower compared to the impairment charge of €90 million for the year ended 31 December 2010. Consumer loans have reduced significantly reflecting accelerated repayments and subdued demand for new loans and other credit facilities. Default arrears and impairment charges were better than expectations.

The **impairment charges on assets sold to NAMA** of €9 million for the year ended 31 December 2011 compares to the impairment charge of €100 million for the year ended 31 December 2010. In the year ended 31 December 2011 there was a **gain on sale of assets to NAMA** of €1 million.

Assets sold to NAMA	**Year ended 31 December 2011 €m**	Year ended 31 December 2010[1] €m
Impairment charges on assets sold to NAMA	(9)	(100)
Gain / (loss) on sale of assets to NAMA	1[2]	(675)

[1] *The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.*
[2] *This number includes an adjustment to consideration in respect of assets transferred during 2010.*

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Bank of Ireland Life

Bank of Ireland Life comprises the life assurer, New Ireland Assurance Company plc (which distributes protection, investment and pension products to the Irish market, through independent brokers and its direct sales force) and the business unit which distributes New Ireland's products through the Group's branch network.

Under the terms of the Group's EU restructuring plan, as set out in note 61, the Group has committed to dispose of its shareholding in New Ireland Assurance Company plc, but retains the ability to distribute protection, investment and pension products.

Operating profit of €73 million for the year ended 31 December 2011 was €2 million or 3% lower than operating profit of €75 million for the year ended 31 December 2010, primarily due to lower operating income, partly offset by lower operating expenses.

Bank of Ireland Life: Income statement (IFRS performance)	**Year ended 31 December 2011 €m**	Year ended 31 December 2010 €m	Change %
Operating income	174	178	(2%)
Operating expenses	(101)	(103)	(2%)
Operating profit	**73**	**75**	**(3%)**
Investment variance	(28)	9	-
Economic assumption changes	(19)	(14)	36%
Underlying profit before tax	**26**	**70**	**(63%)**

Operating income of €174 million for the year ended 31 December 2011 is €4 million or 2% lower than operating income of €178 million for the year ended 31 December 2010, primarily due to a poorer persistency experience in the current year and a change in the persistency assumptions to reflect this experience at 31 December 2011 partly offset by improved margins on new business.

Annual premium equivalent (APE) sales for the year ended 31 December 2011 were lower by 1% relative to the year ended 31 December 2010 (compared to the market, which decreased by 8% over the same period). Lower volumes in regular premium pensions were partly offset by higher single premium pension volumes and growth in protection business.

Persistency levels continue below long term trends, reflecting affordability issues amongst customers and continued investment market volatility.

Operating expenses of €101 million for the year ended 31 December 2011 are €2 million or 2% lower than operating expenses of €103 million for the year ended 31 December 2010, reflecting tight management of costs and the benefit of a lower pension charge.

The underlying profit before tax for the year ended 31 December 2011 has been impacted by a negative investment variance and the impact of lower interest rates on economic assumptions.

The performance of investment markets in 2011 was lower than the unit growth assumption, which has given rise to a negative investment variance of €28 million. This compares to a relative outperformance of investment markets in the year ended 31 December 2010, which gave rise to a positive investment variance of €9 million.

The impact of economic assumption changes and interest rate movements (including changes in the value of sovereign bonds), gave rise to a net charge of €19 million for the year ended 31 December 2011, compared to a net charge of €14 million for the year ended 31 December 2010. The value of Irish Government bonds reduced during the year ended 31 December 2010, but increased during the year ended 31 December 2011. Risk free rates (as referenced to euro swap rates) reduced over the same period. As a result the discount rate applied to future cash flows was reduced from 7.75% at 31 December 2010 to 7.0% at 31 December 2011 and the unit growth assumption was reduced from 5.75% at 31 December 2010 to 4.75% at 31 December 2011.

Bank of Ireland Life maintained a strong financial position throughout the year ended 31 December 2011 and its regulatory capital was two times the required minimum solvency margin at the year end.

Bank of Ireland Life (continued)

Embedded Value Performance

Bank of Ireland Life: Income Statement (Embedded value performance)	**Year ended 31 December 2011 €m**	Year ended 31 December 2010 €m	Change %
New Business profits	23	13	77%
Existing business profits	60	65	(8%)
Expected return	*73*	*81*	*(10%)*
Experience variance	*(8)*	*(12)*	*33%*
Assumption changes	*(5)*	*(4)*	*(25%)*
Inter company payments	(11)	(12)	8%
Operating profit	**72**	**66**	**9%**
Investment variance	(65)	16	-
Economic assumption changes	(32)	(12)	-
Underlying (loss) / profit before tax	**(25)**	**70**	**-**

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 year ended 31 December 2011 of €72 million was €6 million or 9% higher than operating profit of €66 million for the year ended 31 December 2010. New business profits of €23 million for the year ended 31 December 2011 were €10 million higher than new business profits of €13 million for the year ended 31 December 2010. Existing business profits of €60 million were €5 million lower than existing business profits of €65 million for the year ended 31 December 2010.

The key assumptions used in the Embedded Value methodology are consistent with those used under the IFRS methodology, being a discount rate of 7.0% (31 December 2010: 7.75%), future growth rate on unit linked assets of 4.75% (31 December 2010: 5.75%) and the rate of tax to be levied on shareholders profits of 12.5% (31 December 2010: 12.5%).

The **underlying loss before tax**, on an embedded value basis, of €25 million for the year ended 31 December 2011 compares to an underlying profit before tax of €70 million for the year ended 31 December 2010.

Retail UK (Sterling)

The Retail UK Division incorporates the joint ventures with the UK Post Office, the UK Residential mortgage business, the Group's branch network in Northern Ireland and the Group's Business Banking business in Great Britain and Northern Ireland. 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 (this has had no impact on segmental reporting).

Retail UK reported an **underlying loss before tax** of £279 million for the year ended 31 December 2011 compared to an underlying loss before tax of £480 million for the year ended 31 December 2010, (which included charges of £371 million arising on assets that transferred to NAMA).

Retail UK: Income statement	**Year ended 31 December 2011 £m**	Year ended 31 December 2010[1] £m	Change %
Net interest income	319	507	(37%)
Net other income	103	54	91%
Operating income	**422**	**561**	**(25%)**
Operating expenses	(328)	(319)	3%
Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA	**94**	**242**	**(61%)**
Impairment charges on loans and advances to customers	(375)	(383)	(2%)
Assets sold to NAMA:			
- Impairment charge on assets sold to NAMA	(23)	(25)	(8%)
- Loss on sale of assets to NAMA	(6)	(346)	(98%)
Share of results of associates and joint ventures (after tax)	31	32	(3%)
Underlying loss before tax	**(279)**	**(480)**	**(42%)**
Underlying loss before tax (€m equivalent)	**(324)**	**(558)**	**(42%)**
Loans and advances to customers (£bn)	36	42	
Customer deposits (£bn)	22	18	

[1] *The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.*

Loans and advances to customers (after impairment provisions) of £36 billion at 31 December 2011 were £6 billion lower than the loans and advances to customers of £42 billion (after impairment provision) at 31 December 2010. This decrease is primarily a result of the disposal of portfolios of Residential mortgage and investment property loans, loan repayments and increased impairment provisions.

Customer deposits of £22 billion at 31 December 2011 were £4 billion higher than customer deposits of £18 billion at 31 December 2010, primarily as a result of the growth in deposits originating through the joint venture with the UK Post Office.

Net interest income of £319 million for the year ended 31 December 2011 is £188 million or 37% lower than the year ended 31 December 2010, primarily due to the higher cost of deposits and wholesale funding, lower average loan volumes (due to the transfer of assets to NAMA during 2010, loan repayments together with loan book disposals) and the impact of the increased liquid asset holdings in Bank of Ireland (UK) plc, which was partly offset by improved lending margins, particularly on Residential mortgages.

Net other income of £103 million for the year ended 31 December 2011 increased by £49 million compared to net other income of £54 million for the year ended 31 December 2010. While underlying banking fees and commissions for the year ended 31 December 2011 were broadly consistent with the year ended 31 December 2010, a number of one-off charges amounting to £20 million (including NAMA related charges) were incurred in the year ended 31 December 2010 of which £12 million reversed in 2011.

Operating expenses for the year ended 31 December 2011 of £328 million are £9 million or 3% higher than operating expenses of £319 million for the year

Retail UK (Sterling) (continued)

ended 31 December 2010, primarily due to the costs of processing the higher deposit volumes, higher professional regulatory fees (including the introduction of a bank levy in the UK), partly offset by lower pension costs and continued tight management of other costs.

The **share of the results of associates and joint ventures (after tax)**, which primarily relates to First Rate Exchange Services (FRES) was £31 million for the year ended 31 December 2011 which is broadly unchanged compared to £32 million during the year ended 31 December 2010.

Impairment charges on loans and advances to customers of £375 million for the year ended 31 December 2011 are £8 million lower than the impairment charges of £383 million for the year ended 31 December 2010, with the charge reducing in each of our Residential mortgage, Non-property SME and corporate and Consumer portfolios partly offset by an increase in our Property and construction portfolio charge.

Impairment charges on loans and advances to customers	**Year ended 31 December 2011 £m**	Year ended 31 December 2010[1] £m	Change %
Residential mortgages	22	54	(59%)
- Standard mortgages	*13*	*8*	*63%*
- Buy to let mortgages	*8*	*39*	*(79%)*
- Self certified mortgages	*1*	*7*	*(86%)*
Non-property SME and corporate	64	109	(41%)
Property and construction	265	189	40%
- Investment	*160*	*104*	*54%*
- Land and development	*105*	*85*	*24%*
Consumer	24	31	(23%)
Impairment charges on loans and advances to customers	**375**	**383**	**(2%)**

[1] The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.

The impairment charge on **Retail UK mortgages** of £22 million for the year ended 31 December 2011 was £32 million lower compared with the year ended 31 December 2010. Default arrears (3+ payments past due) and the associated impairment charge on Retail UK mortgages (particularly in the Buy to let and self certified segments) in the year ended 31 December 2011 were lower than the year ended 31 December 2010, in an environment where residential property prices performed better than expected.

The impairment charge on the **Non property SME and corporate** portfolio of £64 million for the year ended 31 December 2011 is £45 million lower compared to the impairment charge of £109 million for the year ended 31 December 2010. In the UK SME segment, rising inflation and concerns regarding the impact of fiscal austerity have combined to leave UK economic conditions subdued. The year on year reduction primarily reflects the impairment charges on a small number of large individual cases in the year ended 31 December 2010.

The impairment charge on the **Property and construction** portfolio of £265 million for the year ended 31 December 2011 is £76 million higher compared to the impairment charge of £189 million for the year ended 31 December 2010.

The impairment charge on the investment property element of the Property and construction portfolio increased from £104 million in the year ended 31 December 2010 to £160 million in the year ended 31 December 2011. In particular, weaker consumer spending and sentiment is adversely affecting trading performance, yields and asset values across the retail and investment property sector. More generally, the increase in the level of impaired loans and associated impairment charges is due to lower rental income arising from reduced market rents and higher vacancy rates for more prolonged periods, together with a requirement for increased incentives to attract new tenants. Falling asset values in Northern Ireland in particular have also adversely impacted the level of impairment charge in the year ended 31 December 2011.

Retail UK (Sterling) (continued)

The impairment charge on the land and development element of the Property and construction portfolio increased from £85 million to £105 million, reflecting lower house prices, over supply of residential housing stock, and illiquid property markets in Northern Ireland.

The impairment charge of £24 million on **Consumer** loans for the year ended 31 December 2011 is £7 million lower compared to the impairment charge of £31 million for the year ended 31 December 2010. Consumer loans have reduced significantly reflecting accelerated repayments and subdued demand for new loans and other credit facilities. Default arrears and impairment charges were better than expectations.

The **impairment charges on assets sold to NAMA** of £23 million for the year ended 31 December 2011 compares to the impairment charge of £25 million for the year ended 31 December 2010. In the year ended 31 December 2011 there was a £6 million **loss on sale of assets to NAMA**.

Assets sold to NAMA	**Year ended 31 December 2011 £m**	Year ended 31 December 2010[1] £m	Change %
Impairment charges on assets sold to NAMA	(23)	(25)	(8%)
Loss on sale of assets to NAMA	(6)	(346)	(98%)

[1] *The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.*

Corporate and Treasury

The Corporate and Treasury Division comprises Corporate Banking, Global Markets and IBI Corporate Finance. The Group disposed of Bank of Ireland Asset Management (BIAM), Bank of Ireland Securities Services (BoISS) and the Group's shareholding in Paul Capital International LLC during the year ended 31 December 2011.

Corporate and Treasury reported an **underlying profit before tax** of €386 million for the year ended 31 December 2011 compared with an underlying loss before tax of €973 million for the year ended 31 December 2010 (which included charges of €1,247 million arising on assets that transferred to NAMA).

Corporate and Treasury: Income statement	**Year ended 31 December 2011 €m**	Year ended 31 December 2010[1] €m	Change %
Net interest income	742	885	(16%)
Net other income	44	43	2%
Operating income	**786**	**928**	**(15%)**
Operating expenses	(187)	(287)	(35%)
Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA	**599**	**641**	**(7%)**
Impairment charges on loans and advances to customers	(207)	(269)	(23%)
Impairment charge on available for sale (AFS) financial assets	(21)	(98)	(79%)
Assets sold to NAMA:			
- Impairment charges on assets sold to NAMA	*(9)*	*(126)*	*(93%)*
- Gain / (loss) on sale of assets to NAMA	*24*	*(1,121)*	-
Underlying profit / (loss) before tax	**386**	**(973)**	**-**
Loans and advances to customers (€bn)	14	20	
Customer deposits (€bn)	8	9	

[1] *The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.*

Corporate and Treasury (continued)

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

Net interest income	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m	Change %
Net interest income	742	885	(16%)
IFRS income classifications	(102)	(165)	(38%)
Net interest income (after IFRS income classifications)	**640**	**720**	**(11%)**

Net interest income (after IFRS income classifications) amounted to €640 million for the year ended 31 December 2011 and has decreased by €80 million or 11% compared to €720 million for the year ended 31 December 2010 due to lower net interest income arising from a reduction in the average level of loans advanced to customers, the increased cost of wholesale funding and lower funds based fees partly offset by increased lending margins and the higher yield on the liquid asset portfolio.

Net Other Income	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m	Change %
Net other income	44	43	2%
IFRS income classifications	102	165	(38%)
Net other income (after IFRS income classifications)	**146**	**208**	**(30%)**

Net other income (after IFRS income classifications) amounted to €146 million for the year ended 31 December 2011 and has decreased by €62 million or 30% compared to €208 million for the year ended 31 December 2010. This decrease is driven primarily by loss of income of €63 million from BIAM and BoISS following their disposal and charges incurred on the transfers from the available for sale reserve on asset disposals partly offset by higher fee income in Corporate Banking.

Operating expenses of €187 million for the year ended 31 December 2011 are lower by €100 million or 35% compared to operating expenses of €287 million for the year ended 31 December 2010 primarily due to lower costs of €28 million following the sale of BIAM and BoISS during 2011, the impact of lower staff numbers and other efficiency benefits of €23 million, the impact of lower pension costs of €14 million and continued tight management of all other costs, together with the impact of some one off cost recoveries during 2011.

Operating profit (before impairment charges on financial assets and loss on sale of assets to NAMA) of €599 million for the year ended 31 December 2011 has decreased by €42 million compared to an operating profit of €641 million for the year ended 31 December 2010.

Impairment charges on loans and advances to customers of €207 million for the year ended 31 December 2011 have decreased by €62 million or 23% compared to impairment charges of €269 million for the year ended 31 December 2010.

An impairment charge on available for sale (AFS) financial assets of €21 million was incurred in the year ended 31 December 2011 due primarily to a charge of €16 million on subordinated debt issued by Irish Life and Permanent plc. In the year ended 31 December 2010 an impairment charge of €98 million was recognised on a holding of subordinated debt issued by Allied Irish Banks plc.

Corporate and Treasury (continued)

Impairment charges on loans and advances to customers	Year ended 31 December 2011 €m	Year ended 31 December 2010[1] €m	Change %
Non-property SME and Corporate	142	192	(26%)
Property and construction	65	77	(16%)
- Investment	*52*	*70*	*(26%)*
- Land and development	*13*	*7*	*86%*
Total impairment charges on loans and advances to customers	**207**	**269**	**(23%)**

[1] The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.

The impairment charge on **Non-property SME and Corporate** of €142 million for the year ended 31 December 2011 is €50 million lower compared to the impairment charge of €192 million for the year ended 31 December 2010. Larger Irish corporate customers trading internationally have continued to experience more favourable economic conditions.

The impairment charge of €65 million on the **Property and construction** portfolio for the year ended 31 December 2011 has decreased by €12 million compared to the impairment charge of €77 million for the year ended 31 December 2011 but remains at an elevated level.

The **impairment charges on assets sold to NAMA** of €9 million for the year ended 31 December 2011 compares to the impairment charge of €126 million for the year ended 31 December 2010. In the year ended 31 December 2011 there was a **gain on sale of assets to NAMA** of €24 million.

Assets sold to NAMA	Year ended 31 December 2011 €m	Year ended 31 December 2010[1] €m	Change %
Impairment charges on assets sold to NAMA	(9)	(126)	(93%)
Gain / (loss) on sale of assets to NAMA	24[2]	(1,121)	-

[1] The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.
[2] This number includes an adjustment to consideration in respect of assets transferred during 2010.

Corporate and Treasury (continued)

Business Unit: Operating profit before tax	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m	Change %
Corporate Banking	380	488	(22%)
Global Markets	204	121	69%
Asset Management Services	10	28	(64%)
Division Centre	5	4	25%
Operating profit before tax	**599**	**641**	**(7%)**

Corporate Banking operating profit before tax of €380 million for the year ended 31 December 2011 compares to an operating profit of €488 million for the year ended 31 December 2010 primarily due to lower level of average loans in advance to customers and the increased cost of wholesale funding partly offset by increased lending margins and higher upfront fees and lower costs.

Global Markets operating profit before tax before tax of €204 million for the year ended 31 December 2011 compares to an operating profit of €121 million for the year ended 31 December 2010. The movement is primarily due to higher income on the liquid asset portfolio, higher termination fees earned and lower costs.

Asset Management Services operating profit before tax of €10 million for the year ended 31 December 2011 compares to an operating profit before tax of €28 million for the year ended 31 December 2010 due to the sale of BIAM in January 2011 and BoISS in June 2011.

Division Centre includes central management costs and IBI Corporate Finance.

Group Centre

Group Centre comprises capital management activities, Government guarantee fees and unallocated group support costs.

Group Centre reported an **underlying loss before tax** of €561 million for the year ended 31 December 2011 compared to an underlying loss before tax of €531 million for the year ended 31 December 2010.

Group Centre: Income statement	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m	Change %
Government guarantee fees:			
- ELG	(449)	(275)	63%
- CIFS	-	(68)	-
Government guarantee fees	**(449)**	**(343)**	**31%**
Other income	(7)	33	-
Net operating income	**(456)**	**(310)**	**47%**
Operating expenses	(118)	(104)	13%
Operating loss before impairment charges on financial assets and loss on sale of assets to NAMA	**(574)**	**(414)**	**39%**
Impairment charge on available for sale financial assets (AFS)	-	(70)	-
Gains / (charges) arising on the sale of assets to NAMA	13	(47)	-
Underlying loss before tax	**(561)**	**(531)**	**6%**

Net operating income was a charge of €456 million for the year ended 31 December 2011 compared to a charge of €310 million for the year ended 31 December 2010. The increased charges of €146 million in the current year is driven primarily by:

- higher **Government guarantee fees** of €449 million for the year ended 31 December 2011 compares to a charge of €343 million for the year ended 31 December 2010. The increase of €106 million reflects the higher fee structure associated with the ELG scheme partly offset by the reduction in the level of liabilities guaranteed. The CIFS Scheme expired in September 2010. Further information is set out in note 57;
- higher insurance liabilities and claims paid;

partly offset by:

- lower interest expense on subordinated debt securities following the liability management exercises completed during 2011; and
- receipt of income from NAMA in relation to servicing of the relevant loan portfolios.

Operating expenses of €118 million for the year ended 31 December 2011 compares to operating expenses of €104 million for the year ended 31 December 2010. The increase of €14 million is primarily driven by higher regulatory and compliance costs in the year ended 31 December 2011. The Group continues to maintain its tight focus on cost management and the implementation of certain new outsourcing contracts together with ongoing increases in the levels of consolidation, standardisation and simplification of the Group's operations.

The **impairment charge on available for sale financial assets (AFS)** of €70 million for the year ended 31 December 2010 reflected the charge 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 **gain arising on the sale of assets to NAMA** of €13 million for the year ended 31 December 2011 reflects a reduction of the provision required in relation to the ongoing costs to the Group of servicing the assets sold to NAMA. The charge of €47 million for the year ended 31 December 2010 reflects the costs of servicing the assets sold to NAMA during the year ended 31 December 2010 together with the costs associated with the sale of those assets to NAMA.

Income Statement - Operating Segments

Year ended 31 December 2011	Net interest income €m	Insurance net premium income €m	Other income €m	**Total operating income €m**	Insurance contract liabilities and claims paid €m	**Total operating income net of insurance claims €m**	Operating expenses €m	**Operating profit / (loss) before impairment charge on financial assets and loss on sale to NAMA €m**	Impairment charge on loans and advances to customers €m	Impairment charge on available for sale assets €m	Impairment charge on assets held for sale to NAMA €m	Gain (loss) on sale of assets to NAMA €m	Loss on disposal of loan books €m	Share of results of associates and joint ventures (after tax) €m	Gain on disposal of business activities €m	**Profit / (loss) before taxation €m**
Retail Ireland	849	-	297	**1,146**	-	**1,146**	(861)	**285**	(1,297)	-	(9)	1	-	3	-	**(1,017)**
Bank of Ireland Life	5	916	(66)	**855**	(728)	**127**	(101)	**26**	-	-	-	-	-	-	-	**26**
Retail UK	367	-	119	**486**	-	**486**	(380)	**106**	(435)	-	(26)	(5)	-	36	-	**(324)**
Corporate and Treasury	742	-	44	**786**	-	**786**	(187)	**599**	(207)	(21)	(9)	24	-	-	-	**386**
Group Centre	(420)	13	(27)	**(434)**	(22)	**(456)**	(118)	**(574)**	-	-	-	13	-	-	-	**(561)**
Other reconciling items	(9)	-	(22)	**(31)**	-	**(31)**	-	**(31)**	-	-	-	-	-	-	-	**(31)**
Group - underlying *	**1,534**	**929**	**345**	**2,808**	**(750)**	**2,058**	**(1,647)**	**411**	**(1,939)**	**(21)**	**(44)**	**33**	**-**	**39**	**-**	**(1,521)**
- Gain on liability management exercises	-	-	1,789	**1,789**	-	**1,789**	-	**1,789**	-	-	-	-	-	-	-	**1,789**
- Impact of changes in pension benefits	-	-	-	-	-	**-**	2	**2**	-	-	-	-	-	-	-	**2**
- Gains arising on the on movement in credit spreads on the Group's own debt and deposits accounted for at fair value through profit or loss	-	-	56	**56**	-	**56**	-	**56**	-	-	-	-	-	-	-	**56**
- Impact of 'coupon stopper' on subordinated debt	-	-	-	-	-	**-**	-	**-**	-	-	-	-	-	-	-	**-**
- Gross-up for policyholder tax in the Life business	-	-	10	**10**	-	**10**	-	**10**	-	-	-	-	-	-	-	**10**
- Investment return on treasury stock held for policyholders	-	-	2	**2**	-	**2**	-	**2**	-	-	-	-	-	-	-	**2**
-Gain on disposal of business activities	-	-	-	**-**	-	**-**	-	**-**	-	-	-	-	-	-	34	**34**
- Loss on disposal on loan books	-	-	-	**-**	-	**-**	-	**-**	-	-	-	-	(565)	-	-	**(565)**
- Cost of restructuring programmes	-	-	-	**-**	-	**-**	3	**3**	-	-	-	-	-	-	-	**3**
Group total	**1,534**	**929**	**2,202**	**4,665**	**(750)**	**3,915**	**(1,642)**	**2,273**	**(1,939)**	**(21)**	**(44)**	**33**	**(565)**	**39**	**34**	**(190)**

* Underlying performance excludes the impact of non-core items (see page 20).

Income Statement - Operating Segments

Year ended 31 December 2010	Net interest income €m	Insurance net premium income €m	Other income €m	Total operating income €m	Insurance contract liabilities and claims paid €m	Total operating income net of insurance claims €m	Operating expenses €m	Operating profit / (loss) before impairment charges on financial assets €m	Impairment charges on loans and advances to customers €m	Impairment charges on available for sale assets €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 Ireland	1,010	-	347	1,357	-	1,357	(919)	438	(1,142)	-	(100)	(675)	12	(1,467)
Bank of Ireland Life	(2)	949	476	1,423	(1,250)	173	(103)	70	-	-	-	-	-	70
Retail UK	592	-	62	654	-	654	(372)	282	(448)	-	(31)	(398)	37	(558)
Corporate and Treasury	885	-	43	928	-	928	(287)	641	(269)	(98)	(126)	(1,121)	-	(973)
Group Centre	(249)	20	(63)	(292)	(18)	(310)	(104)	(414)	-	(70)	-	(47)	-	(531)
Group – underlying*	2,236	969	865	4,070	(1,268)	2,802	(1,785)	1,017	(1,859)	(168)	(257)	(2,241)	49	(3,459)
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	-	-	20	20	-	20	-	20	-	-	-	-	-	20
- Cost of restructuring programmes	-	-	-	-	-	-	(18)	(18)	-	-	-	-	-	(18)
- Gain on disposal of business activities	15	-	-	15	-	15	-	15	-	-	-	-	-	15
Group total	2,219	969	2,676	5,864	(1,268)	4,596	(1,070)	3,526	(1,859)	(168)	(257)	(2,241)	49	(950)

* Underlying performance excludes the impact of non-core items (see page 20).

Risk Management Report

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Principal Risks and Uncertainties

Given the challenging conditions that remain in financial markets and the continuing weakness of the economies in which the Group operates, the precise nature of all the risks and uncertainties cannot be predicted and many of these risks are outside the Group's control.

The risks set out below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties; some risks are not yet known and some that are not currently considered material could later turn out to be material. All of these risks could materially adversely affect the Group, its income, operating profits, earnings, net assets, liquidity, funding and / or capital resources and its ability to meet any targets or objectives.

Concerns regarding European sovereign debt experienced since 2010 have resulted in instability in financial markets, adversely impacting market sentiment, restricting access to wholesale funding markets for many sovereigns and financial institutions across Europe and limiting their ability to raise funds at sustainable cost levels.

These concerns have surfaced due to the focus in international debt markets on the level of fiscal deficits and evolving sovereign debt levels of EU member states and the potential impact of these on the individual EU member state economies. The contagion effect arising from severe sovereign debt issues in Greece in 2011 has given rise to increased speculation regarding the overall stability of the eurozone and the suitability of the single currency to deal appropriately with specific circumstances of individual member states.

Plans are currently in development for tighter new budgetary rules to enforce economic discipline and deepen economic integration, commonly referred to as a 'fiscal compact', the main provisions of which include a percentage GDP cap on countries' structural deficits and automatic consequences for those countries whose public deficits exceed specified percentages of GDP. These tighter rules are to be embedded into national laws. While this is not proposed as a treaty change, but a separate international agreement between certain member states, this may require ratification by those member states and potentially require a referendum in Ireland.

Any failure by Ireland or another member state to ratify this agreement may jeopardise continuing participation in the euro or limit or eliminate refinancing options for borrowings at acceptable cost levels with adverse implications for the fragile recovery in economic and financial systems.

There is no certainty that ratification of this agreement will resolve the current market dislocation.

Any threat to the overall stability of the euro system may have profound recessionary impacts, particularly on a small open economy such as Ireland.

The Group has a continuous need for liquidity to fund its business activities. It may suffer periods of market-wide and / or firm-specific liquidity constraints and is exposed to the risk that liquidity is not made available to it even when its underlying business is strong.

The Group relies on customer deposits to fund a considerable portion of its loan portfolio. Loss of customer confidence in the Group's business or in banking businesses generally, among other things, could result in unexpectedly high levels of customer deposit withdrawals, which could have a material adverse effect on the Group's results, financial condition and liquidity prospects.

The termination or non-renewal on or before 31 December 2012 of, or changes to the operation of, or the participation by the Group in, the ELG scheme or changes in the terms of the Group's participation in this scheme could have an adverse impact on the Group's results, financial condition and prospects.

Continued concerns regarding the stability of the eurozone could materially adversely impact the Group by increasing its costs of funding, reducing its access to the wholesale funding markets and / or increasing its reliance on funding from Monetary Authorities, thereby adversely impacting the Group's ability to fund its operations, which could materially adversely impact the Group's results, financial condition and prospects.

The Group is currently receiving funding from Monetary Authorities and any disruption to access could increase the Group's liquidity and funding risks.

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 provided by Monetary Authorities. There were temporary breaches in January, April, June and September of liquidity requirements, which were subsequently remediated. If the Group fails to achieve the actions agreed with the Central Bank to delever the balance sheet in line with the PLAR requirements this may jeopardise the Group's ability to comply with regulatory liquidity ratios in the future.

The credit ratings of the Irish sovereign and the Group are set out on page 106. Further downgrades to the Irish sovereign credit ratings or outlook or the restructuring of, or inability to meet Irish sovereign liabilities could further increase the cost of or otherwise impair the Group's access to funding, trigger additional collateral requirements and weaken its competitive position.

Further downgrades to the Group's credit ratings or outlook could impair the Group's access to funding, capital or deposits markets, trigger additional collateral requirements, further withdrawals of deposits and / or weaken its competitive position.

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.

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. A small open economy such as Ireland is dependent on export led growth for prosperity. Ongoing weakness in world economies may dampen export demand. Downside risks to the global economy are particularly driven by concerns over growth in Europe.

Reduced growth prospects in Ireland's trading partners increases the likelihood of prolonging the existing recession which could further adversely impact the Group's results, financial condition and prospects.

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 impacted, and may continue to impact, the Group's customers. As a consequence, the demand for, and supply of, the Group's products and services may weaken and in turn this may impact the Group's results, financial condition and prospects.

The downward pressure on firms' profitability and household disposable incomes from austerity measures, as well as the high level of private sector debt combined with the resulting deterioration in the business environment, 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 life and investment products, which could adversely impact the Group's fee and commission income.

Weak business conditions could also lead to increased difficulties in relation to the recoverability of loans and other amounts due from borrowers and other counterparties. This has led to increases and could result in further increases in the Group's impaired loans and impairment charges.

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 Ireland, the UK or other countries that are significant to the Group's business and could further adversely impact the Group's results, financial condition and prospects.

Deterioration in the credit quality of the Group's borrowers and counterparties, as well as increased difficulties in relation to the recoverability of loans and other amounts due from such borrowers and counterparties, have resulted in significant increases, and could result in further significant increases, in the Group's impaired loans and impairment charges.

Exposures originated and managed in Ireland and the UK represent a substantial majority of the Group's credit risk. The Group has exposures to Residential mortgages and to a range of corporate customers in different sectors, in particular to investors in commercial property and residential property. Economic conditions may deteriorate further in the Group's main markets, which may lead to, amongst other things, further declines in values of collateral and investments, persistently high unemployment levels, weakened consumer and corporate spending, declining corporate profitability, declining equity markets and bond markets and a further increase in corporate insolvencies.

Portfolio specific concerns are highlighted below.

Mortgages / Consumer
Residential property prices continue to be under pressure in Ireland. This could impact the collateral value assumed for provisioning purposes and the price achieved with respect to repossessed properties.

Uncertainty surrounding behavioural changes in Irish borrowers, and potential changes to the bankruptcy regime in Ireland, may further impact on the Group's credit exposures and on the Group's results, financial condition and prospects.

Property
The Group is exposed to declining property values and deterioration in the performance of the residential and commercial property markets in Ireland and the UK. The majority of the Group's commercial property exposure relates to investment property, which is vulnerable to tenant repayment capacity.

SME / Corporate
Many Irish SMEs / Corporates are dependent on the export market. Their repayment capacity is impacted by factors such as exchange rates and economic growth in the countries to which they export. Irish and UK SMEs / Corporates that sell to their domestic markets are exposed to the possibility of reduced levels of consumer and corporate demand as well as weak consumer sentiment amid further austerity measures.

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.

Sovereign risk
Sovereign risk concerns for the Group primarily relate to the eurozone region. Further turmoil in the eurozone area could result in downgrades and deterioration in the credit quality of the Group's sovereign exposures.

Financial institutions
Management of Irish and European bank debt exposures continues to be a focus for the Group. The successful introduction of a unified European solution to the crisis is key to resolving counterparty credit risk concerns.

The Group is subject to a number of risks associated with the Irish banking system and the regulatory environment primarily in Ireland and the UK. New regulatory obligations or fines and sanctions resulting from regulatory investigations could have a material adverse impact on the Group's results, financial condition and prospects.

The Central Bank and Credit Institutions (Resolution) Act (the Resolution Act 2011)
The introduction of the Credit Institutions (Stabilisation) Act 2010 created a mechanism for State intervention in the banking industry to a degree which could have a very significant adverse impact on the Group's operations. This legislation is scheduled to cease to have effect on 31 December 2012, to be replaced as far as the Group is concerned by the existing permanent resolution regime for all other relevant financial institutions, as provided by the Central Bank and Credit Institutions (Resolution) Act 2011. (See Regulation of Banks and Residential Lending - General Supervision and Regulation of Banks in Ireland). Under the Resolution Act the Central Bank is given the authority to take over, run and break up troubled financial institutions as it seeks to minimise the cost of a bank failure for taxpayers (this power rests with the Minister under the Stabilisation Act). 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. Both the Resolution Act and the Stabilisation Act allow the Central Bank and the Minister respectively to require banks to be managed in the national interest rather than shareholders' interest. Under the Resolution Act the Central Bank is also given 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.

Central Bank – Fit and Proper Regime
On 1 September 2011, the Central Bank published its Regulations and Standards of Fitness and Probity under Part 3 of the Central Bank Reform Act 2010.

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The Act gave the Central Bank wide ranging powers across the financial services industry to:

- approve or veto the appointment of people to certain positions;
- investigate and where appropriate remove or prohibit certain position holders; and
- set statutory standards of fitness and probity across the financial services industry.

The Central Bank has stated that it may initiate reviews under the fitness and probity standards in respect of the directors of certain financial institutions who were directors of those institutions since before the beginning of the financial crisis in 2008 (of which the Group's CEO is one). If the Deputy Governor (Financial Regulation) of the Central Bank were to form an 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 their function. No such opinion in relation to the Group's CEO has been formed to date. If any issues were to arise under the Fit and Proper regime, they could impact on the Group's reputation, results, financial condition and prospects.

Irish Banking System

The introduction of new government policies or the amendment of existing policies in Ireland or the UK in respect of the banking system, including its supervision, regulation, recapitalisation and structure, has had, and may have a significant impact on the Group's results, financial condition and prospects.

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 holding by the National Pensions Reserve Fund Commission (NPRFC) of ordinary stock and preference stock in the capital of Bank of Ireland 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 or its creditors. The introduction of new Government policies or the amendment of existing policies by any future Government could have a significant impact on the Group's results, financial condition and prospects.

The Group has also given a number of undertakings to the Minister for Finance in respect of its lending, corporate governance, dividends and remuneration. These were set out in a letter of 8 July 2011.

The increased geopolitical risk in the eurozone may have implications for the future of the Irish banking system and increased capital requirements for banks operating in Europe since heavily capitalised banks are mooted as a possible solution to some of the sovereign risk concerns.

Regulatory obligations are increasing and the embedding of the significant number of new codes into existing systems and business processes within requisite timescales is very challenging, especially given their operational complexity. In addition there appears to be an increasing tendency to impose more stringent sanctions or fines. Were the Group to breach regulatory obligations to such an extent that a regulator considered that a sanction or fine was necessary, such sanction or fine would require public disclosure which may impact on both investor and customer sentiment.

Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG)

Under the ELG scheme, certain liabilities of Irish financial institutions (Participating Institutions) are guaranteed by the Minister for Finance. The ELG scheme facilitates Participating Institutions, including the Group, in issuing debt securities and taking deposits.

The Irish Government has extended the Eligible Liabilities Guarantee Scheme for a further period of one year to 31 December 2012. The extension is subject to, as normal, EU state aid approval every six months – which is the maximum period permitted for such approval under the European Commission's policy on guarantee schemes in the financial sector. The EU Commission has approved the first six month extension to 30 June 2012. Debt securities and deposits issued under the ELG scheme prior to 30 June 2012 will be covered up to maturity, subject to a maximum maturity of five years.

The cancellation, cessation or material amendment of 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.

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, weaken competitive position and adversely affect the Irish economy with significant effects for the Group.

EU Restructuring Plan

On 15 July 2010, the European Commission approved the State aid received by the Group under EU State aid rules on the basis of the Group's EU Restructuring Plan submitted on 30 September 2009 and updated on 26 May 2010.

On 31 March 2011, the Minister for Finance, in his Statement on Banking Matters, stated that the State would submit new restructuring plans for the banks to the European Commission for approval under EU State aid rules in respect of the implications of the changes necessary for the future banking landscape in Ireland. As part of the European Commission State aid review, a revised 2011 EU Restructuring Plan was prepared by the Group and submitted by the Department of Finance to the European Commission on 29 April 2011. This Revised 2011 EU Restructuring Plan includes the additional deleveraging of assets, together with the deferral of the market opening measures by twelve months and the expansion and extension of other behavioural measures already agreed in the Approved 2010 EU Restructuring Plan. On 20 December 2011, the European Commission adopted their Final Decision approving the Revised 2011 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 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. The potential for the Group realising 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 for 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 approved by the European Commission will oversee the Group's adherence to the commitments of the Restructuring Plan. The actions of the Monitoring Trustee could further 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 could lead to disruption in the Group's operations, financial condition and prospects.

Other

The Government (through the NPRFC) currently holds all of the outstanding 2009 Preference Stock. Under the terms of the 2009 Preference Stock, if the Group 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 Group was precluded from paying dividends or had inadequate distributable reserves at the relevant dividend declaration date.

As the current holder of the outstanding 2009 Preference Stock the NPRFC has the right to directly appoint 25% of the directors of the Group. The tabling of any resolution at a General Court of Bank of Ireland to alter the capital structure of the Group requires the prior approval in writing of the Minister. 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.

The Group's participation in the ELG scheme and the NPRFC's holding of 2009 Preference Stock could require the Group to implement operational policies that could materially adversely affect the Group's results, financial condition and prospects.

Bank of Ireland (UK) plc

At 31 December 2011, the Group's subsidiary bank in the United Kingdom, Bank of Ireland (UK) plc, comprised the Group's Post Office joint ventures, its branch business in Northern Ireland, assets from its former intermediary mortgage business, and other parts of its UK business banking operations. The Group's UK subsidiary could be subject to special resolution regime powers under the UK Banking Act 2009. The Financial Services Act 2010 (FS Act 2010) obliges the FSA to make Recovery and Resolution Plan (RRP) rules for UK incorporated deposit-takers having regard to international standards relating to RRPs.

The Group's UK subsidiary could be subject to future structural and non-structural reforms to promote financial stability and competition and to protect UK retail depositors currently under consideration by the UK Government.

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.

The additional regulatory complexity of Bank of Ireland (UK) plc impacts current management accountabilities and operations and the business plan for Bank of Ireland (UK) plc and Group deleveraging plans. As UK deposits are a critical source of funding, additional conditionality attaching to licensing parameters may undermine efforts to achieve Group objectives to repay monetary authority funding.

Basel III / CRD IV

In July 2011, the EU published its proposals for CRD IV which will implement Basel III rules in the EU. The rules will be implemented on a phased basis, commencing in 2013 and currently planned to complete by 2019. The Group continues to plan for CRD IV, however as there are differences between Basel III and CRD IV definitions for key ratios including the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR) and RWA composition, it is difficult to assess the full impact on the Group of the revised rules at this time.

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 would be affected if the Group were insufficiently capitalised. This could be caused by 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 and higher than planned haircuts 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 Capital Requirements Directives (CRD II, III, IV), Basel III and Solvency II.

The Central Bank of Ireland expect the Group to complete a revised Prudential Capital Assessment Review in 2012 (2012 PCAR), similar to the exercise completed in 2011. The 2012 PCAR is an assessment of forward-looking prudential capital requirements of the Group arising from expected and potential stressed loan losses, and other financial developments. The Group could be subject to the risk that capital requirements may increase post the results of the 2012 PCAR.

The Group has had significant capital raisings in 2010 and 2011. Any requirement in the future to raise additional capital could significantly dilute existing shareholdings.

The Group can be exposed to market risks such as changes in interest rates, interest rate spreads and foreign exchange rates.

The Group distinguishes between structural and discretionary market risk. The Group uses the term 'structural' to encompass the interest rate risks that arise from the presence of non-interest related assets and liabilities on the balance sheet, the exposure of Group earnings to basis risk (including cross-currency basis risk) and the exposure of the Group's net worth and its principal capital ratios to exchange rate movements. The challenge of managing these structural risks has increased in recent years as a result of higher impairment charges, write-downs on disposal, capital management initiatives and the impact of the crisis on interest rate and foreign exchange markets. The Group remains potentially exposed to adverse movements in interest rates, interest rate basis (the differential between variable interest rates), cross-currency basis (the cost of borrowing in euros to fund assets in sterling) and exchange rates.

The Group may be required to make further contributions to its pension schemes if the value of pension fund assets is not sufficient to cover potential obligations.

While significant progress was made in 2009 to confine the size of liabilities, the Group's pension funds are subject to market fluctuations and changes in the value of underlying assets, as well as to 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.

Reputation risk is inherent in the Group's business.

Negative public or industry 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 remuneration practices, money laundering, the occurence of cyber crime, mis-selling of financial products or widespread mortgage foreclosures.

Negative public or industry opinion may adversely impact the Group's ability to have a positive relationship with key stakeholders including the Government and / or keep and attract customers and, in particular, depositors, the loss of which may in each case adversely impact the Group's business, financial condition and prospects.

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), information technology or equipment failures or the failure of external systems and controls including those of the Group's suppliers or counterparties or from people related or external events, such as cyber crime or 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.

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.

The resolution of the eurozone sovereign debt crisis has given rise to discussions regarding increased fiscal convergence and the possible introduction of a financial transaction tax, the so called 'Tobin Tax'. Any revised treaty to support announcements by Germany and France on the concept of fiscal union including an 'economic government' could have implications for Irish corporate tax rates or the tax base. This may impact on the Group's results, financial condition and prospects.

The Group may be subject to litigation proceedings which could have a material adverse impact on its results, financial condition and prospects.

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 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.

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 European Banking Authority (EBA) remuneration guidelines.

2 Risk Management Framework

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.

2.1 Risk Identity, Strategy and Appetite

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.

The Group's risk strategy and risk appetite are set by the Court.

Risk Identity

The Group's risk identity is to be the leading Irish retail, commercial and corporate bank committed to long-term relationships with its customers. The Group's franchise is in Ireland with income and risk diversification through a meaningful presence in the UK and selected international activities where the Group has proven competencies. The Group will operate within prudent Court-approved risk parameters to have and maintain a robust, stand alone financial position.

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 areas such as 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.

As such, Risk Appetite represents a boundary condition to the Group's strategy.

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. The 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 Risk Appetite Statement was revised to reflect the impacts of PCAR / PLAR 2011 and the subsequent capital raising on the Group's risk profile. The Court approved the revised statement in May 2011.

Risk Strategy

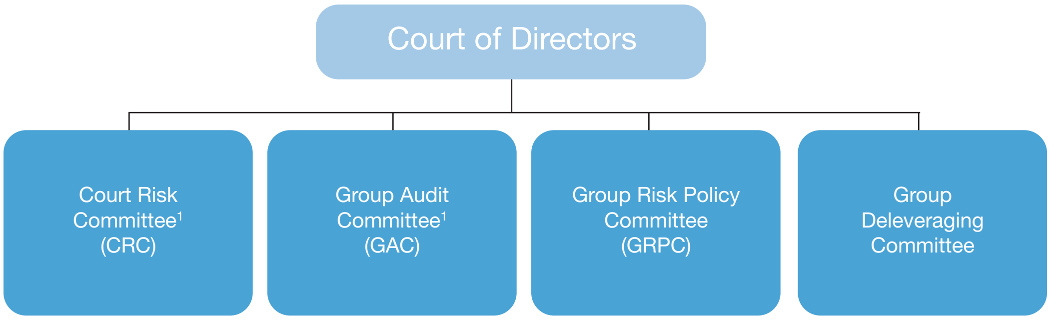
The Group's risk strategy is shaped by Risk Appetite as approved by the Court and its objective is to reduce overall risk profile.

This is executed through:

- having clear risk targets and limits;
- ensuring that all material risks are correctly identified, measured, reported and controlled;
- allocating clear roles, responsibilities and accountabilities for the management and control of risk within the Group; and
- raising awareness of and commitment to the principles of sound risk management.

2.2 Risk Governance

Governance Structure



[1] *Membership comprises only non-executive Directors*

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 it 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 Court Risk Committee (CRC)** comprises 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 nine times during 2011.

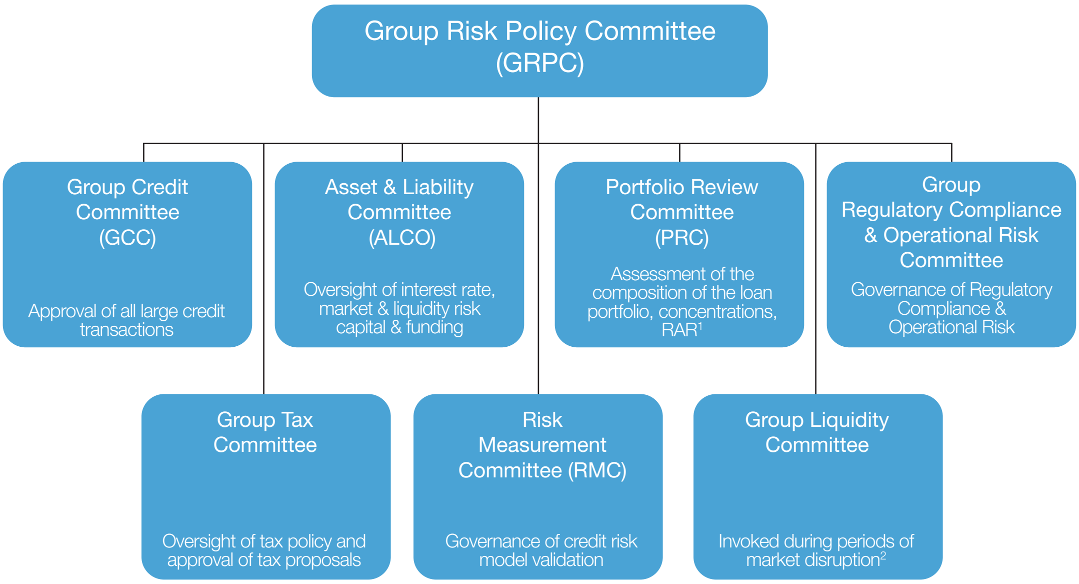
- **The Group Audit Committee (GAC**) comprises non-executive Directors and assists the Court in fulfilling its responsibilities in relation to risk management. In close liaison with the CRC, it advises the Court in establishing the Group's Risk Appetite and setting standards for the Group's risk control framework. It reviews the appropriateness and completeness of the system of internal control, reviews the manner and framework in which management ensures 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. It assists the Court in meeting obligations under relevant Stock Exchange Listing Rules, including the Sarbanes Oxley Act, as well as other regulatory requirements. The committee met twelve times during 2011.

- **The Group Deleveraging Committee (GDC)** is a committee appointed by the Court and was established in June 2011 to monitor and oversee the delivery of the Group's deleveraging commitments under the Group's business plan, the Central Bank 2011 PCAR / PLAR process and the EU / IMF Programme of Financial Support for Ireland. The committee is chaired by a non-executive Director and is comprised of a number of the Group's executives and senior managers. The committee met five times in 2011. Representatives from the Department of Finance and Central Bank of Ireland have enhanced observer status at this committee.

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. Please refer to the Corporate Governance Statement on page 129 for further details.

- **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. It met eighteen times during 2011. 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. It also 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 manged and that strategy is informed by and aligned with the Group's Risk Appetite. 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 and funding, operational, regulatory and tax) to committees that are accountable to it. The relevant committees are set out in the following diagram.

2.2 Risk Governance (continued)



[1] *Risk-adjusted returns (RAR).*
[2] *The committee has been invoked and is overseeing the management of funding and liquidity.*

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 (GAC), is responsible for providing control assurance to the Court, the GAC, 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 incorporates 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.

2.3 Risk Identification, Measurement and Reporting

Risk Identification

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

Material risks are included in the Group Risk Framework, ownership assigned, appropriate policies and / or processes 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 and inflexibility in the cost base. Strategic risk generally relates to a longer timeframe and pertains to volatilities in earnings arising from a failure to develop or execute an appropriate strategy.

Regulatory risk is the risk or volatility of earnings 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, persistency 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 mispricing deals, holding insufficient capital (economic and / or regulatory) and being subject to financial, 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.

2.3 Risk Identification, Measurement and Reporting (continued)

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.

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).

The Group conducts solvency stress tests in order to assess the impacts of adverse scenarios on the Group's impairment charges on financial assets, deleveraging losses, 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.

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 on page 60. 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 and the Court (and the CRC where applicable) 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.

3 Management of Key Group Risks

3.1 Credit Risk

Key points:

- The credit environment in which the Group operates remained challenging in 2011. While the Irish economy is expected to have emerged from recession and recorded modest growth in 2011, a combination of fiscal austerity, continued high unemployment and falling property prices continued to weigh on asset quality and impairments. In the UK, improvements in the early part of the year were offset by more difficult conditions in the second half and growth forecasts for the UK economy were revised sharply downward during the year.
- The loan book has contracted significantly, with volumes before impairment provisions reducing to €108 billion at 31 December 2011 (from €119 billion at 31 December 2010), through asset disposals as part of the Group's deleveraging initiatives, scheduled and unscheduled repayments and low demand for credit.
- Asset Quality in 2011 remained under pressure more generally in Ireland, while trends in UK mortgages, internationally focussed corporate lending and consumer portfolios improved. There was some deterioration in the arrears profile in the Irish Mortgage book in the second half of the year, which may have been partially attributable to implementation of the new Code of Conduct on Mortgage arrears and the considerable public speculation about potential policy measures regarding customers in arrears. Our Irish business customers who have a high dependency on the domestic economy continued to face difficult conditions and this has adversly impacted on their credit profile.

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 183.

Credit Risk 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.

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

Credit risk arises from loans and advances to customers. It also arises from the financial transactions the Group enters into with financial institutions, sovereigns and state institutions. It is 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 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; and
- Letters of offer.

Further information on the Group's exposures is set out in note 47.

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 counterparty. A very high proportion of the Group's interbank derivatives book is covered by CSAs and is hence collateralised, primarily through cash.

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 64.

Credit Risk (continued)

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 Statement. Single name concentrations are also subject to limits.

As the Group reduces the overall size of its balance sheet, concentration risk may increase in relative terms and geographical and sectoral diversification may reduce. In 2011, regulatory sectoral limits in relation to 'real estate, land and development activities' were breached on several occasions. These breaches were reported to and acknowledged by the Central Bank and the Central Bank is aware of the likely future path of the Group's regulatory sectoral concentrations.

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 Group allocates significant resources to ensure ongoing monitoring and compliance with approved risk limits.

The Portfolio Review Committee (PRC) considers and recommends to the GRPC, 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 Risk (continued)

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 2011, the Group's top 50 non-Bank exposures (including off balance sheet exposures) amounted to €7.4 billion (31 December 2010: €11.8 billion).

Credit Risk Mitigation
An assessment of the borrower's ability to service and repay the proposed level of debt (principal repayment source) 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 including hedging, securitisation and the taking of collateral (which acts as a secondary repayment source).

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 which is approved annually by the Court.

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. The Group takes collateral as a secondary source, which can be called upon if the borrower is unable or unwilling to service and repay debt as originally assessed.

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 extent to which collateral and other credit enhancements mitigate credit risk in respect of the Group's mortgage portfolio is set out on page 127.

Credit Risk Assessment
The Group's approach to the management of credit risk is focussed 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 Committee, the CRC and the Court on (a) developments in these risks and (b) ensuring all risk exposures comply with specific risk limits. 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.

Response to Challenged Credit Environment
A range of initiatives were 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 enhanced collections and recoveries processes, expansion of specialist work-out teams to ensure early

Credit Risk (continued)

intervention in vulnerable cases, intensive review cycles for 'at risk' exposures and the management of excess positions, support from central teams in managing 'at risk' and 'challenged' portfolios at a business unit level, modified and tighter lending criteria for specific sectors, a reduction in certain individual bank exposures and the revised Risk Appetite Framework and Statement.

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

Mortgage forbearance and restructure strategies in Retail Ireland
A range of forbearance strategies are used for customers in arrears or facing potential arrears, in order to arrange, where viable or possible, sustainable mortgage repayment solutions.

The Bank of Ireland Group has fully adopted the requirements of the Central Bank of Ireland Code of Conduct on Mortgage Arrears (CCMA) which, among other things, requires mortgage lenders to establish a Mortgage Arrears Resolution Process (MARP) for defined owner occupied mortgages. The MARP sets out the framework for case by case consideration and implementation of a range of forbearance measures for qualifying borrowers. In addition, the Group has set out a clearly defined Mortgage Arrears Resolution Strategy incorporating both owner occupied and Buy to let mortgages. The forbearance process adopted by the Group seeks to minimise loss arising from non repayment of customer mortgages while ensuring that customers are treated fairly and with respect throughout the arrears management and resolution process.

Implementation of forbearance solutions occur on either a temporary or permanent basis to facilitate sustainable repayment plans and are subject to individual case assessment.

Formal temporary forbearance solutions include setting short term revised repayments or short term suspension of repayments, eg. interest only, reduced repayment (greater than interest only) and term extensions (including servicing interest).

Permanent forbearance solutions include:

- term extensions;
- capitalisation of arrears is considered where the customer has demonstrated capacity to meet payments in line with their original contracted sum and in circumstances where the customer's ability to continue to meet repayments following capitalisation is deemed to be sustainable. Repeat capitalisations are restricted; and
- phased step-up repayments over the total contracted term.

Additional potential forbearance options, contained within the recommendations of the Government Inter-Departmental Mortgage Arrears Working Group and in line with our Mortgage Arrears Resolution Strategy, are under consideration.

Credit Risk 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. Details of these internal credit rating models is outlined in Section 5 Credit Risk Methodologies on page 124.

Credit Risk (continued)

Loan Loss Provisioning

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 focussed 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.

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.

Under delegated authority from the Court, the Group's provisioning methodology is approved by the GRPC on a half yearly basis, details of which are set out in Section 5 Credit Risk Methodologies on page 124.

The quantum of the Group's impairment 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.

An analysis of the Group's impairment provisions at 31 December 2011 is set out in note 31.

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 property assets (both investment property and development), in particular in Ireland, where restricted market liquidity continues to be a feature of the market, the Group uses estimated cash flows based on valuations from the most appropriate source available for the asset in question.

Details of these valuation methodologies are set out in Section 5 Credit Risk Methodologies on page 124.

3.1.2 Book Profile - Loans and advances to customers

Loans and advances to customers in the tables on pages 67 to 74 include loans and advances to customers and loans held for sale at 31 December 2011. The 2010 comparative tables do not include loans held for sale to NAMA.

Geographical and industry analysis of loans and advances to customers

The following table gives the geographical and industry breakdown of total loans (before impairment provisions).

Geographical / industry analysis	Loans and advances to customers 31 December 2011 Ireland €m	UK & Other €m	Total €m	Loans and advances to customers 31 December 2010 Ireland €m	UK & Other €m	Total €m
Personal	29,847	30,957	60,804	30,468	33,497	63,965
- Residential mortgages	*27,854*	*29,636*	*57,490*	*28,067*	*32,199*	*60,266*
- Other consumer lending	*1,993*	*1,321*	*3,314*	*2,401*	*1,298*	*3,699*
Property and construction	10,381	10,199	20,580	11,537	12,857	24,394
- Investment	*8,231*	*8,633*	*16,864*	*9,122*	*10,697*	*19,819*
- Land and development	*2,150*	*1,566*	*3,716*	*2,415*	*2,160*	*4,575*
Business and other services	9,193	3,849	13,042	9,660	4,461	14,121
Distribution	3,469	591	4,060	3,897	758	4,655
Manufacturing	3,160	1,134	4,294	3,806	1,581	5,387
Transport	1,186	198	1,384	1,225	324	1,549
Financial	906	262	1,168	1,758	310	2,068
Agriculture	1,628	205	1,833	1,609	161	1,770
Energy	838	99	937	1,454	69	1,523
Total	**60,608**	**47,494**	**108,102**	**65,414**	**54,018**	**119,432**

The geographical breakdown is primarily based on the location of the business unit where the asset is booked.

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 53% of total loans at 31 December 2011 (31 December 2010: 50%). 48% of Residential mortgages relate to Ireland and 52% relate to the UK at 31 December 2011. The Group has previously announced its withdrawal from the intermediary sourced mortgage market in the UK. At 31 December 2011 this book amounted to £25 billion (before impairment provision).

The Property and construction sector accounted for 19% or €21 billion of total loans at 31 December 2011 (31 December 2010: 20% or €24 billion). This book consists primarily of investment loans.

The Group's deleveraging initiatives contributed significantly to the reduction in loans and advances to customers as at 31 December 2011.

3 Credit Risk (continued)

3.1.3 Asset Quality - Loans and advances to customers

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

The Group applies internal ratings to loans 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 loans, 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.

'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 loans to customers, 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- and BBB+ and BBB for the external major rating agencies;
- satisfactory quality ratings apply to good quality loans that are performing as expected, including loans 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 can also apply to certain temporary and permanent mortgage restructuring arrangements that are neither past due nor impaired;
- acceptable quality ratings apply to loans 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+. In addition, acceptable quality ratings can also apply to certain temporary mortgage restructuring arrangements that are neither past due nor impaired; and
- the lower quality but neither past due nor impaired rating applies to those loans 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.

Asset Quality - Loans and advances to customers (continued)

Loans and advances to customers **Book composition (before impairment provisions)**	**31 December 2011** **€m**	**%**	31 December 2010 €m	%
Residential mortgages	57,490	53%	60,266	51%
- Retail Ireland	*27,854*	*26%*	*28,067*	*24%*
- Retail UK	*29,636*	*27%*	*32,199*	*27%*
Non-property SME and corporate	26,718	25%	31,073	26%
- Republic of Ireland SME	*11,497*	*11%*	*11,155*	*9%*
- UK SME	*3,662*	*3%*	*3,895*	*3%*
- Corporate	*11,559*	*11%*	*16,023*	*13%*
Property and construction	20,580	19%	24,394	20%
- Investment	*16,864*	*16%*	*19,819*	*17%*
- Land and development	*3,716*	*3%*	*4,575*	*3%*
Consumer	3,314	3%	3,699	3%
Total loans and advances to customers	**108,102**	**100%**	**119,432**	**100%**

The geographical breakdown is primarily based on the location of the business unit where the asset is booked.

The Group's loans and advances to customers at 31 December 2011 were €108 billion before impairment provisions compared to €119 billion before impairment provisions at 31 December 2010. Residential mortgages accounted for 53% of total loans and advances to customers at 31 December 2011 compared to 51% at 31 December 2010.

The other loan portfolios account for broadly equivalent proportions of the loan book at 31 December 2011 and at 31 December 2010.

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.

Asset Quality - Loans and advances to customers (continued)

31 December 2011 **Risk profile of loans and advances to customers including held for sale (before impairment provisions)**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total loans and advances to customers €m**	**Total loans and advances to customers %**
High quality	49,924	5,530	836	2,154	58,444	54%
Satisfactory quality	564	10,329	4,526	619	16,038	15%
Acceptable quality	1,008	4,446	3,961	45	9,460	9%
Lower quality but not past due nor impaired	-	1,940	2,592	-	4,532	4%
Neither past due nor impaired	**51,496**	**22,245**	**11,915**	**2,818**	**88,474**	**82%**
Past due but not impaired	4,520	430	1,042	158	6,150	6%
Impaired	1,474	4,043	7,623	338	13,478	12%
Total	**57,490**	**26,718**	**20,580**	**3,314**	**108,102**	**100%**

31 December 2010 Risk profile of loans and advances to customers (before impairment provisions)	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
High quality	53,799	6,987	2,085	2,268	65,139	55%
Satisfactory quality	503	12,777	7,595	788	21,663	19%
Acceptable quality	1,273	4,989	5,114	63	11,439	8%
Lower quality but not past due nor impaired	-	2,173	2,144	-	4,317	4%
Neither past due nor impaired	55,575	26,926	16,938	3,119	102,558	86%
Past due but not impaired	3,614	490	1,579	209	5,892	5%
Impaired	1,077	3,657	5,877	371	10,982	9%
Total	60,266	31,073	24,394	3,699	119,432	100%

As a result of changes in the classification of certain restructured mortgages that are 'neither past due nor impaired' from high quality to satisfactory quality and from satisfactory quality to acceptable quality during the year ended 31 December 2011, the table at year ended 31 December 2010 has been amended to reflect these reclassifications.

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 183.

Loans and advances to customers classified as 'neither past due nor impaired' amounted to €88 billion or 82% of the Group's loan book at 31 December 2011 compared to €103 billion or 86% at 31 December 2010. Asset disposals as part of the Group's deleveraging initiatives contributed significantly to the reduction in loans and advances to customers classified as 'neither past due not impaired'.

The 'past due but not impaired' category amounted to €6 billion or 6% of loans and advances to customers at 31 December 2011 compared to €5.9 billion or 5% of loans and advances to customers at 31 December 2010.

'Impaired' loans increased from €11 billion or 9% of loans and advances to customers at 31 December 2010 to €13 billion or 12% of loans and advances to customers at 31 December 2011, an increase of three percentage points.

The increase is primarily driven by continued deterioration in the Residential mortgages and Property and construction sectors.

Asset Quality - Loans and advances to customers (continued)

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 183.

'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 2011

Loans and advances to customers including held for sale - 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	1,384	273	479	82	2,218
Past due 31 - 60 days	741	84	416	54	1,295
Past due 61 - 90 days	431	73	147	22	673
Past due more than 90 days	1,964	-	-	-	1,964
Total past due but not impaired	**4,520**	**430**	**1,042**	**158**	**6,150**
Impaired	1,474	4,043	7,623	338	13,478
Past due but not impaired and impaired	**5,994**	**4,473**	**8,665**	**496**	**19,628**

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
Total past due but not impaired	3,614	490	1,579	209	5,892
Impaired	1,077	3,657	5,877	371	10,982
Past due but not impaired and impaired	4,691	4,147	7,456	580	16,874

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 183.

Loans and advances to customers classified as 'past due but not impaired and impaired' amounted to €20 billion or 18% of the Group's loan book at 31 December 2011 compared to €17 billion or 14% at 31 December 2010.

Residential mortgages classified as 'past due but not impaired and impaired' increased by €1.3 billion from €4.7 billion at 31 December 2010 to €6 billion at 31 December 2011 reflecting increasing default arrears (90 days or more past due) in the owner occupied and particularly in the Buy to let segments.

Property and construction loans classified as 'past due but not impaired and impaired' were €8.7 billion at 31 December 2011 (€7.5 billion at 31 December 2010) an increase of €1.2 billion reflecting lower rental income arising from reduced market rents and higher vacancy rates for more prolonged periods in the investment property element of the Property and construction book.

The volume of Non-property SME and corporate loans that are 'past due but not impaired or impaired' has increased from €4.1 billion at 31 December 2010 to €4.5 billion at 31 December 2011. The increase reflects challenging economic conditions in Ireland together with a continuation of poor consumer sentiment and an increase in the level of business insolvencies.

Consumer loans that are 'past due but not impaired or impaired' are €496 million at 31 December 2011 compared to €580 million at 31 December 2010, reflecting the overall reduction in consumer loans due to accelerated repayments and subdued demands for new loans and other credit facilities.

Asset Quality - Loans and advances to customers (continued)

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 183.

31 December 2011 **Loans and advances to customers including held for sale Composition and impairment**	**Advances (pre-impairment) €m**	**Impaired loans €m**	**Impaired loans as % of advances %**	**Impairment provisions €m**	**Impairment provisions as % of impaired loans %**
Residential mortgages	57,490	1,474	2.6%	1,159	79%
- Retail Ireland	*27,854*	*1,347*	*4.8%*	*1,026*	*76%*
- Retail UK	*29,636*	*127*	*0.4%*	*133*	*105%*
Non-property SME and corporate	26,718	4,043	15.1%	1,723	43%
- Republic of Ireland SME	*11,497*	*2,335*	*20.3%*	*1,088*	*47%*
- UK SME	*3,662*	*605*	*16.5%*	*217*	*36%*
- Corporate	*11,559*	*1,103*	*9.5%*	*418*	*38%*
Property and construction	20,580	7,623	37.0%	3,205	42%
- Investment	*16,864*	*4,553*	*27.0%*	*1,562*	*34%*
- Land and development	*3,716*	*3,070*	*82.6%*	*1,643*	*54%*
Consumer	3,314	338	10.2%	278	82%
Total loans and advances to customers	**108,102**	**13,478**	**12.5%**	**6,365**	**47%**

31 December 2010 Loans and advances to customers Composition and impairment	Advances (pre-impairment) €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%
- Retail Ireland	*28,067*	*921*	*3.3%*	*575*	*62%*
- Retail UK	*32,199*	*156*	*0.5%*	*150*	*96%*
Non-property SME and corporate	31,073	3,657	11.8%	1,474	40%
- Republic of Ireland SME	*11,155*	*1,782*	*16.0%*	*844*	*47%*
- UK SME	*3,895*	*550*	*14.1%*	*207*	*38%*
- Corporate	*16,023*	*1,325*	*8.3%*	*423*	*32%*
Property and construction	24,394	5,877	24.1%	2,455	42%
- Investment	*19,819*	*2,806*	*14.2%*	*951*	*34%*
- Land and development	*4,575*	*3,071*	*67.1%*	*1,504*	*49%*
Consumer	3,699	371	10.0%	321	87%
Total loans and advances to customers	**119,432**	**10,982**	**9.2%**	**4,975**	**45%**

Impairment Provision by nature of impairment provision	**31 December 2011 €m**	31 December 2010 €m
Specific provisions individually assessed	**4,321**	3,348
Specific provisions collectively assessed	**1,045**	816
Incurred but not reported	**999**	811
Total Impairment provision	**6,365**	**4,975**

Asset Quality - Loans and advances to customers (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 183.

Loans and advances to customers reduced by 10% or €11 billion, from €119 billion at 31 December 2010 to €108 billion at 31 December 2011 due to actions taken by customers to reduce their levels of debt, muted demand for new lending and deleveraging initiatives undertaken by the Group.

'Impaired' loans increased from €11 billion or 9.2% of Loans and advances to customers at 31 December 2010 to €13 billion or 12.5% at 31 December 2011. The loan book continued to be impacted by the general economic downturn in Ireland resulting 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 €6.4 billion at 31 December 2011 represented 47% of impaired loans (31 December 2010: impairment provisions of €5.0 billion representing 45% of impaired loans).

Total Residential mortgages impaired loans increased to €1.5 billion or 2.6% of the loan book at 31 December 2011 from €1.1 billion or 1.8% of the loan book at 31 December 2010, reflecting increasing default arrears (90 days or more past due), in the Irish mortgage book and particularly in the Buy to let segments. In the owner occupied segment, this increase is primarily attributed to the general economic downturn in Ireland and affordability issues including falling disposable incomes and high unemployment levels. In addition, the rise in arrears since August 2011 appears to have been impacted by the implementation of the new code of conduct on mortgage arrears and the considerable public speculation about potential Government policy measures regarding customers in arrears. In the Buy to let segment, while there has been some stabilisation in rents in 2011, overall rent levels are significantly down on peak (estimated to be down approximately 26% from peak[1]) and Buy to let borrowers are increasingly impacted by rising repayments as interest only periods come to an end, which particularly impacted default arrears in the second half of the year.

Default arrears (3+ payments past due) and the associated impairment provisions on Retail UK mortgages (particularly in the Buy to let and self certified segments) in the year ended 31 December 2011, were lower than the year ended 31 December 2010, in an environment where residential property prices performed better than the Group had expected.

Non-property SME and corporate impaired loans increased to €4.0 billion or 15.1% of the loan book at 31 December 2011 from €3.7 billion or 11.8% of the loan book at 31 December 2010. Impairment provisions on Non-property SME and corporate loans increased from €1.5 billion at 31 December 2010 or 40% of the impaired loans to €1.7 billion or 43% of the impaired loans at 31 December 2011. Challenging economic conditions in Ireland, a continuation of poor consumer sentiment and the increase in the level of business insolvencies have negatively impacted trading conditions and caused general pressure on the Irish SME sector. Those sectors correlated with consumer spending or the property markets are particularly impacted. Separately, larger Irish corporate customers trading internationally have continued to experience more favourable economic conditions, with the impairment charge in the Corporate business lower in the year ended 31 December 2011 as compared with the year ended 31 December 2010. In the UK SME segment, rising inflation and concerns regarding the impact of fiscal austerity have combined to leave UK economic conditions subdued. The year on year reduction primarily reflects the non-recurrence of impairment charges on a small number of large individual cases in the year ended 31 December 2010.

Impaired loans in the Property and construction portfolio increased from €5.9 billion or 24.1% of the portfolio at 31 December 2010 to €7.6 billion or 37% of the portfolio at 31 December 2011. In the investment property portfolio, there has been a significant increase in the level of impaired loans in the year ended 31 December 2011 as compared with the year ended 31 December 2010. In particular, weaker consumer spending and sentiment is adversely affecting trading performance, yields and asset values across the retail investment property sector. More generally, the increase in the level of impaired loans is due to lower rental income arising from reduced market rents and higher vacancy rates for more prolonged periods, together with a requirement for increased incentives to attract new tenants. Falling asset values in the Republic of Ireland and Northern Ireland have also adversely impacted the level of impaired loans in the year ended 31 December 2011. In the land and development portfolio the proportion of the book that is impaired has increased in the year ended 31 December 2011 as compared with the year ended 31 December 2010, reflecting lower house prices, over supply of residential housing stock, and illiquid property markets in the Republic of Ireland and in Northern Ireland.

Consumer impaired loans amounted to €0.3 billion or 10.2% of the loan portfolio at 31 December 2011 (31 December 2010: impaired loans of €0.4 billion or 10% of the loan portfolio). Consumer loans have reduced significantly reflecting accelerated repayments and subdued demand for new loans and other credit facilities. Default arrears and impairment charges were better than expected, in both the Republic of Ireland and the UK.

[1] *Per 'The Daft.ie rental report – An analysis of recent trends in the Irish rental market 2011, Quarter 4'.*

Asset Quality - Loans and advances to customers (continued)

Risk profile of loans and advances to customers by division (before impairment provisions)
The tables and analysis below summarise the Group's loans and advances to customers by division over the following categories: 'neither past due nor impaired', 'past due but not impaired' and 'impaired'. Exposures are before provisions for impairment.

Impairment charges on Loans and advances to Customers
High levels of unemployment, lower disposable incomes, falling asset values, poor consumer sentiment, rising business insolvencies and low levels of transactions 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 €1,939 million for the year ended 31 December 2011 increased by €80 million compared to the impairment charge of €1,859 million for the year ended 31 December 2010 reflecting the lower impairment charges on the Non-property SME and corporate portfolio as well as the Consumer portfolio, offset by the higher impairment charges on Residential mortgages and the Property and construction portfolio.

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 183.

Impairment charges on loans and advances to customers	**Year ended 31 December 2011 €m**	Year ended 31 December 2010[1] €m	Change %
Residential mortgages	469	404	16%
- Retail Ireland	*444*	*341*	*30%*
- Retail UK	*25*	*63*	*(60%)*
Non-property SME and corporate	497	609	(18%)
- Republic of Ireland SME	*281*	*291*	*(3%)*
- UK SME	*74*	*126*	*(41%)*
- Corporate	*142*	*192*	*(26%)*
Property and construction	893	719	24%
- Investment	*593*	*448*	*32%*
- Land and development	*300*	*271*	*11%*
Consumer	80	127	(37%)
Total impairment charges on loans and advances to customers	**1,939**	**1,859**	**4%**

[1] The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.

Impairment Charge by nature of impairment provision	**Year ended 31 December 2011 €m**	Year ended 31 December 2010[1] €m
Specific charge individually assessed	1,294	1,459
Specific charge collectively assessed	453	446
Incurred but not reported	192	(46)
Total Impairment charge	**1,939**	**1,859**

[1] The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.

Asset Quality - Loans and advances to customers (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 183.

Impairment charges on loans and advances to customers of €1,939 million for the year ended 31 December 2011 were €80 million or 4% higher compared to impairment charges of €1,859 million for the year ended 31 December 2010.

The impairment charge on **Residential mortgages** increased by €65 million from €404 million for the year ended 31 December 2010 to €469 million for the year ended 31 December 2011. The impairment charge on Retail Ireland mortgages was €444 million for the year ended 31 December 2011. The impairment charge in the year ended 31 December 2010 of €341 million included an amount of approximately €100 million, to reflect a change in the Group's assumption of the expected peak to trough decline in residential property prices from 45% to 55% in the impairment provisioning models for Retail Ireland mortgages.

Excluding this item the year on year increase in the impairment charge was €203 million reflecting increasing default arrears (90 days or more past due), in the owner occupied and particularly in the Buy to let segments. This increase is primarily attributed to the general economic downturn in Ireland and affordability issues including falling disposable incomes and high unemployment levels. In addition, the rise in arrears since August 2011 appears to have been impacted by the implementation of the new code of conduct on mortgage arrears and the considerable public speculation about potential Government policy measures regarding customers in arrears.

While there has been some stabilisation in rents in 2011, overall rent levels are significantly down on peak (estimated to be down approximately 26% from peak[1]) and Buy to let borrowers are increasingly impacted by rising repayments as interest only periods come to an end, which particularly impacted default arrears in the second half of the year. Further details are set out on page 91.

The impairment charge on Retail UK mortgages of €25 million for the year ended 31 December 2011 was €38 million lower compared with the year ended 31 December 2010. Default arrears (3+ payments past due) and the associated impairment charge on Retail UK mortgages (particularly in the Buy to let and self certified segments) in the year ended 31 December 2011, were lower than the year ended 31 December 2010, in an environment where residential property prices performed better than the Group had expected.

The impairment charge on the **Non-property SME and corporate** loan portfolio was €497 million for the year ended 31 December 2011 compared to €609 million for the year ended 31 December 2010.

Challenging economic conditions in Ireland, a continuation of poor consumer sentiment and the increase in the level of business insolvencies have negatively impacted trading conditions and caused general pressure on the Irish SME sector. Those sectors correlated with consumer spending or the property markets are particularly impacted. As a result the level of impairment charge, while it reduced in the year ended 31 December 2011 as compared to the year ended 31 December 2010, continues to be at an elevated level.

In the UK SME segment, rising inflation and concerns regarding the impact of fiscal austerity have combined to leave UK economic conditions subdued. The year on year reduction primarily reflects the non-recurrence of impairment charges on a small number of large individual cases in the year ended 31 December 2010.

Larger Irish corporate customers trading internationally and non-Irish based corporate customers continued to experience more favourable economic conditions with the impairment charge in the Corporate business lower in the year ended 31 December 2011 as compared with the year ended 31 December 2010.

The impairment charge of €893 million on the **Property and construction** portfolio for the year ended 31 December 2011 has increased by €174 million compared to the impairment charge of €719 million for the year ended 31 December 2010. The Property and construction portfolio amounted to €21 billion at 31 December 2011 comprising €17 billion of investment property loans and €4 billion of land and development loans.

The impairment charge on the investment property element of the Property and construction portfolio was €593 million for the year ended 31 December 2011 compared to €448 million for the year ended 31 December 2010.

The increase in the level of impaired loans and associated impairment charges is due to lower rental income arising from reduced market rents and higher vacancy rates for more prolonged periods, together with a requirement for increased incentives to attract new tenants. In addition, weaker consumer spending and sentiment is adversely affecting trading performance, yields and asset values across the retail and investment property sector. Falling asset values in the Republic of Ireland and Northern Ireland in particular, have also adversely impacted the level of impairment charge in the year ended 31 December 2011.

The impairment charge on the land and development element of the Property and construction portfolio was €300 million for the year ended 31 December 2011 compared to €271 million for the year

[1] *Per 'The Daft.ie rental report – An analysis of recent trends in the Irish rental market 2011, Quarter 4'.*

Asset Quality - Loans and advances to customers (continued)

ended 31 December 2010 reflecting lower house prices, over supply of residential housing stock, and illiquid property markets in the Republic of Ireland and in Northern Ireland.

The impairment charge of €80 million on **Consumer** loans for the year ended 31 December 2011 is €47 million lower compared to the impairment charge of €127 million for the year ended 31 December 2010.

Consumer loans have reduced significantly reflecting accelerated repayments and subdued demand for new loans and other credit facilities. Default arrears and impairment charges were better than expectations, in both the Republic of Ireland and the UK.

3.1.4 Asset Quality - Segmental Analysis

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 183.

31 December 2011 **Risk profile of loans and advances to customers including held for sale** **Total before impairment provisions**	**Retail Ireland €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Total Group €m**
High Quality	25,627	29,569	3,248	58,444
Satisfactory Quality	6,107	4,081	5,850	16,038
Acceptable Quality	4,074	2,790	2,596	9,460
Lower quality but not past due or impaired	2,268	1,422	842	4,532
Neither past due nor impaired	**38,076**	**37,862**	**12,536**	**88,474**
Past due but not impaired	3,439	2,440	271	6,150
Impaired	7,754	3,994	1,730	13,478
Past due but not impaired and impaired	**11,193**	**6,434**	**2,001**	**19,628**
Total	**49,269**	**44,296**	**14,537**	**108,102**

31 December 2010 Risk profile of loans and advances to customers before impairment provisions	Retail Ireland €m	Retail UK €m	Corporate and Treasury €m	Total Group €m
High Quality	26,887	32,334	5,918	65,139
Satisfactory Quality	7,465	5,888	8,310	21,663
Acceptable Quality	4,884	3,446	3,109	11,439
Lower quality but not past due or impaired	2,377	959	981	4,317
Neither past due nor impaired	41,613	42,627	18,318	102,558
Past due but not impaired	2,422	3,393	77	5,892
Impaired	6,105	3,095	1,782	10,982
Past due but not impaired and impaired	8,527	6,488	1,859	16,874
Total	50,140	49,115	20,177	119,432

Asset Quality - Segmental Analysis (continued)

The table below provides an aged analysis of loans and advances to customers 'past due but not impaired' by division:

31 December 2011 **Loans and advances to customers including held for sale which are past due but not impaired**	**Retail Ireland €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Total Group €m**
Past due up to 30 days	1,094	912	212	2,218
Past due up to 31 - 60 days	614	674	7	1,295
Past due up to 61 - 90 days	370	251	52	673
Past due more than 90 days	1,361	603	-	1,964
Total	**3,439**	**2,440**	**271**	**6,150**

31 December 2010 Loans and advances which are past due but not impaired	Retail Ireland €m	Retail UK €m	Corporate and Treasury €m	Total Group €m
Past due up to 30 days	961	1,473	5	2,439
Past due up to 31 - 60 days	424	622	23	1,069
Past due up to 61 - 90 days	278	586	49	913
Past due more than 90 days	759	712	-	1,471
Total	2,422	3,393	77	5,892

Repossessed collateral

At 31 December 2011, the Group had collateral held as security, as follows:

Repossessed collateral	**31 December 2011 €m**	31 December 2010 €m
Residential properties;		
Ireland	19	15
UK and other	36	38
	55	**53**
Other	15	9
Total	**70**	**62**

Further to the changes to IFRS 7, introduced as part of the improvements to IFRSs 2010, the information on repossessed collateral as at 31 December 2010 has been restated to show the amounts held at that date.

3.1.5 Asset Quality - Held for Sale

Held for sale - composition by division

The table below sets out analysis of the loans held for sale by division.

31 December 2011 Held for sale - composition by division[1]	Assets €m	Impairment provisions €m	Carrying value €m
Retail Ireland	-	-	-
Retail UK	802	-	802
Corporate and Treasury	1,642	21	1,621
Total held for sale	**2,444**	**21**	**2,423**

Held for sale - composition by portfolio (pre-provision)

The table below sets out analysis of the loans held for sale by portfolio.

Held for sale - composition by portfolio Loans held for sale (before impairment provisions)[1]	31 December 2011 €m
Residential mortgages	802
Non-property SME and corporate	1,642
Property and construction	-
Consumer	-
Total	**2,444**

Held for sale - composition by risk profile

The table below sets out analysis of the loans held for sale by risk profile.

31 December 2011 Held for sale - composition by risk profile Loans held for sale (before impairment provisions)[1]	Residential mortgages €m	Non-property SME and corporate €m	Total €m
Neither past due nor impaired	802	1,622	2,424
Past due but not impaired	-	-	-
Impaired	-	20	20
Held for sale (before impairment provisions)	**802**	**1,642**	**2,444**

[1] *These loans are included within the loans and advances to customers disclosed on the previous pages.*

Asset Quality - Held for Sale (continued)

'Neither past due nor impaired':

The table below provides an analysis of loans held for sale which are 'neither past due nor impaired' by asset classification based on an assessment of the credit quality of the borrower.

31 December 2011 Risk Profile Loans held for sale neither past due nor impaired[1]	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Total €m
High Quality	802	746	-	1,548
Satisfactory Quality	-	556	-	556
Acceptable Quality	-	320	-	320
Lower Quality but neither past due nor impaired	-	-	-	-
Total	**802**	**1,622**	**-**	**2,424**

'Past due but not impaired':

The table below provides an aged analysis of loans held for sale 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.

There are no 'past due but not impaired loans' in the held for sale portfolio for the year ended 31 December 2011.

'Impaired':

The table below provides an analysis of impaired loans held for sale by asset classification.

31 December 2011	Advances €m	Impaired loans €m	Impaired loans as a % of advances €m	Total provisions €m	Provisions as a % of impaired loans €m
Residential mortgages	802	-	-	-	-
Consumer	-	-	-	-	-
Non-property SME and corporate	1,642	20	1%	21	102%
Property and construction	-	-	-	-	-
Loans and Advances to Customers[1]	**2,444**	**20**	**1%**	**21**	**102%**

[1] *These loans are included within the loans and advances to customers disclosed on the previous pages.*

3.1.6 Asset Quality - Other Financial Instruments

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.

Other financial instruments are rated using external ratings attributed to external agencies or are assigned an internal rating based on the Group's internal models, or a combination of both. Mappings to external ratings agencies in the table below are therefore indicative only.

Asset quality: Other financial instruments with ratings equivalent to:	31 December 2011 €m	31 December 2011 %	31 December 2010 €m	31 December 2010 %
AAA to AA+	7,005	21%	9,896	26%
AA- to A-	14,213	42%	15,040	39%
BBB+ to BBB-	11,310	33%	12,150	31%
BB+ to BB-	646	2%	586	2%
B+ to B-	521	2%	635	2%
Lower than B-	163	-	185	-
Total	**33,858**	**100%**	**38,492**	**100%**

Sovereign debt and certain other exposures

Set out in the table below is an analysis of the Group's exposure to sovereign debt and certain other exposures (primarily being financial institution exposure) by selected balance sheet line item as at 31 December 2011. In addition, for these line items, further information on the Group's exposures to selected countries (being Ireland, Italy and Spain) representing eurozone countries that have a credit rating of AA or below from Standard & Poor's and where the Group has an exposure of over €250 million are set out on pages 83 to 86.

Cash and balances at central banks

Cash and balances at central banks	Year ended 31 December 2011 €m
United Kingdom (Bank of England)	7,624
United States (Federal Reserve)	194
Other (cash holdings)	363
Total	**8,181**

The Group's exposure to the United Kingdom shown above and on page 82 in respect of loans and advances to banks primarily relates to liquid assets in excess of regulatory liquidity requirements held by Bank of Ireland (UK) plc. The Group expects its excess holdings of liquid assets in Bank of Ireland (UK) plc to reduce during 2012 as regulatory approval for the transfer of loans to Bank of Ireland (UK) plc is received.

Other financial assets at fair value through profit or loss

The Group's holdings of 'Other financial assets at fair value through profit or loss' primarily relate to the Group's Life Assurance Business. The majority of these assets are held on behalf of policyholders who bear the inherent risks and rewards thereon. Therefore, any change in the carrying value results in an equal change in the amounts due to policyholders. The assets include Government bonds held by Bank of Ireland Life that back linked and non-linked policyholder liabilities and those held for solvency margin purposes. Information on these bonds is set out on page 83.

Loans and advances to banks

See table on page 82 for further details.

Available for sale financial assets

Available for sale financial assets consist of Government bonds, senior bank debt, covered bonds, subordinated debt and asset backed securities. See table on page 82 for further details.

NAMA senior bonds

NAMA senior bonds amount to €5,016 million as at 31 December 2011. These bonds are secured on NAMA assets and are accounted for as 'loans and receivables' rather than as 'available for sale financial assets'. The maturity date of the NAMA senior bonds is 1 March 2012. NAMA may, with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

Other information

At 31 December 2011, the Group had no net exposure to credit default swaps (CDS).

Sovereign debt and certain other exposures (continued)

The following table sets out, by country of issuer, the Group's exposures to Government bonds, senior bank debt, covered bonds, subordinated debt, asset backed securities and loans and advances to banks as at 31 December 2011. The exposures shown are the carrying value of the assets as reported in the balance sheet at 31 December 2011.

	Available for sale financial assets					
Type of exposure	**Government bonds €m**	**Senior bank debt €m**	**Covered bonds €m**	**Subordinated debt €m**	**Asset backed securities €m**	**Loans and advances to banks €m**
Australia	-	-	-	-	26	12
Austria	-	-	-	-	-	-
Belgium	-	-	-	9	-	-
Bulgaria	-	-	-	-	-	-
Bermuda	-	-	-	-	2	-
Canada	-	62	123	-	-	56
Cayman Islands	-	-	-	-	-	-
Cyprus	-	-	-	-	-	-
Czech Republic	-	-	-	-	-	-
Denmark	-	5	78	-	-	50
Estonia	-	-	-	-	-	-
Finland	-	-	46	-	-	44
France	20	314	561	5	8	668
Germany	-	83	50	9	11	144
Guernsey	-	-	-	-	1	-
Greece	-	-	-	-	-	-
Hungary	-	-	-	-	-	-
Iceland	-	-	-	-	-	-
Ireland	4,222 [1]	93	-	113 [2]	25	807
Italy	29	238	100	-	11	-
Jersey	-	-	-	-	14	-
Liechtenstein	-	-	-	-	-	-
Lithuania	-	-	-	-	-	-
Luxembourg	-	-	13	-	4	-
Malta	-	-	-	-	-	-
Netherlands	-	201	140	12	85	25
Norway	-	-	102	-	-	3
Poland	-	-	-	-	-	3
Portugal	-	-	63	-	-	-
Romania	-	-	-	-	-	-
Singapore	-	-	-	-	19	-
Slovakia	-	-	-	-	-	-
Slovenia	-	-	-	-	-	-
Spain	-	71	1,178	4	66	7
Sweden	-	-	104	-	-	19
Switzerland	-	-	-	-	-	39
United Kingdom	298	274	634	-	331	6,015
United States	1	53	282	-	69	30
Other	-	-	-	-	-	137
Total	**4,570**	**1,394**	**3,474**	**152**	**672**	**8,059**

[1] *Excludes Irish Government bonds with a carrying value of €163 million that are accounted for at fair value through profit or loss and that are held by Bank of Ireland Life. See page 83.*
[2] *NAMA subordinated debt of €113 million, is classified as an available for sale debt instrument.*

Sovereign debt and certain other exposures (continued)

Additional information on selected European countries

The tables below show the Group's exposures to selected countries (being Ireland, Italy and Spain), by selected balance sheet line item representing eurozone countries that have a credit rating of AA or below from Standard & Poor's and where the Group has an exposure of over €250 million.

Ireland

As at 31 December 2011, Ireland's credit rating from Standard & Poor's was BBB+. The table below shows the Group's exposure to Ireland by selected balance sheet line items:

	Carrying Value							Nominal value
As at 31 December 2011	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Cash and balances at Central banks	316	-	-	-	-	-	316	316
Other financial assets at fair value through profit or loss	1	-	102	289	78	58	528	573
- Government bonds	*1*	*-*	*102*	*240*	*78*	*41*	*462*	*501*
- Other	*-*	*-*	*-*	*49*	*-*	*17*	*66*	*72*
Loans and advances to banks	746	61	-	-	-	-	807	807
Available for sale financial assets	517	27	1,066	1,739	1,100	4	4,453	5,052
- Government bonds	*437*	*-*	*1,066*	*1,732*	*987*	*-*	*4,222*	*4,648*
- Other	*80*	*27*	*-*	*7*	*113*	*4*	*231*	*404*
NAMA senior bonds	-	-	-	-	5,016	-	5,016	5,079
Total	**1,580**	**88**	**1,168**	**2,028**	**6,194**	**62**	**11,120**	**11,827**

As set out in the Group's accounting policies on pages 183 to 206, the Group accounts for each of these assets as follows:

- Cash and balances at Central banks are short term in nature and are held at amortised cost.
- Other financial assets at fair value through profit or loss - any changes in the fair value of these assets are treated as gains or charges in the Group's income statement. Irish Government bonds with a nominal value of €501 million and a fair value of €462 million are held on behalf of the Group and comprise assets held by Bank of Ireland Life for solvency margin purposes (nominal value of €132 million; fair value of €163 million), bonds that back non-linked liabilities to Bank of Ireland Life policyholders (nominal value of €260 million; fair value of €191 million) and bonds that are linked to Bank of Ireland Life policyholder liabilities (nominal value of €110 million; fair value of €108 million).
- Loans and advances to banks include loans to credit institutions and are held at amortised cost.
- Available for sale financial assets are carried in the balance sheet at their fair value. Other than in respect of impairment, any change in fair value is treated as a movement in the AFS reserve in Stockholders equity.
- At 31 December 2011, the Group had holdings of NAMA senior bonds, which are issued by NAMA and guaranteed by the Irish Government, with a nominal value of €5,079 million and a fair value at that date of €5,055 million. NAMA senior bonds are classified as 'Loans and receivables' and accounted for at amortised cost which includes any provisions for impairment. The carrying value of these assets is not adjusted for changes in their fair value.

At 31 December 2011, the carrying value of the NAMA senior bonds in the Group's balance sheet was €5,016 million. The maturity date of the NAMA senior bonds is based on their ultimate expected maturity.

Sovereign debt and certain other exposures (continued)

Ireland (continued)

Available for sale financial assets As at 31 December 2011 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	525	30	1,104	1,913[1]	1,476	4	5,052
Fair value	517	27	1,066	1,739	1,100	4	4,453
Cumulative charge to AFS reserve reserves (before tax) in respect of AFS financial assets at 31 December 2011	(7)	(4)	(13)	(63)	(137)	-	(224)

[1] *On 25 January 2012, the National Treasury Management Agency offered bondholders the opportunity to exchange their existing holdings in respect of the 4% Treasury bond 2014 for a new 4.5% Treasury bond maturing in February 2015. The Group converted €1.3 billion of its Treasury bond 2014 into the new 4.5% Treasury bond 2015.*

Other financial assets at fair value through profit or loss As at 31 December 2011 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	1	-	106	305	97	64	573
- Held for solvency margin purposes	*-*	*-*	*57*	*75*	*-*	*-*	*132*
- Backing non-linked policyholder liabilities	*-*	*-*	*-*	*116*	*97*	*47*	*260*
- Linked to policyholder liabilities	*1*	*-*	*49*	*60*	*-*	*-*	*110*
- Other	*-*	*-*	*-*	*54*	*-*	*17*	*71*
Fair value	1	-	101	289	79	58	528
- Held for solvency margin purposes	*-*	*-*	*52*	*111*	*-*	*-*	*163*
- Backing non-linked policyholder liabilities	*-*	*-*	*-*	*71*	*79*	*41*	*191*
- Linked to policyholder liabilities	*1*	*-*	*49*	*58*	*-*	*-*	*108*
- Other	*-*	*-*	*-*	*49*	*-*	*17*	*66*

Sovereign debt and certain other exposures (continued)

Italy
As at 31 December 2011, Italy's credit rating from Standard & Poor's was BBB+. The table below shows the Group's exposure to Italy by selected balance sheet line items:

	Carrying Value							Nominal value
As at 31 December 2011	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Available for sale financial assets								
- Government bonds	*-*	*-*	*-*	*29*	*-*	*-*	*29*	*31*
- Other	*100*	*30*	*154*	*48*	*9*	*8*	*349*	*372*
Total	**100**	**30**	**154**	**77**	**9**	**8**	**378**	**403**

Available for sale financial assets As at 31 December 2011 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	100	30	164	90	10	9	403
Fair value	100	30	154	77	9	8	378
Cumulative charge to AFS reserve reserves (before tax) in respect of AFS financial assets at 31 December 2011	-	-	(10)	(12)	(1)	(1)	(24)

Italian Government bonds with a nominal value of €260 million and a fair value of €222 million are held on behalf of Bank of Ireland Life policyholders and are shown in the balance sheet in 'Other financial assets at fair value through profit or loss'.

Other financial assets at fair value through profit or loss As at 31 December 2011 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	-	4	1	3	66	186	260
- Held for solvency margin purposes	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Backing non-linked policyholder liabilities	*-*	*-*	*-*	*-*	*-*	*30*	*30*
- Linked to policyholder liabilities	*-*	*4*	*1*	*3*	*66*	*156*	*230*
Fair value	-	4	1	3	61	153	222
- Held for solvency margin purposes	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Backing non-linked policyholder liabilities	*-*	*-*	*-*	*-*	*-*	*24*	*24*
- Linked to policyholder liabilities	*-*	*4*	*1*	*3*	*61*	*129*	*198*

Sovereign debt and certain other exposures (continued)

Spain

As at 31 December 2011, Spain's credit rating from Standard & Poor's was A. The table below shows the Group's exposure to Spain by selected balance sheet line items:

As at 31 December 2011	Carrying Value 0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Nominal Total €m
Available for sale financial assets								
- Government bonds	-	-	-	-	-	-	-	-
- Other	-	*104*	*284*	*491*	*429*	*11*	*1,319*	*1,449*
Total	**-**	**104**	**284**	**491**	**429**	**11**	**1,319**	**1,449**

Available for sale financial assets As at 31 December 2011 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	-	105	290	534	506	14	1,449
Fair value	-	104	284	491	429	11	1,319
Cumulative charge to AFS reserve reserves (before tax) in respect of AFS financial assets at 31 December 2011	-	(1)	(6)	(43)	(77)	(3)	(130)

Spanish Government bonds with a nominal value of €82 million and a fair value of €86 million are held on behalf of Bank of Ireland Life policyholders and are shown in the balance sheet in 'Other financial assets at fair value through profit or loss'.

Other financial assets at fair value through profit or loss As at 31 December 2011 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	-	-	-	*1*	*33*	*48*	*82*
- Held for solvency margin purposes	-	-	-	-	-	-	-
- Backing non-linked policyholder liabilities	-	-	-	-	-	-	-
- Linked to policyholder liabilities	-	-	-	*1*	*33*	*48*	*82*
Fair value	-	-	-	*1*	*35*	*50*	*86*
- Held for solvency margin purposes	-	-	-	-	-	-	-
- Backing non-linked policyholder liabilities	-	-	-	-	-	-	-
- Linked to policyholder liabilities	-	-	-	*1*	*35*	*50*	*86*

In addition, the Group has an exposure of €7 million at 31 December 2011 to Spain under loans and advances to banks. This has a maturity of less than three months.

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Page

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 183.

Retail Ireland mortgages

Retail UK mortgages

Supplementary section - Retail Ireland Mortgages

The following disclosures represent additional disclosures for the Retail Ireland mortgage loan book. These disclosures provide additional detail and breakdowns on the composition and quality of the loan book.

Book composition

Table 1: **Retail Ireland mortgages - Volumes (before impairment provisions)**	**Year ended 31 December 2011 €m**	Year ended 31 December 2010 €m
Owner occupied mortgages	20,863	20,804
Buy to let mortgages	6,991	7,263
Total Retail Ireland mortgages	**27,854**	**28,067**

Retail Ireland mortgages were €27.9 billion at 31 December 2011 compared to €28.1 billion at 31 December 2010. The decrease of €213 million or 0.76% reflects principal repayments and muted demand for new mortgages. Bank of Ireland provided mortgage finance to six in ten (60%) first time buyer customers in the most recently published Irish Mortgage Council market data. Buy to let Retail Ireland mortgages have reduced by €272 million or 3.7% and owner occupied Retail Ireland mortgages have increased by €59 million or 0.28%. Of the owner occupied mortgages of €20.9 billion, 93% are on a 'principal and interest' repayment basis (31 December 2010: 91%). Of the Buy to let mortgages of €7 billion, 50% are on 'principal and interest' repayment basis (31 December 2010: 43%).

The Group has a long established infrastructure for the origination, underwriting and management of its mortgage portfolio. The portfolio has all been underwritten by the Group which manages this entire portfolio.

The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. Mortgage applications are assessed utilising a stressed interest rate. The mortgage process is a fully documented process with documentary evidence of key borrower information including an independent valuation of the security property.

Book composition (continued)

Table 2: 31 December 2011 Origination of Retail Ireland mortgage loan book (before impairment provisions)	Total Retail Ireland mortgage loan book		Loans > 90 days past due and / or impaired	
	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]
1996 and before	**123**	*6,841*	**8**	*356*
1997	**67**	*2,601*	**5**	*132*
1998	**112**	*3,475*	**8**	*178*
1999	**200**	*4,862*	**14**	*239*
2000	**353**	*6,584*	**25**	*348*
2001	**492**	*7,417*	**32**	*403*
2002	**907**	*10,903*	**68**	*599*
2003	**1,506**	*14,751*	**138**	*965*
2004	**2,457**	*19,239*	**242**	*1,312*
2005	**3,814**	*24,510*	**399**	*1,864*
2006	**5,572**	*29,579*	**771**	*2,933*
2007	**4,805**	*23,981*	**649**	*2,331*
2008	**3,315**	*17,577*	**303**	*1,109*
2009	**1,816**	*11,731*	**44**	*260*
2010	**1,278**	*7,921*	**3**	*30*
2011	**1,037**	*6,906*	**-**	*3*
Total	**27,854**	***198,878***	**2,709**	***13,062***

[1] *The number of accounts does not equate to either the number of customers or the number of properties.*

The table above illustrates that €10.0 billion or 36% of the Retail Ireland mortgage loan book originated before 2006, €13.7 billion or 49% between 2006 and 2008 and €4.1 billion or 15% in the years since. Total loans that are greater than 90 days past due and / or impaired were €2.7 billion or 9.7% of the Retail Ireland mortgage loan book at 31 December 2011, of which €1.7 billion or 6.3% were originated between 2006 and 2008.

Book composition (continued)

Table 3a:

31 December 2011 Risk profile of Retail Ireland mortgage loan book (before impairment provisions)	**Owner occupied**		**Buy to let**		**Total**	
	€m	**%**	**€m**	**%**	**€m**	**%**
Neither past due nor impaired	18,458	88%	5,398	77%	23,856	85%
Past due but not impaired	1,823	9%	828	12%	2,651	10%
Impaired	582	3%	765	11%	1,347	5%
Total Retail Ireland mortgages	**20,863**	**100%**	**6,991**	**100%**	**27,854**	**100%**

31 December 2010 Risk profile of Retail Ireland mortgage loan book (before impairment provisions)	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Neither past due nor impaired	19,227	93%	6,335	87%	25,562	91%
Past due but not impaired	1,137	5%	447	6%	1,584	6%
Impaired	440	2%	481	7%	921	3%
Total Retail Ireland mortgages	20,804	100%	7,263	100%	28,067	100%

The tables above illustrates that €23.9 billion or 85% of the total Retail Ireland mortgage loan book at 31 December 2011 was classified as ‘neither past due nor impaired’ compared to €25.6 billion or 91% at 31 December 2010.

The above table shows that the ‘past due but not impaired’ category amounted to €2.7 billion or 10% of the total Retail Ireland mortgage loan book at 31 December 2011 compared to €1.6 billion or 6.0% at 31 December 2010. This increase is primarily attributed to the general economic downturn in Ireland and affordability issues including falling disposable incomes and high unemployment levels.

‘Impaired’ Retail Ireland mortgages increased from €0.9 billion or 3% of Residential mortgages at 31 December 2010 to €1.3 billion or 5% of total Retail Ireland mortgages at 31 December 2011, an increase of 46%. This increase in impaired Retail Ireland mortgages reflects increasing default arrears (90 days or more past due), in the owner occupied and particularly in the Buy to let segments. In addition to the factors mentioned above, the increase in past due and impaired since August 2011 appear to have been impacted by the implementation of the new code of conduct on arrears and the considerable public speculation about potential Government policy measures regarding customers in arrears.

Book composition (continued)

In the following tables (3b, 3c, 3d and 3e), property values are determined by reference to the original or latest property valuations held, indexed to the Residential Property Price Index published by the Central Statistics Office (CSO). This index provides the relevant index to be applied to original market values in the period after January 2005. For Retail Ireland mortgages originated prior to January 2005, the Permanent TSB / ESRI House price index is utilised.

Equity / negative equity values are determined using the Residential property price index published by the CSO at 31 December 2011 and the Permanent TSB / ESRI House price index at 31 December 2010.

Table 3b:

Arrears profile of Retail Ireland mortgages past due but not impaired (before impairment provisions)	**31 December 2011** Owner occupied €m	**31 December 2011** Buy to let €m	**31 December 2011** Total €m	31 December 2010 Owner occupied €m	31 December 2010 Buy to let €m	31 December 2010 Total €m
1 - 30 days	395	179	574	294	129	423
31 - 60 days	284	143	427	175	76	251
61 - 90 days	188	100	288	105	45	150
91 - 180 days	355	171	526	211	83	294
181 - 360 days	342	156	498	191	73	264
Over 360 days	259	79	338	160	42	202
Total Retail Ireland mortgages past due, but not impaired	**1,823**	**828**	**2,651**	**1,136**	**448**	**1,584**
Loans with equity	778	218	996	670	176	846
Loans with negative equity	1,045	610	1,655	466	272	738

Loans with equity represents the total value of all loans which are past due but not impaired and are not subject to negative equity
Loans with negative equity represents the total value of all loans which are past due but not impaired and are subject to negative equity

The table above illustrates that the 'past due but not impaired' category amounted to €2.7 billion or 10% of the total Retail Ireland mortgage loan book at 31 December 2011 compared to €1.6 billion or 6% at 31 December 2010. This increase is primarily attributed to the general economic downturn in Ireland and affordability issues including falling disposable incomes and high unemployment levels.

Table 3c:

31 December 2011 Negative equity - Retail Ireland mortgage loan book	**Owner occupied €m**	**Buy to let €m**	**Total €m**	**Total %**
Neither past due nor impaired	2,042	896	2,938	79%
Past due but not impaired	261	159	420	11%
Impaired	171	186	357	10%
Total	**2,474**	**1,241**	**3,715**	**100%**

At 31 December 2011 the total negative equity in the Retail Ireland mortgage loan book was €3.7 billion, which comprised €2.9 billion (79%) related to 'neither past due nor impaired', €0.4 billion (11%) related to 'past due but not impaired' and €0.4 billion (10%) related to 'impaired'.

Book composition (continued)

Table 3d:

31 December 2011 Loan to value of total Retail Ireland mortgage loan book	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	2,904	14%	396	6%	3,300	12%
51% to 70%	2,509	12%	506	7%	3,015	11%
71% to 80%	1,456	7%	376	5%	1,832	7%
81% to 90%	1,570	8%	421	6%	1,991	7%
91% to 100%	1,857	9%	475	7%	2,332	8%
Subtotal	**10,296**	**50%**	**2,174**	**31%**	**12,470**	**45%**
101% to 120%	3,759	18%	1,276	18%	5,035	18%
121% to 150%	4,012	19%	2,151	31%	6,163	22%
151% to 180%	1,871	9%	1,013	15%	2,884	10%
Greater than 181%	925	4%	377	5%	1,302	5%
Subtotal	**10,567**	**50%**	**4,817**	**69%**	**15,384**	**55%**
Total	**20,863**	**100%**	**6,991**	**100%**	**27,854**	**100%**

Weighted average LTV[1]:	Owner occupied	Buy to let	Total
Stock of Residential mortgages at year end	100%	118%	105%
New Residential mortgages during the year	79%	60%	79%

The table above illustrates the indexed loan to value ratio of the total Retail Ireland mortgage loan book at 31 December 2011. €12.5 billion (45%) of Retail Ireland mortgages are in positive equity. 50% of owner occupied Retail Ireland mortgages and 31% of Buy to let Retail Ireland mortgages are in positive equity.

The weighted average indexed LTV for the total Retail Ireland mortgage loan book is 105% at 31 December 2011, 100% for owner occupied and 118% for Buy to let.

Table 3e:

31 December 2011 Loan to value ratio of Retail Ireland mortgages > 90 days past due and / or impaired	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total Residential mortgage portfolio €m	Total Residential mortgage portfolio %
Less than 50%	99	6%	35	3%	134	5%
51% to 70%	120	8%	54	4%	174	7%
71% to 80%	73	5%	45	4%	118	4%
81% to 90%	99	6%	46	4%	145	5%
91% to 100%	102	7%	60	5%	162	6%
Subtotal	**493**	**32%**	**240**	**20%**	**733**	**27%**
101% to 120%	247	16%	196	17%	443	17%
121% to 150%	395	26%	421	36%	816	30%
151% to 180%	260	17%	234	20%	494	18%
Greater than 181%	143	9%	80	7%	223	8%
Subtotal	**1,045**	**68%**	**931**	**80%**	**1,976**	**73%**
Total	**1,538**	**100%**	**1,171**	**100%**	**2,709**	**100%**

Weighted average LTV[1]:	Owner occupied	Buy to let	Total Residential mortgage portfolio
> 90 days past due and / or impaired mortgages	121%	129%	125%

[1] *Weighted Average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

Book composition (continued)

The table above illustrates the indexed loan to value ratio of the greater than 90 days past due or impaired Retail Ireland mortgages at 31 December 2011. €0.7 billion (27%) of this element of the Retail Ireland mortgage loan book are not in negative equity. 32% of the greater than 90 days past due or impaired owner occupied Retail Ireland mortgages are not in negative equity and 20% of the greater than 90 days past due or impaired Buy to let Retail Ireland mortgages are not in negative equity.

The weighted average indexed LTV for the greater than 90 days past due or impaired Retail Ireland mortgages is 125% at 31 December 2011, 121% for owner occupied and 129% Buy to let.

Asset quality

Table 4:

31 December 2011 Retail Ireland mortgages Composition and impairment	**Retail Ireland mortgages €m**	**Loans > 90 days past due and / or impaired loans €m**	**Loans > 90 days past due and / or impaired loans as % of advances %**	**Impairment provisions €m**	**Impairment provisions as % of loans > 90 days past due and / or impaired loans %**
Owner occupied mortgages	20,863	1,538	7.4%	489	31.8%
Buy to let mortgages	6,991	1,171	16.8%	537	45.9%
Total Retail Ireland mortgages	**27,854**	**2,709**	**9.7%**	**1,026**	**37.9%**

31 December 2010 Retail Ireland mortgages Composition and impairment	Retail Ireland mortgages €m	Loans > 90 days past due and / or impaired loans €m	Loans > 90 days past due and / or impaired loans as % of advances %	Impairment provisions €m	Impairment provisions as % of loans > 90 days past due and / or impaired loans %
Owner occupied mortgages	20,804	1,002	4.8%	307	30.6%
Buy to let mortgages	7,263	679	9.3%	268	39.5%
Total Retail Ireland mortgages	28,067	1,681	6.0%	575	34.2%

At 31 December 2011 total Retail Ireland mortgages were reduced by €213 million or 0.8%, reflecting principal repayments and muted demand for new mortgages.

The impairment charge on the Retail Ireland mortgage loan book has continued to increase during the year ended 31 December 2011 reflecting increasing default arrears (90 days or more past due), in the owner occupied and particularly in the Buy to let segments. This increase is primarily attributed to the general economic downturn in Ireland with high unemployment levels, including affordability issues and falling disposable income.

The impairment charge in the year ended 31 December 2010 included an amount of approximately €100 million, to reflect a change in the Group's assumption of the expected peak to trough decline in residential property prices from 45% to 55% in the impairment provisioning models for Retail Ireland mortgages; the Group estimated that €60 million related to the owner occupied segment and €40 million related to the Buy to let segment.

While there has been some stabilisation in rents in 2011, overall rent levels are significantly down on peak (estimated to be down approximately 26% from peak[1]) and Buy to let borrowers are increasingly impacted by rising repayments as interest only periods come to an end, which particularly impacted default arrears in the second half of the year.

Overall impairment provision coverage ratios on the Retail Ireland mortgages that are greater than 90 days past due and / or impaired has increased from 34.2% to 37.9%.

[1] *Per 'The Daft.ie rental report – An analysis of recent trends in the Irish rental market 2011, Quarter 4'.*

Asset quality (continued)

The main type of restructuring arrangements for Retail Ireland mortgages are analysed below:

Table 5: 31 December 2011 Restructuring arrangements - Retail Ireland mortgages (before impairment provisions)	Loans not in default[1] Balance €m	Loans not in default[1] Number of accounts[2]	Loans > 90 days past due and / or impaired Balance €m	Loans > 90 days past due and / or impaired Number of accounts[2]	All loans Balance €m	All loans Number of accounts[2]
Owner occupied						
Interest only (temporary arrangement)	519	3,415	200	1,230	719	4,645
Reduced payment (greater than interest only)	261	1,228	29	114	290	1,342
Term extension (including interest servicing)	191	2,162	15	116	206	2,278
Other	28	176	5	36	33	212
Total	999	6,981	249	1,496	1,248	8,477
Buy to let						
Interest only (temporary arrangement)	209	1,030	65	310	274	1,340
Reduced payment (greater than interest only)	185	798	23	48	208	846
Term extension (including interest servicing)	75	517	13	49	88	566
Other	1	4	-	-	1	4
Total	470	2,349	101	407	571	2,756
Total						
Interest only (temporary arrangement)	728	4,445	265	1,540	993	5,985
Reduced payment (greater than interest only)	446	2,026	52	162	498	2,188
Term extension (including interest servicing)	266	2,679	28	165	294	2,844
Other	29	180	5	36	34	216
Total	1,469	9,330	350	1,903	1,819	11,233

[1] *Loans neither > 90 days past due nor impaired.*
[2] *The number of accounts does not equate to either the number of customers or the number of properties.*

Bank of Ireland has an operating infrastructure in place to assess and implement restructure arrangements for customers on a case-by-case basis. Arrears are not generally capitalised at point of restructure and remain in the applicable past due category.

The nature and type of restructurings include:

- Interest only (temporary arrangement): an arrangement where the borrower pays the interest on the principal balance, on a temporary or longer term basis, with the principal balance unchanged.
- Reduced payment (greater than interest only) incorporating some principal repayments: a temporary or medium term arrangement where the borrower pays the full interest due plus an element of principal on the basis that principal payments will increase in the future.
- Term extension (including servicing interest): a permanent arrangement where the original term of the mortgage is extended and all interest is fully serviced.
- Other: incorporating short term / temporary payment suspensions or payment reductions.

Asset quality (continued)

The above table illustrates Retail Ireland mortgages that have been subject to restructuring arrangements. These arrangements include temporary forbearance arrangements, permanent forbearance arrangements and permanent restructuring arrangements.

Of the €1.8 billion of Retail Ireland mortgages (before impairment provisions) subject to restructuring at 31 December 2011, 98% of this balance are paying interest only or greater on their balances. 16% are paying full principal and interest having had their mortgage term extended.

The Group has adopted the requirements of the Central Bank of Ireland Code of Conduct on Mortgage Arrears (CCMA) which, among other things, requires mortgage lenders to establish a Mortgage Arrears Resolution Process (MARP) for defined owner occupied mortgages. The MARP sets out the framework for case by case consideration and implementation of a range of measures for qualifying borrowers. In addition, the Group has set out a clearly defined Mortgage Arrears Resolution Strategy incorporating both owner occupied and Buy to let mortgages. The process adopted by the Group seeks to minimise loss arising from non repayment of customer mortgages while ensuring that customers are treated fairly and with respect throughout the arrears management and resolution process.

A range of options are deployed, for customers in arrears or facing potential arrears, in order to arrange, where viable or possible, sustainable mortgage repayment solutions. Implementation of forbearance and / or restructuring solutions occur on either a temporary or permanent basis to facilitate sustainable repayment plans. Forbearance and / or restructuring options are applied as appropriate, subject to individual case assessment.

Temporary forbearance options include setting short term revised repayments or short term suspension of repayments.

Permanent forbearance and / or restructuring solutions include, term extensions, phased step-up repayments over total contracted term and capitalisation of arrears.

Additional potential forbearance options, contained within the recommendations of the Government Inter-Departmental Mortgage Arrears Working Group and in line with our Mortgage Arrears Resolution Strategy, are under consideration with a view to expanding longer term sustainable solutions.

Repossessions (Retail Ireland)

At 31 December 2011, the Group had possession of properties held as security as follows:

Table 6:

Repossessions Retail Ireland mortgages	31 December 2011 Number of repossessions at balance sheet date	31 December 2011 Balance outstanding before impairment provisions €m	31 December 2010 Number of repossessions at balance sheet date Number	31 December 2010 Balance outstanding before impairment provisions €m
Owner occupied repossessions	99	29	65	20
Buy to let repossessions	67	20	20	3
Total residential repossessions	**166**	**49**	**85**	**23**

Table 6a:

31 December 2011 Disposals of repossessions Retail Ireland mortgages	Number of disposals during the year	Balance outstanding after provisions €m	Proceeds from disposals €m
Owner occupied repossessions	56	8	8
Buy to let repossessions	19	3	4
Total residential repossessions	**75**	**11**	**12**

31 December 2010 Disposals of repossessions Retail Ireland mortgages	Number of disposals during the year	Balance outstanding after provisions €m	Proceeds from disposals €m
Owner occupied repossessions	13	2	2
Buy to let repossessions	5	1	1
Total residential repossessions	18	3	3

During the year ended 31 December 2011 the Group disposed of 75 repossessed properties[1] (31 December 2010: 18 repossessed properties disposed of). The total contracted disposal proceeds was adequate to cover the balance outstanding after provisions.

[1] *The number of properties disposed of during the year ended 31 December 2011 and year ended 31 December 2010 includes those which were subject to an unconditional contract for sale at year end date.*

Supplementary section - UK Mortgages

The following disclosures represent additional disclosures on the Retail UK mortgage loan book. These disclosures provide additional detail and breakdowns on the composition and quality of the loan book.

Book composition

Table 1: Retail UK mortgages - Volumes (before impairment provisions)	Year ended 31 December 2011[1] £m	Year ended 31 December 2010 £m
Standard mortgages	10,905	13,173
Buy to let mortgages	9,826	10,207
Self certified mortgages	4,024	4,335
Total Retail UK mortgages	**24,755**	**27,715**

[1] *Loans and advances to customers at 31 December 2011 includes loans held for sale.*

Retail UK mortgages were £24.8 billion at 31 December 2011 compared to £27.7 billion at 31 December 2010. The decrease of £3.0 billion or 11% is primarily due to principal repayments and the Group's deleveraging initiatives. In January 2009 the Group announced its withdrawal from the intermediary sourced mortgage market in the UK, which has resulted in a significant reduction in the volume of new mortgages issued.

Table 2: 31 December 2011 Origination profile of Retail UK mortgage loan book including held for sale (before impairment provisions)	Total Residential mortgages loan book		Loans > 90 days past due and / or impaired	
	Balance £m	Number of accounts[1]	Balance £m	Number of accounts[1]
1996 and before	**386**	*10,861*	**6**	*188*
1997	**74**	*1,742*	**1**	*18*
1998	**120**	*2,510*	**1**	*19*
1999	**132**	*2,811*	**1**	*27*
2000	**159**	*3,033*	**2**	*27*
2001	**342**	*4,686*	**4**	*37*
2002	**438**	*5,759*	**9**	*79*
2003	**961**	*10,758*	**23**	*161*
2004	**995**	*10,468*	**22**	*165*
2005	**2,289**	*20,430*	**66**	*441*
2006	**3,296**	*28,337*	**75**	*474*
2007	**5,462**	*43,672*	**141**	*908*
2008	**6,756**	*53,687*	**247**	*1,545*
2009	**1,321**	*9,964*	**10**	*94*
2010	**1,175**	*7,677*	**1**	*5*
2011	**849**	*5,381*	**-**	*1*
Total	**24,755**	***221,776***	**609**	***4,189***

[1] *The number of accounts does not equate to either the number or customers or the number of properties.*

The table above illustrates that £5.9 billion or 24% of the Retail UK mortgage loan book originated before 2006, £15.5 billion or 63% between 2006 and 2008 and £3.3 billion or 13% in the years since. The fall off in originations since the end of 2008 is primarily due to the Group's withdrawal from the intermediary sourced mortgage market in the UK. Total loans that are greater than 90 days past due and / or impaired were £0.6 billion or 2% of the Retail UK mortgage loan book at 31 December 2011, of which £0.5 billion or 76% were originated between 2006 and 2008.

Book composition (continued)

Table 3a:

31 December 2011 Risk profile of Retail UK mortgage loan book including held for sale (before impairment provisions)	**Standard**		**Buy to let**		**Self certified**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Neither past due nor impaired	10,407	95%	9,232	94%	3,449	86%	23,088	93%
Past due but not impaired	487	5%	511	5%	563	14%	1,561	6%
Impaired	11	-	83	1%	12	-	106	1%
Total	**10,905**	**100%**	**9,826**	**100%**	**4,024**	**100%**	**24,755**	**100%**

31 December 2010 Risk profile of Retail UK mortgage loan book (before impairment provisions)	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Neither past due nor impaired	12,626	96%	9,529	93%	3,679	85%	25,833	93%
Past due but not impaired	532	4%	573	6%	643	15%	1,748	6%
Impaired	15	-	105	1%	14	-	134	1%
Total	13,173	100%	10,207	100%	4,336	100%	27,715	100%

The table above illustrates that £23.1 billion or 93% of the total Retail UK mortgage loan book at 31 December 2011 was classified as 'neither past due nor impaired' compared to £25.8 billion or 93% at 31 December 2010, within neither past due nor impaired £262 million of exposures have converted to interest only (during the year ended 31 December 2011 which are currently not in default (zero days past due)).

The 'Past due but not impaired' category comprised £1.6 billion or 6% of the total Retail UK mortgage loan book at 31 December 2011 compared to £1.7 billion or 6% at 31 December 2010. This reduction is primarily attributed to the low interest rate environment and a liquid market.

Retail UK mortgages classified as 'impaired' decreased to £0.11 billion or 0.4% of the total Retail UK mortgage loan book at 31 December 2011 from £0.13 billion or 0.5% of the total Retail UK mortgage loan book at 31 December 2010, being a decrease of £28 million or 21% during the year ended 31 December 2011.

Book composition (continued)

In the following tables (3b, 3c, 3d and 3e), property values are determined by reference to the original or latest property valuations held, indexed to the Nationwide UK house price index. In the tables the December 2011 Residential Property Price Index published by Nationwide UK provides the relevant index to be applied to the original market values.

Equity / negative equity values are determined using the Nationwide UK house price index at 31 December 2011 and at 31 December 2010.

Table 3b:	**31 December 2011**				31 December 2010			
Arrears profile of Retail UK mortgages past due but not impaired (before impairment provisions)	**Standard £m**	**Buy to let £m**	**Self certified £m**	**Total £m**	Standard £m	Buy to let £m	Self certified £m	Total £m
1 - 30 days	230	193	255	678	235	210	242	687
31 - 60 days	79	95	88	262	93	103	95	291
61 - 90 days	33	46	39	118	44	57	56	157
91 - 180 days	68	82	74	224	72	101	115	288
181 - 360 days	44	54	61	159	54	64	83	201
Over 360 days	33	41	46	120	34	38	52	124
Total Retail UK mortgages past due, but not impaired	**487**	**511**	**563**	**1,561**	**532**	**573**	**643**	**1,748**
Retail UK mortgages with equity	386	451	505	1,342	433	529	595	1,557
Retail UK mortgages with negative equity	101	60	58	219	99	44	48	191

Loans which are greater than 90 days past due but not impaired generally reflect accounts which either continue to make ongoing repayments or are in positive equity positions.

The table above illustrates that the ‘past due, but not impaired’ category amounted to £1.6 billion of the total Retail UK mortgage loan book at 31 December 2011 compared to £1.7 billion at 31 December 2010.

Table 3c: **31 December 2011** **Negative equity - Retail UK mortgage loan book including held for sale**	**Standard £m**	**Buy to let £m**	**Self certified £m**	**Total £m**	**Total %**
Neither past due nor impaired	105	23	11	139	86%
Past due but not impaired	8	5	4	17	11%
Impaired	1	4	-	5	3%
Total	**114**	**32**	**15**	**161**	**100%**

The total amount of negative equity in the Retail UK mortgage loan book was £161 million at 31 December 2011, which comprised £139 million (86%) related to ‘neither past due nor impaired’, £17 million (11%) related to ‘past due but not impaired’ and £5 million (3%) related to ‘impaired’.

Book composition (continued)

Table 3d: 31 December 2011 Loan to value ratio of total Retail UK mortgage loan book including held for sale	Standard £m	Standard %	Buy to let £m	Buy to let %	Self certified £m	Self certified %	Total £m	Total %
Less than 50%	2,236	21%	966	10%	344	10%	3,546	15%
51% to 70%	1,653	15%	2,675	27%	735	18%	5,063	20%
71% to 80%	1,495	14%	2,282	23%	857	21%	4,634	19%
81% to 90%	2,103	19%	2,136	22%	1,022	25%	5,261	21%
91% to 100%	1,846	17%	1,293	13%	821	20%	3,960	16%
Subtotal	**9,333**	**86%**	**9,352**	**95%**	**3,779**	**94%**	**22,464**	**91%**
101% to 120%	1,452	13%	412	5%	224	6%	2,088	8%
121% to 150%	72	1%	45	-	12	-	129	1%
Greater than 150%	48	-	17	-	9	-	73	-
Subtotal	**1,572**	**14%**	**474**	**5%**	**245**	**6%**	**2,290**	**9%**
Total	**10,905**	**100%**	**9,826**	**100%**	**4,024**	**100%**	**24,754**	**100%**
Weighted average LTV:								
Stock of Retail UK mortgages at year end[1]		74%		74%		78%		75%
New Retail UK mortgages during the year[1]		81%		70%		N/A		97%

[1] *Weighted Average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

The table above illustrates the indexed loan to value ratio of the total Retail UK mortgage loan book at 31 December 2011. £22.5 billion (91%) of the Retail UK mortgage loan book is not in negative equity. 86% of standard Retail UK mortgages, 95% of Buy to let and 94% of self certified Retail UK mortgages are not in negative equity.

The weighted average LTV of the total book at 31 December 2011 was 75%, with new business written during the year ended 31 December 2011 having an LTV of 80%. At 31 December 2011 the amount of negative equity comprised just under 0.7% of the total Retail UK mortgage book with related loans of £2,291 million.

Table 3e: 31 December 2011 Loan to value ratio of Retail UK mortgages > 90 days past due and / or impaired including held for sale	Standard £m	Standard %	Buy to let £m	Buy to let %	Self certified £m	Self certified %	Total residential mortgage portfolio £m	Total residential mortgage portfolio %
Less than 50%	20	13%	5	2%	4	2%	29	5%
51% to 70%	22	14%	26	10%	18	9%	66	11%
71% to 80%	18	12%	41	16%	27	14%	86	14%
81% to 90%	19	12%	56	22%	48	25%	123	20%
91% to 100%	21	13%	58	22%	59	31%	138	23%
Subtotal	**100**	**64%**	**186**	**72%**	**156**	**81%**	**442**	**73%**
101% to 120%	33	21%	49	19%	32	16%	116	18%
121% to 150%	4	3%	9	3%	3	2%	16	3%
Greater than 150%	19	12%	16	6%	2	1%	36	6%
Subtotal	**56**	**36%**	**74**	**28%**	**37**	**19%**	**168**	**27%**
Total	**156**	**100%**	**260**	**100%**	**193**	**100%**	**610**	**100%**
Weighted average LTV:								
> 90 days past due and / or mortgages in total		81%		90%		88%		87%

£442 million (73%) of the greater than 90 days past due and / or impaired Retail UK mortgages are not in negative equity. At 31 December 2011 the overall weighted average LTV for those customers who are greater than 90 days past due and / or impaired was 87%.

Asset quality

Table 4:

31 December 2011 Retail UK mortgages including held for sale Composition and impairment	Retail UK mortgages £m	Loans > 90 days past due and / or impaired loans £m	Loans > 90 days past due and / or impaired loans as % of advances %	Impairment provisions £m	Impairment provisions as % of loans > 90 days past due and / or impaired loans %
Standard mortgages	10,905	156	1.4%	16	10.3%
Buy to let mortgages	9,826	260	2.6%	67	25.8%
Self certified mortgages	4,024	193	4.8%	28	14.5%
Total Retail UK mortgages	**24,755**	**609**	**2.5%**	**111**	**18.2%**

31 December 2010 Retail UK mortgages Composition and impairment	Retail UK mortgages £m	Loans > 90 days past due and / or impaired loans £m	Loans > 90 days past due and / or impaired loans as % of advances %	Impairment provisions £m	Impairment provisions as % of loans > 90 days past due and / or impaired loans %
Standard mortgages	13,173	174	1.3%	19	10.9%
Buy to let mortgages	10,207	309	3.0%	75	24.3%
Self certified mortgages	4,335	264	6.1%	35	13.3%
Total Retail UK mortgages	27,715	747	2.7%	129	17.3%

At 31 December 2011 total Retail UK mortgages had decreased by £2.9 billion or 12% to £24.8 billion (31 December 2010: £27.7 billion). £1.2 billion of this decrease is attributable to the deleveraging initiatives undertaken by the Group towards the end of the year.

Retail UK mortgages greater than 90 days past due and / or impaired are £609 million at 31 December 2011 compared to £747 million at 31 December 2010.

Overall impairment provision coverage ratios on Retail UK mortgages greater than 90 days past due and / or impaired have increased from 17.3% at 31 December 2010 to 18.2% at 31 December 2011.

Repossessions (Retail UK)

At 31 December 2011, the Group had possession of collateral held as security as follows:

Table 5:

Repossessions Retail UK mortgages	**31 December 2011 Number of repossessions at balance sheet date**	**31 December 2011 Balance outstanding before impairment provisions £m**	31 December 2010 Number of repossessions as at balance sheet date	31 December 2010 Balance outstanding before impairment provisions £m
Owner occupied repossessions	71	9	78	13
Buy to let repossessions	147	19	169	24
Self certified repossessions	55	11	70	13
Total residential repossessions	**273**	**39**	**317**	**50**

Table 5a

31 December 2011 Disposal of repossessions Retail UK mortgages	**Number of disposals during the year**	**Balance outstanding after impairment provisions £m**	**Proceeds from disposals £m**
Owner occupied repossessions	224	22	24
Buy to let repossessions	370	31	35
Self certified repossessions	186	24	26
Total residential repossessions	**780**	**77**	**85**

31 December 2010 Disposal of repossessions Retail UK mortgages	Number of disposals during the year	Balance outstanding after impairment provisions £m	Proceeds from disposals £m
Owner occupied repossessions	145	14	16
Buy to let repossessions	333	27	30
Self certified repossessions	167	24	26
Total residential repossessions	645	65	72

During the year ended 31 December 2011 the Group disposed of 780 repossessed properties[1] (31 December 2010: 645 repossessed properties disposed of). The total contracted disposal proceeds was adequate to cover the balance outstanding after provisions.

[1] *The number of properties disposed of during the year ended 31 December 2011 and year ended 31 December 2010 includes those which were subject to an unconditional contract for sale at year end date.*

3.2 Liquidity Risk

Key points

- While stress levels in European sovereign debt markets remained elevated through 2011, Irish sovereign bond yields stabilised during the latter part of the year.
- The Group has grown its customer deposits to €70.5 billion. The Irish retail deposit base has remained stable in the first half with growth in the second half. UK retail deposit gathering, through the UK Post Office, continues to outperform. On the back of positive sentiment from international and domestic markets the Group's Corporate division performed well. Excluding NTMA deposits there was a growth of c.€8 billion in the second half of 2011.
- Liquid assets in excess of regulatory liquidity requirements were held in Bank of Ireland (UK) plc at 31 December 2011 as the Group awaits regulatory approval for the transfer of loans to the Bank of Ireland (UK) plc. The Group expects its excess holdings of liquid assets in the UK to reduce during 2012 as regulatory approval is received.
- The Group has contracted €8.6 billion of disposals throughout 2011 which aided in bringing the loan to deposit ratio from 175% on December 2010 to 144% at 31 December 2011.
- The Group was successful in issuing c.€4 billion of secured bi-lateral term funding to the market during 2011 with an average maturity at date of issue of 2.4 years and an average spread equivalent to 250 basis points over three month Euribor.
- The Group participated in the ECB three year Long Term Refinancing Operation (LTRO) raising c.€7.5 billion funding with a maturity in January 2015 by converting the term of its existing drawings from short term to longer term with no new drawings.
- The Group has decreased funding from Monetary Authorities (including the additional liquidity facilities made available by the Central Bank) from €31 billion (net) at 31 December 2010 to €22 billion (net) at 31 December 2011.

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 183.

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 Risk Appetite Statement and associated limits and the Group's liquidity and funding policy, both of which are 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 cash flows 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 nine day to 30 day time horizon. The Group notified the Central Bank of a temporary breach of regulatory liquidity requirements in January, April, June and September 2011 (which were subsequently remediated). 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 delever the balance sheet post the PLAR exercise are expected to reduce the Group's funding and liquidity risk.

Liquidity Risk (continued)

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 different levels of possible, even if unlikely, 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 cash flow 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 2011 and 31 December 2010 based on the remaining contractual maturity period at the balance sheet date (discounted) and the totals agree to the balance sheet on page 176. NAMA senior bonds have been included in the table based on their ultimate expected maturity. Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €4,954 million and €7,037 million respectively (31 December 2010: €5,271 million and €7,188 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts. The Group measures liquidity risk by adjusting the contractual cash flows on retail deposit books to reflect their inherent stability.

Customer accounts include a number of term accounts that contain access features. These allow the customer to access a portion or all of their deposit notwithstanding that this withdrawal could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the table below. The comparative information has been reclassified on this basis which involved reclassifying a total amount of €16 billion into the demand category from the following categories: €3 billion from up to 3 months, €10 billion from 3-12 months and €3 billion from 1-5 years.

31 December 2011 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
Assets						
Cash and balances at central banks	8,181	-	-	-	-	8,181
Trading securities	-	-	4	-	2	6
Derivative financial instruments	735	271	207	2,602	2,547	6,362
Other financial assets at fair value through profit or loss[1]	968	25	76	489	1,438	2,996
Loans and advances to banks	2,809	4,807	237	1	205	8,059
Available for sale financial assets[1]	-	1,264	675	6,113	2,096	10,148
NAMA senior bonds	-	-	-	-	5,016	5,016
Loans and advances to customers including held for sale (before impairment provisions)	6,283	7,702	7,104	28,210	58,803	108,102
Total	**18,976**	**14,069**	**8,303**	**37,415**	**70,107**	**148,870**
Liabilities						
Deposits from banks	115	4,010	906	3,895	78	9,004
Drawings from Monetary Authorities (gross)	430	14,600	-	7,500	-	22,530
Customer accounts	48,368	18,223	2,331	1,371	213	70,506
Derivative financial instruments	614	224	419	2,033	2,728	6,018
Debt securities in issue	-	2,006	719	12,391	4,007	19,123
Subordinated liabilities	-	-	-	1,069	358	1,427
Total	**49,527**	**39,063**	**4,375**	**28,259**	**7,384**	**128,608**

[1] *excluding equity shares and perpetual funds which have no contractual maturity.*

Liquidity Risk (continued)

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
Assets						
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[1]	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[1]	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
Total	9,900	15,501	12,723	44,052	76,550	158,726
Liabilities						
Deposits from banks	359	7,984	411	2,380	78	11,212
Drawings from Monetary Authorities (gross)	-	33,438	-	-	-	33,438
Customer accounts	48,213	14,816	969	1,060	385	65,443
Derivative financial instruments	815	195	319	2,233	1,883	5,445
Debt securities in issue	-	1,175	3,525	14,280	6,138	25,118
Subordinated liabilities	-	-	-	83	2,692	2,775
Total	49,387	57,608	5,224	20,036	11,176	143,431

[1] *excluding equity shares which have no contractual maturity.*

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 183.

Liquidity Risk Mitigation

Wholesale Funding diversification

While liquidity conditions are constrained at present, the Group in the normal course, aims to maintain funding diversification, minimise concentrations across funding sources and control the level of short term wholesale sources of funds. During the year ended 31 December 2011, the Group issued €4 billion of secured term funding using UK mortgage notes (Colston SPEs) as collateral.

Customer Deposits

The Group's customer deposit strategy is focussed on growing high quality 'sticky' deposits by leveraging the Group's extensive retail and corporate customer franchise in Ireland and by accessing the UK retail market through Bank of Ireland (UK) plc and particularly the Group's joint venture with the UK Post Office. In Retail Ireland the Group has grown deposits in the second half of the year by €1.2 billion.The continued success of the joint venture with the UK Post Office has delivered a deposit base of Stg£16 billion at 31 December 2011 which has exceeded the Group's targets. In addition, the positive market sentiment shown towards the Group has aided retention of corporate banking customer relationships in Ireland, the UK and internationally which enable the Group to access corporate customer deposits. Corporate deposits have grown in the second half of the year by €1.7 billion. The Group continues to focus on the growth of retail deposits and relationship-based corporate deposits which arise from the Group's broader lending and treasury risk management activities with a view to further reducing its dependence on wholesale funding and reducing its customer loan to deposit ratio.

Funding and Liquidity Position

Ireland - Senior debt	**31 December 2011**	31 December 2010
Standard & Poor's	BBB+ (Negative)	A (CreditWatch Negative)
Moody's	Ba1 (Negative)	Baa1 (Negative)
Fitch	BBB+ (Negative)	BBB+ (Stable)
DBRS	A (Low) (Negative trend)	A (High) (Negative trend)

BOI - Senior debt	**31 December 2011**	31 December 2010
Standard & Poor's	BB+ (Negative)	BBB+ (CreditWatch Negative)
Moody's	Ba2 (Negative)	Baa2 (Negative)
Fitch	BBB (Negative)	BBB (Stable)
DBRS	BBB (High) (Negative trend)	A (High) (Negative trend)

Following the downgrade of the Irish sovereign in early 2011, the Group's credit ratings were downgraded to BB+/Ba2/BBB for Standard & Poor's, Moody's and DBRS respectively. Over the remainder of 2011 and into 2012, credit ratings have remained stable at these levels.

Funding Position
The Group has access to the liquidity operations offered by Monetary Authorities using its pool of contingent collateral. The Group has decreased its usage of liquidity facilities made available by Monetary Authorities by asset deleveraging, growing customer deposits and the use of collateralised market term funding. The Group's funding from Monetary Authorities further decreased to €22 billion (net) at 31 December 2011 from €31 billion (net) at 31 December 2010. As described on page 303, the Group participates in the ELG scheme, which guarantees certain liabilities of Irish financial institutions. A key priority of the Group is to reduce its reliance on Monetary Authorities as market conditions improve and the Group's wholesale funding requirement reduces.

Funding and Liquidity Position (continued)

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 183.

Summary Consolidated Balance Sheet	**31 December 2011 €bn**	31 December 2010 €bn	Change %
Loans and advances to customers[1] (after impairment provisions)	102	114	(11%)
Assets held for sale to NAMA (after impairment provisions)	-	1	-
Liquid assets	31	30	3%
Other assets	22	22	-
Total assets	**155**	**167**	**(7%)**
Customer deposits[2]	71	65	8%
Wholesale funding	51	70	(27%)
Subordinated liabilities	1	3	(67%)
Other liabilities	22	22	-
Total liabilities	**145**	**160**	**(10%)**
Total stockholders' equity	10	7	43%
Total liabilities and stockholders' equity	**155**	**167**	**(7%)**
Loan to deposit ratio	**144%**	**175%**	

[1] On the balance sheet on page 176, these amounts are presented on separate lines being Loans and advances to customers and Other assets classified as held for sale.

[2] Customer accounts include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the table on page 104. The comparative information has been reclassified on this basis.

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 183.

The Group's loans and advances to customers (after impairment provisions) at 31 December 2011 of €102 billion reflects a decrease of 11% when compared to the Group's loans and advances to customers of €114 billion at 31 December 2010.

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 includes the proposed disposal of c.€10 billion of the non-core loan portfolios by 31 December 2013. The Group has frontloaded the majority of these disposals before 31 December 2011. The Group has been successful in deleveraging non-core portfolios with c.€8.6 billion sales achieved. For further information see note 17.

Funding and Liquidity Position (continued)

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 183.

Customer deposits	31 December 2011 €bn	31 December 2010 €bn
Retail Ireland	36	35
- Deposits	*25*	*24*
- Current account credit balances	*11*	*11*
Retail UK	27	21
Retail UK (Stg£bn equivalent)	22	18
- UK Post Office	*16*	*11*
- Other Retail UK	*6*	*7*
Corporate and Treasury	8	9
- Corporate and Treasury deposits	*8*	*8*
- BoISS related	*-*	*1*
Total customer deposits	**71**	**65**
Loan to deposit ratio	**144%**	**175%**

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 183.

Group customer deposits were €71 billion at 31 December 2011 compared to €65 billion at 31 December 2010 as set out in the table above. Following the successful recapitalisation of the Group in July 2011 the Group has experienced a strong growth in deposit balances (growing by €8 billion between July 2011 and December 2011). Key drivers of this increase included a significant Group wide focus on deposit gathering, new product developments and maximisation of cross selling and new business opportunities through our distribution channels in Ireland and the UK.

The Group's loan to deposit ratio was 144% at 31 December 2011, compared to 175% at 31 December 2010 which is in line with the targets that were set out in the PCAR / PLAR 2011.

During 2011, despite continuing intense competition, the Group's retail customer deposit base in Ireland increased by €1 billion or 2% supported by the launch of a number of successful personal and business deposit products and ongoing management of maturing deposits and new business opportunities. The Group did not purchase any deposit books in 2011 and the Retail book continues to be of a granular nature. Current account credit balances amounted to €11.3 billion at 31 December 2011 as compared with €11.5 billion at 31 December 2010.

The Group's retail deposit gathering activities in its joint venture with the UK Post Office continue to exceed expectations on both retention rates and new deposit growth as balances amounted to £16 billion at 31 December 2011, which represents an increase of £5.0 billion or 44% since 31 December 2010. The Group's deposit gathering strategy in the UK has been successfully underpinned by the incorporation in November 2010 of the Group's UK licensed banking subsidiary – Bank of Ireland (UK) plc. Deposits in the Group's offshore unit declined by €0.6 billion in 2011, however stabilised in the second half of the year following the recapitalisation of the Group.

Corporate and Treasury deposits amounted to €7.7 billion at 31 December 2011 as compared with €9.4 billion at 31 December 2010. The net decrease of €1.7 billion is a result of the disposal of BoISS whose customers had placed deposits of c.€1 billion with the Group at 31 December 2010, and a reduction in corporate balances in the first half of 2011. Corporate balances experienced growth of c.€1 billion in the second half of the year following the recapitalisation of the Group indicating a stabilisation of the Group's core corporate deposit base.

Customer deposits at 31 December 2011 of €71 billion (31 December 2010: €65 billion) do not include €2.2 billion (31 December 2010: €1.9 billion) of savings and investment-type products sold by Bank of Ireland Life. These products have a fixed term (typically of five years) and consequently are an additional stable source of retail funding for the Group.

At 31 December 2011, €43 billion of the Group's customer deposits are guaranteed under the Irish Deposit Guarantee Scheme (DGS) and the UK Financial Services Compensation Scheme (FSCS) (31 December 2010: €35 billion), while €26 billion are covered by the Eligible Liabilities Guarantee Scheme (31 December 2010: €29 billion).

On a constant currency basis the Group's customer deposits at 31 December 2011 grew by 7% (€4.3 billion) when compared to the Group's customer deposits at 31 December 2010.

Funding and Liquidity Position (continued)

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 183.

Wholesale funding sources	31 December 2011 €bn	31 December 2011 %	31 December 2010 €bn	31 December 2010 %
Secured funding	40	78%	53	76%
- Monetary authority (gross)	*23*	*45%*	*33*	*47%*
- Covered bonds (asset backed securities)	*6*	*12%*	*7*	*10%*
- Securitisations	*4*	*8%*	*5*	*7%*
- Private market repo	*7*	*14%*	*8*	*11%*
Unsecured funding	11	22%	17	24%
- Senior debt	*9*	*18%*	*13*	*19%*
- Bank deposits	*2*	*4%*	*3*	*4%*
- Commercial Paper and Certificates of Deposits	*-*	*-*	*1*	*1%*
Total Wholesale funding	**51**	**100%**	**70**	**100%**
Wholesale funding > 1 year to maturity	28	55%	22	32%
Wholesale funding < 1 year to maturity	23	45%	48	68%
Drawings from Monetary Authorities (net)	22	-	31	-

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 183.

Wholesale funding requirements reduced from €70 billion at 31 December 2010 to €51 billion at 31 December 2011 primarily due to:

- loan book divestments;
- loan repayments and redemptions;
- an increase in Group customer deposits; and
- recapitalisation proceeds.

The Group's senior unsecured debt at 31 December 2011 of €9 billion has reduced by €4 billion from €13 billion at 31 December 2010.

During 2011, the Group has raised secured term funding from private market sources amounting to c.€4.2 billion with an average maturity (at date of issue) of 2.4 years and an average spread equivalent to 250 basis points over three month Euribor.

In early December 2011, the Group announced it will not call notes issued by the Brunel and Kildare securitisation vehicles on the relevant call dates in March 2012 and April 2012, with any future redemption decisions being taken on an economic basis and having regard to prevailing market conditions.

In December 2011, the Group participated in the ECB three year Long Term Refinancing Operation (LTRO) raising c.€7.5 billion funding with a maturity in January 2015 by converting the term of its existing drawings from short term to longer term with no new drawings.

In January 2011, following changes to the ECB eligibility criteria for sterling denominated collateral, the Group issued and retained Government guaranteed own-use bonds which are eligible for ECB monetary policy operations. These bonds have a liquidity value of €8.45 billion. They have consistently rolled over on a quarterly basis and the current maturity date is April 2012.

The drawings under the exceptional liquidity facilities from the Central Bank at 31 December 2010 of €8 billion were repaid during the financial year such that drawings at 31 December 2011 were €nil.

At 31 December 2011, 55% of wholesale funding had a term to maturity of greater than one year compared with 32% at 31 December 2010, reflecting secured term funding raised and the participation in the ECB three year LTRO. The Group's unsecured maturities are €2.7 billion in 2012 and €2.6 billion in 2013.

The refinancing requirement for the Group from unsecured wholesale maturities remains low in 2012 and in subsequent years. This reflects the overall reduction in wholesale funding achieved to date and expected futher reductions in wholesale funding in line with PLAR targets.

Funding and Liquidity Position (continued)

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 183.

Wholesale funding maturity analysis	31 December 2011 €bn	31 December 2011 %	31 December 2010 €bn	31 December 2010 %
Less than 3 months	21	41%	43	61%
3 months to one year	2	4%	5	7%
One to five years	24	47%	16	23%
More than five years	4	8%	6	9%
Wholesale funding	**51**	**100%**	**70**	**100%**

3.3 Market 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 183.

Key Points:

- Structural balance sheet risks and the risks arising from loan impairments, capital management initiatives, structured funding arrangements and deleveraging have been the principal focus of attention in the area of market risk. This will continue to be the case in 2012.
- The Group has been particularly active in the management of basis risk, notably sterling / euro cross currency basis risk. Cross currency basis is the net cost, over and above the interest differential, of borrowing in one currency to fund assets on a fully hedged basis in a second currency. The Group made extensive use of cross currency swaps in the second half of 2010 to hedge a major part of the financing of sterling net assets out of euros. This had the effect of substantially insulating the Group from the sharp increase in the cross currency basis risk associated with the eurozone crisis in the second half of 2011.
- Discretionary risk taking remains very low. This was reflected in low levels of Value at Risk (VaR) throughout 2011 and this is not expected to change significantly.

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 183.

Market Risk in the Group

Definition of Market Risk

Market risk is the exposure of the Group's earnings or net worth to movements in interest rates, foreign exchange rates or other market prices. Interest rate risk, which is the most material market risk to which the Group is exposed in its normal day-to-day operations, is the risk of loss arising from changes in the general level of interest rates or changes in the differential or spread between different interest rates. Foreign exchange risk is the risk of loss arising from movements in exchange rates. Exposure to other forms of market risk is insignificant.

How Market Risk Arises

Market risk arises naturally through conventional customer banking, the servicing of customer foreign exchange and other risk management needs, wholesale funding and investment in securities for liquid asset purposes. Market risk also arises through certain structural features of the balance sheet, notably the presence of non-interest related assets and liabilities, the multi-currency mix of assets and liabilities and the requirement in the Group's case to fund sterling assets out of euro. The market risk profile of the Group can be affected by loan losses, asset disposals and balance sheet management initiatives.

It is Group policy to eliminate market risk as far as practicable, subject to a relatively conservative permission to take discretionary 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 that are applied.

In addition to discretionary risk-taking, certain structural market risks arise and these are managed at an overall balance sheet level as part of the Group's asset liability management process. In recent years, these structural market risks have become more material and more challenging to manage.

Interest rate risk also arises in the Group's non-linked life assurance subsidiary, New Ireland Assurance Company plc, 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). This mismatch is managed to within very tight limits.

New Ireland Assurance Company plc does not bear equity risk directly as this is borne by the unit linked policyholders. However, New Ireland Assurance Company plc is indirectly exposed to movements in equity markets because of the management fees that it receives are related to the value of assets under management. Finally, the Group maintains an Available for Sale securities portfolio for liquidity purposes. These assets are held at fair value on the balance sheet with movements in fair value (other than changes due to impairments) recognised in the reserves. While not regarded formally as a market risk position, the Group nonetheless monitors the sensitivity of the value of this portfolio to changes in spreads.

These forms of market risk are discussed in turn.

The Group's Approach to Market Risk

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

Management and control of market risk

It is a strict requirement of policy that market risk is removed from customer-facing businesses by way of internal match-funding and match-placement arrangements with Bank of Ireland Global Markets (BoIGM). This has the effect of eliminating both fixed-rate and variable rate (or basis) risk from individual business units. BoIGM is the Group's sole interface to wholesale financial markets. This means that all market risk is centralised on the books of BoIGM. Here it is split into fixed-rate risk, the major part of which is hedged with the outside world, and basis risk which is managed as a structural market risk (see below).

BoIGM is the sole business permitted to take discretionary risk.

Discretionary Market Risk

Discretionary market risk is any risk that is voluntarily assumed in anticipation of movements in financial markets. Discretionary risk can be taken by leaving naturally arising customer risk un-hedged for a period – and in practice this accounts for the major part of the discretionary risk that is taken – or by proactively assuming proprietary risk in the market. Risk positions that arise from the flow of customer business or the Groups's funding or hedging activity are booked in the Banking Book for the purposes of the Capital Requirement Directive (CRD). Proprietary positions are booked in the Trading Book.

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. BoIGM's discretionary market risk is predominantly interest rate risk taken in derivative markets. Further detail on the derivative instruments which can be used to assume discretionary risk is set out in the Derivatives section below. Discretionary market risk is also taken in currency and, to a very minor extent, in traded credit markets.

The Group employs a Value at Risk (VaR) approach to measure, and set limits on, discretionary market risk. This applies to risk taken in the Banking Book (naturally arising risk that is left un-hedged) or risk that is pro-actively assumed in the Trading Book.

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-year one-day VaR is shown in the table below for interest rate and foreign exchange risk. In the case of interest rate risk, this distinguishes between overall interest rate risk (Trading plus Banking Book) and interest rate risk in the Trading Book.

The Group's peak, average and end of period, 1 day VaR in the year ended 31 December 2011 and in the year ended 31 December 2010 are set out in the following table:

Value at risk	**Year ended 31 December 2011 €m**	Year ended 31 December 2010 €m
Overall Interest Rate VaR		
Peak	3.6	7.0
Average	1.5	3.3
End period	0.9	1.3
Trading Book Interest Rate VaR		
Peak	1.9	2.8
Average	0.8	1.2
End period	0.3	0.5
Foreign Exchange VaR		
Peak	1.1	1.9
Average	0.5	0.7
End period	0.2	0.1

Management and control of market risk (continued)

Structural Market Risk
The Group's material structural market risks consist of the following:

Structural interest rate risk
Structural interest rate risk arises from the presence of non-interest bearing liabilities and assets on the balance sheet. The principal non-interest bearing liabilities are equity and non-interest bearing current accounts; the principal assets are expected recoveries on impaired loans, a proportion of which the Group treats as an offset to non-interest bearing liabilities. It is Group policy to invest its net non-interest bearing liabilities (or free funds) in a portfolio of swaps with an average life of three and a half years and a maximum life of seven years. This has the effect of mitigating the impact of the interest rate cycle on net interest margin. At year-end, the Group has c.€9 billion of euro-denominated swaps and c.€5 billion euro equivalent of sterling swaps held against free funds.

Basis Risk
Basis risk arises where variable rate assets and liabilities and swaps (on the floating leg) re-price against different interest rate conventions (or 'indices'). The principal interest rate indices are 1, 3 and six month Euribor / Libor, the ECB refinancing rate and Bank of England Base rate. Changes in the level of systemic stress in financial markets can bring about sustained changes in the differential, or basis, between these different floating rate indices and this, in turn, can have an adverse impact on the Group's net interest margin. The Group can also be exposed to the sterling / euro cross currency basis because of its requirement to fund a material proportion of its sterling assets out of euro. Cross currency basis is the net cost, over and above the interest differential, of borrowing in one currency to fund assets on a fully hedged basis in a second currency.

It is Group policy to manage structural basis risk through selective, strategic hedging. In 2010 and 2011, cross currency basis risk was the principal focus of basis hedging and the major part of the Group's requirement to fund sterling assets out of euro was hedged with 1- and 2-year currency swaps. In addition, defensive basis hedging within euro and sterling was undertaken.

Structural foreign exchange risk
The Group defines structural foreign exchange risk to be the exposure of its key capital ratios to changes in exchange rates. This exposure arises from the presence of non-euro assets on the balance sheet. Changes in exchange rates will increase or decrease the overall euro-equivalent level of Risk Weighted Assets. It is Group Policy to manage structural foreign exchange risk by ensuring that the currency composition of its Risk Weighted Assets and its structural net asset position by currency are broadly similar. This is designed to minimise the impact of the exchange rate movements on the principal capital ratios.

The Group's structural net asset positions in sterling and US dollar are set out in the table below:

Structural FX position	31 December 2011 €m	31 December 2010 €m
Sterling – net asset position	3,992	3,413
US dollar – net asset position	877	619
Total structural FX position	**4,869**	**4,032**

Market Risk in New Ireland Assurance Company plc
New Ireland Assurance Company plc bears interest rate risk 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). This is managed to within tight limits.

New Ireland Assurance Company plc is also indirectly exposed to movements in equity and foreign exchange markets because the management fees it receives are related to the value of assets under management.

Interest Rate Risk
New Ireland Assurance Company plc pursues a policy of close asset / liability matching and any difference in the mean duration of non-linked assets and liabilities is minimised by buying and selling euro fixed interest government securities. No corporate bonds are held. At 31 December 2011, 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:

Management and control of market risk (continued)

Non-linked portfolio sensitivity	31 December 2011 €m	31 December 2010 €m
50 basis points increase	(2.4)	3.9
50 basis points decrease	3.2	(3.3)

Equity and Foreign Exchange Risk
A 5% fall in equity and property markets, applied to the book at 31 December 2011, would reduce earnings by €6 million (31 December 2010: a reduction of €6 million for the same percentage decline).

Similarly, New Ireland Assurance Company plc 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 €3 million (31 December 2010: a reduction of €4 million for the same percentage decline).

Available for Sale Securities
The Group maintains an Available for Sale securities portfolio for liquidity purposes. These assets are held at fair value on the balance sheet with movements in fair value (other than changes due to impairments) recognised in the reserves. While not regarded formally as a market risk position, the Group nonetheless monitors the sensitivity of the value of this portfolio to changes in spreads.

At 31 December 2011, the Group held €10.3 billion in debt securities classified as Available for Sale financial assets (31 December 2010: €15.6 billion). 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 2011 would have reduced its value by €3.4 million (31 December 2010: €3.5 million).

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 23 and the accounting policy is set out on page 194.

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. BoIGM is permitted to take discretionary market risk in derivatives such as interest rate futures, bond futures, forward rate agreements, interest rate swaps, single name credit default swaps and credit spread indices, 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. In practice, option risk is non material and is typically taken in exchange traded interest rate options or 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 BoIGM's case, valuations are agreed and collateral is typically exchanged on a daily basis and in some cases weekly.

3.4 Life Insurance 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 183.

Key Point:
- Under the terms of the Group's restructuring plan agreed with the EU, the Group has committed to dispose of New Ireland Assurance Company plc (NIAC) prior to December 2013, but will retain the distribution business in the branch network.

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 183.

Definition
Life insurance risk is defined as the volatility in the amount and timing of claims caused by an unexpected change in mortality, longevity, persistency or 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 are greater than expected. Persistency or lapse risk is the risk that customers lapse their policies earlier than expected resulting in a loss of future anticipated fees.

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 Board Risk Committee. 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. 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 assurers in the EU from 2014. It is designed to facilitate the development of a single market in insurance services in the EU, 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.

Insurance related Market Risk
Risk of loss due to variance between the actual investment return in the financial year and the expected investment return.

(i) Under IFRS insurance contracts are accounted for on a discounted cash flow basis. NIAC policyholders have c.€3 billion of equities in insurance contracts and a management fee is charged on this amount. Any fall in the equity markets will result in a reduction in this management fee. NIAC is required to account not only for the income lost in the current year but also income foregone in future years. This income foregone in future years is discounted and accounted for in the current year.

(ii) In addition NIAC holds approximately €750 million of sovereign bonds to back certain customer liabilities. A significant risk-related fall in the value of these bonds would result in NIAC recognising the fall in value as a loss.

3.5 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 183.

Key Points:

- One of the key challenges during 2011 was to meet continually increasing regulatory compliance requirements. The Group successfully implemented the Central Bank's codes on Minimum Competency and Corporate Governance. In addition the Group has made the necessary changes to its mortgage arrears management process as required by the Central Bank.
- The Central Bank issued new codes of practice in relation to Consumer Protection and Business Lending to Small and Medium Enterprises in Q4 2011 – both to be implemented in 2012. The Group is currently implementing these codes.
- The UK Financial Services Authority (FSA) is responsible for the Group's UK regulated business Bank of Ireland (UK) plc and has a remit in respect of the other 'passported' businesses in the UK. There has been substantial engagement with the FSA since the authorisation of Bank of Ireland (UK) plc.
- Regulatory, compliance and operational risk has continued to increase over the course of the calendar year in light of industry developments and increased regulatory supervision.

Legislative developments in 2011

- In addition to the Codes of Practice described above, the Central Bank and Credit Institutions (Resolution) Act 2011 was enacted. This gives powers to the Central Bank to establish a Credit Institutions Resolution Fund. It also provides the Central Bank, in respect of a failing credit institution, the powers to secure an orderly failure e.g. to appoint a liquidator, obtain a transfer order from the High Court to transfer assets and liabilities and appoint a special manager.
- The FSA published the results of its Mortgage Market Review in 2011 and the significant impact of this on the structure of the UK mortgage market is expected to become apparent in 2012.

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. Business Unit regulatory compliance reports are analysed and reviewed by the GRCOR function and by the GRCORC.

Operational Risk
Definition
The Group faces operational risks in the normal pursuit of its business objectives. Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems, or from external events, including legal risk, but excluding reputation and strategic risks. As such, operational risk encompasses a very broad range of sources of potential financial loss which the Group actively seeks to mitigate, transfer and control including for instance, business continuity, fraud, outsourcing and technology risks.

Management of Operational Risk
The primary goals of operational risk management and assurance are ensuring the sustainability of the Group's operations and the protection of its reputation; by controlling, mitigating or transferring the risk of financial losses. By its nature operational risk cannot be fully eliminated, however 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 report on the operational risks which may impact the achievement of the Group's business objectives. It consists of:

3.5 Regulatory, Compliance and Operational Risk (continued)

- 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 and standards in business and support units throughout the Group; and
- maintaining awareness and competencies of relevant staff in the operational risk management process.

Operational Risk Policy
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.

Operational Risk Identification, Assessment and Assurance
Business units are responsible for effective implementation of the operational risk policy. To this end, the head of each business unit provides the GRCOR function with a certificate of compliance with the requirements of the policy semi-annually. Business units across the Group apply risk assessment techniques to identify, evaluate and prioritise the critical operational risks to which they are exposed. In so doing business managers are able to formulate specific actions to enhance controls, define countermeasures and implement specific initiatives to mitigate their operational risks.

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 and Transfer
In addition to business unit risk mitigation initiatives, the Group implements specific policies and risk mitigation measures for key operational risks, including financial crime, data protection and privacy, outsourcing and business continuity risks. This strategy is further supported by risk transfer mechanisms such as the Group's insurance programme, whereby selected risks are reinsured externally. The Group holds Pillar 1 regulatory capital to cover the financial impact of operational risk events, and adopts the Standardised Approach (TSA) to determine its capital requirement.

Operational Risk Loss Events
An operational risk event is any circumstance where as a result of an operational risk materialising, the Group has, or could have made a gross financial loss. A standard reporting threshold is used across the Group for recording risk events and for normal COREP reporting to the Central Bank of Ireland. Through its membership of the Operational Risk data eXchange (ORX), (a not-for-profit association of international banks formed to share anonymous loss data information), the Group utilises external loss information to inform its risk identification and evaluation practices.

Operational Risk Reporting
The Court receives a quarterly update on the status of operational risk events and associated losses, and the measures in place to monitor and mitigate the risks through the Court Risk Report. In addition, there is an annual process that ensures that the Court and CRC are comfortable that the processes in place to manage operational risks are sufficient and that residual risk is within the Group's Risk Appetite, which is reviewed annually by the Court.

The Head of the GRCOR function reports to the GRCORC on the status of operational risk in the Group, including status of the primary (top) risks across the Group and progress of risk mitigation initiatives, significant loss events and the nature, scale and frequency of overall losses. The Group is required to report to the Central Bank of Ireland on loss performance as part of its COREP obligations.

3.6 Business and Strategic Risk

Key Points:

- Trading conditions have been challenging. Continued intense competition for deposits in the Irish market, the elevated cost of wholesale funding and the high cost of the Government guarantee (ELG) scheme have maintained ongoing pressure on the Group's cost of funding during 2011. Policy measures by the authorities are likely to see low eurozone and UK interest rates for longer than anticipated earlier in 2011 which may impact the speed of margin recovery.
- The Group's strategic plan was updated during 2011 to reflect the outcome of the 2011 Prudential Capital Assessment Review (PCAR) and Prudential Liquidity Assessment Review (PLAR) processes. The Group has since made substantial progress on restructuring and strengthening its balance sheet and towards achieving its deleveraging targets.

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. 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 mitigates Business Risk through business planning methods, such as the diversification of revenue streams, cost base management and oversight of business plans. At an operational level, the Group's annual budget process sets expectation at a business unit level for volumes and margins. The tracking of actual volumes and margins against budgeted levels is a key financial management process in the mitigation of business risk.

In the case of Strategic Risk, this risk is mitigated through update to the Court on (i) industry developments (ii) the Group's EU Restructuring Plan commitments (iii) the Group's PCAR / PLAR deleveraging plan. The Group's EU Restructuring Plan commitments are monitored by an EC appointed Monitoring Trustee with updates on progress provided by Group Strategy Development to (a) the Project Steering Committee, comprised primarily of members of the Group executive (b) the Court through a CEO Report. Group Strategy Development reports on the progress against the Group PCAR / PLAR deleveraging plan to (a) the Group's Deleveraging Committee (chaired by a non-executive Director) and (b) to the Court regularly.

3.7 Pension Risk

Key point:

- The Group carried out in 2010 an extensive review of its pension schemes to address the pension deficit, and 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 would elect to or may have to make 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 2011 was €414 million (31 December 2010: €424 million). The investment policy pursued to meet the schemes' estimated future liabilities is a matter for the Trustees and the schemes' Investment Committees. 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 Court receives quarterly updates on pension risk through the Court Risk Report. In addition, there is an annual review of pension risk to ensure that the Court is satisfied with the processes in place to manage the risk and that residual risk is within the Group's Risk Appetite.

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 46). In 2010, the Group carried out an extensive pensions review in order to address the pension deficit by a combination of benefits restructuring and additional employer contributions over a period of time. The Group received 100% acceptance from the individual active members of five of its pension schemes, including the main Bank of Ireland 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.

3.8 Reputation Risk

Key point:

- The reputation of the Group continues to be adversely impacted by the ongoing financial crisis. Within this context, the actions and achievements of the Bank of Ireland Group over the past twelve months, most notably raising private capital and attracting new international institutional investment, have succeeded in positively differentiating the Group from its Irish peers.

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 customers, suppliers, investors, counterparties, shareholders 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, government relations 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, in addition there is an annual review of Reputation Risk to ensure that the Court is comfortable with the processes in place to manage Reputation Risk and that residual risk is within the Group's Risk Appetite.

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.

4 Capital Management

Key Points:
- Following the results of PCAR as announced on 31 March 2011, the Group was required 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 was also required via the issue of a debt instrument which under certain circumstances would convert to equity capital.
- In July 2011 the Group completed a Rights Issue which generated €1.9 billion of equity capital.
- In July 2011 the Group issued a Contingent Capital note to the State with a nominal amount of €1 billion and a maturity of five years. This Contingent Capital note is classified as a subordinated liability and it qualifies as Tier 2 capital.
- The Group generated €2.1 billion from liability management exercises completed between June 2011 and November 2011 as part of the 2011 Recapitalisation of the Bank.
- The Group incurred costs of €146 million in relation to the 2011 Equity Capital Raise.
- The Group completed the 2011 PCAR capital requirement of €4.2 billion in December 2011 with the closing of the Kildare / Brunel Securitisation liability management exercise and the repurchase of a number of capital securities which together generated a Core tier 1 gain of €0.35 billion.
- The EBA conducted a stress test and a capital exercise in relation to sovereign debt exposures during the year, both of which the Group successfully passed.

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 183.

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 difficult conditions these requirements are met.

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 183.

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 for the year ended 31 December 2010, on 24 June 2011. The CRD also introduced a requirement to calculate capital requirements, and to set capital aside, with respect to operational risk. In assessing capital adequacy the Group is also required to set capital aside for market risk. The Group 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 difficult conditions, it continues to comply with regulatory minimum ratios.

A number of regulatory initiatives have recently been proposed or enacted such as CRD II, III, IV, Basel III and Solvency II which have had or will have a future impact on the Group's capital ratios.

Capital Management (continued)

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 183.

Capital resources

The following table sets out the Group's capital resources.

Group capital resources	31 December 2011 €m	31 December 2010 €m
Equity (including other equity reserves)	10,177	7,326
Non-cumulative preference stock	25	25
Non-controlling interests – equity	50	56
Undated subordinated loan capital	162	769
Dated subordinated loan capital	1,264	2,006
Total capital resources	**11,678**	**10,182**

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 183.

In the year ended 31 December 2011 the Group's total capital resources increased by €1.8 billion to €12.0 billion due primarily to:

- the generation of €4.2 billion equity capital following the 2011 recapitalisation of the Bank together with the issue of €1.0 billion Contingent Capital note to the State;

partly offset by

- the underlying loss after tax arising during the year ended 31 December 2011 driven by impairment charges on loans and advances to customers;
- a charge of €0.6 billion relating to the loss on disposal of loan books; and
- reduction in subordinated debt due to various liability management exercises.

[1] *Underlying excludes the impact of non-core items (see page 12).*

Capital Management (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 183.

Regulatory Initiatives and Capital Stress Testing

2011 PCAR

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

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

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 (PCAR / EBA stress test basis) 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 is 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 was also required through the issue of a debt instrument which under certain circumstances would convert to equity capital.

European Banking Authority (EBA) stress testing

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

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

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

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

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

5 Credit Risk Methodologies

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 183.

Internal Credit Rating Models

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 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.

Regulatory Approval of Approaches

The Bank of Ireland Group has regulatory approval to use its internal credit models in the calculation of its capital requirements for 73% of its credit exposures which results in 70% of credit risk weighted assets being calculated using internal credit models. This approval covers the adoption of the Foundation IRB approach for non-retail exposures and the Retail IRB approach for retail exposures.

The Structure of Internal Rating Systems

The Group divides its internal rating systems into non-retail and retail approaches. Both approaches differentiate Probability of Default estimates into 11 grades in addition to the category of default. For both non-retail and retail internal rating systems, default is defined based on the likelihood of non-payment indicators that vary between borrower types. In all cases, exposures 90 days or more past due are considered to be in default.

PD Calculation

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

- Through-the-Cycle (TtC) estimates are estimates of default over an entire economic cycle, averaged to a twelve month basis. These are in effect averaged expectations of PD for a borrower over the economic cycle.
- Cyclical estimates are estimates of default applicable to the next immediate twelve months. These cyclical estimates partially capture the economic cycle in that they typically rise in an economic downturn and decline in an economic upturn but not necessarily to the same degree as default rates change in the economy.

Non-Retail Internal Rating Systems

The Group has adopted the Foundation IRB approach for certain of its non-retail exposures. Under this approach, the Group calculates its own estimates for probability of default and uses supervisory estimates of loss given default, typically 45%, and credit conversion factors. To calculate probability of default, the Group assesses the credit quality of borrowers and other counterparties using criteria particular to the type of borrower under consideration. In the case of financial institutions, external credit agency ratings are a significant component of the Group's ratings approach. For exposures other than financial institutions, external ratings, when available for borrowers, play a role in the independent validation of internal estimates.

Retail Internal Rating Systems

The Group has adopted the Retail IRB approach for its retail exposures. Under this approach, the Group calculates its own estimates for probability of default, loss given default and credit conversion factors. External ratings do not play a role within the Group's retail internal rating

Credit Risk Methodologies (continued)

systems, however, external credit bureau data does play a significant role in assessing UK retail borrowers. To calculate loss given default and credit conversion factors, the Group assesses the nature of the transaction and underlying collateral. Both loss given default and credit conversion factors estimates are calibrated to produce estimates of behaviour characteristic of an economic downturn.

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

- Internal Reporting
- Credit Management
- Calculation of risk adjusted return on economic capital (RARoC)
- Credit Decisioning / Automated Credit Decisioning
- Borrower Credit Approval
- Internal Capital Allocation between businesses of the Group

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

Control Mechanisms for Rating Systems
The control mechanisms for rating systems are set out in the Group's model risk policy. Model risk is one of the ten key risk types identified by the Group, the governance of which is outlined in the Group's Risk Framework. A sub-committee of the Group Risk Policy Committee (GRPC), the Risk Measurement Committee (RMC), approves all risk rating models, model developments, model implementations and all associated policies. The Group mitigates model risk through four lines of defence as follows:

- Model Development Standards: the Group adopts centralised standards and methodologies over the operation and development of models. The Group has specific policies on documentation, data quality and management, conservatism and validation. This mitigates model risk at model inception.
- Model Governance: the Group adopts a uniform approach to the governance of all model related activities. This ensures the appropriate involvement of stakeholders, ensuring that responsibilities and accountabilities are clear.
- Model Performance Monitoring: all models are subject to testing on a quarterly basis. The findings are reported to, and appropriate actions, where necessary, approved by RMC.

Independent Validation: All models are subject to in-depth analysis at least annually. This analysis is carried out by a dedicated unit (the Independent Control Unit – ICU). It is independent of credit origination and management functions. In addition, Group Internal Audit regularly reviews the risk control framework including policies and standards to ensure that these are being adhered to, meet industry good practices and are compliant with regulatory requirements. The ICU function is independently audited on an annual basis.

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

Credit Risk Methodologies (continued)

Methodology for loan loss provisioning

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.

The following factors are also taken into consideration when assessing whether a loss event has occurred at the balance sheet date that may lead to recognition of impairment losses:

Residential mortgages

- debt service capacity;
- repayment arrears;
- adverse movements in net worth;
- initiation of backruptcy proceedings; and
- material decrease in rents on a Buy to let property.

Non-property SME and Corporate

- debt service capacity;
- repayment arrears;
- deteriorating financial performance;
- adverse movements in net worth;
- future prospects;
- initiation of backruptcy / insolvency proceedings; and
- external rating downgrade below an acceptable level.

Property and construction

- repayment arrears;
- debt service capacity and the nature and degree of protection provided by cash flows;
- the value of any underlying collateral; and
- initiation of backruptcy / insolvency proceedings.

Consumer

- debt service capacity;
- repayment arrears;
- adverse movements in net worth; and
- initiation of backruptcy proceedings.

Loans with a specific impairment provision attaching to them together with loans (excluding Residential mortgages) which are more than 90 days in arrears are included as impaired loans.

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 cash flows 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 cash flows / 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:

Credit Risk Methodologies (continued)

- 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).

Methodologies for valuation of collateral

Retail Ireland mortgage loan book property values are determined by reference to the original or latest property valuations held indexed to the Residential Property Price Index published by the Central Statistics Office (CSO). This index provides the relevant index to be applied to original market values in the period after January 2005. For Retail Ireland mortgages originated prior to January 2005, the Permanent TSB / ESRI House price index is utilised. Retail UK mortgage loan book property values are determined by reference to the original or latest property valuations held indexed to the Nationwide UK house price index. The weighted average indexed LTV for the total Retail Ireland mortgage loan book is 105% at 31 December 2011 and 75% for the Retail UK mortgage loan book.

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 property assets (both investment property and development), in particular in Ireland, where restricted market liquidity continues to be a feature of the market, the Group uses estimated cash flows 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.

- **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.
- **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 are 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.

Credit Risk Methodologies (continued)

- **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.

- **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 cash flows 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 impaired loans above agreed thresholds 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 impact expected cash flows (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 property collateral 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.

Property and construction loans are the principal asset class where one or more valuation methods as described above are applied. Property and construction loans total €21 billion or 20% of total loans at 31 December 2011 (before impairment provisions) (31 December 2010: €24 billion or 20% of total loans).

After applying one or more of the above methodologies, resulting valuations for impaired land and development assets within the Property and construction portfolio show a wide range of discounts (typically between 50% and 95%) 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.

End of information in the Risk Management Report that forms an integral part of the audited financial statements.

Corporate Governance Statement

The Court of Directors (the Court) 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 the boundaries of Risk Appetite and a framework of prudent and effective controls which enable risk to be identified, assessed, measured and controlled. 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.

The Court's oversight of risk and control is facilitated through delegation of certain responsibilities to Committees of the Court, the principal Committees being the Group Audit Committee (GAC), the Court Risk Committee (CRC), the Nomination & Governance Committee and the Group Remuneration Committee. Details of these Committees are set out on pages 135 to 140 and 157.

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 Central Bank of Ireland's Corporate Governance Code for Credit Institutions and Insurance Undertakings (the Irish Code which is available on www.centralbank.ie). The Governor and Company of the Bank of Ireland (the Bank) is subject to the additional requirements of Appendix 1 of the Irish Code for major institutions. The Directors believe that the Group complied with the Irish Code and the UK Corporate Governance Code (the UK Code, formerly the Combined Code published by the Financial Reporting Council in the UK), throughout 2011, otherwise than as set out below, and this report describes how the Bank applies the main and supporting principles of the UK Code. Specifically, the Group has complied with the provisions of the UK Code throughout the year ended 31 December 2011, except in the case of Tom Considine's membership of the GAC and Joe Walsh's membership of the Group Remuneration Committee – see comments on independence on page 135. This report also covers the disclosure requirements set out in the Irish Corporate Governance Annex to the Listing Rules of the Irish Stock Exchange, which supplement the requirements of the UK Code with additional corporate governance provisions, and apply to the Bank from January 2011.

On 1 December 2011, new fitness and probity standards (the Standards), issued by the Central Bank of Ireland, became effective for persons performing a prescribed 'controlled function' or a 'pre-approval controlled function' in a Regulated Financial Service Provider (RFSP). The Standards, which apply on a phased basis from 1 December 2011, apply to persons performing any prescribed function in a RFSP and are based on requirements of competence, capability, honesty, integrity and financial prudence. The Group is in the process of implementing the requirements of the new Standards by the required dates.

At the end of 2010, the Group engaged a suitably qualified and independent firm to conduct an independent review of the Group's corporate governance against industry best practices. Arising from the recommendations of that review, it was agreed that an external evaluation of the performance of the Court should be conducted. Following its review of the Court's performance, the External Advisor presented its findings to the Central Bank of Ireland and the Group in December 2011, concluding that 'Board performance exceeded benchmarks on 45 dimensions out of 50, including critical areas such as knowledge, challenge and dissent'. The External Advisor also identified certain areas for possible improvement which the Court is in the process of addressing on the basis of their materiality and impact. Such an external review is now mandatory under the Irish Code at least once every three years.

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

Board Size and Composition
At close of business on 31 December 2011, the Court comprised nine Directors: the Governor, who was independent on appointment, one executive Director and seven non-executive Directors, five of whom are independent non-executive Directors. On 20 January 2012, two independent non-executive Directors (see below) were appointed to the Court and on 1 February 2012, one executive Director was appointed to the Court, bringing its current membership to twelve Directors, seven of whom are independent non-executive Directors.

In the interests of facilitating board renewal and a restructuring of the Court in 2011, three independent non-executive Directors (Paul Haran, Dennis Holt and Heather-Ann McSharry) did not offer themselves for re-election and retired from the Court at the conclusion of the Annual General Court in June 2011 (the AGC). Reflecting the smaller size of the Court and the balance between executive and non-executive Directors (having regard to the UK Code requirement that at least half the board should comprise non-executive Directors), it was considered appropriate to reduce the complement of Executive Directors. Consequently, two Executive Directors (Des Crowley and Denis Donovan) did not offer themselves for re-election to the Court at the AGC. All of the other Directors who stood for election or re-election were elected or re-elected at the AGC. Patrick O'Sullivan succeeded Dennis Holt as Senior Independent Director and Deputy Governor, effective upon the retirement of Dennis Holt from the Court at the end of the AGC.

On 23 December 2011, Patrick Mulvihill and Pat Butler were appointed to the Court as non-executive Directors. John O'Donovan and Rose Hynes retired from the Court with effect from 31 December 2011. On 20 January 2012, Patrick Haren and Kent Atkinson were appointed to the Court as non-executive Directors. Andrew Keating was appointed Group Chief Financial Officer and an executive Director of the Court on 1 February 2012. Jerome Kennedy has indicated his intention to retire as a non-executive Director at the conclusion of the Annual General Court in 2012.

The composition of the Court is reviewed by the 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. While there is an ongoing process of planned Court renewal and refreshment, the Court regards its current size and composition as within a range which is sufficient to provide the broad range of skills and experience necessary to govern the business effectively, while enabling full and constructive participation by all Directors; it also ensures that the principal Court Committees are appropriately resourced. The Group ensures 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. Under the terms of the Irish Code, the number of directorships of credit institutions and insurance undertakings held by a director shall not exceed three where one of the directorships held is in a major institution, and is limited to five directorships of non-financial institutions. Confirmation of directorships was sought from each Director in 2011 as part of the Bank's assessment of Directors under Fitness and Probity. This review indicated that, except in the case of one Director, the Directors were within the limits set out in the Irish Code. In the one case, where a total of six directorships were held, one of which was a directorship of a financial institution (i.e. of Bank of Ireland), the Central Bank of Ireland was notified and acknowledged that no further action was required.

The Court held thirteen scheduled and twenty-six unscheduled meetings during the year ended 31 December 2011. 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.

Biographical details, including each Director's background and experience, are set out on pages 149 to 155.

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Attendance at scheduled and unscheduled meetings of the Court and its Committees during the year ended 31 December 2011

Name	Court Scheduled		Court Unscheduled		Group Audit Committee Scheduled		Group Audit Committee Unscheduled	
	A	B	A	B	A	B	A	B
Richie Boucher	13	13	26	26	-	-	-	-
Pat Butler *(Appointed 23 December 2011)*	-	-	-	-	-	-	-	-
Tom Considine	13	13	26	26	8	8	4	4
Des Crowley *(Retired 15 June 2011)*	7	7	12	11	-	-	-	-
Denis Donovan *(Retired 15 June 2011)*	7	7	12	12	-	-	-	-
Paul Haran *(Retired 15 June 2011)*	7	7	12	11	4	4	2	1
Dennis Holt *(Retired 15 June 2011)*	7	6	12	11	-	-	-	-
Rose Hynes *(Retired 31 December 2011)*	13	12	26	26	-	-	-	-
Jerome Kennedy	13	13	26	25	8	8	4	4
Patrick Kennedy *(Appointed to Remuneration Committee and Risk Committee 13 January 2011)*	13	13	26	26	-	-	-	-
Patrick Mulvihill *(Appointed 23 December 2011)*	-	-	-	-	-	-	-	-
Patrick Molloy	13	13	26	26	-	-	-	-
Heather Ann McSharry *(Retired 15 June 2011)*	7	7	12	12	4	4	2	1
John O'Donovan *(Retired 31 December 2011)*	13	13	26	26	-	-	-	-
Patrick O'Sullivan	13	11	26	22	8	6	4	4
Joe Walsh	13	13	26	25	-	-	-	-

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
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	7	7	2	2
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
2	1	2	2	-	-	-	-	-	-	-	-
5	5	5	5	4	4	9	9	7	7	2	2
-	-	-	-	4	4	9	8	7	7	2	2
-	-	-	-	4	4	8	8	7	7	2	2
-	-	-	-	-	-	-	-	-	-	-	-
5	5	5	5	4	4	9	9	-	-	-	-
2	2	2	2	-	-	-	-	3	3	-	-
-	-	-	-	-	-	-	-	-	-	-	-
3	3	3	3	-	-	-	-	7	7	2	2
5	5	5	5	4	3	9	8	-	-	-	-

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.

The Court of Directors (continued)

Role of the Court

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;
- approving changes in Group pension schemes; and
- the technical approval of equity underwriting sums of greater than €250 million for Rights Issues or Initial Public Offerings, noting that the Bank is not engaged in this type of business.

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. Specifically, the Court:

- sets the Group's Risk Appetite incorporating high level risk limits;
- approves the Group Risk Framework, incorporating Risk Strategy, the Group's Credit Policy and high level principles governing Market and Liquidity Risk;
- approves the stress testing and capital plans under the Group's Internal Capital Adequacy Assessment Process (ICAAP); and
- approves other high-level risk limits as required by Credit, Capital, Liquidity and Market policies.

The Court receives regular updates on the Group's risk environment and exposure to the Group's 10 risk types through a Court Risk Report reviewed quarterly (and monthly for Liquidity, Credit and Capital).

The Court is also responsible for endorsing the appointment of individuals who may have a material impact on the risk profile of the Group and monitoring on an ongoing basis their appropriateness for the role. The removal from office of the head of a 'control function', as defined in the Irish Code, is also subject to Court approval.

At its meetings in 2011, the Court considered and determined the implementation of Group Strategy in the context of Government support for the Group. The following are amongst matters which received significant Court focus during 2011:

- the recapitalisation of the Group which occurred in 2011, including the liability management exercises, following the Prudential Capital Assessment Review and the Prudential Liquidity Assessment Reviews;
- the evolving capital and liquidity position throughout 2011 including the Going Concern position of the Group and the ability of banks to withstand systemic shocks or stresses;
- transactions with NAMA;
- the financial performance of the Group;
- the revised EU restructuring plan;
- the performance of the Group's individual businesses and in particular its UK subsidiary Bank of Ireland (UK) plc;
- the cost reduction programme;
- deleveraging, sale of businesses and non-core loan portfolios;
- significant investments designed to improve the customer experience of dealing with the Group and to enhance efficiency; and
- developments in the regulatory and corporate governance environment, including regulatory measures with regard to remuneration in the banking sector.

The Court received updates on the Group's principal businesses on the execution of their business strategy and considered reports from each of the principal Court Committees.

Details of the number of scheduled meetings of the Court and its Committees and attendance by individual Directors are set out on pages 132 to 133. The terms of reference of the Committees are reviewed annually by the relevant Committees and by the Court and are available on the Group's website (www.bankofireland.com) or by request to the Group Secretary. The Chairman and the non-executive Directors meet without the Executive Directors present, at least once annually, to appraise management's performance.

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.

Governor and Group Chief Executive

The respective roles of the Governor, who is Chairman of the Court, and the Group Chief Executive, which are separate, are set out in writing and have been agreed by the Court. The Governor oversees the operation and effectiveness of the Court. 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, holds delegated authority from the Court for the day to day management of the business and has ultimate executive responsibility for the Group's operations, compliance and performance. The Group Chief Executive's contract must be reviewed at least every five years and was last reviewed in 2010.

The Court of Directors (continued)

Board Balance and Independence
The Court has considered the principles relating to independence contained in the Irish Code and the UK Code. The Court has determined that each current non-executive Director, with the exception of Tom Considine and Joe Walsh, is independent within the meaning of the Irish Code and the UK 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 UK 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 57.

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 UK Code. Biographical details, including each member's background and experience, are set out on pages 149 to 155. 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. 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.

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 independent assessments of the candidates. The Group then works with that firm to shortlist candidates, conduct interviews / meetings, (including meetings with members of the Committee) 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. A recommendation is then made to the Court. Appointments will not proceed where conflicts emerge which are significant to the overall work of the Board. The processes described above were followed in the selection and appointment of Patrick Mulvihill, Pat Butler, Patrick Haren and Kent Atkinson to the Court.

Further to the Central Bank Reform Act 2010 (the Reform Act), the Bank must, following assessment, conclude that each Director or candidate Director has the requisite standard of fitness, probity and financial soundness to perform his or her function as Director, with reference to the Fitness and Probity Standards issued by the Central Bank of Ireland pursuant to the Reform Act.

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 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. Collectively, the Court possesses skills and experience in a wide range of areas relevant to banking and business, including the following: financial services (including retail, corporate and insurance), finance and accountancy, risk management, economics, investor relations, corporate finance, mergers and acquisitions, strategy development, human resources, marketing and customer relations. Directors also receive ongoing training and briefings by way of ongoing professional development (see 'Information and Professional Development' below). Directors bring their individual knowledge, skills and experience to bear in discussions on the major challenges facing the Group.

The Court of Directors (continued)

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 meetings and briefings, 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.

Induction 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.

In order to ensure that 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 2011, Directors participated in a number of training modules including the following: Regulatory and Economic Capital Models; Capital Markets and Strategy; Liquidity Management; Risk Aligned Performance Management and the Internal Capital Adequacy Assessment Process (ICAAP). 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 Court and, should their concerns not be satisfactorily addressed within five business days, the Directors should report the concern to the Central Bank of Ireland.

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

In 2011, the performance evaluation process for individual Directors involved one-to-one meetings between the Governor and each Director, supported by the completion of questionnaire templates, the objective of which was to establish whether each individual contributed effectively and demonstrated commitment to the role. In 2011, the Group engaged a suitably qualified and independent firm to conduct an independent external review of the effectiveness of the Court and its Committees. Refer to page 129 for further information on the conclusion of this review. Following that review, the Court concluded that, as a body, it is effective in discharging its responsibilities.

As part of the overall performance evaluation process, the appraisal of the Governor's performance was conducted by the Senior Independent Director by means of one-to-one discussions with Directors, supported by questionnaires. The Senior Independent Director presented the results of these assessments for discussion with the Directors, without the Governor being present. He then met the Governor to present him with the Court's conclusions on his effectiveness. The Senior Independent Director also meets individual Directors on such other occasions as are deemed appropriate.

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 subject to re-election by stockholders. In line with emerging corporate governance practice, since the Annual General Court in 2009, all Directors who have sought re-election (other than Tom Considine and 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 National Pension Reserve Fund Commission's investment in the Bank remains in place.

The Court of Directors (continued)

The Court plans for its own renewal with the assistance of the Nomination and Governance Committee. Refer to the section above headed 'Appointments to the Court and role of Nomination and Governance Committee.'

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 157 to 169 .

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) or by request to the Group Secretary. 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 of Ireland in 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 pages 295 to 301.

A condition imposed on the Bank's licence by the Central Bank of Ireland in 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. The Group's process for ensuring compliance with the Central Bank of Ireland's 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 this Code.

Accountability and Audit

The Report of the Directors, including a going concern statement, is set out on pages 143 to 144. 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 Report on pages 48 to 128); 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 financial position and results of the Group are appropriately 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 Court of Directors (continued)

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 SOx compliance process ensures that the Group has appropriately designed internal controls to mitigate the financial reporting risks. Group Internal Audit has overall responsibility for the related control testing process and providing objective assurance to management and the GAC 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 GAC covering all significant judgmental and technical accounting issues together with any significant presentation and disclosure matters; and
- user access to 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 focussed 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 year ended 31 December 2011. This review involved consideration of the reports of the 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 GAC, if they arise. After each meeting of the GAC, 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 year ended 31 December 2011, the Court reviewed the GAC'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.

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 GAC, whose contact details are available from Public Concern at Work. The Chairman of the GAC is a non-executive Director.

Group Audit Committee

At 31 December 2011, the GAC comprised four non-executive Directors. On their appointment to the Court on 20 January 2012, two independent non-executive Directors, Kent Atkinson and Patrick Haren, joined the GAC, bringing its current membership to six. The Court has determined that the Committee members' collective skills and recent and relevant financial experience enable them to discharge their responsibilities. Biographical details, including each member's background and experience, are set out on pages 149 to 155. In close liaison with the CRC, 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 Court of Directors (continued)

The GAC 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; and
- discharging the statutory responsibility of the Bank under Section 42 of The Companies (Auditing and Accounting) Act, 2003 and other statutes or regulations.

It reviews 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 GAC, which also receives reports on the performance of such services.

The GAC met twelve times in 2011, of which four meetings were unscheduled. Matters which received particular focus during the year included: the Group's Capital Raise and associated documentation, including review of working capital statements and consideration of the related assurance and verification processes; consideration of technical accounting and judgemental matters, including detailed reviews of the going concern assessment and of current and forecast impairment provisions.

The GAC also reviewed the Group Internal Audit reports and findings, the Interim Report for the six months ended 30 June 2011, updates on SOx and reports from Group Regulatory Compliance and Operational Risk. In addition, the GAC reviewed the external auditor's audit plan, audit findings, the external auditor's independence letter and the external audit fee approval.

Court Risk Committee

At 31 December 2011, the CRC comprised seven non-executive Directors. On 31 December 2011, Rose Hynes retired from the Court and the CRC. On 20 January 2012, Patrick O'Sullivan retired from the CRC and Kent Atkinson was appointed to the CRC, bringing its current membership to six. Biographical details, including each member's background and experience, are set out on pages 149 to 156. The CRC monitors risk governance and assists the Court in discharging its responsibilities in ensuring that risks are properly identified, reported, and assessed; it also ensures 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 Court Risk Report 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 60 to 61, respectively.

The primary responsibility of the CRC is to assist the Court in discharging its responsibilities for 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, 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 61.

The CRC met nine times in 2011, of which two meetings were unscheduled. It devoted significant focus to reviewing the quality of risk reporting and enhancements to the Quarterly Court Risk Report. It reviewed updates in respect of the Group's Risk Strategy and Appetite and the Risk Appetite Statement was revised in 2011 to reflect the impacts of PCAR / PLAR and recapitalisation of the Bank on risk profile. The CRC considered management's assessment of risk in the Group, including management's view on likelihood of occurrence and the mitigants available. It considered the review and challenge process, through which the Court satisfied itself in respect to the assessment of identified risk measures that do not lend themselves to being measured against readily identifiable risk metrics. The CRC received and considered updates on the

The Court of Directors (continued)

implementation of measures designed to improve risk governance within the Group. It considered the effectiveness of the GRPC and reviewed the minutes of GRPC meetings in 2011.

Group Deleveraging Committee
The Group Deleveraging Committee (GDC) is a Court-appointed Committee, which was established in June 2011, to monitor and oversee the delivery of the Group's deleveraging commitments under the Group's business plan, the Central Bank of Ireland's 2011 PCAR / PLAR process and the EU / IMF Programme of Financial Support for Ireland. The GDC is chaired by a non-executive Director and comprises a number of the Group's executives and senior managers. The GDC met five times in 2011. Representatives of the Department of Finance and Central Bank of Ireland have enhanced observer status at the GDC.

Court Appointed Executive Committees
Group Risk Policy Committee (GRPC) – 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 GRPC 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 (GIC) – The GIC 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.

The Court of Directors (continued)

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) to provide investors with the full text of the Annual Report and Interim Report, 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 Group Chief Financial Officer and other members of their senior executive teams 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 2011.

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 practice is to issue notice of the Annual General Court at least 20 working days before the meeting, in line with the requirements of the UK 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. All Directors attended all three General Courts held in 2011. 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
As a non-US company listed on the NYSE, the Bank is exempt from most of the provisions of Section 303A of the NYSE corporate governance standards (NYSE Rules), which domestic U.S. companies must follow. However, the Bank is required to provide an Annual Written Affirmation to the NYSE confirming compliance with applicable NYSE Rules and is also required to disclose any significant differences between its corporate governance practices and the requirements of the NYSE Rules 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 (including the provisions of the Credit Institutions (Stabilisation) Act, 2010 – see page 51), the Listing Rules of the Irish Stock Exchange and the UK Listing Authority, the Irish Code and the UK Code.

Significant differences arise in the following areas:

- Board Committees: under NYSE Rules, listed companies must have a Nominating / Corporate Governance Committee and a Compensation Committee, both of which must be composed entirely of independent Directors. The Bank has a Nomination and Governance Committee and a Remuneration Committee, both of which are broadly similar in purpose and constitution to the Committees required by the NYSE Rules and whose terms of reference comply with the requirements of the Irish Code and the UK Code. The NYSE Rules state that both Committees must be composed entirely of independent Directors. As the Group Chairman was independent on appointment, the UK Code permits him to chair the Nominations and Governance Committee and be a member of the Group Remuneration Committee. Under NYSE Rules, listed companies must have a Board Audit Committee comprised solely of independent non-executive Directors. The GAC is composed entirely of non-executive Directors who are independent in accordance with NYSE Rules. However the Bank follows the UK Code recommendations, rather than the NYSE Rules, regarding the

The Court of Directors (continued)

responsibilities of the Board Audit Committee, although both are broadly comparable. Joe Walsh, who is Chairman of the Group Remuneration Committee and a member of the Group Nomination and Governance Committee, and Tom Considine, who is Chairman of the CRC and a member of the GAC were nominated by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Scheme, 2008, and are not considered independent by reference to the terms of the Irish Code and the UK Code, but are considered independent of management in accordance with the criteria set out in the NYSE Rules. Otherwise, the above-mentioned Committees are composed entirely of non-executive Directors whom the Board has determined to be independent.

- Corporate Governance Guidelines: the NYSE Rules require domestic US companies to adopt and disclose corporate governance guidelines. There is no equivalent requirement or recommendation in the Irish Code or UK Code. The Bank complies with corporate governance and disclosure requirements set out in the Irish Code, the UK Code and the Irish Corporate Governance Annex to the Listing Rules of the Irish Stock Exchange.

Report of the Directors

Results

For the year ended 31 December 2011 the Group made a loss before tax of €190 million and an after tax profit of €40 million. A loss of €5 million is attributable to non-controlling interests, and a €45 million profit is attributable to ordinary stockholders, which has been transferred to retained earnings.

Dividends

No dividend on ordinary stock will be paid in respect of the year ended 31 December 2011.

Group activities

The Group provides a range of banking and other financial services. The Operating and Financial Review section (pages 2 to 47) 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 on pages 49 to 56.

Capital stock and subordinated liabilities

5,321,422,310 units of ordinary stock, of nominal value of €0.10 each, were in issue at 1 January 2011 of which 27,702,862 were held in treasury stock. On 11 July 2011, the ordinary stock was renominalised from €0.10 per share to €0.05 per share. As at 31 December 2011, the Group has 30,154,514,532 units of ordinary stock of €0.05 each of which 45,133,318 were held in treasury stock.

During the year ended 31 December 2011 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 42 and note 49.

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 145 to 148.

Directors

The names of the members of the Court of Directors as at 31 December 2011 and those appointed since year end together with a short biographical note on each Director appear on pages 149 to 155.

At the Annual General Court (AGC) held on the 15 June 2011, all Directors (with the exception of J Walsh and T Considine) retired. D Crowley, D Donovan, P Haran, D Holt and H A McSharry did not offer themselves for re-election. P Kennedy was elected and R Boucher, R Hynes, J Kennedy, P Molloy, J O'Donovan and P O'Sullivan were re-elected on that date.

P Butler and P Mulvihill were co-opted to the Court on 23 December 2011. R Hynes and J O'Donovan retired as Directors on 31 December 2011. MK Atkinson and P Haren were co-opted to the Court on 20 January 2012 and A Keating was co-opted to the Court on 1 February 2012.

Remuneration

See Remuneration Report on pages 157 to 169.

Directors' interests

The interests of the Directors and Secretary in office at 31 December 2011 and of their spouses and minor children in the stock issued by the Bank are shown in the Remuneration Report on page 168.

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 year ended to 31 December 2011.

Substantial stockholdings

There were 98,782 registered holders of the ordinary stock of the Bank at 31 December 2011. An analysis of these holdings is shown on page 364.

As at 17 February 2012, the Bank had received notification of the following substantial interests in its issued ordinary stock:

Name	%
National Pensions Reserve Fund Commission / Minister for Finance of Ireland (NPRFC)[1]	15.13%
Hamblin Watsa Investment Counsel Ltd	9.32%
Wilbur L Ross, Jr. WLR Recovery Fund IV, L.P.	9.32%
FMR LLC	9.26%
Capital Research and Management Company / EuroPacific Growth Fund	6.21%
Harris Associates L.P.	5.84%
Friedberg Global Macro Hedge Fund Limited Partnership	3.03%

[1] *The NPRFC has voting rights equivalent to 15.13% 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 48.*

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 and the Irish Corporate Governance Annex, 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 129 to 142. The Corporate Governance Statement forms part of the Report of the Directors.

Environment
The Group's environmental policy is accessible at www.bankofireland.com and details of its environmental activities are outlined in the Corporate Responsibility Report on page 170.

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 year ended 31 December 2011.

Branches outside the State
Pursuant to Regulation 25 of the European Communities (Accounts) Regulations, 1993 (which gave effect to Article 11 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 year ended 31 December 2011 on pages 183 to 185 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 62 to the financial statements.

Patrick J Molloy
Governor

Patrick O'Sullivan
Deputy Governor

Bank of Ireland
Registered Office
40 Mespil Road,
Dublin 4

19 February 2012

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 2011.

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 warrants held by the NPRFC were cancelled in return for the payment of €491 million in cash by the Bank to the NPRFC.

- The structure of the Bank's capital is set out in note 48 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 143.
- 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 or may be had on request from the Group Secretary.
- Subject to the features of the 2009 Preference Stock set out below, there are no special rights with regard to control of the Bank.
- There are no unusual restrictions on voting rights.
- 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 62% of the authorised capital stock and 61% of the issued capital stock. The preference stock represents 7% of the authorised capital stock and 1% of the issued capital stock, of which the 2009 Preference Stock represents 0.5% and 1% respectively. The deferred stock represents 32% of the authorised capital stock and 38% 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 twelve 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 him or her. On a poll, every stockholder who is present in person or by proxy has one vote for every unit of ordinary stock of €0.05 each, except for the voting rights of the Minister for Finance, as set out in note 2.

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 ten 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 in so far as they apply to the Bank from time to time (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 twenty one 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 fourteen 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 fourteen 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.

During the year ended 31 December 2011, the NPRFC sold a portion of its holding in the Bank to a group of significant institutional investors and fund managers, thereby reducing its holding in the ordinary stock of the Bank from 36% to 15.1%. In a Deed of Undertaking executed contemporaneously with that sale the Bank agreed, inter alia, that it would issue relevant securities only on a pre-emptive basis upto 29 July 2016, subject to certain specified exceptions, including any issue pursuant to existing or future authorities granted by Stockholders at an annual general court or an extraordinary general court to permit the Bank to issue relevant securities on a non pre-emptive basis. The Bank has in a separate agreement also agreed to file at the request of the investors one or more registration statements under the U.S. Securities Act to facilitate resale of their ordinary stock by the investors under the U.S. Securities Act subject to customary exceptions and procedures. Separately, the Bank has also agreed to give the investors certain limited rights in connection with the €1billion Contingent Capital Instrument issued to the State, including in respect of the right of first refusal granted to the investors in the event of a proposed resale of the Instrument by the State. This was among the items approved by shareholders at the EGC on 11 July 2011. The special voting rights of the 2009 Preference Stockholder are referred to note 2 on page 147. Additionally the 2009 Preference Stock carry the right to top-up the NPRFC's total voting rights to 25% of the total voting rights on control resolutions (as well as appointment or removal of a director) where the NPRFC's ordinary voting rights through its holding of ordinary stock falls below this level. For further information, please see 'Substantial stockholdings' in the Report of the Directors on page 143 and note 57.

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 2011, 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 2011, 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 twelve 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 (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. As at 31 December 2011, there were no units of 2005 Preference Stock in issue.

On a winding up or other return of capital of the Bank, the repayment of paid up capital (inclusive of premium) on the 2009 Preference Stock ranks pari passu with repayment of paid up nominal value (excluding premium) of the ordinary stock. The 2009 Preference Stock ranks ahead of the Ordinary Stock as regards dividends and as regards the repayment of premium on Ordinary Stock on a winding up or other return of capital of the Bank and pari passu as regards dividends with other stock or securities constituting Core tier 1 capital of the Bank (other than Ordinary Stock and other than dividends to minority interests). If a cash dividend is not paid by the Bank, the Bank shall issue units of ordinary stock on 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. In such circumstances the Bank is precluded from paying dividends on ordinary stock until payment of dividends in cash on 2009 Preference Stock resumes. As at 31 December 2011, there were 1,837,041,304 units of 2009 Preference Stock in issue.

(c) Renominalisation of ordinary stock - deferred stock

The Bank's ordinary stock was renominalised to €0.10 by Stockholders at the Extraordinary General Court held on 19 May 2010 and renominalised by Stockholders to €0.05 at the Extraordinary General Court held on 11 July 2011; refer to note 48 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 €0.05 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 2009 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 nominated between Annual General Courts are submitted to stockholders for election at the first Annual General Court following their co-option. In accordance with the UK Code (adopted by the Irish Stock Exchange and the London Stock Exchange) all directors other than those nominated by the Minister for Finance, retire by rotation every year and, if eligible, may offer themselves for re-election, subject to satisfactory performance evaluation. Directors nominated by the Minister for Finance are not subject to retirement by rotation but may not serve as a director of the Bank for a period longer than nine years after the date of his or her appointment. 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 (which includes Directors appointed under terms of the Government guarantee scheme) and to exercise 25% of the votes in respect of all nominations for the office of Director arise where the 2009 Preference Stock is held by a Government Body (being the NTMA, NPRFC, NPRF, Minister for Finance or any Minister or Department of the Government).

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 twenty one 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 of Ireland Act 1929 (as amended) 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 approval in writing of the Minister for Finance is required before any such resolution (a 'Capital Resolution') can be tabled at an Annual General Court.

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).

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 capital.

Court of Directors

Patrick Molloy (74)

Governor

Pat was Group Chief Executive Officer of the Bank from 1991 to 1998. He subsequently served as a non-executive Director from 1998-2001. He has served as a non-executive Director on the Boards of CRH plc, Eircom plc, Waterford Wedgewood plc and Enterprise Ireland. He was Chairman of Enterprise Ireland and CRH plc.

Pat has extensive experience of Bank of Ireland and the financial services industry having served as Group Chief Executive Officer of the Bank from 1991 to 1998. He gained experience in finance, risk management, multinational financial reporting and corporate strategic development through membership of the boards of CRH plc, Eircom plc and Waterford Wedgewood plc. He is a Fellow of the Institute of Bankers.

Term of Office:
Appointed to the Court in June 2009 and Governor in July 2009 (2.5 years).

Independent:
On appointment

External Appointments include:
Chairman of Blackrock Hospital Limited, Chairman of the Hugh Lane Gallery Trust and member of the Board of the Dublin Adult Learning Centre.

Committee Appointments include:
Chairman of the Group Nomination and Governance Committee since July 2009 (2.5 years) and member of the Group Remuneration Committee since July 2009 (2.5 years).

Kent Atkinson (66)

Non-executive Director

Kent was Group Finance Director of Lloyds TSB Group between 1994 and 2002. Prior to that he held a number of senior executive appointments in Retail Banking with Lloyds, including Regional Executive Director for their South East region and worked for twenty two years in South America and the Middle East with the Group.

Kent has significant experience as a non-executive Director across a range of international companies serving currently as a member of the Boards of UK Asset Resolution Limited (which includes Bradford & Bingley plc and Northern Rock (Asset Management) plc), Coca-Cola Hellenic Bottling Company S.A. and Gemalto N.V. and formerly as a member of the boards of Standard Life plc, Telent plc (previously Marconi Corporation plc), Cookson Group plc and Millicom International Cellular S.A.. Through these entities he has also gained significant governance, risk management and financial oversight experience having acted in the capacity of Senior Independent Director with three of those companies, a member of all seven Audit Committees and Chair of five and been a member of two Remuneration Committees, three Risk Committees, one Nominations Committee and one Strategy and M&A Committee.

Term of Office:
Appointed to the Court in January 2012 (0 years).

Independent:
Yes

External Appointments include:
Member of the Board of UK Asset Resolution Limited (which includes Bradford & Bingley plc and Northern Rock (Asset Management) plc, where he is the Senior Independent Director. Chair of the Audit Committee and a Member of the Risk Committee. Member of the board of Coca-Cola Hellenic Bottling Company S.A. where he is the Senior Independent Director and Chair of the Audit Committee. Member of the Board of Gemalto N.V. where he is a member of the Audit Committee and a member of the Strategy and M&A Committee.

Committee Appointments include:
Member of the Group Audit Committee since January 2012 (0 years) and the Court Risk Committee since January 2012 (0 years).

Richie Boucher (53)
Group Chief Executive,
Executive Director

Richie was appointed Group Chief Executive Officer in 2009. He 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).

Richie has over thirty years' experience in all aspects of financial services. He has held a number of key senior management roles within the Bank of Ireland, Royal Bank of Scotland and Ulster Bank through which he has developed extensive leadership, strategy development, financial, people, operational and risk management skills. He is a Fellow of the Institute of Bankers.

Term of Office:
Appointed to the Court in October 2006 (5.5 years) and appointed Chief Executive Officer in February 2009 (3 years).

Independent:
No

External Appointments include:
None

Committee Appointments include:
None

Pat Butler (51)
Non-executive Director

Pat is a partner of the Resolution Group, a financial services investment firm. Prior to this he spent twenty five years with McKinsey & Co., where he was a senior director and led the firm's UK Financial Services Practice and its EMEA Retail Banking Practice. At McKinsey, he worked with banks, insurance companies and asset managers in the UK, US, Australia, South Africa, Middle East and several European countries – as well as a range of companies outside financial services – on issues of strategy, operations and organisation.

Pat brings to the Board extensive strategic experience in a broad range of industries with an international profile, and an in-depth strategic and operational knowledge of the European and International Banking sector in particular. He is a Fellow of the Institute of Chartered Accountants in Ireland.

Term of Office:
Appointed to the Court in December 2011 (0 years).

Independent:
Yes

External Appointments include:
None

Committee Appointments include:
Member of the Group Nomination and Governance Committee since December 2011 (0 years) and Court Risk Committee since December 2011 (0 years).

Tom Considine (67)
Non-executive Director

Tom is a former Secretary General of the Department of Finance and a former member of the Advisory Committee of the National Treasury Management Agency. He was also formerly a board member of the Central Bank and Financial Services Authority of Ireland and former member of the Council of the Economic & Social Research Institute.

Tom was nominated as a director of the Bank by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Scheme, 2008 and consequently was not required to stand for election or regular re-election by stockholders. While, at the time of nomination, a description of the skills and expertise brought to the Board by this appointment was not provided by the Government, his experience was apparent from the roles he had held and the Court notes the value and benefit gained from Tom's membership of the Court and its Committees through his judgement and quality of contribution.

Tom has extensive experience in the public service, including at the most senior level in the Department of Finance and representing Ireland at European Union level. He has experience in finance at a strategic level, financial regulation, fiscal policy and risk management. As a former Secretary General of the Department of Finance and board member of the Central Bank and Financial Services Authority, he has a broad experience of the wider macroeconomic environment and related policy issues. He is a Fellow of the Association of Chartered Certified Accountants.

Term of Office:
Appointed to the Court in January 2009 (3 years)

Independent:
No

External Appointments include:
President of the Institute of Public Administration

Committee Appointments include:
Chairman of the Court Risk Committee since July 2009 (2.5 years) and a member of the Group Audit Committee since January 2009 (3 years).

Patrick Haren (61)
Non-executive Director

Patrick is a former Chief Executive Officer of the Viridian Group, having joined Northern Ireland Electricity (NIE), in 1992 as Chief Executive Officer. He previously worked with the ESB, including as Director, New Business Investment, ESB and also served as a board member of Invest Northern Ireland for a number of years.

An experienced Chief Executive Officer, Patrick has gained extensive strategic, corporate development and transactional experience, having led the privatisation of NIE by IPO in 1993 and growing the business under the new holding company Viridian through 2000 to 2007, positioning the company as the market leader in independent electricity generation and supply in competitive markets in Ireland, North and South.

Term of Office:
Appointed to the Court in January 2012 (0 years)

Independent:
Yes

External Appointments include:
None

Committee Appointments include:
Member of the Group Audit Committee since January 2012 (0 years) and Group Remuneration Committee since January 2012 (0 years).

Andrew Keating (41)
Group Chief Financial Officer
Executive Director

Andrew joined the Group in 2004, prior to which he held a number of senior finance roles, including Chief Accountant, with Ulster Bank, having qualified as a Chartered Accountant with Arthur Andersen in Dublin and Brisbane. Prior to his appointment as Group Chief Financial Officer, Andrew held a number of executive finance roles including Director of Group Finance and Director of Group Finance Services.

Andrew is an experienced finance professional having worked for fourteen years in senior finance and leadership roles in Bank of Ireland and Ulster Bank. He has an expert knowledge of financial reporting and related regulatory and governance requirements. He is a Fellow of the Institute of Chartered Accountants in Ireland.

Term of Office:
Appointed to the Court in February 2012 (0 years).

Independent:
No

External Appointments include:
None

Committee Appointments include:
None

Jerome Kennedy (63)
Non-executive Director

Jerome spent twenty four 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. He was Managing Partner of KPMG Ireland and a Board member of KPMG Europe from 1995 to 2004.

Jerome brings to the Board extensive experience of financial reporting, related regulatory issues and the provision of business advisory services. He has significant strategic and leadership experience as a former Managing Partner and as a Board member of KPMG Europe and KPMG Worldwide. He is an experienced non-executive Director and serves on the boards of Total Produce plc and the Caulfield McCarthy Group. He is a Fellow of the Institute of Chartered Accountants in Ireland.

Term of Office:
Appointed to the Court in July 2007 (4.5 years).

Independent:
Yes

External Appointments include:
non-executive Director of Total Produce plc where he chairs the Audit Committee. Chairman of the Caulfield McCarthy Group Retail. Member of the Irish Board of the UCD Michael Smurfit Graduate Business School.

Committee Appointments include:
Chairman of the Group Audit Committee since August 2009 and member since September 2007 (4.5 years) and member of the Group Remuneration Committee since September 2010 (1.5 years) (retired in January 2012) and Court Risk Committee since July 2009 (2.5 years).

Patrick Kennedy (42)
Non-executive Director

Patrick is Chief Executive of Paddy Power plc having been appointed in 2006. He has served as an Executive Director of Paddy Power plc since 2005 and a non-executive Director since 2004, during which time he served as Chairman of the Audit Committee. He has been a member of the Risk Committee of Paddy Power plc since 2006. Prior to joining Paddy Power, Patrick worked at Greencore Group plc for seven years, where he was Group Chief Financial Officer and also held a number of senior strategic and corporate development roles. Patrick also worked with KPMG Corporate Finance in Ireland and the Netherlands and as a strategy consultant with McKinsey & Company in London, Dublin and Amsterdam.

As an experienced Chief Executive Officer and Finance Director, Patrick brings to the Board a background in international business, management, finance, corporate transactions, strategic development and risk management through his involvement in Paddy Power plc, Elan Corporation plc (where he is Chairman of the Leadership, Development and Compensation Committee), Greencore Group plc and McKinsey & Company. He is a Fellow of the Institute of Chartered Accountants in Ireland.

Term of Office:
Appointed to the Court in July 2010 (1.5 years).

Independent:
Yes

External Appointments include:
Chief Executive of Paddy Power plc since 2006. Non-executive Director of Elan Corporation plc.

Committee Appointments include:
Member of the Group Remuneration Committee since January 2011 (1 year) and Court Risk Committee since January 2011 (1 year).

Rose Hynes (54)
Non-executive Director

A solicitor by profession, Rose previously held senior management positions in GPA Group plc, including General Counsel and Head of Commercial.

As an experienced non-executive Director, serving as Chairman of Bord Gais and Senior Independent Director of Total Produce plc, where she also chairs the Compensation Committee, Rose brought considerable governance and legal expertise to the Court and the Committees on which she sat, as well as strategic and commercial insight.

Term of Office:
Appointed to the Court in July 2007 (4.5 years). Retired from the Court on 31 December 2011.

Independent:
Yes

External Appointments include:
Chairman of Bord Gais. Non-executive Director and Senior Independent Director of Total Produce plc where she chairs the Compensation Committee.

Committee Appointments include:
Member of the Group Remuneration Committee since September 2008 (3 years) and Chairperson since June 2010. Member of Court Risk Committee since July 2009 (2.5 years). Member of Group Nomination and Governance Committee since June 2010 (1.5 years). Retired from each Committee on 31 December 2011.

Patrick Mulvihill (49)
Non-executive Director

Patrick spent much of his career at Goldman Sachs, retiring in 2006, most recently as Global Head of Operations covering all aspects of Capital Markets Operations, Asset Management Operations and Payment Operations. He previously held the roles of Co-Controller, Co-Head of Global Controller's Department, covering financial / management reporting, regulatory reporting, product accounting and payment services. He also was a member of the firm's Risk, Finance and Credit Policy Committees.

Patrick has over twenty years experience of international financial services, having spent much of his career at Goldman Sachs where he held a number of senior management roles based in London and New York. As a result, he has an in depth knowledge of financial and management reporting, regulatory compliance, operational, risk and credit matters within a significant financial institution with an international focus. Patrick is a Fellow of the Institute of Chartered Accountants in Ireland

Term of Office:
Appointed to the Court in December 2011 (0 years).

Independent:
Yes

External Appointments include:
non-executive Director of Goldman Sachs Bank (Europe) plc.

Committee Appointments include:
Member of the Group Audit Committee since December 2011 (0 years) and Court Risk Committee since December 2011 (0 years).

John O' Donovan (59)
Group Chief Financial Officer
Executive Director

John joined the Group in November 2001 and was appointed Group Chief Financial Officer. Prior to joining the Group John was formerly Group Finance Director / Company Secretary of Aer Lingus Group plc.

John is an experienced finance professional having worked for over thirty years in senior financial roles. He has in-depth knowledge of financial reporting and related regulatory and governance requirements. He is a Fellow of the Institute of Chartered Accountants in Ireland.

Term of Office:
Appointed to the Court in July 2002 (9.5 years). Retired from the Court on 31 December 2011.

Independent:
No

External Appointments include:
None

Committee Appointments include:
None

Patrick O'Sullivan (62)
Deputy Governor and Senior Independent Director
Non-executive Director

From 2007 until 2009, Patrick was Vice Chairman of Zurich Financial Services where he had specific responsibility for its international businesses. He previously held roles at Zurich as Group Financial Officer and Chief Executive Officer, General Insurance and Banking, of its UKISA division. He is currently Chairman of Old Mutual plc. His prior experience includes positions as Chief Executive Officer, Zurich's UK general insurance business Eagle Star Insurance (London); Chief Operating Officer, Barclays DE Zoete Wedd Holdings (London); Managing Director, Financial Guaranty Insurance Company (part of GE Capital) (London & New York); Executive Director, Goldman Sachs International (London) and General Manager, Bank of America Futures (London).

Patrick has extensive international financial services experience gained over a period of more than thirty five years through his positions with Zurich, Old Mutual plc, Man Group plc, Goldman Sachs, Bank of America, Barclays and Eagle Star. As a Fellow of the Institute of Chartered Accountants in Ireland and a member of the International Accounting Standards Board Insurance Working Group on IFRS, he has particular insight into accounting standards and their application in the financial services industry.

Term of Office:
Appointed to the Court in July 2009 (2.5 years).

Independent:
Yes

External Appointments include:
Chairman of Old Mutual plc,
Senior Independent Director of Man Group plc and non-executive Director of COFRA Group in Switzerland.
From 1 March 2012, will be Chairman of UK Government Shareholder Executive.

Committee Appointments include:
Member of the Group Audit Committee since August 2009 (2.5 years), Court Risk Committee since August 2009 (2.5 years) (retired in January 2012) and Group Nomination and Governance Committee since June 2011 (0.5 years).

Joe Walsh (68)
Non-executive Director

Joe served as Minister for Agriculture from 1992 to 1994 and from 1997 to 2004, having previously served as Minister for Food from 1987. He retired from the Cabinet in September 2004.

Joe was nominated as a director of the Bank by the Minister for Finance under the terms of the of the Credit Institutions (Financial Support) Scheme, 2008 and was not required to stand for election or regular re-election by stockholders. While, at the time of nomination, a description of the skills and expertise brought to the Board by this appointment was not provided by the Government, his experience was apparent from the roles he had held and the Court notes the value and benefit gained from Joe's membership of the Court and its Committees through his judgement and quality of contribution.

Joe has significant public service experience at local and European level having served as both Minister for Agriculture and Minister for Food and having chaired the E.U. Council of Agriculture Ministers. These leadership roles provided experience at a strategic level and a deep understanding of the wider macro-economic, political and regulatory environment.

Term of Office:
Appointed to the Court in January 2009 (3 years).

Independent:
No

External Appointments include:
Chairman of Cork Racecourse (Mallow) Limited, Horse Sport Ireland, Irish Hunger Task Force and a Director of SouthWestern Business Process Services Limited.

Committee Appointments include:
Member of the Group Nomination and Governance Committee since January 2009 (3 years). Member of Group Remuneration Committee since January 2009 (3 years) and Chairman since December 2011.

Senior Independent Director
Patrick O'Sullivan

Group Audit Committee (GAC)
Jerome Kennedy (Chairman)
Kent Atkinson (appointed 20 January 2012)
Tom Considine
Patrick Haren (appointed 20 January 2012)
Patrick Muvihill (appointed 23 December 2011)
Patrick O'Sullivan

Group Remuneration Committee (REM COM)
Joe Walsh (Chairman)
Rose Hynes (retired 31 December 2011)
Patrick Kennedy
Patrick Haren (appointed 20 January 2012)
Patrick Molloy

Group Nomination and Governance Committee (N&G)
Patrick Molloy (Chairman)
Pat Butler (appointed 23 December 2011)
Rose Hynes (retired 31 December 2011)
Patrick O'Sullivan
Joe Walsh

Court Risk Committee (CRC)
Tom Considine (Chairman)
Kent Atkinson (appointed 20 January 2012)
Pat Butler (appointed 23 December 2011)
Rose Hynes (retired 31 December 2011)
Jerome Kennedy
Patrick Kennedy
Patrick Muvihill (appointed 23 December 2011)

Trustees of the Bank Staff Pensions Fund (BSPF)
Heather Ann McSharry (Chairman)
Tom Considine
Patrick O'Sullivan

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 (retired 31 December 2011)
Mick Sweeney

Group Investment Committee
Richie Boucher (Chairman)
Des Crowley
Denis Donovan
Andrew Keating (appointed 1 February 2012)
Liam McLoughlin
Peter Morris
Vincent Mulvey
Helen Nolan
John O'Donovan (retired 31 December 2011)
Julie Sharp

Group Executive

Group Chief Executive	Richie Boucher
Acting Chief Executive, Corporate and Treasury and Head of Non-Core	Denis Donovan
Chief Executive Officer, Retail (UK)	Des Crowley
Chief Executive Officer, Retail (Ireland)	Liam McLoughlin
Head of Group Manufacturing	Senan Murphy (appointed 1 February 2012)
Group Chief Financial Officer	Andrew Keating (appointed 1 February 2012)
Group Chief Financial Officer	John O'Donovan (retired 31 December 2011)
Chief Credit & Market Risk Officer	Vincent Mulvey
Chief Governance Risk Officer	Peter Morris
Head of Group Human Resources	Julie Sharp

Remuneration Report

Governance Structures

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.

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 2011 the Remuneration Committee received independent remuneration advice from a number of external advisers on a range of issues relating to remuneration.

A key item of focus for the Group Remuneration Committee in 2011 was the embedding of the European Banking Authority Remuneration Guidelines (the Guidelines) into the performance and reward structures across the Group.

European Banking Authority Remuneration Guidelines

The Guidelines came into effect from 1 January 2011 and also passed into law in January 2011. The Group supports the over-arching aim of these guidelines, namely to ensure that remuneration structures are consistent with and promote effective risk management. The Group's Risk Strategy and Risk Appetite as set out on page 57 forms an integral element of remuneration structures, practices and frameworks. The Risk Strategy and Risk Appetite has been cascaded, as appropriate, throughout the Group.

During 2010 and in anticipation of the new Guidelines, changes were made to remuneration-related governance 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 and Market Risk Officer at Remuneration Committee meetings, as required, to provide independent input, from a risk perspective, into key remuneration decisions.

During 2011, the Group continued to embed the Guidelines into the performance and reward structures across the Group with the key areas of focus as follows:

Alignment of performance and reward with risk
This included a review of the Group's performance and reward structures and their alignment with risk. This work was supported by external advisers. The following key changes were made as a result of this review:

- Strengthening of the Group's performance management system and its alignment with the Risk Strategy and Risk Appetite. This work has included the development of mandatory risk goals for all managers and executives and the inclusion of minimum performance weightings for particular key result areas for implementation in 2012.

- Updating of the Group Remuneration Committee Terms of Reference and the Group's Remuneration Policy to reflect the Guidelines and the Minister for Finance's Letter of 8 July 2011 (Minister's Letter).

Code Staff
In accordance with the Guidelines, the Group has completed a rigorous process to identify those employees deemed to be persons whose professional activities on behalf of the Group are deemed to have a material impact on the Group's risk profile (Code Staff).

In accordance with the requirements set out in the EU Capital Requirements Directive (CRD III), in 2011 the Group complied with its requirements to provide additional disclosures relating to information on Code Staff, the link between pay and performance, design and structure of remuneration and performance management, and remuneration expenditure for Code Staff. This disclosure was made as part of the Group's 2010 Pillar 3 disclosure in June 2011 which is available on the Group website.

Remuneration Restrictions

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

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

Group Remuneration Strategy

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

In addition the strategy seeks to ensure that:

- our efforts are aligned with and contribute to the long term sustainability, value creation and success of the Group;
- as far as possible, we have the necessary platform to attract, retain and motivate high calibre employees;
- as far as possible, we offer a competitive remuneration package across all markets, in a cost effective manner;
- remuneration practices are simple, transparent, easy to understand and implement;
- sound and effective risk management is reflected in performance management and remuneration structures and their alignment to performance targets and governance structures;
- remuneration is applied in consideration of and in alignment with the Group's Risk Strategy and Risk Appetite and overall risk governance framework;
- risk adjusted financial performance is an important measure when evaluating performance;
- business and individual performance measures and targets are aligned with business objectives at either a Group or local business level, ensuring alignment with business strategy, risk measures and priorities and are based on a balanced scorecard approach;
- all remuneration practices are subject to appropriate governance; and
- we are compliant with all applicable regulatory remuneration requirements as they relate to the Group.

Performance Management

A robust performance management system and process, incorporating performance planning and review, remains critical and is a key pillar of the Group's EBA compliance.

The performance management system 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 ensuring a strong alignment to risk.

As noted earlier, in 2011 the Group's performance management system was strengthened to include a greater alignment with the Risk Strategy and Risk Appetite. This included the development of mandatory risk goals for all managers and executives and the inclusion of minimum performance weightings for particular key results areas for implementation in 2012.

The Balanced Scorecard and Key Result Areas (KRAs)
The Balanced Scorecard approach incorporated within the Group's performance and planning process is consistent with the Guidelines. 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 comprehensive 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	Risk (previously Credit, Regulatory and Operational Risk).
KRA 2	Customer
KRA 3	Financial / Revenue / Cost / Efficiency
KRA 4	Leadership and 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 the performance cycle. A formal end of year review occurs at the end of the performance cycle.

Performance Management (continued)

Goals set within these KRAs are linked to overall Divisional and Group Strategy, support the achievement of business unit objectives and are aligned to the Group's Risk Strategy and Risk Appetite.

Remuneration packages for Executive Directors

The total remuneration package of each executive Director is reviewed by the Group Remuneration Committee on an annual basis.

For the year ended 31 December 2011, the remuneration packages for Executive Directors were governed by the Group's commitments under both the Subscription Agreement (March 2009), and the Minister's Letter (July 2011).

The key elements of the remuneration package in respect of the year ended 31 December 2011 were as follows (further detail is available in table 1 on page 160):

- **Salary** - Salaries are paid monthly and reviewed annually by the Group Remuneration Committee.
- **Retirement Benefits** - The Executive Directors, including those who retired as Executive Directors during 2011, with the exception of Denis Donovan, are members of the Bank of Ireland Staff Pensions Fund, which is a contributory defined benefit scheme. Denis Donovan is a member of the Bank of Ireland Affiliated Pension Fund (formerly known as the Bank of Ireland Asset Management Pension Scheme) which is also a contributory defined benefit scheme. In 2010, in line with the Group Pensions Review, all of the Executive Directors voluntarily agreed to a series of pension benefit reductions. These included, where applicable:
  - a freeze on salary qualifying for pension purposes until April 2012;
  - capping of increases on 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 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 certain staff 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 under their existing contracts. Des Crowley, Denis Donovan and John O'Donovan received taxable cash allowances under this revised arrangement in lieu of pension benefit foregone during 2011.

Other potential elements of the remuneration package for Executive Directors are as follows:

- **Performance-related bonus scheme** A decision was taken by the Group Remuneration Committee that no bonuses would be paid to Executive Directors in respect of the year ended 31 December 2011;
- **Long Term Incentive Plan (LTIP)** - No grants have been made under this plan since 2008. Under the LTIP, which is described in more detail in note 48 on pages 276 to 277, conditional awards had previously been made to the Executive Directors as set out in the table on page 166. The grant made in 2008 lapsed during 2011 due to the non-achievement of the performance conditions;
- **Executive Stock Option Scheme (ESOS)** - No awards have been made under this scheme since 2008. The grant made in 2008 lapsed in 2011 due to the non-achievement of the performance conditions. All ESOS grants made in respect of the financial years ended 31 March 2002 to 31 March 2006 inclusive have no current economic value (for further details see note 48 on page 276);
- **Employee Stock Issue Scheme** - As the Group did not achieve a profit before tax there was no stock issue under the Employee Stock Issue Scheme in 2011 (for further details see note 48 on page 274);
- **Sharesave Scheme** - In 1999 the Group established a Sharesave Scheme (SAYE Scheme) for all eligible employees. Under the SAYE Scheme the Executive Directors and Secretary who participated were granted options over units of ordinary stock. No SAYE Scheme has been launched since the 2007 SAYE Scheme. At 31 December 2011, neither the Executive Directors nor the Group Secretary held any options under the scheme (further detail is available on page 165); and
- **Service contracts** - No service contract exists between the Group and any Director which provides for a notice period from the Group of greater than one year.

Performance Management (continued)

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 183.

Directors' remuneration for the year ended 31 December 2011 (all figures in €000s)

Table: 1

	Gross salary (1)	Fees (2)	Performance bonus (3)	Other remuneration (4)	Pension funding contributions (5)	Total 2011 before amounts waived	Amounts waived during the year (6)	Total 2011 (after amounts waived)
Governor								
P Molloy	^394					394		394
Deputy Governor								
D Holt *(retired 15 June 2011)*	+✧63	+✧51				114		114
P O'Sullivan *(appointed Deputy Governor 15 June 2011)*	++68	36				104		104
Executive Directors								
R Boucher	690			34	174	898	(67)	831
D Crowley *(retired 15 June 2011)*❖	**261			**51		312	**(33)	279
D Donovan *(retired 15 June 2011)*❖	**303			**125		428	**(30)	398
J O'Donovan❖ *(retired 31 December 2011)*	**550			**185		735	**(55)	680
Non-executive Directors								
P Butler *(appointed 23 December 2011)*		**2				2		2
T Considine		90				90		90
P Haran *(retired 15 June 2011)*		**45				45		45
R Hynes *(retired 31 December 2011)*		**98				98		98
J Kennedy		110				110		110
HA McSharry⁜ *(retired 15 June 2011)*		**47				47		47
P Mulvihill *(appointed 23 December 2011)*		**2				2		2
J Walsh		79				79		79
P Kennedy°		78				78		78
Totals	**2,329**	**638**	**-**	**395**	**174**	**3,536**	**(185)**	**3,351**

Ex-gratia payments paid to former Directors / dependents	**286**	**286**

^ *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 received a salary for his role as Deputy Governor. In addition he had been appointed Chairman of Bank of Ireland (UK) plc with effect from 2 March 2010 and received a separate fee for this role (Pro rata Stg£42,500, equivalent €50,880). He remains in his role as Chairman of Bank of Ireland (UK) plc.*
\+ *To date of retirement as Deputy Governor.*
++ *From date of appointment as Deputy Governor.*
** *From date of appointment or to date of retirement as a Director, as indicated.*
❖ *D Crowley and D Donovan retired as Executive Directors of the Group on 15 June 2011, and J O'Donovan on 31 December 2011. They remain Bank of Ireland employees.*
° *P Kennedy was appointed to the Group Remuneration Committee and the Court Risk Committee with effect from 11 January 2011.*
⁜ *HA McSharry continues her Trustee role of the Bank of Ireland Staff Pensions Fund.*

Notes:

(1) The Chief Executive Officer, R Boucher, has, with effect from 1 May 2009, waived a portion of his salary (€67,000 for the year ended 31 December 2011). 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 year ended 31 December 2011 are D Crowley €33,138, D Donovan €30,250 and J O'Donovan €55,000. Both figures for D Crowley and D Donovan were to date of retirement from the Court.

The voluntary waiver has been extended until 31 December 2012 for R Boucher.

The Governor and Deputy Governor, as non-Executive Officers of the Bank, are remunerated by way of non-pensionable salary. In addition, D Holt received 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 the 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 2011. The basic fee of €63,000 is the reduced fee. This reduced fee will also be applied throughout 2012.

In addition to the above, D Holt had been appointed Chairman of Bank of Ireland (UK) plc with effect from 2 March 2010 and received a separate fee for this role (Pro rata Stg£42,500, equivalent €50,880 for the year ended 31 December 2011) to date of retirement as Deputy Governor. He remains in his role as Chairman of Bank of Ireland (UK) plc.

(3) No bonuses were awarded in respect of the year ended 31 December 2011.

(4) The figures include car allowances and, where applicable, benefits in kind and a taxable cash allowance in lieu of pension foregone for those Executive Directors 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 benefit foregone by R Boucher.

(5) In the case of D Crowley, D Donovan and J O' Donovan, 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.

The amount shown for R Boucher relates to the Bank's pension funding contribution in respect of the pension benefit he accrued in line with his contractual entitlement during 2011.

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) Amounts of salary waived are as set out in note 1 above.

Performance Management (continued)

Directors' remuneration for the year ended 31 December 2010 (all figures in €000s)

Table: 2

	Gross salary (1)	Fees (2)	Performance Bonus (3)	Other remuneration (4)	Pension funding contributions (5)	Total 2010 before amounts waived	Amounts waived during the year (6)	Total 2010 (after amounts waived)
Governor								
P Molloy	^394					394		394
Deputy Governor								
D Holt	✧126	+✧84				210		210
Executive Directors								
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
Non-executive Directors								
T Considine		90				90		90
P Haran		90				90		90
R Hynes		*100				100		100
J Kennedy		*126				126		126
D McCourt (retired 19 May 2010)		**37				37		37
HA McSharry		89				89		89
T Neill (retired 19 May 2010)		**36				36		36
P O'Sullivan		79				79		79
J Walsh		79				79		79
P Kennedy (appointed 6 July 2010)		**31				31		31
Totals	2,990	841	-	613	(1,026)	3,418	(260)	3,158
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 R 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, R Boucher, has, with effect from 1 May 2009, waived a portion of his salary (€67,000 for the year 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 year 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 year 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 Executive Directors 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 265, this release back to the fund of previously funded benefits has now ceased.

The amount included for R 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.

Stock options held by Directors and Secretary

a) Executive stock options

Options Granted in 2008
The vesting of options granted in 2008 was 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 48 on page 276.

Options granted in 2008 matured on 3 June 2011 and did not vest as the performance conditions were not achieved.

This confirms the strong link between returns to stockholders and the remuneration of executives.

Options granted in 2001 vested in May 2004 and participants had a period of seven years from 2004 within which to exercise these options. All unexercised options under this grant lapsed in May 2011.

Stock options held by Directors and Secretary (continued)

Table: 3

	Date of grant	Earliest exercise date	Expiry date	Exercise price €	Options at 1 January 2011	Granted in period	Exercised in year	Lapsed in period	Market price at exercise date €	Options at 31 December 2011
R Boucher	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
	3 Jun 2008	3 Jun 2011	3 Jun 2018	€8.10	71,600			71,600		-
	TOTAL				**120,600**			**71,600**		**49,000**
D Crowley*	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
	3 Jun 2008	3 Jun 2011	3 Jun 2018	€8.10	68,800			68,800		-
	TOTAL				**236,300**			**93,800**		**142,500**
D Donovan*	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
	3 Jun 2008	3 Jun 2011	3 Jun 2018	€8.10	81,450			81,450		-
	TOTAL				**228,950**			**81,450**		**147,500**
J O'Donovan**	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
	3 Jun 2008	3 Jun 2011	3 Jun 2018	€8.10	67,900			67,900		-
	TOTAL				**210,400**			**67,900**		**142,500**
Secretary										
H Nolan	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
	3 Jun 2008	3 Jun 2011	3 Jun 2018	€8.10	16,400			16,400		-
	TOTAL				**59,400**			**26,400**		**33,000**

The above options are pre the Group's 2010 Rights Issue and 2011 Rights Issue. The Group Remuneration Committee exercised its discretion to not make any technical adjustments to these grants in 2011. 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 2011 was €0.082 (31 December 2010: €0.375).

* *D Crowley and D Donovan retired as Directors with effect from 15 June 2011.*

** *J O'Donovan retired as a Director with effect from 31 December 2011.*

Stock options held by Directors and Secretary (continued)

(b) Sharesave Scheme Options

Under the terms of the Sharesave Scheme offered in 2007, options were granted in December of that year 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 2007 Sharesave offer, participants could save for three years.

The following table summarises the Sharesave Schemes operating in the Group:

Table: 4

Sharesave Scheme	ROI Price	UK Price	Saving Period	Maturity Date
2007	**€4.39	**€4.68	3 years	February 2011

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 2011
Secretary				
H Nolan	**2007**			
	24 December 2007	**842	€10.11	*-

None of the Directors held any options during the year.
The options held under the Sharesave schemes by the Secretary are set out above.

* *The 2007 3 year scheme matured in February 2011. Helen Nolan opted not to exercise her SAYE options and to take her savings (€3,600) and maturity payment (€100) in cash.*

** *The Sharesave Options grant in 2007 was restated 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 were technical adjustments only and ensure that the aggregate exercise price of an option remains the same before and after the adjustment.*

No technical adjustments to these grants have been made in 2011.

(c) Long Term Incentive Plan (LTIP)

Conditional awards of units of ordinary stock were made to Group Senior Executives annually since 2004 under the terms of the LTIP.

These awards do not vest in the Executives unless demanding performance criteria are achieved (see description of LTIP in note 48 on pages 276 to 277). 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 2008 under the LTIP were not met in June 2011 and the awards granted under the scheme lapsed.

The Group Remuneration Committee decided that no award be made to Executive Directors under the LTIP in 2011.

Participants in the 2001 LTPSP awards were entitled to receive a 30% matching award on their retained units during 2011. All participants waived this entitlement and no matching awards were made.

The conditional awards of units of ordinary stock previously made to date to the Executive Directors and the Group Secretary are as follows:

Table: 5

	Date of award	No. of units conditionally held at 1 January 2011#	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 2011	Original Maturity date	Maturity date*
R Boucher	3 Jun 08	71,600	-	-	71,600	-	-	-	3 Jun 11	
	Total	**71,600**	**-**	**-**	**71,600**	**-**	**-**	**-**		
D Crowley◊	21 May 01	-	-	9,496	2,373	-	9,496	-	21 May 04	21 May 11
	24 Jun 02	-	-	7,070	-	1,767	-	1,767	24 Jun 05	24 Jun 12
	3 Jun 08	68,800	-	-	68,800	-	-	-	3 Jun 11	
	Total	**68,800**	**-**	**16,566**	**71,173**	**1,767**	**9,496**	**1,767**		
D Donovan◊	21 May 01	-	-	7,067	1,766	-	7,067	-	21 May 04	21 May 11
	24 Jun 02	-	-	4,714	-	1,178	-	1,178	24 Jun 05	24 Jun 12
	3 Jun 08	81,450	-		81,450	-	-	-	3 Jun 11	
	Total	**81,450**	**-**	**11,781**	**83,216**	**1,178**	**7,067**	**1,178**		
J O'Donovan◊◊	24 Jun 02	-	-	6,034	-	1,508	-	1,508	24 Jun 05	24 Jun 12
	3 Jun 08	67,900	-	-	67,900	-	-	-	3 Jun 11	
	Total	**67,900**	**-**	**6,034**	**67,900**	**1,508**	**-**	**1,508**		
Secretary										
H Nolan	3 Jun 08	12,300	-	-	12,300	-	-	-	3 Jun 11	
	Total	**12,300**	**-**	**-**	**12,300**	**-**	**-**	**-**		

\# *The above awards are the pre Rights Issue in 2010 and 2011. 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 year ended 31 December 2011.*
◊ *D Crowley and D Donovan retired as Directors with effect from 15 June 2011.*
◊◊ *J O'Donovan retired as a Director with effect from 31 December 2011.*

Directors' pension benefits

Set out below are details of the change in accrued pension benefits for the Directors during the year ended 31 December 2011.

Table: 6

	(a) Additional inflation-adjusted accrued pension in the year €	(b) Increase / (decrease) in transfer value €	(c) Accrued pension benefits at 31 December 2011 €
Executive Directors			
R Boucher	5,502	63,255	302,198
D Crowley*	-	(6,531)	270,866
D Donovan*	-	-	268,507
J O'Donovan**	(7,044)	(173,271)	270,904

Column (a) above represents the inflation-adjusted increase in each individual's accrued pension benefit during the year. Increases are shown after the opening position has been adjusted for statutory revaluation, and comprise allowance for additional pensionable service, increases in pensionable earnings and any agreed adjustment in the individual's pension accrual. This is in line with the requirements of the Listing Rules and the related actuarial professional guidance.

Column (b) is the additional / (reduced) capital value, less each Director's contributions, of Column (a) which could 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.

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 2011.

* *These individuals retired as Directors with effect from 15 June 2011. Their pension benefits increase prior to retirement in line with the increase (if any) in fund thresholds announced in the Finance Act each year. In their case the additional (inflation-adjusted) pension accrued in the period is nil, as there was no increase in statutory revaluation or the fund threshold between 1 January 2011 and their date of resignation.*

** *J O'Donovan retired as a Director with effect from 31 December 2011. His pension service accrual ceased at 31 December 2010, and thereafter his pension benefit increases prior to retirement in line with the increase (if any) in fund thresholds announced in the Finance Act each year. In his case the additional (inflation-adjusted) pension accrued in the period is negative, as an increase in statutory revaluation was declared as at 31 December 2011, but no increase in the fund threshold was declared (meaning his accrued pension benefit did not change).*

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 2011, and of their spouses and minor children, in the stocks issued by the Bank are set out below:

Table: 7	Units of €0.05 of ordinary stock At 31 December 2011 beneficial▲	Units of €0.10 of ordinary stock At 1 January 2011* or at date of appointment beneficial
DIRECTORS		
R Boucher	380,957	82,817
P Butler***	-	-
T Considine	57,500	12,500
R Hynes⌖	175,000	62,500
J Kennedy	92,713	20,155
P Kennedy	254,642	55,357
P Molloy	2,794,170	2,094,170
P Mulvihill	5,000	**5,000
J O'Donovan⌖	227,940	227,814
P O'Sullivan	115,000	25,000
J Walsh	123,427	26,832
SECRETARY		
H Nolan	80,043	54,707

▲ *The closing balances are after the 2011 Rights Issue and reflect the rights taken up by the Directors and Secretary*
* *The opening balances are before the 2011 Rights Issue.*
** *P Mulvihill held 5,000 units of €0.05 of ordinary stock at date of appointment.*
⌖ *These Directors retired with effect from 31 December 2011.*

*** *P Butler did not hold any units of ordinary stock at either date of appointment (23 December 2011) or 31 December 2011. In order to comply with the Bank's Bye-Laws, P Butler will acquire a minimum holding of 1,000 units of ordinary stock following the end of the 'close period' on 20 February 2012.*

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 2011. There have been no changes in the stockholdings of the above Directors and Secretary between 31 December 2011 and 17 February 2012.

End of information in the Remuneration Report that forms an integral part of the audited financial statements.

Changes in the Directorate during the year

Table: 8	Executive Directors	Non-Executive Directors
Number at 31 December 2010	4	10
Changes during 2011		
Appointments	None	P Butler (appointed 23 December 2011)
		P Mulvihill (appointed 23 December 2011)
Retirements	*D Crowley (retired 15 June 2011)	P Haran (retired 15 June 2011)
	*D Donovan (retired 15 June 2011)	**D Holt (retired 15 June 2011)
		***HA McSharry (retired 15 June 2011)
Numbers at 31 December 2011	2	9
Average number during 2011	3	8
(Average number during 2010)	(4)	(10.25)

While both D Crowley and D Donovan retired as Executive Directors of the Group on 15 June 2011, both remain Bank of Ireland employees.
*** D Holt remains in his role as Chairman of Bank of Ireland (UK) plc.*
**** HA McSharry continues her Trustee role of the Bank of Ireland Staff Pensions Fund.*

Both J O'Donovan and R Hynes retired as Directors of the Group on 31 December 2011.

Changes since 31 December 2011

P Haren and MK Atkinson were appointed to the Court of Directors as non-executive Directors effective from 20 January 2012. A Keating was appointed an executive Director of Bank of Ireland and Group Chief Financial Officer effective from 1 February 2012. For further information refer to pages 149 to 155.

Corporate Responsibility

Corporate Responsibility is about the contribution a business makes to its social and environmental concerns as well as its economic ones. At Bank of Ireland, these wider responsibilities have always been important to us, but never more so than today in what are difficult times for all our stakeholders. We are committed to working with stockholders, customers, employees and the wider community to understand their different needs while building a sustainable commercial business for the future.

Supporting our Communities

Since 2007, all our community investment is channelled into facilitating and supporting employee volunteering and fundraising activities through an initiative called Give Together. With the support of Give Together, almost €17 million has been invested in more than 1,400 community organisations over the past four . Employee volunteering is a key element of Give Together and over 3,500 employee volunteering days have been provided across the Group. Bank of Ireland has also partnered with the Make-A-Wish Foundation as our locally focussed Charity of the Year for 2011 / 2012.

Financial Education is another key area of community investment for Bank of Ireland. Working with Junior Achievement Ireland and Young Enterprise Northern Ireland, in 2011 the Bank delivered our 'Learn to Earn' programme to transition year students in 83 schools across Ireland. Volunteers from the Bank also delivered three pilot sessions of the 'Money Skills for Life' workplace financial education programme established by the National Consumer Agency (NCA). This programme received very positive feedback from employers and the bank will be involved in delivering its further rollout in 2012.

The Bank of Ireland Student of the Year Awards was launched in Spring 2011 for schools in the Republic of Ireland and Northern Ireland. These new awards were designed to replace the long running and very successful National Student Awards. The new format is proving very popular with schools, students and branches, helping us to build relationships with schools, parents and the local community.

Supporting our Environment

Building on the success of the ISO14001 Environmental Management System (EMS) which was introduced in 2005, Bank of Ireland worked with Certification Europe (CE) and the Sustainable Energy Authority of Ireland (SEAI) and implemented an integrated EMS to support Bank of Ireland with the management of energy right across the organisation. The scope of this EMS is from sourcing energy through to the purchase and operation of plant and equipment and the day to day operation of our buildings. The initial focus for the programme is in our IT and Operations Centres in Cabinteely. These centres were certified to the EN16001 standard in 2010, making Bank of Ireland the first financial institution in the world to have attained this level of external certification. We intend to extend the certification scope to other key buildings within our property portfolio during 2012.

In May 2011, Bank of Ireland became a partner within the Smarter Travel Workplace Initiative under the auspices of the National Transport Authority. The focus of this programme is to minimise the impact of workplace travel and encourage more effective ways of getting to and from work.

In April 2011, Bank of Ireland was short listed in three categories at the Green Awards and was named as Green Financial Institution and the winner of the Overall Green Business Award. These awards represent further external endorsement of the extensive work being undertaken by staff throughout Bank of Ireland supporting all elements within the environmental sector including:

- provision of funding for investment in the green economy;
- provision of finance for personal and business customers who wish to make their properties more energy efficient;
- provision of carbon trading through our Global Markets desk; and
- working internally to make the buildings in our own property portfolio more energy efficient.

Please see www.bankofireland.com for further information on corporate responsibility initiatives in Bank of Ireland.

We welcome your feedback, please email to 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, the European Communities (Credit Institutions: Accounts) Regulations, 1992 and, in respect of the Consolidated financial statements, Article 4 of the IAS Regulation. 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 year ended 31 December 2011, 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 adopted by the European Union and with those parts of the Companies Acts, 1963 to 2009 applicable to companies reporting under IFRS and the European Communities (Credit Institutions: Accounts) Regulations, 1992 and, in respect of the Consolidated financial statements, Article 4 of the IAS Regulation. 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.

Under applicable law and the requirements of the Listing Rules issued by the Irish Stock Exchange, the directors are also responsible for preparing a Directors' Report and reports relating to directors' remuneration and corporate governance. The Directors are also required by the Transparency (Directive 2004 / 109 / EC) Regulations 2007 and the Transparency Rules of the Central Bank 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 profit 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	***Patrick O'Sullivan***	***Richie Boucher***
Governor	*Deputy Governor*	*Chief Executive*

19 February 2012

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 2011 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, the European Communities (Credit Institutions: Accounts) Regulations, 1992 and, as regards the Group financial statements, Article 4 of the IAS Regulation. 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 UK Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex 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 Corporate Governance Statement, the Report of the Directors, the unaudited part of the Remuneration Report 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 judgements 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 2011 and of its profit 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 2011 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, the European Communities (Credit Institutions: Accounts) Regulations 1992 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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 2011 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 183, 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.

John McDonnell
For and on behalf of PricewaterhouseCoopers,
Chartered Accountants and Statutory Audit Firm
Dublin

19 February 2012

Consolidated income statement

for the year ended 31 December 2011

	Note	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Interest income	3	4,618	5,179
Interest expense	4	(3,084)	(2,960)
Net interest income		**1,534**	**2,219**
Net insurance premium income	5	929	969
Fee and commission income	6	612	633
Fee and commission expense	6	(192)	(257)
Net trading income	7	19	225
Life assurance investment income, gains and losses	8	(38)	474
Gain on liability management exercises	9	1,789	1,402
Other operating income	10	12	199
Total operating income		**4,665**	**5,864**
Insurance contract liabilities and claims paid	11	(750)	(1,268)
Total operating income, net of insurance claims		**3,915**	**4,596**
Other operating expenses	12	(1,644)	(1,803)
Impact of amendments to defined benefit pension schemes	46	2	733
Operating profit before impairment charges on financial assets and gain / (loss) on NAMA / deleveraging		**2,273**	**3,526**
Impairment charges on financial assets (excluding assets sold to NAMA)	14	(1,960)	(2,027)
Impairment charges on assets sold to NAMA	15	(44)	(257)
Gain / (loss) on sale of assets to NAMA including associated costs	16	33	(2,241)
Loss on deleveraging of financial assets	17	(565)	-
Operating loss		**(263)**	**(999)**
Share of results of associates and joint ventures (after tax)	18	39	49
Profit on disposal of business activities	19	34	-
Loss before taxation		**(190)**	**(950)**
Taxation credit	20	230	341
Profit / (loss) for the year		**40**	**(609)**
Attributable to non-controlling interests		(5)	5
Attributable to stockholders		45	(614)
Profit / (loss) for the year		**40**	**(609)**
Loss per unit of €0.05 ordinary stock (cent) (2010: €0.10 cent)	21	(0.7c)	*(21.5c)
Diluted loss per unit of €0.05 ordinary stock (cent) (2010: €0.10 cent)	21	(0.7c)	*(21.5c)

* *Restated to reflect the bonus element of the Rights Issue which took place in July 2011 (see note 21)*

Patrick J Molloy	***Patrick O'Sullivan***	***Richie Boucher***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Consolidated statement of other comprehensive income

for the year ended 31 December 2011

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Profit / (loss) for the year	40	(609)
Other comprehensive income, net of tax:		
Revaluation of property, net of tax	(6)	(15)
Cash flow hedge reserve		
Changes in fair value	(800)	(105)
Transfer to income statement	1,114	380
Net change in cash flow hedge reserve	**314**	**275**
Available for sale reserve		
Changes in fair value	60	(354)
Transfer to income statement		
- On asset disposal	24	(13)
- Impairment	19	147
Net change in available for sale reserve	**103**	**(220)**
Net actuarial (loss) / gain on defined benefit pension funds	(117)	391
Foreign exchange translation gains	180	157
Other comprehensive income for the year net of tax	**474**	**588**
Total comprehensive income for the year net of tax	**514**	**(21)**
Total comprehensive income attributable to equity stockholders	520	(26)
Total comprehensive income attributable to non-controlling interests	(6)	5
Total comprehensive income for the year net of tax	**514**	**(21)**

The effect of tax on the above items is shown in note 20.

Patrick J Molloy
Governor

Patrick O'Sullivan
Deputy Governor

Richie Boucher
Group Chief Executive

Helen Nolan
Group Secretary

Consolidated balance sheet

as at 31 December 2011

	Note	31 December 2011 €m	31 December 2010 €m
ASSETS			
Cash and balances at central banks	54	8,181	1,014
Items in the course of collection from other banks		443	491
Trading securities	22	6	151
Derivative financial instruments	23	6,362	6,375
Other financial assets at fair value through profit or loss	24	8,914	10,045
Loans and advances to banks	25	8,059	7,458
Available for sale financial assets	26	10,262	15,576
NAMA senior bonds	27	5,016	5,075
Loans and advances to customers	28	99,314	114,457
Assets held for sale to NAMA	29	-	804
Other assets classified as held for sale	30	2,446	119
Interest in associates	32	31	26
Interest in joint ventures	33	245	199
Intangible assets – goodwill	34	-	44
Intangible assets – other	34	393	408
Investment properties	35	1,204	1,304
Property, plant and equipment	36	336	372
Current tax assets		9	125
Deferred tax assets	45	1,381	1,128
Other assets	37	2,270	2,291
Retirement benefit asset	46	8	11
Total assets		**154,880**	**167,473**
EQUITY AND LIABILITIES			
Deposits from banks	38	31,534	41,075
Customer accounts	39	70,506	65,443
Items in the course of transmission to other banks		271	293
Derivative financial instruments	23	6,018	5,445
Debt securities in issue	40	19,124	28,693
Liabilities to customers under investment contracts	41	4,954	5,271
Insurance contract liabilities	41	7,037	7,188
Other liabilities	43	3,111	3,102
Current tax liabilities		86	139
Provisions	44	38	64
Deferred tax liabilities	45	88	91
Retirement benefit obligations	46	422	435
Subordinated liabilities	42	1,426	2,775
Other liabilities classified as held for sale	30	13	52
Total liabilities		**144,628**	**160,066**
Equity			
Capital stock	48	2,452	1,210
Stock premium account		5,127	3,926
Retained earnings		3,507	3,740
Other reserves		(869)	(1,510)
Own stock held for the benefit of life assurance policyholders		(15)	(15)
Stockholders' equity		**10,202**	**7,351**
Non-controlling interests		50	56
Total equity		**10,252**	**7,407**
Total equity and liabilities		**154,880**	**167,473**

Patrick J Molloy
Governor

Patrick O'Sullivan
Deputy Governor

Richie Boucher
Group Chief Executive

Helen Nolan
Group Secretary

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Capital stock		
Balance at the beginning of the year	1,210	699
Issue of ordinary stock (note 49, 50)	1,242	238
Conversion of 2009 Preference Stock (note 50)	-	155
Dividend on 2009 Preference Stock paid in ordinary stock (note 50)	-	118
Balance at the end of the year	**2,452**	**1,210**
Stock premium account		
Balance at the beginning of the year	3,926	4,092
Premium on issue of ordinary stock (note 49,50)	1,331	1,409
Transaction costs (note 49,50)	(114)	(121)
Transferred from retained earnings (note 49)	(16)	(800)
Loss on cancellation of warrants (note 50)	-	(381)
Conversion of 2009 Preference Stock (note 50)	-	(155)
Dividend on 2009 Preference Stock paid in ordinary stock (note 50)	-	(118)
Balance at the end of the year	**5,127**	**3,926**
Retained earnings		
Balance at the beginning of the year	3,740	3,263
Profit / (loss) for the year attributable to stockholders	*45*	*(614)*
Dividends on 2009 Preference Stock and other equity interests paid in cash	*(222)*	*-*
Transfer to capital reserve	*(2)*	*(46)*
Loss retained	(179)	(660)
Transfer to stock premium account	16	800
Net actuarial (loss) / gain on defined benefit pension schemes	(117)	391
Transfer from share based payment reserve	5	4
Transfer from revaluation reserve	2	-
Repurchase of capital note (note 9)	41	24
Repurchase of treasury stock	(1)	(79)
Other movements	-	(3)
Balance at the end of the year	**3,507**	**3,740**
Other Reserves:		
Available for sale reserve		
Balance at the beginning of the year	(828)	(608)
Net changes in fair value	68	(402)
Deferred tax on reserve movements	(14)	29
Transfer to income statement (pre tax)		
- Asset disposal	28	(15)
- Impairment (note 14)	21	168
Balance at the end of the year	**(725)**	**(828)**
Cash flow hedge reserve		
Balance at the beginning of the year	(235)	(510)
Changes in fair value	(1,034)	(205)
Transferred to income statement (pre tax)		
- Net interest income (note 3)	154	411
- Net trading income (foreign exchange)	1,226	109
Deferred tax on reserve movements	(32)	(40)
Balance at the end of the year	**79**	**(235)**

Consolidated statement of changes in equity (continued)

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Foreign exchange reserve		
Balance at the beginning of the year	(1,042)	(1,199)
Exchange adjustments during the year	180	157
Balance at the end of the year	**(862)**	**(1,042)**
Capital reserve		
Balance at the beginning of the year	508	462
Transfer from retained earnings	2	46
Balance at the end of the year	**510**	**508**
Share based payment reserve		
Balance at the beginning of the year	12	22
Credit to the income statement	-	(6)
Transfer to retained earnings	(5)	(4)
Balance at the end of the year	**7**	**12**
Revaluation reserve		
Balance at the beginning of the year	14	29
Revaluation of property	(8)	(18)
Deferred tax on revaluation of property	2	3
Transfer to retained earnings	(2)	-
Balance at the end of the year	**6**	**14**
US$150 million capital note		
Balance at the beginning of the year	61	114
Repurchase of capital note (note 9, 49)	(61)	(53)
Balance at the end of the year	**-**	**61**
Capital contribution		
Balance at the beginning of the year	-	-
Contribution during the year (note 42)	116	-
Balance at the end of the year	**116**	**-**
Core and secondary tranche warrants		
Balance at the beginning of the year	-	110
Cancellation of warrants	-	(110)
Balance at the end of the year	**-**	**-**
Total other reserves	**(869)**	(1,510)

Consolidated statement of changes in equity (continued)

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Own stock held for the benefit of life assurance policyholders		
Balance at the beginning of the year	(15)	(87)
Changes in value and amount of stock held	-	72
Balance at the end of the year	**(15)**	**(15)**
Total stockholders' equity excluding non-controlling interests	**10,202**	**7,351**
Non-controlling interests		
Balance at the beginning of the year	56	50
Share of net (profit) / loss	(5)	5
Other movements	(1)	1
Balance at the end of the year	**50**	56
Total equity	**10,252**	**7,407**
Total comprehensive income included within the above:		
Total comprehensive income attributable to equity stockholders	520	(26)
Total comprehensive income attributable to non-controlling interests	(6)	5
Total comprehensive income for the year, net of tax	**514**	**(21)**

Patrick J Molloy	***Patrick O'Sullivan***	***Richie Boucher***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Consolidated cash flow statement

for the year ended 31 December 2011

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Cash flows from operating activities		
Loss before taxation	(190)	(950)
Share of results of associates and joint ventures	(39)	(49)
Profit on disposal of business activities	(34)	(15)
Depreciation and amortisation	136	147
Impairment charges on financial assets (excluding assets sold to NAMA)	1,960	2,027
Impairment charges on assets sold to NAMA	44	257
(Gain) / loss on sale of assets to NAMA including associated costs	(33)	2,241
Loss on deleveraging of financial assets	565	-
Decline in value of property below cost	15	10
Revaluation of investment property	10	(49)
Interest expense on subordinated liabilities and other capital instruments	171	312
Charge for retirement benefit obligation	88	174
Impact of amendments to defined benefit pension schemes	(2)	(733)
Gain on subordinated liability management exercises	(1,789)	(1,402)
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'	(56)	(360)
Other non-cash items	45	144
Cash flows from operating activities before changes in operating assets and liabilities	**891**	**1,754**
Net change in items in the course of collection from other banks	30	8
Net change in trading securities	145	252
Net change in derivative financial instruments	1,021	(768)
Net change in other financial assets at fair value through profit or loss	1,124	(273)
Net change in loans and advances to banks	148	(258)
Net change in loans and advances to customers	4,938	6,288
Net change in other assets	252	(20)
Net change in deposits from banks	(9,556)	23,143
Net change in customer accounts	4,272	(20,355)
Net change in debt securities in issue	(8,478)	(15,721)
Net change in liabilities to customers under investment contracts	(317)	226
Net change in insurance contract liabilities	(151)	589
Net change in other liabilities	(105)	(275)
Effect of exchange translation and other adjustments	(757)	(616)
Net cash flow from operating assets and liabilities	**(7,434)**	**(7,780)**

Cash flow statement (continued)

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Net cash flow from operating activities before taxation	**(6,543)**	**(6,026)**
Taxation refunded	22	2
Net cash flow from operating activities	**(6,521)**	**(6,024)**
Investing activities (section a)	12,750	5,230
Financing activities (section b)	1,334	(558)
Net change in cash and cash equivalents	**7,563**	**(1,352)**
Opening cash and cash equivalents	8,135	9,187
Effect of exchange translation adjustments	74	300
Closing cash and cash equivalents (note 54)	**15,772**	**8,135**
(a) Investing activities		
Additions to available for sale financial assets	(21,532)	(8,106)
Disposal of available for sale financial assets	27,160	13,375
Additions to property, plant and equipment	(31)	(41)
Disposal of property, plant and equipment	5	8
Additions to intangible assets	(72)	(50)
Disposal of investment property	30	7
Dividends received from joint ventures	52	35
Net change in interest in associates	(6)	2
Net proceeds from disposal of loan portfolios	6,996	-
Net proceeds from disposal of business activities	148	-
Cash flows from investing activities	**12,750**	**5,230**
(b) Financing activities		
Net proceeds from Rights Issue and institutional placing[1]	1,794	908
Net proceeds from Contingent Capital note	985	-
Dividends on other equity interests paid	(222)	-
Interest paid on subordinated liabilities	(240)	(218)
Consideration paid in respect of liability management exercises	(983)	-
Redemption of subordinated liabilities	-	(750)
Cancellation of warrants	-	(491)
Buyback of treasury stock	-	(7)
Cash flows from financing activities	**1,334**	**(558)**

[1] *The institutional placing took place during the year ended 31 December 2010.*

Patrick J Molloy	***Patrick O'Sullivan***	***Richie Boucher***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Group accounting policies

Index to accounting policies

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 3.1, 3.2, 3.3, 3.4, 4 and 5 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 207 to 209.

References to 'the State' throughout this document should be taken to refer to the Republic of Ireland, its Government and, where and if relevant, Government departments, agencies and local Government bodies.

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 2011 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 the Group's business, profitability forecasts, funding and capital plans, including under base and stress scenarios, together with a range of factors such as the outlook for the Irish economy taking account of the impact of fiscal realignment measures, the impact of the EU / IMF Programme, the availability of collateral to access the Eurosystem, together with the possible impacts of the eurozone sovereign debt crisis, and in particular the Directors have focussed on the matters set out below:

Context

The deterioration of the Irish economy throughout 2010, culminating in the Programme for the Recovery of the Banking System announced by the Irish Government on 28 November 2010 (the 'EU / IMF programme'), adversely impacted the Group's financial condition and performance and poses ongoing challenges.

During 2010, the Group experienced a significant outflow of ratings sensitive customer deposits following a number of downgrades to the credit ratings of the Irish Sovereign and of the Group and the withdrawal of the Irish Sovereign from the funding markets. Since that time, the Group has had limited access to market sources of wholesale funding and as a result the Group became dependent on secured funding from the European Central Bank (ECB) and exceptional liquidity assistance from the Central Bank of Ireland (Central Bank). These challenges also caused the Group to notify the Central Bank of temporary breaches of regulatory liquidity requirements in January 2011, April 2011, June 2011 and September 2011. All breaches were subsequently remediated.

The Group does not currently have access to unsecured term wholesale funding markets and it is expected that the Group will continue to be dependent on Monetary Authorities for funding during the period of assessment. This poses a liquidity risk for the Group which the Directors addressed in detail as part of the going concern assessment.

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 had to generate additional capital to meet these requirements.

Concerns regarding the European sovereign debt crisis intensified during 2011 which resulted in renewed instability in financial markets adversely impacting market sentiment and restricting access to wholesale funding markets for certain sovereigns and financial institutions across Europe. These concerns prompted a series of strong policy responses from European governments and institutions including the ECB. However, political and economic risks remain.

On 21 July 2011, a formal Statement by the Heads of State or Government of the euro area and EU institutions reaffirmed their commitment to the euro and to do whatever was needed to ensure the financial stability of the euro area as a whole and its Member States. This Statement ultimately led to the decision by the ECB to actively implement its Securities Markets Programme.

The Statement also included a number of announcements that were positive for Ireland including a reduction in the interest rates on loans under the EU / IMF Programme and an extension to the maturity date of these loans. It also noted the commitment of the Heads of State or Government of the euro area and the EU institutions to the success of the EU / IMF Programme and critically it confirmed their determination to provide support to countries under such programmes until they have regained market access, provided they successfully implement those programmes.

Following their most recent quarterly review under the EU / IMF Programme in January 2012 the IMF stated that the programme implementation remains strong, that the substantial fiscal consolidation targeted for 2011 had been achieved with a margin and that major progress was made in strengthening and downsizing the banking system in 2011.

Irish sovereign bond yields have tightened significantly since July 2011.

Amid rising tensions, a package of measures to restore confidence and address the tensions in financial markets was also agreed by the European Council and euro area Heads of State or Government on 9 December 2011. These measures included a new fiscal compact and the strengthening of stabilisation tools for the euro area, including a more effective European Financial Stability Facility (EFSF), the bringing forward of the implementation of the European Stability Mechanism (ESM) and a solution for the unique challenges faced by Greece.

Within the above context, the Group has achieved a number of significant milestones in the past twelve months, most notably generating the additional capital required under the 2011 Prudential Capital Assessment Review (2011 PCAR) and meeting its 2011 deleveraging targets.

Capital
As part of the EU / IMF programme, the Central Bank undertook the 2011 PCAR incorporating a Prudential Liquidity Assessment Review (2011 PLAR) and the results were announced on 31 March 2011.

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 reviewed the methodology utilised.

As a result the Central Bank assessed that the Group needed 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 was required via the issue of a debt instrument which, under certain circumstances, would convert to equity capital.

The Group successfully generated all of the required equity capital of €4.2 billion by 31 December 2011 and in July 2011, the Group issued a €1 billion debt instrument to the Irish Government which under certain circumstances will convert to equity capital.

The Group separately passed the EBA stress test in July 2011 and the EBA capital exercise (incorporating a capital buffer against sovereign exposures) in December 2011 without any requirement for further additional capital.

The Directors believe this satisfactorily addresses the capital risk.

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.

As a consequence the Group is required to achieve a target loan to deposit ratio of 122.5% by December 2013. An objective of the Central Bank 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 successful implementation of the deleveraging plan is expected to reinforce the benefits of higher capital and help the Group to regain access to market sources of financing.

During 2011, the Group announced divestments totalling €8.6 billion representing 86% of the required three year (2011 – 2013) target of €10 billion. The proceeds in respect of €7.6 billion of divestments were settled by 31 December 2011 with the remaining €1 billion settling early in 2012.

During 2011, the Group increased its customer deposits by €5.1 billion from €65.4 billion at 31 December 2010 to €70.5 billion at 31 December 2011. The Group's loan-to-deposit ratio at 31 December 2011 was 144% representing a reduction of 31% from the level of 175% at 31 December 2010.

The impact of the above, together with the €4.2 billion of secured term wholesale funding transactions executed during 2011, allowed the Group to reduce its net drawings from Monetary Authorities by €9 billion from €31 billion at 31 December 2010 to €22 billion at 31 December 2011 consisting of secured funding from the ECB of €22 billion (net) (31 December 2010: €23 billion (net)) and exceptional liquidity assistance from the Central Bank of €nil (31 December 2010: €8 billion).

The Group's term wholesale funding profile was improved further through its participation in the three year ECB Long Term Refinancing Operation ('LTRO') in December 2011 when the Group converted €7.5 billion of shorter term ECB funding into the three year facility.

It is expected that the Group will continue to be dependent on Monetary Authorities for funding during the period of assessment.

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 has substantially strengthened the Group and given it a sound capital base, particularly given the conservative nature of the assumptions and methodologies that were used in the 2011 PCAR process. Following the announcement on 31 March 2011 that the Irish banks would generate the 2011 PCAR capital, the ECB confirmed that the Eurosystem would continue to provide liquidity to banks in Ireland and hence the Group.

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 and the Department of Finance (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 year ended 31 December 2011:

IAS 32 (Amendment) - '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. The adoption of this amendment has had no impact on the financial statements.

IAS 24 (Amendment) - 'Related Party Disclosures' The amendment clarifies and simplifies the definition of a related party and removes the requirement on entities for whom the Government is a related party to disclose details of all transactions with the government and other government-related entities. The Group had early adopted the partial exemption for government-related entities in the year ended 31 December 2010 and adopted the rest of the amendment in the year ended 31 December 2011.

IFRIC 14 (Amendment) – '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. The adoption of this amendment has no impact on the financial statements.

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. There is no impact on the Group as the clarification is consistent with the Group's existing accounting policy.

Improvements to IFRSs 2010 The 'Improvements to IFRSs 2010' standard 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. The changes have not had a material impact on the Group.

Details of those IFRS pronouncements which will be relevant to the Group but which were not effective at 31 December 2011 and which have not yet been adopted by the Group are set out on pages 204 to 206.

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 analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.

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 SIC 12, 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.

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. The Bank incorporates the results of the acquired businesses only from the date on which the business combination occurs.

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 2011		31 December 2010	
	Average	**Closing**	Average	Closing
€ / US$	1.3920	1.2939	1.3258	1.3362
€ / Stg£	0.8679	0.8353	0.8579	0.8607

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, gain / (loss) on sale of assets to NAMA and loss on deleveraging of financial assets, 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; and available for sale financial assets. The Group determines the classification of its financial assets at initial recognition.

At 31 December 2010, financial assets that the Group expected would be transferred to NAMA were classified as assets held for sale to NAMA (refer to accounting policy on page 198).

(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) 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 in an arm's length transaction, 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.

Where a transaction price in an arm's length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

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 53 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 liability management exercises (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 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 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 page 66 and pages 124 to 128 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 - Fifteen years, or the remaining period of the lease
- Computer and other equipment - Maximum of ten 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 five years to twenty 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 held for sale to NAMA

At 31 December 2010, assets and liabilities that the Group expected to transfer to NAMA within twelve months of that reporting date, all of which were financial assets and liabilities, were classified as assets and liabilities held for sale to NAMA.

These assets and liabilities were measured in accordance with the Group's accounting policies for measurement of financial assets and financial liabilities respectively, set out on pages 191 and 192. Loans and advances which were held for sale to NAMA were measured at amortised cost less any incurred impairment losses, which were calculated in accordance with the Group's accounting policy on impairment of financial assets, set out on pages 195 and 196. Derivatives held for sale to NAMA were measured at fair value through profit or loss.

The assets and liabilities were derecognised when substantially all of the risks and rewards transferred to NAMA, which was the date when ownership of or the beneficial interest in the assets had legally transferred to NAMA. This occurred on a phased basis when ownership of each tranche transferred. Until the date of derecognition, interest income on the assets continued to be recognised using the effective interest method.

On the derecognition date, a gain or loss was 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 was measured at fair value at initial recognition.

Other 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 191 and 192.

When an asset (or disposal group) is classified as held for sale, amounts presented in the balance sheet for the prior period 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.

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.

Tax provisions are provided on a transaction by transaction basis using a best estimate approach.

(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 and by reference to the expiry dates (if any) of the relevant unused tax losses or tax credits. Deferred tax assets and liabilities are not discounted.

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 are 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 are 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 or the Court of Directors, as appropriate.

(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. These are transferred to the income statement when the hedged transactions impact the Group's profit or loss.

(9) Capital Contribution

Where a financial instrument is issued by the Group to a party acting in its capacity as a stockholder, a portion of the proceeds received, equal to the initial fair value of the financial instrument, is considered to be consideration for the issuance of the financial instrument, with any amount received in excess of this considered to be a capital contribution from the stockholder, and credited directly to this reserve.

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. Upfront 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 customers' 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.

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 Ireland, Bank of Ireland Life, Retail UK, Corporate and Treasury 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 2011 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.

Pronouncement	Nature of change	Effective date	Impact
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 transfers of financial assets and the effect of those risks on an entity's financial position. The amendment is still subject to EU endorsement.	Financial periods beginning on or after 1 July 2011	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. The amendment is still subject to EU endorsement.	Financial periods beginning on or after 1 January 2012	Not significant
IAS 1, 'Presentation of financial statements'	The amendments to IAS 1, 'Presentation of Financial Statements' require companies to group together items within other comprehensive income (OCI) that may be reclassified to the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two separate statements. The amendments are still subject to EU endorsement.	Financial periods beginning on or after 1 July 2012	Not significant
IAS 19, 'Employee benefits'	The amended standard eliminates the option for deferred recognition of all changes in the present value of the defined benefit obligation and in the fair value of plan assets (including the corridor approach, which is not applied by the Group). In addition, the amended standard requires a net interest approach, which will replace the expected return on plan assets, and will enhance the disclosure requirements for defined benefit plans. The amended standard is still subject to EU endorsement.	Financial periods beginning on or after 1 January 2013	The Group is assessing the impact of adopting the amended IAS 19.
IFRS 10, 'Consolidated Financial Statements'	This standard replaces IAS 27, 'Consolidated and Separate Financial Statements' and SIC-12, 'Consolidation – Special Purpose Entities'. It establishes a single control model that applies to all entities, including those that were previously considered special purpose entities under SIC-12. An investor controls an investee when it is exposed, or has rights, to variable returns from the investee, and has the ability to affect those returns through its power over the investee. The assessment of control is based on all facts and circumstances and the conclusion is reassessed if there is an indication that there are changes in facts and circumstances. The new standard is still subject to EU endorsement.	Financial periods beginning on or after 1 January 2013	The Group is assessing the impact of adopting IFRS 10.

Impact of new accounting standards (continued)

Pronouncement	Nature of change	Effective date	Impact
IFRS 11, 'Joint arrangements'	IFRS 11 supersedes IAS 31, 'Interests in Joint Ventures' and SIC-13, 'Jointly-controlled Entities – Nonmonetary Contributions by Venturers'. IFRS 11 classifies joint arrangements as either joint operations or joint ventures and focuses on the nature of the rights and obligations of the arrangement. IFRS 11 requires the use of the equity method of accounting for joint arrangements by eliminating the option to use the proportionate consolidation method, which is not applied by the Group. The new standard is still subject to EU endorsement.	Accounting periods starting on or after 1 January 2013	The Group is assessing the impact of adopting IFRS 11
IFRS 12, 'Disclosures of Interests in Other Entities'	IFRS 12 establishes the provision of information on the nature, associated risks, and financial effects of interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities, as disclosure objectives. IFRS 12 requires more comprehensive disclosure, and specifies minimum disclosures that an entity must provide to meet the disclosure objectives. The new standard is still subject to EU endorsement.	Accounting periods starting on or after 1 January 2013.	The Group is assessing the impact of adopting IFRS 12.
IFRS 13, 'Fair Value Measurement'	In May 2011, the IASB issued IFRS 13, 'Fair Value Measurement' which establishes a single source of guidance for fair value measurement under IFRS. IFRS 13 provides a revised definition of fair value and guidance on how it should be applied where its use is already required or permitted by other standards within IFRS and introduces more comprehensive disclosure requirements on fair value measurement. The new standard is still subject to EU endorsement.	Accounting periods starting on or after 1 January 2013	The Group is assessing the impact of adopting IFRS 13.
IAS 27 (revised), 'Separate Financial Statements'	IAS 27 (revised) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The revised standard is still subject to EU endorsement.	Accounting periods starting on or after 1 January 2013	The Group is assessing the impact of adopting IAS 27 (revised).
IAS 28 (revised), 'Investments in Associates and Joint Ventures'	IAS 28 (revised) includes the requirements for joint ventures, as well as associates to be equity accounted following the issue of IFRS 11. The revised standard is still subject to EU endorsement.	Accounting periods starting on or after 1 January 2013	The Group is assessing the impact of adopting IAS 28 (revised).
Amendments to IAS 32 and IFRS 7 'Financial Instruments' on Asset and Liability Offsetting	These amendments are to the application guidance in IAS 32, 'Financial Instruments: Presentation', that clarify some of the requirement for offsetting financial assets and financial liabilities on the balance sheet. The IASB has also published an amendment to IFRS 7, 'Financial Instruments: Disclosures'. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. The revised standards are still subject to EU endorsement.	IFRS 7: Accounting periods starting on or after 1 January 2013 IAS 32: Accounting periods starting on or after 1 January 2014	The Group is assessing the impact of adopting the amendments to IAS 32 and IFRS 7.

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Impact of new accounting standards (continued)

Pronouncement	Nature of change	Effective date	Impact
IFRS 9, 'Financial instruments'	IFRS 9 is the standard which will 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 and the new concepts in IFRS 9 are summarised as follows: • The multiple classification model for financial assets in IAS 39 is replaced with a single model that has only two classification categories: amortised cost and fair value; • Classification under IFRS 9 is driven by the entity's business model for managing financial assets and the contractual characteristics of the financial assets; • The requirement to separate embedded derivatives from financial asset hosts is removed; • The cost exemption for unquoted equities is removed; • Most of IAS 39's requirements for financial liabilities are retained, including amortised cost accounting for most financial liabilities; • Guidance on separation of embedded derivatives will continue to apply to host contracts that are financial liabilities; • 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. The new standard is still subject to EU endorsement.	Financial periods beginning on or after 1 January 2015	The Group is assessing the impact of adopting IFRS 9. The impact of IFRS 9 may change as a consequence of further developments resulting from the IASB's ongoing financial instruments project.

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 for impairment on an ongoing basis. The Group first assesses whether objective evidence of impairment exists. This assessment is performed 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, particularly in Ireland, and there are very low levels of activity in the sector. Residential mortgage loans before impairment provisions at 31 December 2011 amounted to €57 billion (31 December 2010: €60 billion), against which were held provisions for impairment of €1.2 billion (31 December 2010: €0.7 billion). At 31 December 2011, the assumption adopted by the Group in respect of the expected average decline in the value of Irish residential properties was 55% from their peak in 2007. A 5% decline in average values beyond this assumed level would give rise to additional impairment provisions of c.€125 million to €150 million.

A further important judgemental area is in relation to the level of impairment provisions for 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 2011 amounted to €20.6 billion (31 December 2010: €24.4 billion), against which were held provisions for impairment of €3.2 billion (31 December 2010: €2.5 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 5).

(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 2011, the Group had a net deferred tax asset of €1,293 million (31 December 2010: €1,037 million), of which €1,195 million (31 December 2010: €898 million) related to incurred trading losses. See note 45.

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 are 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 Irish tax losses carried forward by a financial institution participating in NAMA. This significantly lengthens the period over which the deferred tax asset will reverse by restricting by 50% 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) Fair value of financial instruments
The Group measures certain of its financial instruments at fair value on 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 where 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.

The most significant area of judgement is in relation to certain financial assets and liabilities classified within level 3 of the 3-level fair value hierarchy. Further details are set out in note 53.

Liabilities classified within level 3 comprise certain debt securities in issue, certain customer deposits and certain subordinated liabilities which together have a fair value of €495 million (31 December 2010: €670 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 Group estimates this spread by reference to recent transactions in the same instrument or in similar instruments issued by the Group. In addition the Group considers the credit spread applicable to Irish Government bonds. A 1% increase / (decrease) in the estimated credit spread at 31 December 2011 would result in a decrease of €26 million / (increase of €26 million) in the fair value of the liabilities, with a corresponding impact on the income statement.

The Contingent Capital note issued to the State during the year ended 31 December 2011 (see note 49) was fair valued on initial recognition by discounting the expected cash flows on the note, in the absence of conversion, using the estimated market yield for the instrument, including the conversion feature. This yield is not considered to be observable. A 0.50% increase / (decrease) in this yield at the date of initial recognition of the note in July 2011 would have resulted in an increase of €10 million (decrease of €10 million) in the capital contribution credited directly to reserves.

The equity conversion feature of the note is considered to be an embedded derivative requiring separation, with changes in its fair value recognised in profit or loss. The derivative is valued using a discounted cash flow model in which the principal input is the yield differential, or spread, between the Contingent Capital note and the yield on similar notes without the conversion feature. This spread is not considered to be observable. A 0.50% increase / (decrease) in this spread at 31 December 2011 would result in an increase of €9 million (decrease of €9 million) in the fair value of the derivative, with a corresponding impact on the income statement. The host instrument is subsequently measured at amortised cost.

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, valuations in the repo market and the yield on Irish Government bonds of similar maturity. The bonds are subsequently measured at amortised cost.

(d) 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 46 on retirement benefit obligations.

(e) 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 60 on the life assurance business.

Notes to the consolidated financial statements

Index to the notes to the consolidated financial statements

1 Comparatives

The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.

2 Operating segments

The Group has five reportable operating segments which reflect the internal financial and management reporting structure and are organised as follows:

Retail Ireland (formerly Retail Republic of Ireland)
Retail 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, Business Banking, Private Banking, an instalment credit and leasing business, credit card operations, commercial finance / factoring businesses, together with direct telephone and online banking services.

Bank of Ireland Life
The Group operates in the life and pensions market in Ireland through its wholly owned subsidiary New Ireland Assurance Company plc which trades as Bank of Ireland Life. Bank of Ireland Life offers life assurance, protection, pensions and investment products to the Group's customers in Ireland via the Bank of Ireland Life network. These products are manufactured by New Ireland Assurance Company plc. New Ireland Assurance Company plc also operates in the independent intermediary market under the New Ireland brand and through a direct sales force.

Retail UK (formerly UK Financial Services)
Retail UK 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. A substantial part of the Retail UK operations are conducted through the Group's wholly owned UK licensed subsidiary, Bank of Ireland (UK) plc.

During the year ended 31 December 2011, the Group sold a portion of its UK mortgage loan portfolio and a portion of its UK investment property portfolio. See note 17 for more detail.

Corporate and Treasury (formerly Capital Markets)
This division comprises Global Markets, Corporate Banking and IBI Corporate Finance.

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' operations are based in Ireland, the UK and the US.

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, Australia 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.

During the year ended 31 December 2011, the Group announced the deleveraging of certain project finance loan portfolios, its US investment property portfolio, the Burdale business and certain other international loans, all of which formed part of the Corporate Banking business. Certain of these portfolios were deleveraged during the year with the remaining portfolios included in assets held for sale at the balance sheet date. Further information is shown in notes 17 and 30.

2 Operating segments (continued)

IBI Corporate Finance provides independent financial advice to public and private companies on takeovers, mergers and acquisitions, disposals and restructurings, in addition to fund raising, public flotations and stock exchange listings.

The Group disposed of Bank of Ireland Asset Management, Bank of Ireland Securities Services and Paul Capital International LLC during the year ended 31 December 2011.

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

Name change
The Group changed the name of three of its segments as detailed above with no change to composition of its segments.

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 and basis of preparation' on pages 183 to 206. Allocation methods are also unchanged other than a modification to the method used to allocate funding expense between segments. The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as 'Underlying profit' in its internal management reporting systems. Underlying profit or loss excludes:

- gain on liability management exercises;
- loss on deleveraging of financial assets;
- impact of amendments to defined benefit pension schemes;
- 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 certain subordinated debt*;
- 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.

* *Interest expense for the year ended 31 December 2010 included a charge of €35 million and net trading expense included a charge of €1 million in relation to a change in the expected cash flows on certain subordinated liabilities. This arose as a result of restrictions which the European Commission imposed 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 the Group recognised a gain of €67 million in its financial statements for the year ended 31 December 2009. However, it was subsequently confirmed by the European Commission during the year ended 31 December 2010 that the 'coupon stopper' provision would cease on 31 January 2011, which gave rise to a charge to the income statement.*

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

Gross revenue comprises interest income, net insurance premium income, fee and commission income, net trading income, life assurance investment income gains and losses, gain on liability management exercises, other operating income, insurance contract liabilities and claims paid and share of results of 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.

2 Operating segments (continued)

Year ended 31 December 2011	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Interest income	4,532	24	2,811	4,250	(886)	(6,113)	4,618
Interest expense	(3,683)	(19)	(2,444)	(3,508)	466	6,104	(3,084)
Net interest income	**849**	**5**	**367**	**742**	**(420)**	**(9)**	**1,534**
Other income, net of insurance claims	297	122	119	44	(36)	(22)	524
Total operating income, net of insurance claims	**1,146**	**127**	**486**	**786**	**(456)**	**(31)**	**2,058**
Other operating expenses	(818)	(95)	(342)	(178)	(77)	-	(1,510)
Depreciation and amortisation	(43)	(6)	(38)	(9)	(41)	-	(137)
Total operating expenses	**(861)**	**(101)**	**(380)**	**(187)**	**(118)**	**-**	**(1,647)**
Operating profit / (loss) before impairment charges on financial assets and loss on NAMA	**285**	**26**	**106**	**599**	**(574)**	**(31)**	**411**
Impairment charges on financial assets (excluding sold to NAMA)	(1,297)	-	(435)	(228)	-	-	(1,960)
Impairment charges on assets sold to NAMA	(9)	-	(26)	(9)	-	-	(44)
Gain / (loss) on sale of assets to NAMA including associated costs	1	-	(5)	24	13	-	33
Share of results of associates and joint ventures	3	-	36	-	-	-	39
Underlying loss / (profit) before tax	**(1,017)**	**26**	**(324)**	**386**	**(561)**	**(31)[1]**	**(1,521)**

Reconciliation of underlying loss before tax to loss before taxation	Group €m
Underlying loss before tax	(1,521)
Gain on liability management exercises	1,789
Loss on deleveraging of financial assets	(565)
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'	56
Profit on disposal of business activities	34
Gross-up for policyholder tax in the Life business	10
Cost of restructuring programmes	3
Impact of amendments to defined benefit pension schemes	2
Investment return on treasury stock held for policyholders in the Life business	2
Loss before taxation	**(190)**

[1] *This relates to certain inter-segment transactions which are eliminated at a Group level. However, at a divisonal level the transactions are reported as core income in the Corporate and Treasury division and non-core expense in the Retail UK division as part of the loss on deleveraging of financial assets.*

2 Operating segments (continued)

Year ended 31 December 2010	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €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)
Net interest income	**1,010**	**(2)**	**592**	**885**	**(249)**	**-**	**2,236**
Other income, net of insurance claims	347	175	62	43	(61)	-	566
Total operating income, net of insurance claims	**1,357**	**173**	**654**	**928**	**(310)**	**-**	**2,802**
Other operating expenses	(865)	(95)	(336)	(275)	(67)	-	(1,638)
Depreciation and amortisation	(54)	(8)	(36)	(12)	(37)	-	(147)
Total operating expenses	**(919)**	**(103)**	**(372)**	**(287)**	**(104)**	**-**	**(1,785)**
Operating profit / (loss) before impairment charges on financial assets and loss on NAMA	**438**	**70**	**282**	**641**	**(414)**	**-**	**1,017**
Impairment charges on financial assets (excluding sold or held for sale to NAMA)[2]	(1,142)	-	(448)	(367)	(70)	-	(2,027)
Impairment charges on assets sold or held for sale to NAMA[2]	(100)	-	(31)	(126)	-	-	(257)
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
Underlying (loss) / profit before tax	**(1,467)**	**70**	**(558)**	**(973)**	**(531)**	**-**	**(3,459)**

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[3]	15
Loss before taxation	**(950)**

[2] The impairment charges on financial assets and assets sold or held for sale to NAMA have been adjusted for the year ended 31 December 2010 to reflect the impairment charge on loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010, with no change to the total impairment charge (see note 15).
[3] 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 year 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)

Year ended 31 December 2011 Analysis by operating segment	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Capital expenditure	**14**	**4**	**18**	**-**	**67**	**-**	**103**
Investment in associates and joint ventures	150	52	74	-	-	-	276
External assets	45,860	11,486	55,034	39,834	2,666	-	154,880
Inter segment assets	66,792	2,228	39,955	149,010	38,894	(296,879)	-
Total assets	**112,652**	**13,714**	**94,989**	**188,844**	**41,560**	**(296,879)**	**154,880**
External liabilities	45,830	12,352	31,191	53,661	1,594	-	144,628
Inter segment liabilities	66,914	479	63,713	133,758	32,015	(296,879)	-
Total liabilities	**112,744**	**12,831**	**94,904**	**187,419**	**33,609**	**(296,879)**	**144,628**

Year ended 31 December 2010 Analysis by operating segment	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
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)	-
Total assets	124,205	14,243	89,407	202,003	51,144	(313,529)	167,473
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)	-
Total liabilities	124,882	13,337	89,618	202,275	43,483	(313,529)	160,066

Year ended 31 December 2011 Gross revenue by operating segments	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
External revenue	1,850	184	1,933	1,487	1,776	-	7,230
Inter segment revenue	3,003	40	1,135	2,897	(824)	(6,251)	-
Total gross revenue	4,853	224	3,068	4,384	952	(6,251)	7,230

Year ended 31 December 2010	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
External revenue	1,936	279	2,269	1,598	1,780	-	7,862
Inter segment revenue	2,310	11	769	2,664	(368)	(5,386)	-
Total gross revenue	4,246	290	3,038	4,262	1,412	(5,386)	7,862

2 Operating segments (continued)

The analysis below is on a geographical basis - based on the location of the business unit by where revenues are generated.

Year ended 31 December 2011 Geographical analysis	**Republic of Ireland €m**	**United Kingdom €m**	**Rest of World €m**	**Other reconciling items €m**	**Total €m**
External revenue	4,638	2,462	130	-	7,230
Inter segment revenue	1,002	757	66	(1,825)	-
Gross revenue	**5,640**	**3,219**	**196**	**(1,825)**	**7,230**
Capital expenditure	**85**	**18**	**-**	**-**	**103**
External assets	94,503	58,632	1,745	-	154,880
Inter segment assets	43,869	16,007	2,905	(62,781)	-
Total assets	**138,372**	**74,639**	**4,650**	**(62,781)**	**154,880**
External liabilities	110,342	33,068	1,218	-	144,628
Inter segment liabilities	18,004	41,625	3,152	(62,781)	-
Total liabilities	**128,346**	**74,693**	**4,370**	**(62,781)**	**144,628**

Year ended 31 December 2010 Geographical analysis	Republic of Ireland €m	United Kingdom €m	Rest of World €m	Other reconciling items €m	Total €m
External revenue	4,985	2,661	216	-	7,862
Inter segment revenue	974	616	171	(1,761)	-
Gross revenue	5,959	3,277	387	(1,761)	7,862
Capital expenditure	72	18	-	-	90
External assets	107,893	56,560	3,020	-	167,473
Inter segment assets	57,983	23,657	3,035	(84,675)	-
Total assets	165,876	80,217	6,055	(84,675)	167,473
External liabilities	132,105	25,959	2,002	-	160,066
Inter segment liabilities	27,482	53,411	3,782	(84,675)	-
Total liabilities	159,587	79,370	5,784	(84,675)	160,066

3 Interest income

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Loans and advances to customers (including loans sold to NAMA)	3,836	4,387
Available for sale financial assets	609	584
Finance leases and hire purchase receivables	109	141
Loans and advances to banks	64	67
Interest income	**4,618**	**5,179**

Included within interest income is €217 million (year ended 31 December 2010: €210 million) arising on financial assets on which an impairment provision has been recognised. Net interest income also includes a charge of €154 million (year ended 31 December 2010: charge of €411 million) transferred from the cash flow hedge reserve (see page 177).

4 Interest expense

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Customer accounts	1,392	1,467
Debt securities in issue	755	895
Deposits from banks	766	286
Subordinated liabilities	171	312
Interest expense	**3,084**	**2,960**

Included within interest expense for the year ended 31 December 2011 is an amount of €449 million (year ended 31 December 2010: €275 million) 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 57. The cost of the Credit Institutions (Financial Support) Scheme (CIFS) for the year ended 31 December 2010 of €68 million is shown in fee and commission expense (note 6). This CIFS scheme expired on 29 September 2010.

Interest expense for the year ended 31 December 2010 includes a charge of €35 million in relation to a change in the expected cash flows on certain subordinated liabilities.

5 Net insurance premium income

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Gross premiums written	1,026	1,069
Ceded reinsurance premiums	(104)	(112)
Net premiums written	922	957
Change in provision for unearned premiums	7	12
Net insurance premium income	**929**	**969**

6 Fee and commission income and expense

Income	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Retail banking customer fees	386	362
Insurance commissions	76	81
Credit related fees	66	52
Asset management fees	28	83
Brokerage fees	11	8
Other	45	47
Fee and commission income	**612**	**633**

Included in other fees is an amount of €2 million (year ended 31 December 2010: €3 million) related to trust and other fiduciary fees.

Expense	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Government Guarantee fee (note 57)	-	68
Other	192	189
Fee and commission expense	**192**	**257**

The Government Guarantee fee for the year ended 31 December 2010 related to the fee paid under the CIFS Scheme, which commenced on 30 September 2008 and expired on 29 September 2010. The cost of the ELG scheme for the year ended 31 December 2011 of €449 million (year ended 31 December 2010: €275 million) is recognised in interest expense (note 4).

Other fee and commission expense of €192 million (year ended 31 December 2010: €189 million) primarily comprises brokerage fees, sales commissions and other fees to third parties.

7 Net trading income

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Financial assets designated at fair value	(1)	19
Financial liabilities designated at fair value	56	189
Related derivatives held for trading	(82)	67
	(27)	**275**
Other financial instruments held for trading	44	(76)
Net fair value hedge ineffectiveness	1	26
Cash flow hedge ineffectiveness	1	-
Net trading income	**19**	**225**

Net trading income of €19 million (year ended 31 December 2010: €225 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 €54 million (year ended 31 December 2010: €124 million) in relation to net gains arising from foreign exchange.

Net trading income 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 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 €102 million (year ended 31 December 2010: €175 million).

Net fair value hedge ineffectiveness comprises a net gain from hedging instruments of €56 million (31 December 2010: net gain of €280 million) offsetting a net loss from hedged items of €55 million (year ended 31 December 2010: net loss of €254 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 €56 million (year ended 31 December 2010: €360 million). Of this amount, €42 million (year ended 31 December 2010: €297 million) has been recognised within net trading income, with a further €11 million (year ended 31 December 2010: €58 million) included within insurance contract liabilities and claims paid and €3 million (year ended 31 December 2010: €5 million) included in other operating income. During the year ended 31 December 2011, subordinated liabilities measured at fair value through profit or loss, with a cumulative fair value gain from changes in credit spreads of €56 million (year ended 31 December 2010: €25 million) were repurchased at fair value as part of the Group's liability management exercises. As a result, the cumulative impact at 31 December 2011 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 2010: €425 million).

Included within net trading income in the year ended 31 December 2010 is a charge of €1 million in relation to the revised estimates of future cash flows on certain subordinated liabilities.

8 Life assurance investment income, gains and losses

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Gross life assurance investment income, gains and losses	(39)	464
Elimination of investment return on treasury stock held for the benefit of policyholders in the Life businesses	1	10
Life assurance investment income, gains and losses	**(38)**	**474**

8 Life assurance investment income, gains and losses (continued)

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

IFRS requires that Bank of Ireland stock held by the Group, including that held by Bank of Ireland Life for the benefit of policyholders, is 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 year ended 31 December 2011 of applying this accounting treatment is that the loss arising on life assurance investment income, gains and losses of €39 million has been reduced by €1 million which is the change in value of Bank of Ireland stock held under insurance contracts. Other operating income (note 10) has been increased by €1 million which is the change in value of stock held under investment contracts. The combined adjustment is €2 million.

9 Gain on liability management exercises

Gain on liability management exercises	**Year ended 31 December 2011 €m**	Year ended 31 December 2010 €m
Gain on liability management exercises	1,789	1,402

As part of its capital management activities, including the recapitalisation of the Bank (see note 50), the Group has repurchased and / or exchanged certain subordinated liabilities and mortgage-backed securities at significant discounts to their nominal amounts.

This involved a number of transactions as follows:

- a Debt for debt exchange relating to two Canadian dollar subordinated notes in February 2011 and the repurchase of a euro subordinated note in March 2011, which generated a gain of €17 million; and
- various liability management exercises between July 2011 and December 2011 to generate part of the incremental equity capital of €4.2 billion required by the Central Bank as a result of the 2011 PCAR (see note 49), which generated gains of €1,772 million as follows:

Gain on liability management exercises pursuant to 2011 PCAR	**Subordinated liabilities €m**	**Mortgage-backed securities €m**	**Total €m**
Debt for equity offer	1,177	-	1,177
Cash offer	219	307	526
Call option	101	-	101
	1,497	**307**	**1,804**
Transaction costs			(32)
Gain on liability management exercises pursuant to 2011 PCAR			**1,772**

9 Gain on liability management exercises (continued)

The table below summarises the results of the transactions undertaken in February 2011 and March 2011.

Description	Nominal amount prior to debt exchange	Debt for debt exchange	Cash offer	Residual nominal amount	Price (% of nominal amount exchanged)
CAD$400 million *Fixed / Floating Rate Subordinated Notes 2015*	CAD$221m	CAD$83m	-	CAD$138m	52%
CAD$145 million *Fixed / Floating Rate Subordinated Notes 2018*	CAD$145m	CAD$55m	-	CAD$90m	59%
€750 million *Floating Rate Subordinated Notes 2017*	€93m	-	€2m	€91m	53%
US$150 million Floating Rate Note (FRN) (accounted for as preference equity*)	US$80m	-	US$5m	US$75m	37%

* *The difference of €1 million between the fair value of the consideration of €2 million and the carrying value of the notes of €3 million is shown as an increase in retained earnings and is included as part of the increase of €41 million in the Statement of Changes in Equity (see also page 223).*

The net gain before transaction costs on the repurchase of these subordinated liabilities amounted to €17 million (€17 million after taxation) being the difference between the consideration paid of €57 million (being the fair value of new notes issued of €56 million and cash of €1 million) and the carrying value of the notes repurchased of €74 million.

9 Gain on liability management exercises (continued)

The gain of €1,497 million arising from the liability management exercises undertaken on the subordinated liabilities pursuant to the 2011 PCAR was related to dated debt securities (gain of €1,032 million) and undated debt securities (gain of €465 million) as set out in the tables below:

Dated debt exchanges Description	Nominal amount prior to debt exchange	Nominal amount exchanged / repurchased Debt for equity offer	Cash offer	Call option*	Residual nominal amount	Average price (% of nominal amount exchanged)
€650 million Fixed / Floating Rate Subordinated Note due 2019	€202m	€178m	€5m	€19m	-	36%
€600 million Subordinated Floating Rate Notes 2017	€48m	€32m	€15m	-	€1m	39%
€750 million Floating Rate Subordinated Notes 2017	€91m	€87m	-	€4m	-	38%
US$600 million Floating Rate Subordinated Notes due 2018	US$185m	US$180m	US$1m	US$4m	-	39%
Stg£400 million Fixed / Floating Rate Subordinated Note due 2018	Stg£57m	Stg£57m	-	-	-	40%
Stg£450 million Fixed / Floating Rate Subordinated Notes 2020	Stg£272m	Stg£268m	Stg£2m	Stg£2m	-	40%
Stg£75 million 10 ¾% subordinated Note 2018	Stg£27m	Stg£25m	Stg£1m	Stg£1m	-	37%
€1,002 million Fixed Rate Subordinated Notes 2020	€747m	€530m	€11m	-	€206m	40%
Stg£197 million Fixed Rate Subordinated Notes 2020	Stg£87m	Stg£61m	Stg£24m	-	Stg£2m	41%
CAD$400 million Fixed / Floating Rate Subordinated Notes 2015	CAD$138m	CAD$38m	CAD$1m	-	CAD$99m	39%
CAD$145 million Fixed / Floating Rate Subordinated 2018	CAD$90m	CAD$39m	CAD$50.8m	-	CAD$0.2m	42%

* *The Group was granted the right to insert a call option (which it subsequently exercised) to compulsorily acquire €0.1 billion of debt securities for cash at 0.001% of their nominal value.*

The net gain before transaction costs set out in the table above amounted to €1,032 million (€1,025 million after taxation), being the difference between the fair value of the consideration of €625 million and the carrying value of the securities of €1,657 million.

9 Gain on liability management exercises (continued)

Undated debt exchanges Description	Nominal amount prior to debt exchange	Nominal amount exchanged / repurchased Debt for equity offer	Cash offer	Call option*	Residual nominal amount	Average price (% of nominal amount exchanged)
€600 million 7.40% Guaranteed step-up Callable Perpetual Preferred Securities	€253m	€108m	€113m	-	€32m	34%
Stg £350 million 6.25% Guaranteed Callable Perpetual Preferred Securities	Stg£40m	Stg£39m	Stg£1m	-	-	20%
€600 million Fixed Rate / Variable rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	€216m	€96m	€54m	€66m	-	11%
US$800 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	US$61m	US$55m	US$3m	US$3m	-	19%
US$400 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	US$20m	US$14m	US$2m	US$4m	-	14%
Stg£500 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	Stg£5m	Stg£4m	Stg£1m	-	-	18%
Stg£75 million 13.375% Perpetual Subordinated Bonds	Stg£75m	-	Stg£29m	-	Stg£46m	35%
US$150 million Floating Rate Note (FRN) (accounted for as preference equity**)	US$75m	US$65m	US$10m	-	-	37%

* *The Group was granted the right to insert a call option (which it subsequently exercised) to compulsorily acquire €0.1 billion of debt securities for cash at 0.001% of their nominal value.*

** *The difference of €40 million between the fair value of the consideration of €18 million and the carrying value of the notes of €58 million is shown as an increase in retained earnings and is included as part of the increase of €41 million in the Statement of Changes in Equity (see also page 221).*

The net gain before transaction costs set out in the table above amounted to €465 million (€465 million after taxation), being the difference between the fair value of the consideration of €131 million and the carrying value of the notes repurchased of €596 million.

9 Gain on liability management exercises (continued)

The following table summarises the results of the repurchase of certain residential mortgage-backed securities:

Repurchase of mortgage-backed securities during the year ended 31 December 2011 Description / Issuer	Nominal amount prior to repurchase	Nominal amount repurchased	Residual nominal amount	Average price (% of nominal amount repurchased)
Kildare Securities Limited mortgage-backed				
Floating Rate Notes December 2043:				
Class A2	US$474m	US$15m	US$459m	88%
Class A3	€1,062m	€260m	€802m	75%
Class B	€97m	€61m	€36m	51%
Class C	€91m	€60m	€31m	42%
Class D	€27m	€21m	€6m	33%
Brunel Residential Mortgage Securitisation No. 1 plc				
Mortgage-backed Floating Rate Notes January 2039:				
Class A4a	€723m	€125m	€598m	92%
Class A4b	Stg£743m	Stg£301m	Stg£442m	75%
Class A4c	US$1,111m	US$141m	US$970m	92%
Class B4a	€98m	€9m	€89m	77%
Class B4b	Stg£19m	Stg£12m	Stg£7m	75%
Class C4a	€156m	€28m	€128m	72%
Class C4b	Stg£23m	Stg£2m	Stg£21m	67%
Class C4c	US$23m	US$8m	US$15m	72%
Class D4a	€122m	€69m	€53m	66%
Class D4b	Stg£21m	Stg£9m	Stg£12m	65%
Class D4c	US$23m	US$21m	US$2m	64%
Bank of Ireland Mortgage Bank				
ACS 4% 5 July 2013	€2,100m	€8m	€2,092m	89%
ACS 3.25% 22 June 2015	€2,000m	€20m	€1,980m	77%

The net gain before transaction costs on the repurchase of these mortgage-backed securities amounted to €307 million (€268 million after taxation) being the difference between the fair value of the consideration of €872 million and the carrying value of the mortgage-backed securities of €1,179 million.

9 Gain on liability management exercises (continued)

Year ended 31 December 2010

During the year 31 December 2010 the Group undertook a range of liability management exercises on its subordinated liabilities as follows:

- 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;
- 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, this transaction did not give rise to a gain as the notes repurchased were measured at fair value through profit or loss; and
- a Debt for debt exchange relating to nine subordinated notes in December 2010.

The gains arising on these transactions are summarised below:

	Year ended 31 December 2010 €m
Debt for debt exchanges (Dated)	1,126
Debt for equity offer (Undated)	276
Gain on liability management exercises	**1,402**

The following tables summarise the results of the debt for debt exchanges and the debt for equity offer in the year ended 31 December 2010.

Dated securities Description	Total nominal amount exchanged during year	Average price (% of nominal amount exchanged)
€650 million Fixed / Floating Subordinated Note due 2019	€448m	65%
€600 million Subordinated Floating rate Notes 2017	€552m	67%
€750 million Floating Rate Subordinated Notes 2017	€657m	67%
€1,002 million Fixed Rate Subordinated Notes 2020	€255m	57%
Stg£400 million Fixed / Floating Rate Subordinated Notes 2018	Stg£343m	71%
Stg£450 million Fixed / Floating Rate Subordinated Notes 2020	Stg£178m	53%
Stg£75 million 10 ¾% Subordinated Note 2018	Stg£48m	58%
Stg£197 million Fixed Rate Subordinated Notes 2020	Stg£110m	57%
US$600 million Subordinated Floating Rate Notes due 2018	US$415m	61%
CAD$400 million Fixed / Floating Rate Subordinated Notes 2015	CAD$179m	81%

9 Gain on liability management exercises (continued)

The net gain after transaction costs amounted to €1,126 million (€1,103 million after taxation) being the difference between the 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.

Undated securities Description	Total nominal amount exchanged during year	Price (% of nominal amount exchanged)
€600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities	€223m	86%
Stg£350 million 6.25% Guaranteed Callable Perpetual Preferred Securities	Stg£6m	63%
€600 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	€134m	60%
US$800 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	US$339m	73%
US$400 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	US$180m	72%
Stg£500 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	Stg£32m	58%
US$150 million Floating Rate Note (FRN) (accounted for as preference equity*)	US$70m	58%

* *The difference of €24 million between the fair value of the consideration of €29 million and the carrying value of the notes of €53 million is shown as an increase in retained earnings and is included in the Statement of Changes in Equity (see page 177).*

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 difference between 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.

10 Other operating income

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Other insurance income	49	70
Other income	7	55
Movement in value of in force asset (note 60)	(19)	41
Transfer from available for sale reserve on asset disposal	(28)	15
Elimination of investment return on treasury stock held for the benefit of policyholders in the Life business (note 8)	1	10
Dividend income	2	8
Other operating income	**12**	**199**

11 Insurance contract liabilities and claims paid

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Surrenders	(795)	(597)
Death and critical illness	(148)	(108)
Annuities	(41)	(65)
Maturities	(1)	(3)
Other	(39)	(35)
Gross claims	**(1,024)**	**(808)**
Reinsurance	53	47
Net claims paid	**(971)**	**(761)**
Change in contract liabilities:		
Gross	151	(530)
Reinsurance	70	23
Net change in insurance contract liabilities	**221**	**(507)**
Net insurance contract liabilities and claims paid	**(750)**	**(1,268)**

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12 Other operating expenses

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Administrative expenses		
- Staff costs (see analysis below)	862	1,003
- Other administrative expenses	635	645
Depreciation		
- Intangible assets (note 34)	99	107
- Property, plant and equipment (note 36)	37	40
Reversal of impairment of intangible assets	(4)	(2)
Revaluation of property	15	10
Total other operating expenses	**1,644**	**1,803**
Staff costs are analysed as follows:		
Wages and salaries	692	748
Social security costs	72	76
Retirement benefit costs (defined benefit plans) (note 46)	88	174
Retirement benefit costs (defined contribution plans)	2	-
Share based payment schemes	-	(6)
Other	8	11
Staff costs	**862**	**1,003**

Retirement benefit costs (defined benefit plans) exclude a gain of €2 million (year ended 31 December 2010: a gain of €733 million) in relation to the impact of amendments to defined benefit pension schemes. This gain has been shown as a separate line item on the income statement and further details are set out in note 46.

Included in Other administrative expenses above is an amount of €69 million (year ended 31 December 2010: €65 million) in relation to operating lease payments.

Staff numbers

In the year ended 31 December 2011 the average number of staff (full time equivalents) was 13,671 (year ended 31 December 2010: 14,284) categorised as follows in line with the operating segments as stated in note 2.

	Year ended 31 December 2011	Year ended 31 December 2010
Retail Ireland	5,374	5,594
Bank of Ireland Life	1,073	1,016
Retail UK	2,236	2,505
Corporate and Treasury	925	1,342
Group Centre	4,063	3,827
Total	**13,671**	**14,284**

The decrease in staff numbers in Corporate and Treasury reflects the sales of BIAM and BoISS during the year ended 31 December 2011 and further details are set out in note 19.

The number of staff (full time equivalents) as at 31 December 2011 was 13,234 (31 December 2010: 14,235).

13 Auditors' remuneration (excluding VAT)

	Notes	RoI (i) €m	Overseas (ii) €m	Year ended 31 December 2011 Total €m	Year ended 31 December 2010 Total €m
Audit and assurance services					
Statutory audit		2.3	0.9	3.2	4.1
Assurance services					
- Assurance services relating to Capital Raising		1.8	-	1.8	0.8
- Other assurance services	(iii)	2.3	0.5	2.8	3.4
		6.4	**1.4**	**7.8**	**8.3**
Other services					
Taxation services		0.1	0.1	0.2	0.4
Other non-audit services	(iv)	-	0.3	0.3	-
Auditors' remuneration		**6.5**	**1.8**	**8.3**	**8.7**

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 PricewaterhouseCoopers 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; and
(iv) Other non-audit services consist primarily of fees for translation services and other assignments.

14 Impairment charges on financial assets (excluding assets sold to NAMA)

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Loans and advances to customers (note 31)	1,939	1,859
Available for sale financial assets (AFS) (note 26)	21	168
Impairment charges on financial assets (excluding assets sold to NAMA)	**1,960**	**2,027**

The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.

In the 2010 Annual Report, the amount disclosed in respect of impairment charges on financial assets (excluding assets sold or held for sale to NAMA) for the year ended 31 December 2010 was €2,055 million.

15 Impairment charges on assets sold to NAMA

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Impairment charges on assets sold to NAMA (note 29)	**44**	**257**

At 31 December 2011, the Group did not have any assets held for sale to NAMA (31 December 2010: €804 million, after impairment provisions of €75 million).

The analysis of the impairment charge for the year ended 31 December 2010 between loans and advances to customers and assets held for sale to NAMA has been re-presented on the basis of the loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010 to enhance comparability with no change to the total impairment charge.

In the 2010 Annual Report, the amount disclosed in respect of impairment charges on assets sold or held for sale to NAMA at 31 December 2010 was €229 million.

16 Gain / (loss) on sale of assets to NAMA including associated costs

The gain / (loss) on sale of assets to NAMA which reflects those assets that were sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010, is set out below:

Gain / (loss) on sale of assets to NAMA	€m	Year ended 31 December 2011 €m	€m	Year ended 31 December 2010 €m
Fair value of consideration[1]		246		5,046
Assets transferred				
- Loans sold to NAMA (nominal value)	(498)		(9,340)	
- Derivatives sold to NAMA (fair value)	-		(61)	
- Impairment provisions at date of sale	198	(300)	2,237	(7,164)
Other items[2]		(3)		(123)
		(57)		**(2,241)**
Adjustment to consideration in respect of assets transferred during 2010[3]		90		-
Gain / (loss) on sale of assets to NAMA		**33**		**(2,241)**

[1] The consideration consists of the fair value of NAMA senior bonds (representing 95% of the nominal consideration) and the fair value of NAMA subordinated bonds (representing 5% of the nominal consideration) (see note 27 and note 26).
[2] 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.
[3] As at 31 December 2010, the final NAMA due diligence process was still ongoing for €3.6 billion of assets transferred to NAMA. Given the uncertainty over the final consideration for these transferred assets, the Group was required to estimate the amount receivable from NAMA. The ultimate amount received from NAMA was greater than originally anticipated by €90 million.

During the year ended 31 December 2011, the Group sold €498 million of assets to NAMA (year ended 31 December 2010: €9,401 million) before impairment provisions at the date of sale of €198 million (year ended 31 December 2010: €2,237 million). The fair value of the consideration received for these assets amounted to €246 million (year ended 31 December 2010: €5,046 million). After taking account of other items and the adjustment to consideration in respect of assets transferred during 2010, the Group's gain on sale of assets to NAMA was €33 million (year ended 31 December 2010: a loss of €2,241 million).

At 31 December 2011, the Group did not have any assets held for sale to NAMA (31 December 2010: €804 million, after impairment provisions of €75 million). See note 29.

17 Loss on deleveraging of financial assets

The Group announced the deleveraging of financial assets with a carrying value of €8.6 billion during 2011 of which €7.6 billion had been completed and derecognised by 31 December 2011 with the remaining €1.0 billion of assets expected to settle in early 2012.

An analysis of the deleveraging completed during 2011 (which includes the sale of loan portfolios to third parties together with managed re-financing decisions taken by the Group) is set out below:

Year ended 31 December 2011	Consideration received (net of costs) €m	Carrying value of assets derecognised €m	Loss €m
Retail UK divison			
UK Investment Property loan portfolio	1,169	1,464	(295)
UK Mortgage loan portfolio	1,275	1,399	(124)
Corporate and Treasury division			
Project Finance loan portfolios	833	944	(111)
US Investment Property loan portfolio	803	805	(2)
Other international loans	2,916	2,949	(33)
Total	**6,996**	**7,561**	**(565)**

The assets of €1.0 billion which the Group has contracted to sell but where the sale had not completed by 31 December 2011 are reported as other assets classified as held for sale as at 31 December 2011 and further information is shown in note 30.

UK Investment Property loan portfolio
A loan portfolio and certain associated derivatives with a carrying value of €1.5 billion was sold to Kennedy Wilson and its institutional partners. The consideration for these loans was €1.2 billion, giving rise to a loss on disposal after transaction costs of €0.3 billion. The sale was completed in December 2011.

UK Mortgage loan portfolio
A loan portfolio with a carrying value of €1.4 billion was sold to The Mortgage Works (UK) plc, a wholly owned subsidiary of Nationwide Building Society. The consideration for these loans was €1.3 billion, giving rise to a loss on disposal after transaction costs of €0.1 billion. The sale was completed in December 2011.

Project Finance loan portfolios
During 2011, the Group agreed the sale of Project Finance loans with a total carrying value of €1.3 billion to GE Energy Financial Services, Sumitomo Mitsui Banking Corporation and other third parties. By 31 December 2011, €944 million of these sales had completed and the assets were derecognised. The consideration received for these loans was €833 million, giving rise to a loss on disposal after transaction costs of €111 million.

As a result, as at 31 December 2011, the Group had a remainder of €0.4 billion of loans that were contracted to sell. These loans are reported as other assets classified as held for sale at 31 December 2011 (see note 30).

US Investment Property loan portfolio
A loan portfolio with a carrying value of €0.8 billion was sold to Wells Fargo Bank N.A. for a consideration of €0.8 billion. The sale was completed during September 2011.

Other International loans
Other International loans with a carrying value of €2.9 billion were derecognised during 2011, principally through managed refinancing decisions taken by the Group.

Year ended 31 December 2010
The Group 2011 PCAR / PLAR requirements were set down during 2011, therefore there is no comparative information for the year ended 31 December 2010.

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

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
First Rate Exchange Services (note 33)	37	37
Property unit trust (note 33)	3	7
Associates	(1)	5
Share of results of associates and joint ventures (after tax)	**39**	**49**

19 Profit on disposal of business activities

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Corporate and Treasury division		
Bank of Ireland Asset Management (BIAM)	39	-
Bank of Ireland Securities Services (BoISS)	32	-
Paul Capital International LLC	-	-
Impairment of goodwill in Burdale	(45)	-
Retail Ireland division		
Foreign Currency Exchange (FCE) Corporation	8	-
Profit of disposal of business activities	**34**	**-**

Bank of Ireland Asset Management (BIAM)

In line with the commitments given in the EU Restructuring plan, on 22 October 2010 the Group announced the sale of BIAM to State Street Global Advisors for cash consideration of €57 million, subject to certain conditions. On 10 January 2011, all conditions of the sale were satisfied and the sale was completed, with a resulting profit of €39 million.

Bank of Ireland Securities Services (BoISS)

On 24 February 2011, the Group announced the sale of BoISS to Northern Trust Corporation for cash and deferred consideration. The fair value of the consideration was estimated to be €51 million and the sale was completed on 1 June 2011, with a resulting profit of €32 million.

Paul Capital International LLC

In line with the commitments given in the EU Restructuring plan, on 21 April 2011 the Group completed the sale of its 50% holding in Paul Capital International LLC to the firm's existing management team for consideration of €9 million. The profit was less than €1 million.

Impairment of goodwill in Burdale Financial Holdings Limited (Burdale)

The Group incurred a charge of €45 million, being the impairment of the goodwill in Burdale following the announcement on 19 December 2011 of the sale of this business to Wells Fargo International Banking Corporation. The sale completed on 1 February 2012, resulting in a loss of €6 million which will be included in the income statement for the year ended 31 December 2012.

Foreign Currency Exchange (FCE) Corporation

In line with the commitments given in the EU Restructuring plan, on 9 May 2011 the Group announced the sale of FCE Corporation to Wells Fargo Bank N.A. for consideration of €31 million. On 1 August 2011, all conditions were satisfied and the sale was completed with a resulting profit of €8 million.

20 Taxation

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Current tax		
Irish Corporation Tax		
- Current year	(25)	(21)
- Prior year	32	11
Double taxation relief	2	2
Foreign tax		
- Current year	(49)	(29)
- Prior year	7	(2)
	(33)	**(39)**
Deferred tax credit		
Origination and reversal of temporary differences (note 45)	263	380
Taxation credit	**230**	**341**

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 year ended 31 December 2011 and the year ended 31 December 2010 is as follows:

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Loss before tax multiplied by the standard rate of corporation tax in Ireland of 12.5% (2010: 12.5%)	24	119
Effects of:		
Gains arising on repurchase of subordinated liabilities	185	156
Foreign earnings subject to different rates of tax	84	51
Other adjustments for tax purposes	(4)	49
Previously unrecognised deferred tax assets	-	15
Non-deductible goodwill impairment	(13)	-
Share of results of associates and joint ventures shown post tax in the income statement	5	6
Elimination of investment return on treasury stock held for the benefit of policyholders	-	2
Impact of corporation tax rate change on deferred tax	(18)	(10)
Non-deductible expenses	(32)	(15)
Prior year adjustments	10	-
Bank of Ireland Life companies - different basis of accounting	(23)	(32)
Tax exempt profits on disposal of business activities	12	-
Taxation credit	**230**	**341**

The effective taxation rate for the year ended 31 December 2011 is a credit of 121%. The effective taxation rate for the year ended 31 December 2010 was a credit of 36%. Excluding the impact of the gain on liability management exercises, loss on disposal of loan books, 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', gain on disposal of business activities, gross-up for policyholder tax in the Life business, impact of changes in pension benefits, cost of restructuring programmes, investment return on treasury stock held for policyholders and impact of 'coupon stopper' on subordinated debt the effective taxation rate was 11% compared to a rate of 14% for the year ended 31 December 2010.

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20 Taxation (continued)

Tax effects relating to each component of other comprehensive income

	Year ended 31 December 2011			Year ended 31 December 2010		
	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	(8)	2	(6)	(18)	3	(15)
Cash flow hedge						
Changes in fair value	(1,034)	234	(800)	(205)	100	(105)
Transfer to income statement	1,380	(266)	1,114	520	(140)	380
Net change in cash flow hedge reserve	346	(32)	314	315	(40)	275
Available for sale						
Changes in fair value	68	(8)	60	(402)	48	(354)
Transfer to income statement						
- On asset disposal	28	(4)	24	(15)	2	(13)
- Impairment	21	(2)	19	168	(21)	147
Net change in reserve	117	(14)	103	(249)	29	(220)
Net actuarial (loss) / gain on defined benefit pension funds	(137)	20	(117)	465	(74)	391
Foreign exchange transaction gains	180	-	180	157	-	157
Other comprehensive income for the year	**498**	**(24)**	**474**	**670**	**(82)**	**588**

21 Loss per share

The calculation of basic loss per unit of €0.05 (2010: €0.10) ordinary stock is based on the profit / (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.

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Basic		
Profit / (loss) attributable to stockholders	45	(614)
Dividends on other equity interests	(7)	-
Dividend on 2009 Preference Stock	(188)	(231)
Repurchase of capital note (note 49)	41	24
Loss attributable to ordinary stockholders	**(109)**	**(821)**
Weighted average number of units of stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders	15,704	3,811
Basic loss per share (cent)[1]	**(0.7)**	**(21.5)**

[1] *Restated to reflect the bonus element of the Rights Issue which took place in July 2011.*

21 Loss per share (continued)

As set out in note 48, 19,078 million new units of €0.05 ordinary stock were issued in July 2011 at €0.10 per share on the basis of eighteen new units of ordinary stock for every five units held under the terms of the Rights Issue. The actual cum rights price on 11 July 2011, the last day of quotation cum rights, was €0.101 per unit of ordinary stock and the theoretical ex-rights price per unit of €0.05 ordinary stock was therefore €0.1002 per share. The comparative loss per share figures have been calculated by applying a factor of 1.007809 to the average number of units of ordinary stock in issue for the year ended 31 December 2010 in order to adjust for the bonus element of the Rights Issue.

Diluted

The diluted loss per share is based on the earnings / 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.

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Diluted		
Earnings / (loss) attributable to stockholders	45	(614)
Dividends on other equity interests	(7)	-
Dividend on 2009 Preference Stock	(188)	(231)
Repurchase of capital note (note 9)	41	24
Loss attributable to ordinary stockholders	**(109)**	**(821)**
Weighted average number of units of stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders	15,704	3,811
Effect of all dilutive potential ordinary stock	-	-
	15,704	3,811
Diluted loss per share (cent)[1]	**(0.7)**	**(21.5)**

[1] *Restated to reflect the bonus element of the Rights Issue which took place in July 2011.*

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 year ended 31 December 2011 has been deducted in the calculation of basic and diluted loss per share.

For the year ended 31 December 2011 and the year ended 31 December 2010 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 2011 there were stock options over 3 million units of ordinary units of stock (31 December 2010: 9 million units of potential ordinary stock) which could potentially have a dilutive impact in the future, but which were anti-dilutive in the year ended 31 December 2011 and the year ended 31 December 2010 respectively.

22 Trading securities

	31 December 2011 €m	31 December 2010 €m
Debt securities — listed	6	151
Trading securities	**6**	**151**

The Group holds a portfolio of bonds for trading purposes with an average rating of A (31 December 2010: BBB+).

23 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 on pages 111 to 114. The notional amounts of certain types of derivatives 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 give rise to assets or liabilities as a result of fluctuations in market rates or prices relative to their terms.

The notional amounts and fair values of derivative instruments held by the Group are set out in the following tables:

31 December 2011	Contract / notional amount €m	Fair Values Assets €m	Fair Values Liabilities €m
Derivatives held for trading			
Foreign exchange derivatives			
Currency forwards	10,417	93	166
Currency swaps	768	36	52
Over the counter currency options	371	3	3
Total foreign exchange derivatives held for trading	**11,556**	**132**	**221**
Interest rate derivatives			
Interest rate swaps	177,753	2,837	2,838
Cross currency interest rate swaps	12,586	872	598
Forward rate agreements	3,035	3	2
Over the counter interest rate options	5,441	98	91
Total interest rate derivatives held for trading	**198,815**	**3,810**	**3,529**
Equity contracts and credit derivatives			
Equity index-linked contracts held	5,125	130	83
Equity conversion feature in Contingent Capital note	1,000	84	-
Credit derivatives	378	2	2
Total derivative assets / liabilities held for trading	**216,874**	**4,158**	**3,835**
Derivatives held for hedging			
Derivatives designated as fair value hedges			
Interest rate swaps	22,661	672	535
Cross currency interest rate swaps	732	93	3
Total designated as fair value hedges	**23,393**	**765**	**538**
Derivatives designated as cash flow hedges			
Interest rate swaps	80,798	1,369	1,325
Cross currency interest rate swaps	15,772	69	320
Currency forwards	19	1	-
Total designated as cash flow hedges	**96,589**	**1,439**	**1,645**
Total derivative assets / liabilities held for hedging	**119,982**	**2,204**	**2,183**
Total derivative assets / liabilities	**336,856**	**6,362**	**6,018**

23 Derivative financial instruments (continued)

The fair values and notional amounts of derivative instruments held are set out in the following tables:

31 December 2010	Contract / notional amount €m	Fair Values Assets €m	Fair Values Liabilities €m
Derivatives held for trading			
Foreign exchange derivatives			
Currency forwards	25,564	386	242
Currency swaps	1,051	48	57
Over the counter currency options	1,210	8	8
Total foreign exchange derivatives held for trading	27,825	442	307
Interest rate derivatives			
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
Total interest rate derivatives held for trading	267,365	3,175	3,043
Equity contracts and credit derivatives			
Equity index linked contracts held	5,334	134	107
Credit derivatives	420	-	-
Total derivative assets / liabilities held for trading	300,944	3,751	3,457
Derivatives held for hedging			
Derivatives designated as fair value hedges			
Interest rate swaps	22,388	701	556
Cross currency interest rate swaps	1,577	223	1
Total designated as fair value hedges	23,965	924	557
Derivatives designated as cash flow hedges			
Interest rate swaps	76,141	1,207	1,431
Currency forwards	23	1	-
Currency swaps	1,836	492	-
Total designated as cash flow hedges	78,000	1,700	1,431
Total derivative assets / liabilities held for hedging	101,965	2,624	1,988
Total derivative assets / liabilities	402,909	6,375	5,445

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 114, 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 2011 (31 December 2010: €6.4 billion), €3.9 billion (31 December 2010: €3.5 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 €2.2 billion (31 December 2010: €1.8 billion) placed with derivative counterparties in respect of a net derivative liability position of €2.1 billion (31 December 2010: €2.1 billion).

Net derivative assets of €2.5 billion (31 December 2010: €2.9 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 2011 cash collateral of €1.1 billion (31 December 2010: €0.7 billion) was held against these assets and is reported within Deposits from banks (note 38).

23 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 floating rate assets and liabilities and from foreign currency assets. Movements in the cash flow hedge reserve are shown in the statement of changes in equity (page 177).

The years in which the hedged cash flows are expected to occur are shown in the table below.

31 December 2011	**1 year €m**	**1 to 2 years €m**	**2 to 5 years €m**	**5 years €m**	**Total €m**
Forecast receivable cash flows	12,479	3,698	876	611	17,664
Forecast payable cash flows	(220)	(199)	(412)	(712)	(1,543)

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)

The hedged cash flows are expected to impact the income statement in the following years, excluding any hedge accounting adjustments that may be applied:

31 December 2011	**1 year €m**	**1 to 2 years €m**	**2 to 5 years €m**	**5 years €m**	**Total €m**
Forecast receivable cash flows	16,252	285	567	560	17,664
Forecast payable cash flows	(278)	(176)	(398)	(691)	(1,543)

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)

The increase in hedged cash flows during the year ended 31 December 2011 is due to the designation in cash flow hedge relationships of cross currency swaps entered into by the Group to hedge foreign currency assets.

During the year ended 31 December 2011 and 31 December 2010, there were no forecast transactions to which the Group has applied hedge accounting which were no longer expected to occur.

24 Other financial assets at fair value through profit or loss

	31 December 2011 €m	31 December 2010 €m
Equity securities	5,934	7,186
Government bonds	1,812	1,776
Unit trusts	954	786
Debt securities	165	202
Loans and advances	49	95
Other financial assets at fair value through profit or loss	**8,914**	**10,045**

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying asset is held by the Group, but the inherent risks and rewards in the assets are 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 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 2011, such assets amounted to €7,881 million (31 December 2010: €9,074 million)

25 Loans and advances to banks

	31 December 2011 €m	31 December 2010 €m
Placements with other banks	6,088	4,062
Mandatory deposits with central banks	1,392	3,102
Funds placed with central banks	162	216
Securities purchased with agreement to resell	417	79
	8,059	**7,459**
Less allowance for impairment on loans and advances to banks	-	(1)
Loans and advances to banks	**8,059**	**7,458**

Placements with other banks includes cash collateral of €2.2 billion (31 December 2010: €1.8 billion) placed with derivative counterparties in relation to net derivative liability positions (note 23).

For the purpose of disclosure of credit risk exposures, loans and advances to banks are included within other financial instruments of €33.9 billion (31 December 2010: €38.6 billion) in the Risk Management Report on page 80.

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 2011 was €417 million (31 December 2010: €79 million).

An amount of €1,012 million included within mandatory deposits with central banks relates to collateral in respect of notes in circulation (31 December 2010: €967 million).

26 Available for sale financial assets

	31 December 2011 €m	31 December 2010 €m
Government bonds	4,568	3,736
Other debt securities		
- listed	5,326	11,197
- unlisted	315	593
Equity securities		
- listed	1	1
- unlisted	52	49
Available for sale financial assets	**10,262**	**15,576**

At 31 December 2011, available for sale financial assets of €7.8 billion (31 December 2010: €12.9 billion) had been pledged to third parties in sale and repurchase agreements. The Group has not derecognised any securities delivered in repurchase agreements.

Included within unlisted debt securities are NAMA subordinated bonds with a fair value of €113 million (31 December 2010: €98 million) and a nominal value of €280 million (31 December 2010: €271 million). 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 27). The subordinated bonds are not guaranteed by the State, they are not marketable and the payment of interest and repayment of capital is dependent on the performance of NAMA. An impairment charge of €70 million was incurred on the NAMA subordinated bonds during the year ended 31 December 2010.

The movement on available for sale financial assets is analysed as follows:

	31 December 2011 €m	31 December 2010 €m
At beginning of year	15,576	20,940
Revaluation, exchange and other adjustments	286	(105)
Additions	21,532	8,274
Sales	(3,152)	(4,328)
Redemptions	(24,008)	(9,047)
Amortisation	49	10
Impairment charge (note 14)	(21)	(168)
At end of year	**10,262**	**15,576**

During the year 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 were no longer considered to be traded in an active market. At the date of this reclassification, the effective interest rate on reclassified assets ranged from 0.73% to 7.12% with expected recoverable cash flows of €753 million. At the date of this reclassification, the Group had the intention and ability to hold these assets for the foreseeable future or until maturity. No subsequent reclassifications have been made up to 31 December 2011.

	31 December 2011		31 December 2010	
	Carrying amount €m	Fair Value €m	Carrying amount €m	Fair Value €m
AFS financial assets reclassified to loans and advances to customers	304	366	432	454

Interest income of €75 million (year ended 31 December 2010: €92 million) and an impairment charge of €5 million (year ended 31 December 2010: €24 million) have been recognised in the income statement for the year ended 31 December 2011 in relation to these assets. If the assets had not been reclassified a fair value gain of €5 million (year ended 31 December 2010: €36 million) would have been recognised in other comprehensive income and the impairment charge would have been €5 million (year ended 31 December 2010: €24 million).

27 NAMA senior bonds

	31 December 2011 €m	31 December 2010 €m
NAMA senior bonds	**5,016**	**5,075**

The Group received as consideration for the assets transferred to NAMA a combination of Government guaranteed bonds (NAMA senior bonds) issued by NAMA (95% of the nominal consideration) and NAMA subordinated bonds issued by NAMA (5% of the nominal consideration).

The interest rate on the NAMA senior bonds bonds is six month Euribor, set semi-annually on 1 March and 1 September. The contractual maturity of these bonds is 1 March 2012. NAMA may, with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

During the year ended 31 December 2011, the Group received bonds with a nominal value of €232 million as consideration for assets transferred to NAMA and bonds with a nominal value of €221 million were redeemed.

At 31 December 2011 and 31 December 2010, all NAMA senior bonds had been pledged to Monetary Authorities in sale and repurchase agreements.

28 Loans and advances to customers

	31 December 2011 €m	31 December 2010 €m
Loans and advances to customers	104,006	117,510
Finance leases and hire purchase receivables (see below)	1,652	1,922
	105,658	119,432
Less allowance for impairment charges on loans and advances to customers (note 31)	(6,344)	(4,975)
Loans and advances to customers	**99,314**	**114,457**
Amounts include		
Due from joint ventures	84	105

The net reduction in loans and advances to customers reflects deleveraging (note 17), impairment charges (note 14), net redemptions and the impact of foreign exchange movements.

28 Loans and advances to customers (continued)

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 2011 €m	31 December 2010 €m
Gross investment in finance leases:		
Not later than 1 year	809	932
Later than 1 year and not later than 5 years	909	1,067
Later than 5 years	6	20
	1,724	2,019
Unearned future finance income on finance leases	(72)	(97)
Net investment in finance leases	**1,652**	**1,922**
The net investment in finance leases is analysed as follows:		
Not later than 1 year	798	913
Later than 1 year and not later than 5 years	850	993
Later than 5 years	4	16
	1,652	**1,922**

The Group's material leasing arrangements include the provision of instalment credit and leasing finance for both consumer and business customers.

At 31 December 2011, the accumulated allowance for uncollectable minimum lease payments receivable was €61 million (31 December 2010: €65 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.

Further details on these SPEs, including details of entities that have issued liabilities which continue to be held by the Group and which are capable of being pledged to Monetary Authorities, are set out in note 59.

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29 Assets held for sale to NAMA

During the year ended 31 December 2011, the Group completed the transfer of the remaining Eligible Bank Assets to NAMA, such that at 31 December 2011 the Group did not have any assets classified as held for sale to NAMA.

The movement on assets held for sale to NAMA is analysed as follows:

31 December 2011 **Movements in assets held for sale to NAMA**	**Assets Gross €m**	**Impairment Provision €m**	**Carrying Value €m**
Opening balance at 1 January 2011			
Loans held for sale (including accrued interest of €4 million)	872	(75)	797
Derivatives held for sale	7	-	7
	879	**(75)**	**804**
Movements during the year			
Sale of assets to NAMA	(498)	198	(300)
Changes in eligibility and other items	(381)	(79)	(460)
Impairment charges during the year (note 15)	-	(44)	(44)
Closing balance at 31 December 2011	**-**	**-**	**-**

31 December 2010 Movements in assets held for sale to NAMA	Assets Gross €m	Impairment Provision €m	Carrying Value €m
Opening balance at 1 January 2010			
Loans held for sale (including accrued interest of €27 million)	12,266	(2,778)	9,488
Derivatives held for sale	93	-	93
	12,359	(2,778)	9,581
Movements during the year			
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)
Closing balance at 31 December 2010	879	(75)	804
Of which			
Loans held for sale (including accrued interest of €4 million)	872	(75)	797
Derivatives held for sale	7	-	7
Closing balance at 31 December 2010	879	(75)	804

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.

During the year ended 31 December 2011, the Group transferred €498 million of assets (before impairment provisions of €198 million) to NAMA (year ended 31 December 2010: €9,401 million of assets (before impairment provisions of €2,237 million)).

29 Assets held for sale to NAMA (continued)

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 with the Bank participating in it from January 2010.

NAMA was given the power to acquire from Participating Institutions, Eligible Bank Assets, i.e. land and development loans and certain associated loans. The geographic distribution of the loans related to exposures both within and outside Ireland. The Eligible Bank Assets included interest rate derivative contracts sold to borrowers by Participating Institutions that related to hedging the interest rate exposure on the loans being acquired.

In acquiring such assets, NAMA applied a valuation methodology which took 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 varied from financial institution to financial institution, each loan was valued individually. As a result the aggregate discount applied to gross loan values in determining the consideration paid by NAMA varied from financial institution to financial institution. Participating Institutions were required to accept the valuations set by NAMA, subject only to certain limited rights of objection.

The assets and liabilities were derecognised when substantially all of the risks and rewards were transferred to NAMA, which was the date when ownership of, or the beneficial interest in, the assets was legally transferred to NAMA. Up until the date of derecognition, loans and advances continued to be measured at amortised cost less any incurred impairment provisions and derivatives held for sale to NAMA were measured at fair value through profit or loss.

The Group incurred a loss on disposal of the assets to NAMA arising primarily from the difference between the fair value of the consideration received and the carrying value of the assets disposed of.

The consideration received from NAMA was measured at fair value at initial recognition.

As at 31 December 2010, the Group had €804 million of assets held for sale to NAMA as set out below:

Assets held for sale to NAMA	31 December 2010 €m
Land and development loans	153
Associated loans (primarily investment loans)	715
	868
Impairment provisions	(75)
	793
Derivatives	7
Accrued interest	4
Total assets held for sale to NAMA	804

Analysed by operating segment	
Retail Ireland	5
Retail UK	618
Corporate and Treasury	181
Total assets held for sale to NAMA	804

30 Other assets and liabilities classified as held for sale

Assets classified as held for sale	31 December 2011 €m	31 December 2010 €m
Project Finance Loan Portfolios	998	-
UK Mortgage Loan Portfolio	802	-
Assets of Burdale	646	-
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 International LLC	-	10
Total	**2,446**	**119**

Liabilities classified as held for sale	31 December 2011 €m	31 December 2010 €m
Liabilities of Burdale	13	-
Liabilities of BIAM	-	29
Liabilities of FCE Corporation	-	23
Total	**13**	**52**

Following on from the 2011 PLAR, at 31 December 2011 the Group considered that it was highly probable that the following loan portfolios totalling €2.4 billion (of which €1.0 billion were contracted to sell as at 31 December 2011) would be disposed of within twelve months and they are classified as assets held for sale:

- The Project Finance business (excluding its Irish business), forming part of the Corporate and Treasury division, with remaining assets consisting of loans and advances to customers of €1 billion of which €0.4 billion was contracted in 2011 and is expected to complete in early 2012;
- UK Mortgage Loan Portfolio forming part of the Retail UK division, consisting of loans and advances to customers of €0.8 billion; and
- Burdale, an asset-based lending business forming part of the Corporate and Treasury division, with net assets consisting primarily of loans and advances to customers of €0.6 billion. The sale of Burdale was agreed in December 2011 and completed in February 2012 (note 62).

The loan portfolios continue to be measured on the same basis as prior to their classification as assets held for sale. In particular, loans and advances to customers continue to be measured at amortised cost less any incurred impairment losses. Associated derivatives continue to be measured at fair value through profit or loss.

The Group expects to incur a loss on disposal of these loan portfolios.

31 Impairment provisions

The Group's loan portfolios and related impairment provisions at 31 December 2011 are classified as follows:

31 December 2011	Assets Gross €m	Impairment provision €m	Carrying value €m
Loans and advances to customers (note 28)	105,658	(6,344)	99,314
Loans classified as held for sale	2,444	(21)	2,423
Total	**108,102**	**(6,365)**	**101,737**

The following tables show the movement in the impairment provisions during the year ended 31 December 2011 and 31 December 2010.

31 December 2011	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total impairment provisions €m
Impaired financial assets	1,474	4,043	7,623	338	13,478
Provision at 1 January 2011	725	1,475	2,529	321	5,050
Exchange adjustments	4	11	32	1	48
Charge against income statement	470	497	936	80	1,983
- Loans and advances to customers	*469*	*497*	*893*	*80*	*1,939*
- Assets sold to NAMA	*1*	*-*	*43*	*-*	*44*
Recoveries	(2)	1	(2)	10	7
Amounts written off	(49)	(254)	(166)	(147)	(616)
Release of provision on sale of assets to NAMA	(4)	-	(194)	-	(198)
Release of provision on loan book disposals	-	(25)	15	-	(10)
Other movements	15	18	55	13	101
Provision at 31 December 2011	**1,159**	**1,723**	**3,205**	**278**	**6,365**

The provision at 31 December 2011 is analysed as follows:

Loans and advances to customers	1,159	1,702	3,205	278	6,344
Loans classified as held for sale	-	21	-	-	21
Provision at 31 December 2011	**1,159**	**1,723**	**3,205**	**278**	**6,365**

31 Impairment provisions (continued)

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
Charge against income statement	417	623	949	127	2,116
- Loans and advances to customers	*404*	*609*	*719*	*127*	*1,859*
- Assets sold to NAMA	*13*	*14*	*230*	*-*	*257*
Recoveries	1	2	(2)	4	5
Amounts written off	(44)	(287)	(201)	(202)	(734)
Release of provision on sale of assets to NAMA	(20)	(22)	(2,195)	-	(2,237)
Other movements	8	12	65	11	96
Provision at 31 December 2010	725	1,475	2,529	321	5,050

The provision at 31 December 2010 is analysed as follows:

Loans and advances to customers	725	1,475	2,454	321	4,975
Loans held for sale to NAMA	-	-	75	-	75
Provision at 31 December 2010	725	1,475	2,529	321	5,050

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.

32 Interest in associates

	31 December 2011 €m	31 December 2010 €m
At beginning of year	26	23
Fair value and other movements	(3)	5
Increase in investments	8	5
Decrease in investments	-	(7)
At end of year	**31**	**26**

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.

33 Interest in joint ventures

	31 December 2011 €m	31 December 2010 €m
At beginning of year	199	194
Exchange adjustments	6	6
Share of results after tax (note 18)	40	44
- First Rate Exchange Services	*37*	*37*
- Property unit trust	*3*	*7*
Dividends received	(52)	(35)
Reclassified to other assets held for sale - Paul Capital International LLC	-	(10)
Reclassification	52	-
- From investment properties	44	-
- From other financial assets at fair value through profit or loss	8	-
At end of year	**245**	**199**

The joint ventures are First Rate Exchange Services Holdings Limited, Enterprise 2000 Fund and a property unit trust.

34 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
Cost					
At 1 January 2011	**44**	**182**	**833**	**150**	**1,165**
Exchange adjustments	(1)	1	5	4	10
Reclassifications	(43)	-	4	-	4
Additions	-	-	66	6	72
Disposals / write-offs	-	(12)	(3)	-	(15)
At 31 December 2011	**-**	**171**	**905**	**160**	**1,236**
Accumulated amortisation					
At 1 January 2011	**-**	**(148)**	**(545)**	**(64)**	**(757)**
Exchange adjustments	-	(1)	(3)	(2)	(6)
Reclassifications	-	-	-	-	-
Disposals / write-offs	-	12	3	-	15
Reversal of impairment (note 12)	-	-	-	4	4
Charge for the year (note 12)	-	(10)	(80)	(9)	(99)
At 31 December 2011	**-**	**(147)**	**(625)**	**(71)**	**(843)**
Net Book Value at 31 December 2011	**-**	**24**	**280**	**89**	**393**

Burdale
At 1 January 2011, all goodwill on the Group's balance sheet related to Burdale. This goodwill was reclassified to other assets held for sale during the year ended 31 December 2011 as Burdale met the criteria to be classified as held for sale during the year.

Goodwill relating to disposal groups classified as held for sale is measured as set out in the Group's accounting policy on other assets and liabilities classifed as held for sale, on page 198. The disposal group is measured at the lower of its carrying amounts or fair value less costs to sell.

The Group incurred a charge of €45 million, being the impairment in full of the Burdale goodwill, following the announcement of the sale of Burdale on 19 December 2011 (see notes 19 and 30).

Impairment review - other intangible assets
Other intangible assets are reviewed if events or circumstances indicate that impairment may have occurred, by comparing the carrying value of the intangible asset 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.

The calculation of the recoverable amounts for each cash generating unit 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 performanace.

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 other intangibles are sensitive to changes in cash flow forecasts, which 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.

34 Intangible assets (continued)

	Goodwill €m	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total intangible assets - other €m
Cost					
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)
At 31 December 2010	44	182	833	150	1,165
Accumulated amortisation					
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 (note 12)	-	-	-	2	2
Charge for the year (note 12)	-	(11)	(85)	(11)	(107)
At 31 December 2010	-	(148)	(545)	(64)	(757)
Net Book Value at 31 December 2010	44	34	288	86	408

During the year ended 31 December 2010, Foreign Currency Exchange Corporation (FCE Corporation) was reclassified to other assets classified as held for sale (note 30).

No impairment was identified in the year ended 31 December 2010 in relation to Burdale.

35 Investment properties

	31 December 2011 €m	31 December 2010 €m
At beginning of year	1,304	1,265
Exchange adjustment	7	11
Revaluation	(10)	49
Reclassifications	(44)	(14)
Disposals	(53)	(7)
At end of year	**1,204**	**1,304**

Of the €1,204 million (31 December 2010: €1,304 million) €875 million (31 December 2010: €980 million) is held on behalf of Bank of Ireland 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 downward revaluation in the current year is primarily driven by a decrease in the fair value of Irish and international investment property.

Rental income from investment property amounted to €94 million for the year ended 31 December 2011 (year ended 31 December 2010: €97 million). Expenses directly attributable to investment property generating rental income amounted to €18 million for the year ended 31 December 2011 (year ended 31 December 2010: €18 million). There were no expenses directly attributable to investment property not generating rental income for the year ended 31 December 2011 or the year ended 31 December 2010.

36 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
Cost or valuation						
At 1 January 2011	177	151	543	7	18	896
Exchange adjustments	1	1	3	-	-	5
Additions	-	1	4	3	23	31
Disposals	(4)	(3)	(35)	(5)	-	(47)
Revaluation						
- Recognised in the income statement	(15)	-	-	-	-	(15)
- Recognised in other comprehensive income	(8)	-	-	-	-	(8)
Reclassifications	-	14	7	-	(25)	(4)
At 31 December 2011	**151**	**164**	**522**	**5**	**16**	**858**
Accumulated depreciation						
At 1 January 2011	-	(83)	(434)	(7)	-	(524)
Exchange adjustments	-	(1)	(2)	-	-	(3)
Disposals	-	3	34	5	-	42
Reclassifications	-	(2)	2	-	-	-
Charge for the year (note 12)	-	(12)	(24)	(1)	-	(37)
At 31 December 2011	**-**	**(95)**	**(424)**	**(3)**	**-**	**(522)**
Net book value at 31 December 2011	**151**	**69**	**98**	**2**	**16**	**336**

36 Property, plant and equipment (continued)

Property, plant and equipment at 31 December 2011 held at fair value was €151 million (31 December 2010: €177 million). The historical cost of property, plant and equipment held at fair value at 31 December 2011 was €92 million (31 December 2010: €91 million). The net book value of property, plant and equipment at 31 December 2011 held at cost less accumulated depreciation and impairment amounted to €185 million (31 December 2010: €195 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
Cost or valuation						
At 1 January 2010	207	148	642	7	11	1,015
Exchange adjustments	-	1	5	-	-	6
Additions	-	4	15	-	22	41
Disposals	(2)	(8)	(126)	-	-	(136)
Revaluation						
- Recognised in the income statement	(10)	-	-	-	-	(10)
- Recognised in other comprehensive income	(18)	-	-	-	-	(18)
Reclassifications	-	6	7	-	(15)	(2)
At 31 December 2010	177	151	543	7	18	896
Accumulated depreciation						
At 1 January 2010	-	(76)	(528)	(7)	-	(611)
Exchange adjustments	-	-	(1)	-	-	(1)
Disposals	-	6	122	-	-	128
Charge for the year (note 12)	-	(13)	(27)	-	-	(40)
At 31 December 2010	-	(83)	(434)	(7)	-	(524)
Net book value at 31 December 2010	177	68	109	-	18	372

36 Property, plant and equipment (continued)

Property

A revaluation of Group property was carried out as at 31 December 2011. All freehold and long leasehold (50 years or more unexpired) commercial properties were valued by Lisney 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 2011 €m	31 December 2010 €m
Future capital expenditure:		
- contracted but not provided for in the financial statements	23	32
- authorised by the Directors but not contracted	54	40

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 2011 €m	**Receivable 31 December 2011 €m**	Payable 31 December 2010 €m	Receivable 31 December 2010 €m
Not later than 1 year	70	4	69	4
Later than 1 year and not later than 5 years	233	6	214	8
Later than 5 years	428	1	416	1

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 €10 million in relation to sub-lease rental (year ended 31 December 2010: €12 million).

36 Property, plant and equipment (continued)

Finance leases

The Group leases computer equipment under finance lease agreements. The leases range from 1 to 5 years, contain no material contingent rents or restrictions imposed by lease agreements and contain standard terms of renewal.

	At 31 December 2011			At 31 December 2010		
	Total minimum future payments €m	**Future finance charges €m**	**Present value of finance lease commitments €m**	Total minimum future payments €m	Future finance charges €m	Present value of finance lease commitments €m
Not later than 1 year	2	(1)	1	-	-	-
Later than 1 year not later than 5 years	2	(1)	1	-	-	-
Later than 5 years	-	-	-	-	-	-

The net carrying amount of the assets held under finance leases at 31 December 2011 was €2 million (31 December 2010: €nil).

37 Other assets

	31 December 2011 €m	31 December 2010 €m
Reinsurance asset	708	638
Value in force of life assurance business (note 60)	519	538
Interest receivable	525	541
Sundry and other debtors	352	396
Accounts receivable and prepayments	166	178
Other assets	**2,270**	**2,291**
Other assets are analysed as follows:		
Within 1 year	974	1,115
After 1 year	1,296	1,176
	2,270	**2,291**
The movement in the reinsurance asset is noted below:		
At beginning of year	638	615
New business	120	119
Changes in business	(50)	(96)
At the end of the year	**708**	**638**

38 Deposits from banks

	31 December 2011 €m	31 December 2010 €m
Deposits from banks	1,817	4,685
Securities sold under agreement to repurchase	29,585	35,978
Other bank borrowings	132	412
Deposits from banks	**31,534**	**41,075**

Deposits from banks includes cash collateral of €1.1 billion (31 December 2010: €0.7 billion) received from derivative counterparties in relation to net derivative asset positions (note 23).

The Group has reduced its usage of liquidity facilities provided by Monetary Authorities to €22 billion (net) (31 December 2010: €23 billion (net)) and reduced exceptional liquidity assistance provided by the Central Bank of Ireland to €nil (31 December 2010: €8 billion). €15 billion (31 December 2010: €31 billion) rolls over on a short term basis (up to three months).

39 Customer accounts

	31 December 2011 €m	31 December 2010 €m
Term deposits and other products	39,379	33,066
Demand deposits	16,397	16,541
Current accounts	14,730	15,836
Customer accounts	**70,506**	**65,443**
Amounts include		
Due to associates and joint ventures	26	57

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. An analysis of the contractual maturity profile of customer accounts is set out in note 51.

At 31 December 2011, the Group's largest 20 customer deposits amounted to 2% (31 December 2010: 4%) of customer accounts. Information on the contractual maturities of customer accounts is set out on page 104 in the Risk Management Report.

At 31 December 2010, current accounts of €0.8 billion were presented net against related loans and advances to customers in accordance with IAS 32. At 31 December 2011, these balances no longer meet the criteria for net presentation and accordingly are presented gross.

Term deposits and other products include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in note 51.

40 Debt securities in issue

	31 December 2011 €m	31 December 2010 €m
Bonds and medium term notes	16,676	21,081
Other debt securities in issue	2,448	7,612
Debt securities in issue	**19,124**	**28,693**

41 Liabilities to customers under investment and insurance contracts

Investment contract liabilities	31 December 2011 €m	31 December 2010 €m
Liabilities to customers under investment contracts, at fair value	4,954	5,271

The movement in gross life insurance contract liabilities can be analysed as follows:

Insurance contract liabilities	31 December 2011 €m	31 December 2010 €m
At beginning of year	7,188	6,658
New business	894	996
Changes in existing business	(1,045)	(466)
At end of year	**7,037**	**7,188**

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 guidelines within 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.

41 Liabilities to customers under investment and insurance contracts (continued)

Options and guarantees
The company 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 is 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 2011 and 31 December 2010.

	31 December 2011 €m	31 December 2010 €m
Minimum regulatory solvency margin	176	170
Shareholder equity held for life business	358	351

42 Subordinated liabilities

	Notes	31 December 2011 €m	31 December 2010 €m
Undated loan capital			
Bank of Ireland UK Holdings plc			
€600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities	a, b	32	255
Bank of Ireland			
Stg£75 million 13$^{3}/_{8}$% Perpetual Subordinated Bonds	c	91	144
Bristol & West plc			
Stg£32.6 million 8$^{1}/_{8}$% Non-Cumulative Preference Shares	d	39	38
Bank of Ireland UK Holdings plc			
Stg£350 million 6.25% Guaranteed Callable Perpetual Preferred Securities	f, g	-	48
BoI Capital Funding (No 1) LP			
€600 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	h, i	-	213
BoI Capital Funding (No 2) LP			
US$800 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	i, j	-	50
BoI Capital Funding (No 3) LP			
US$400 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	i, k	-	15
BoI Capital Funding (No 4) LP			
Stg£500 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	i, l	-	6
		162	**769**
Dated loan capital			
€600 million Subordinated Floating Rate Notes 2017		1	48
€750 million Floating Rate Subordinated Notes 2017		-	93
Stg£400 million Fixed / Floating Rate Subordinated Notes 2018		-	67
US$600 million Subordinated Floating Rate Notes due 2018		-	138
Stg£75 million 10¾% Subordinated Bonds 2018		-	37
€650 million Fixed / Floating Rate Subordinated Notes 2019		-	215
Stg£450 million Dated Callable Step-up Fixed / Floating Rate Subordinated Notes 2020		-	354
€1,002 million 10% Fixed Rate Subordinated Notes 2020		225	757
Stg£197 million 10% Fixed Rate Subordinated Notes 2020		2	105
CAD$400 million Fixed / Floating Rate Subordinated Notes 2015		27	83
CAD$145 million Fixed / Floating Rate Subordinated Notes 2018		-	109
€1,000 million 10% Convertible Contingent Capital Note 2016	e	1,009	-
		1,264	**2,006**
		1,426	**2,775**

42 Subordinated liabilities (continued)

Subordinated liabilities in issue at 31 December 2011

Undated loan capital

The principal terms and conditions of the subordinated liabilities which were in issue by the Group at 31 December 2011 are set out below.

(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 three 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 13 $^{3}/_{8}$% Perpetual Subordinated Bonds which have a nominal value of Stg£75 million (current outstanding nominal balance of Stg£46 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.

(d) 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 258 provides a description of the dated loan capital, including:

- the currency of the issue;
- if the issue is fixed, floating or a combination of both; and
- maturity.

All of the dated notes in issue at 31 December 2011 with the exception of the Convertible Contingent Capital Note 2016 were issued under the Bank's Euro Note Programme.

42 Subordinated liabilities (continued)

(e) Convertible Contingent Capital Note 2016 (Included within Dated loan capital)
During the year ended 31 December 2011, the Group issued a Contingent Capital Note to the State to satisfy the requirements of the 2011 PCAR.

The note has a term of five years and an annual coupon of 10%, which can be increased to a maximum coupon of 18% if the State sells the note to a third party. If the Core tier 1 capital ratio of the Group (as calculated under the terms of the instrument) falls below 8.25%, the note automatically converts to units of ordinary stock. The conversion price at which the note would convert is the volume-weighted average price (VWAP) of the ordinary stock over the 30 days prior to conversion, subject to a minimum conversion price of €0.05 per unit.

The Group measured the Contingent Capital note at fair value at initial recognition. As the note does not trade in an active market, and as it has been issued to a related party, the fair value was established using a valuation technique. The key inputs into the valuation technique were the expected interest payments over the life of the note, the estimated market yield for the instrument at the date of issuance and the estimated market yield for a subordinated liability without an equity conversion feature. The fair value of the note at initial recognition was €869 million.

The difference of €116 million between the fair value of the note on initial recognition and the net amount received from the State was treated as a capital contribution and credited directly to other reserves, as the State is a significant investor in the Group and was considered to be acting in that capacity. This capital contribution is not distributable.

The equity conversion feature of the note is considered to be an embedded derivative requiring separation, initially an asset with a fair value of €91 million. This derivative has been separated from the host instrument and is subsequently measured at fair value through profit or loss. The fair value of the derivative is established using a valuation technique. The host subordinated liability was measured on initial recognition as the residual after separation of the embedded derivative, an amount of €960 million, and is subsequently measured at amortised cost.

Subordinated liabilities in issue at 31 December 2010
As part of its ongoing capital management activities, including the recapitalisation of the Bank, the Group has repurchased and / or exchanged certain subordinated liabilities during the year ended 31 December 2011. The principal terms of these subordinated liabilities (which were included on the Group's balance sheet at 31 December 2010) are set out below.

Undated loan capital
(f) The rights and claims of the holder of the Preferred Securities were 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 should 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 would 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.

(g) The securities were 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 bore interest at a rate of 6.25% per annum to 7 March 2023 and thereafter at a rate of six month Stg£ Libor plus 1.70% per annum, reset semi annually.

(h) The securities were 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 BoI G.P. No. 1 Limited, which was the General Partner of the Issuer, at their principal amount plus any outstanding payments due. They bore interest at a rate of 6.25% per annum to 3 March 2007 and thereafter at a variable rate of interest per annum being the lesser of (i) the aggregate of 0.10% per annum and the annual spot ten year eur fixed versus six month Euribor swap rate and (ii) 8% per annum.

42 Subordinated liabilities (continued)

(i) The issuer would not pay any distributions and the guarantor would 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 were 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 was not meeting its minimum capital requirements or was not meeting its solvency ratios; or provided a Deemed Declaration Notice had not been delivered, if the Guarantor's Court of Directors had resolved no distributions should be made; or if the Regulator had instructed the General Partner or the Guarantor not to make such payment.

The Preferred Securities, together with the subordinated guarantee, were 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 would 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 ranked pari passu with the Preferred Securities.

The rights and claims of the holders of the Preferred Securities ranked (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.

(j) The securities were 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 BoI 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 bore 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 three month US dollar deposits.

(k) The securities were 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 BoI G.P. No. 1 Limited, which was the General Partner of the Issuer, at the liquidation preference amount plus any additional amounts and outstanding payments due. They bore 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 three month US dollar deposits.

(l) The securities were 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 BoI 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 bore 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 three month sterling deposits.

Dated loan capital
All of the dated notes repurchased during the year ended 31 December 2011, with the exception of the Stg£75 million 10¾% Subordinated Notes 2018 were issued under the Bank's Euro Note Programme.

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43 Other liabilities

	31 December 2011 €m	31 December 2010 €m
Accrued interest payable	1,074	1,025
Notes in circulation	914	814
Sundry creditors	364	452
Accruals and deferred income	181	258
Finance lease obligations	2	-
Other	576	553
Other liabilities	**3,111**	**3,102**

Other liabilities at 31 December 2011 and at 31 December 2010 are due within one 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.

44 Provisions

	Restructuring €m	Onerous contracts €m	Legal €m	Other €m	Total €m
As at 1 January 2011	32	12	20	-	64
Exchange adjustments	1	-	-	-	1
Reclassifications	(7)	6	(1)	2	-
Charge to income statement	-	6	15	3	24
Unwinding of discount	-	1	-	-	1
Utilised during the year	(20)	(9)	(5)	(1)	(35)
Unused amounts reversed during the year	(3)	(1)	(13)	-	(17)
As at 31 December 2011	**3**	**15**	**16**	**4**	**38**

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.

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 €3 million (31 December 2010: €32 million) in respect of restructuring activities.

It is expected that this provision will be used within the next twelve months.

Onerous contracts
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 one and fourteen years. It is expected that €4 million of this provision will be used within the next twelve months.

Legal
This provision includes certain legal claims brought against the Group by third parties.

It is expected that this provision will be used within the next twelve months.

44 Provisions (continued)

Other

It is expected that this provision will be used within the next twelve months.

45 Deferred tax

	31 December 2011 €m	31 December 2010 €m
The movement on the deferred tax account is as follows:		
At beginning of year	1,037	731
Income statement credit for year (note 20)	263	380
Available for sale financial assets – credit / (charge) to other comprehensive income	(14)	29
Cash flow hedges – charge to other comprehensive income	(32)	(40)
Revaluation / reclassification of property during the year	2	3
Pension	20	(74)
Other movements	17	8
At end of year	**1,293**	**1,037**
Deferred tax assets and liabilities are attributable to the following items:		
Deferred tax assets		
Pensions and other post retirement benefits	62	63
Provision for loan impairment	14	12
Accelerated capital allowances on equipment used by the Group	4	-
Available for sale reserve	100	115
Unutilised tax losses	1,195	898
Cash flow hedge reserve	7	39
Other temporary differences	6	17
Deferred tax assets	**1,388**	**1,144**
Deferred tax liabilities		
Accelerated capital allowances:		
- on finance leases	(16)	(20)
- on equipment used by the Group	-	(4)
Property revaluation surplus	(11)	(16)
Life companies	(46)	(55)
Other temporary differences	(22)	(12)
Deferred tax liabilities	**(95)**	**(107)**
Represented on the balance sheet as follows:		
Deferred tax assets	1,381	1,128
Deferred tax liabilities	(88)	(91)
	1,293	**1,037**

The amount of the deferred tax asset expected to be recovered within one year is €23 million. The amount of deferred tax liability expected to be settled within one year is €3 million.

In accordance with IAS 12, in presenting the deferred tax balances above 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.

45 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 forseeable future. Unremitted earnings for overseas subsidiaries totalled €171 million (31 December 2010: €375 million).

The deferred tax asset of €1,381 million (31 December 2010: €1,128 million) shown on the balance sheet is after netting by jurisdiction (€1,388 million before netting by jurisdiction, 31 December 2010: €1,144 million). This includes an amount of €1,195 million at 31 December 2011 (31 December 2010: €898 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 Irish tax losses carried forward by a financial institution participating in NAMA. This significantly lengthens the period over which the deferred tax asset will reverse by restricting by 50% the amount of profits in any year 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 Act 2011 reduced the main rate of corporation tax to 26% from 1 April 2011 (and not 27% as previously announced). In addition it enacted a reduced main rate of corporation tax of 25% to be effective from 1 April 2012. The effect of the change enacted in the UK Finance Act 2011 has been to reduce the deferred tax asset at 31 December 2011 by €18 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 25% to 23% would be to reduce the deferred tax asset at 31 December 2011 by an additional €36 million.

Deferred tax assets have not been recognised in respect of US tax losses of €71 million (31 December 2010: €69 million) and US temporary differences of €3 million (31 December 2010: €3 million). €23 million (31 December 2010: €23 million) of the tax losses expire in the period 2020 to 2028 with €48 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 2011 €m	31 December 2010 €m
Current year losses	323	435
Pensions and other retirement benefits	(20)	(109)
Life companies	(10)	(30)
Other provisions	(3)	22
Accelerated tax depreciation	11	21
Other temporary differences	(9)	51
Prior year adjustment	(29)	(10)
Total deferred tax	**263**	**380**

46 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 64% 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 a majority of 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 29.1% 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 which are expected to be issued by the Pensions Board in the near future.

The actuarial valuations are available for inspection to the members of the schemes but are not available for public inspection.

Pension Levy

The Irish Finance Act (No.2) Act 2011 introduced a stamp duty levy of 0.6% on the market value of assets under management in Irish pension funds, for the years 2011 to 2014 (inclusive). The levy is based on scheme assets as at 30 June in each year or as at the end of the preceding scheme financial year. No decision has yet been taken as to who will ultimately bear this levy. Accounting standards require that a charge for the 0.6% levy for 2011, amounting to €20 million, be included in the financial statements for the year ended 31 December 2011 in the form of a reduction in scheme assets. The charge of €20 million has been recognised within Other Comprehensive Income for the year ended 31 December 2011 as it did not form part of the expected return on assets for 2011, which was determined at the start of the year. Payments of €20 million in respect of the levy were made to the Irish Revenue Commissioners during the year.

The accounting will be updated to reflect the final decision as to who will ultimately bear the levy once it is taken.

Group pensions review

During 2011 and 2010, the Group completed a review to address the IAS 19 pension deficit in the defined benefit pension schemes sponsored by the Group. Following this review the Group proposed a number of amendments to these schemes. By 31 December 2011, the relevant amendments had been implemented, in respect of substantially all of the Group's defined benefit pension schemes including the BSPF.

The income statement impact of the amendments in the year ended 31 December 2011 was a gain of €2 million. A gain of €733 million was recognised in the year ended 31 December 2010, consisting of a curtailment gain of €413 million and negative past service cost of €324 million, relating to amendments to future increases in pensionable salaries and future discretionary pension increases respectively, net of directly related expenses.

As part of the Group pensions review the Group indicated that it would be prepared to pay additional deficit-related contributions of up to €750 million over a five to seven year period if the benefit restructuring changes were accepted and implemented. The precise amounts and timing of these payments is at the Group's discretion. In this regard, the Group agreed the level of payments with the trustees of the individual defined benefit schemes and paid additional contributions of €116 million during 2011 (year ended 31 December 2010: €68 million) and it expects to pay additional deficit-related contributions of €117 million in 2012.

46 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 2011 % p.a.**	31 December 2010 % p.a.
Irish schemes		
Inflation rate	2.00	2.00
Discount rate	5.30	5.50
Rate of general increase in salaries	*2.50	*2.50
Rate of increase in pensions in payments	*1.90	*1.90
Rate of increase to deferred pensions	1.90	2.00
UK schemes		
Consumer Price Inflation	2.10	3.00
Retail Price Inflation	3.00	3.50
Discount rate	4.90	5.50
Rate of general increase in salaries	*3.50	*4.00
Rate of increase in pensions in payments	*2.80	*3.34
Rate of increase to deferred pensions	2.10	3.00

* *Weighted average increase across all Group schemes.*

Mortality assumptions

The mortality assumptions adopted for Irish pension arrangements are based on the results of the Society of Actuaries in Ireland mortality investigations.

Post retirement mortality assumptions (Main Scheme)	**At 31 December 2011 years**	At 31 December 2010 years
Longevity at age 70 for current pensioners		
Males	17.1	16.9
Females	18.6	18.4
Longevity at age 60 for active members currently aged 60 years		
Males	26.8	26.6
Females	28.4	28.3
Longevity at age 60 for active members currently aged 40 years		
Males	29.4	29.3
Females	30.6	30.5

46 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 2011 and 31 December 2010 were as follows:

%	31 December 2011 Expected long term rates of return RoI %	UK %	Fund %	Market Value €m	31 December 2010 Expected long term rates of return RoI %	UK %	Fund %	Market Value €m
Equities	7.50	7.50	53.7	2,396	7.25	8.00	55.1	2,274
Debt securities	4.32	3.77	38.6	1,723	4.44	4.52	34.3	1,415
Property	6.00	6.00	6.1	271	6.00	6.00	6.4	263
Cash and other	2.30	3.00	1.6	73	2.60	4.10	4.2	174
Total market value of schemes' assets				4,463				4,126
Actuarial value of liabilities of funded schemes				(4,867)				(4,540)
Aggregate deficit in funded schemes				(404)				(414)
Unfunded schemes				(9)				(9)
Net defined benefit pension deficit				(413)				(423)
Defined contribution schemes				(1)				(1)
				(414)				**(424)**
This is shown in the balance sheet as:								
Retirement benefit obligations				422				435
Retirement benefit asset				(8)				(11)
				414				**424**

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 2011 is 5.60% (31 December 2010: 6.06%).

The expected returns on the debt securities are derived from gilt yields and corporate bond yields. Approximately 73% (31 December 2010: 64%) 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 2010: €2 million) and property occupied by Bank of Ireland Group companies to the value of €24 million (31 December 2010: €25 million).

The following table sets out the components of the cost of the defined benefit schemes for the years ended 31 December 2011 and 31 December 2010.

Components of pension expenses	**Year ended 31 December 2011 €m**	Year ended 31 December 2010 €m
Current service cost	95	128
Past service cost	-	(324)
Curtailments	(5)	(413)
Expected return on retirement benefit scheme assets	(253)	(233)
Interest on pension scheme liabilities	247	279
Cost of providing defined retirement benefits	**84**	**(563)**

46 Retirement benefit obligations (continued)

Actual return on scheme assets	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Expected return on scheme assets	253	233
Actuarial (loss) / gain on scheme assets	(37)[1]	86
Actual return on scheme assets	**216**	**319**

[1] Includes a charge of €20 million in respect of the Irish pension levy (year ended 31 December 2010: €nil).

Movement in defined benefit obligations during the year	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Defined benefit obligations at beginning of year	4,549	5,365
Current service cost	95	128
Actual member contributions	14	14
Past service cost	-	(324)
Interest cost	247	279
Actuarial loss / (gain) on scheme liabilities	82	(410)
Benefits paid	(138)	(137)
Curtailments	(5)	(413)
Currency loss	32	47
Defined benefit obligation at end of year	**4,876**	**4,549**

Movement in the fair value of scheme assets during the year	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Fair value of scheme assets at beginning of year	4,126	3,734
Expected return	253	233
Actual member contributions	14	14
Actuarial (loss) / gain on scheme assets	(37)	86
Contributions by employer	230[1]	180[1]
Benefits paid	(138)	(137)
Currency gain	15	16
Fair value of scheme assets at end of year	**4,463**	**4,126**

[1] Includes €116 million (year ended 31 December 2010: €68 million) of additional contributions related to the Group pensions review set out on page 265.

Statement of Other Comprehensive Income (SOCI)	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Actuarial (loss) / gain on scheme assets	(37)	86
Experience gain on liabilities	33	115
(Loss) / gain on change of assumptions (financial and demographic)	(115)	295
Currency loss	(18)	(31)
Total (loss) / gain recognised in the SOCI during the year before adjustment of tax	**(137)**	**465**
Cumulative amount of losses recognised in SOCI to end of year	(758)	(621)

46 Retirement benefit obligations (continued)

History of experience gains and losses	**Year ended 31 December 2011 €m**	Year ended 31 December 2010 €m	9 months ended 31 December 2009 €m	Year ended 31 March 2009 €m	Year ended 31 March 2008 €m
Actuarial (loss) / gain on scheme assets:					
Amount	(37)	86	574	(1,176)	(823)
Percentage of scheme assets	0.8%	2.1%	15.4%	(39.2%)	(20.7%)
Experience gain / (loss) on scheme liabilities:					
Amount	33	115	33	63	(58)
Percentage of scheme liabilities	0.7%	2.5%	0.6%	1.4%	(1.2%)
Total actuarial (loss) / gain recognised in SOCI[1]					
Amount	(137)	465	(99)	(624)	(244)
Percentage of scheme liabilities	2.8%	10.2%	(1.8%)	(13.9%)	(5.1%)

[1] *Statement of other comprehensive income*

Defined benefit pension schemes	**31 December 2011 €m**	**31 December 2010 €m**	31 December 2009 €m	31 March 2009 €m	31 March 2008 €m
Present value of obligations	4,876	4,549	5,365	4,481	4,762
Scheme assets	4,463	4,126	3,734	3,003	3,967
Deficit within schemes	**413**	**423**	**1,631**	**1,478**	**795**

Expected employer contributions for the year ended 31 December 2012 are €227 million, inclusive of €117 million of additional contributions related to the Group pensions review set out on page 265. Expected employee contributions for the year ended 31 December 2012 are €15 million.

Sensitivity analysis for each of the key assumptions used to measure the scheme liabilities at 31 December 2011.

Factor	Change in assumption	BSPF Impact on actuarial liabilities
Discount rate	Decrease 0.1%	Increase 1.8%
Rate of Inflation	Decrease 0.1%	Decrease 1.6%
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.

47 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 2011 Contract amount €m	31 December 2010 Contract amount €m
Contingent liabilities		
Acceptances and endorsements	10	35
Guarantees and irrevocable letters of credit	983	1,482
Other contingent liabilities	249	599
	1,242	**2,116**
Commitments		
Documentary credits and short term trade related transactions	178	185
Undrawn note issuance and revolving underwriting facilities	100	100
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- revocable or irrevocable with original maturity of 1 year or less	14,017	16,655
- irrevocable with original maturity of over 1 year	5,217	6,601
	19,512	**23,541**

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.

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.

48 Capital stock

Authorised	31 December 2011	31 December 2010
Eur€	**€m**	€m
90 billion units of €0.05 ordinary stock (31 December 2010: 24 billion units of €0.10 ordinary stock)	4,500	2,400
228 billion units of €0.01 deferred stock (31 December 2010: 2 billion units of €0.54 deferred stock)	2,280	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
Stg£	**£m**	£m
100 million units of non-cumulative preference stock of Stg£1 each	100	100
100 million units of undesignated preference stock of Stg£0.25 each	25	25
US$	**$m**	$m
8 million units of non-cumulative preference stock of US$25 each	200	200
100 million units of undesignated preference stock of US$0.25 each	25	25

Allotted and fully paid	31 December 2011 €m	31 December 2010 €m
30.109 billion units of €0.05 ordinary stock (31 December 2010: 5.293 billion units of €0.10 ordinary stock)	1,505	529
91.981 billion units of €0.01 deferred stock (31 December 2010: 1.210 billion units of €0.54 deferred stock)	920	654
45.133 million units of €0.05 treasury stock (31 December 2010: 27.7 million units of €0.10 treasury stock)	2	2
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	18	18
	2,452	**1,210**

Ordinary stock

The weighted average number of units of ordinary stock in issue at 31 December 2011, 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 2011**	31 December 2010	**31 December 2011**	31 December 2010
At beginning of year	5,293,719,448	993,001,864	27,702,862	33,223,815
Long term performance stock plan (LTPSP)	-	11,890	-	-
2011 Capital raise - Rights Issue (see note 49)	19,077,889,032	-	-	-
2011 Capital raise - liability management exercise (note 49)	5,755,203,190	-	-	-
2010 Recapitalisation of the Bank and dividend on 2009 Preference Stock	-	4,295,184,741	-	-
Stock (purchased) / sold and held for the benefit of life assurance policyholders	(17,430,456)	5,520,953	17,430,456	(5,520,953)
At end of year	**30,109,381,214**	**5,293,719,448**	**45,133,318**	**27,702,862**

48 Capital stock (continued)

Renominalisation of ordinary stock

As part of the 2011 recapitalisation of the Bank (see note 50) the Bank's ordinary stock and deferred stock was renominalised at the Extraordinary General Court held on 11 July 2011. This resulted in the nominal value of each unit of ordinary stock being reduced from €0.10 per unit to €0.05 per unit and the nominal value of each unit of deferred stock being reduced from €0.54 per unit to €0.01 per unit. Each existing unit of deferred stock of €0.54 at the date of renominalisation was subdivded into 54 units of €0.01 each and each existing unit of ordinary stock at the date of renominalisation was subdivided and converted into one unit of ordinary stock of €0.05 and five units of deferred stock of €0.01. 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 the Bank. 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 €0.05 ordinary stock (including voting and dividend rights and rights on a return of capital) are substantively identical to those of the previous €0.10 ordinary stock. The renominalised deferred stock 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 €0.05 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, 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 24 billion units at a par value of €0.10 to 90 billion units at a par value of €0.05.

During the year ended 31 December 2011, the total ordinary stock in issue increased from 5,293,719,448 units of nominal value of €0.10 each to 30,109,381,214 units of nominal value of €0.05 each as a result of:

- 19,077,889,032 units of ordinary stock issued in relation to the 2011 Rights Issue (note 49)
- 5,755,203,190 units of ordinary stock issued in relation to the 2011 debt for equity offers (including the cash offer) (note 49)
- a net purchase of 17,430,456 units of ordinary stock by the Group's life assurance company during the year ended 31 December 2011.

At 31 December 2011, the life assurance company held 23,124,628 units of ordinary stock as own shares (31 December 2010: 5,694,172 units).

All units of ordinary stock in issue carry the same voting rights. All issued stock is fully paid.

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 20 February and 20 August 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. Such circumstances did not arise during 2011 and consequently the preference stockholders were not entitled to vote at the General Meetings of the Bank.

48 Capital stock (continued)

As at 31 December 2011 and 31 December 2010 1,876,090 units of sterling preference stock and 3,026,598 units of euro preference stock were in issue.

2009 Preference Stock:

2009 Preference Stock	31 December 2011 units	31 December 2010 units
At beginning of year	1,837,041,304	3,500,000,000
National Pensions Reserve Fund Commission (NPRFC) Placing subscription	-	(1,036,000,000)
Rights Issue – NPRFC allocation	-	(626,958,696)
At end of year	**1,837,041,304**	**1,837,041,304**

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 year ended 31 December 2010 (note 50), a total of 1,662,958,696 units of 2009 Preference Stock were converted to ordinary stock and the warrants held by the NPRFC were cancelled.

The terms and conditions attaching to the 2009 Preference Stock are outlined below:

The 2009 Preference Stock entitles the NPRFC to receive a non-cumulative cash dividend at a fixed rate of 10.25% per annum (previously 8% per annum prior to 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[1].

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[1], it will cease to carry any voting rights or the right to appoint Directors to the Court referred to below.

[1] *Defined in Capital Stock and Government Guarantee - Defined Terms, page 363.*

48 Capital stock (continued)

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 before 31 March 2014 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. 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 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.

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 already appointed by the Minister for Finance pursuant to the CIFS Guarantee Scheme, being a provision that survives the expiry of the CIFS Guarantee Scheme as continued under the terms of the ELG 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.

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[1] shall be subject to the prior written consent of the Minister for Finance.

Use of ordinary stock in employee schemes

(a) Employee Stock Issue Scheme

Under this scheme, 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.

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.

The maximum award permitted under the scheme is 6% of a participant's salary. There have been no awards to employees under the employee stock issue scheme since 2008.

[1] *Defined in Capital Stock and Government Guarantee - Defined Terms, page 363.*

48 Capital stock (continued)

(b) Sharesave Scheme (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.

Grant Dates		SAYE 2006	SAYE 2007
Option Price	ROI	€7.74	€4.39
	UK	€8.25	€4.68
Discount	ROI	25%	25%
	UK	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 2011, there are outstanding options under the scheme over 6,712 units of ordinary stock, which are exercisable by February 2012.

2011	RoI 2006 3yr	UK 2006 3yr	RoI 2007 3yr	UK 2007 3yr	Total
Outstanding at beginning of year	477	-	1,552,465	236,865	1,789,807
Lapsed	(477)	-	(1,548,255)	(234,363)	(1,783,095)
Outstanding at end of year	-	-	4,210	2,502	6,712
Weighted average exercise price	€7.74	-	€4.39	€4.68	€4.50

* *No options were either granted or exercised in the year ended 31 December 2011 or in the year ended 31 December 2010.*

The last offer under the Group's SAYE scheme was in 2007. No new options have been created since this offer. These figures represent the option price adjusted for the 2010 Rights Issue.

48 Capital stock (continued)

(c) Executive Stock Option Scheme (ESOS)

Options to subscribe for units of ordinary stock are granted under the terms of the current Stock Option Scheme, which was approved by stockholders. 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 was 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.

The performance conditions for options granted in 1996 up to and including 2005 were satisfied. Options may not be transferred or assigned and may be exercised only between the third and tenth anniversaries of their grant. The performance conditions for awards in 2006, 2007 and 2008 were not met and subsequently all options lapsed. There have been no further awards under the ESOS since 2008.

The options below are before the Group's 2010 and 2011 Rights Issues. The Group Remuneration Committee exercised its discretion not to make any technical adjustments to these grants.

	31 December 2011		31 December 2010	
	Number of options	**Weighted average exercise price (€)**	Number of options	Weighted average exercise price (€)
Outstanding at beginning of year	6,430,195	€9.75	7,950,045	€10.35
Expired during year	(3,316,682)	€8.02	(1,519,850)	€12.87
Outstanding at end of year	3,113,513	€11.59	6,430,195	€9.75
Exercisable at end of year	3,113,513	€11.59	3,964,163	€10.15

No options were either granted or exercised in the year ended 31 December 2011 or in the year ended 31 December 2010.

Exercise Price Range (€)	**Number of options**
10.54 - 10.77	1,821,499
11.05 - 13.68	1,292,014
Total	**3,113,513**

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 three years.

(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.

48 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.

	31 December 2011		31 December 2010	
	Number of conditional units	**Weighted average grant price (€)**	Number of conditional units	Weighted average grant price (€)
Outstanding at beginning of year	1,101,353	5.93	1,743,720	8.40
Vested during year	-	-	(11,890)	6.92
Expired during year	(1,090,034)	5.86	(630,477)	12.74
Outstanding at end of year	11,319	12.73	1,101,353	5.93

The above units are before the Group's 2010 and 2011 Rights Issues. The Group Remuneration Committee exercised its discretion not to make any technical adjustments to these grants.

The weighted average remaining contractual life of the outstanding options under the LTIP Scheme is less than 1 year (the potential matching awards of 30% on the previous LTPSP schemes are excluded from this calculation).

The performance conditions for awards in 2006, 2007 and 2008 were not met and subsequently, all options lapsed. There have been no further awards under the Group LTIP since 2008.

(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.

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49 Capital stress test and associated recapitalisation

2011 Prudential Capital Assessment Review

In the first quarter of 2011, the Central Bank undertook a Prudential Capital Assessment Review (2011 PCAR) which incorporated a Prudential Liquidity Assessment Review (2011 PLAR). Information on the Group's deleveraging plan to meet the 2011 PLAR is set out in note 17.

On 31 March 2011 the Central Bank announced the results of the 2011 PCAR, which required the Group to generate incremental equity capital of €4.2 billion including a regulatory buffer of €0.5 billion. In addition €1.0 billion of Contingent Capital was also required through the issue of a debt instrument which under certain circumstances would convert to equity capital.

2011 Recapitalisation of the Bank

Following the announcement of the results of the 2011 PCAR by the Central Bank on 31 March 2011, the Group undertook a range of initiatives to generate the incremental capital required. Ultimately these initiatives, the principal elements of which were approved at the Extraordinary General Court on 11 July 2011 and 9 September 2011, included the following:

(i) Liability management exercises;
(ii) A Rights Issue underwritten by the State with a significant investment by institutional investors; and
(iii) The issuance of a Contingent Capital note to the State.

The completion of the above has enabled the Group to satisfy the requirement of the 2011 PCAR to generate €4.2 billion of additional equity capital and €1 billion of Contingent Capital.

The following table summarises the balance sheet impact of the 2011 recapitalisation of the Bank.

	Income statement / retained earnings €m	Ordinary stock €m	Stock premium €m	Other reserves €m	Total €m
Liability management exercises					
Gain arising on the liability management exercises (note 9)[1]	1,804	-	-	-	1,804
Issue of ordinary stock	-	288	377	-	665
Repurchase of US$150 million Floating Rate Note[2]	40	-	-	(58)	(18)
Impact of liability management exercises	**1,844**	**288**	**377**	**(58)**	**2,451**
Rights issue	-	954	954	-	1,908
	1,844	**1,242**	**1,331**	**(58)**	**4,359**
Transaction costs					
Liability management exercises					
- Recognised in the income statement[1]	(32)	-	-	-	(32)
- Transferred from retained earnings to stock premium	16	-	(16)	-	-
Rights issue	-	-	(114)	-	(114)
Taxation	**(45)**	**-**	**-**	**-**	**(45)**
2011 recapitalisation of the Bank, net of transaction costs and taxation	**1,783**	**1,242**	**1,201**	**(58)**	**4,168**

[1] *Recognised in the income statement during the year ended 31 December 2011.*
[2] *The US$150 million Floating Rate Note was previously classified as equity within other reserves. On the repurchase of this note, the difference between the fair value of the consideration and the carrying value of the note is shown as a credit in retained earnings.*

49 Capital stress test and associated recapitalisation (continued)

(i) Liability management exercises

During 2011, the Group undertook a number of liability management exercises which generated €2,451 million of additional equity capital.

In June 2011, the Group invited certain subordinated bondholders to exchange their bonds for cash or units of ordinary stock. This resulted in subordinated bonds, with a nominal value of €1,924 million, being tendered in exchange for 5,755,203,190 units of ordinary stock at a price of €0.1156 per unit and €13 million of cash. In addition, the Group was granted the right to insert a call option (which it subsequently exercised), to compulsorily acquire certain subordinated bonds with a nominal value of €101 million for cash at 0.001% of their nominal value.

In September 2011 and December 2011, the Group announced that it had repurchased certain subordinated bonds with a nominal value of €205 million. In December 2011, the Group announced that it had repurchased certain Residential mortgage-backed securities with a total nominal value of €1,148 million issued by Kildare Securities Limited and Brunel Residential Mortgage Securitisation No.1 plc. Further details are set out in note 9.

(ii) A Rights Issue underwritten by the State with a significant investment by institutional investors

In July 2011 the Group successfully completed an 18 for 5 Rights Issue of 19,077,889,032 units of ordinary stock at a Rights Issue price of €0.10 per unit of ordinary stock, which raised gross proceeds of €1,908 million. The results of the Rights Issue were as follows:

- valid acceptances were received from the State in respect of 6,875,316,158 units of ordinary stock (representing 36% of the stock issued);
- valid acceptances were received from other stockholders in respect of 4,486,370,275 units of ordinary stock (representing 23.5% of the stock issued);
- 1,432,343,038 units of ordinary stock (representing 7.5% of the stock issued) were placed in the rump issue; and
- in accordance with the transaction agreement with the State (see note 57), the State subscribed for the remaining 6,283,859,561 units of ordinary stock (representing 33% of the stock issued).

Following the completion of the Rights Issue, the State sold 10,510,960,763 units of ordinary stock to a group of institutional investors comprising Fairfax Financial Holdings, WL Ross, Capital Research (part of The Capital Group), Fidelity Investments and Kennedy Wilson. The institutional investors all manage their stockholdings independently. The sale completed on 17 October 2011, following which the State's stockholding in the Bank represents 15.1% of the issued ordinary stock.

(iii) Contingent capital note

To satisfy the requirement under the 2011 PCAR, the Group issued a Contingent Capital note to the State in July 2011. The nominal value of this note is €1 billion and the cash proceeds received (net of a fee paid to the State) amounted to €985 million. The note has a term of five years and an annual coupon of 10%, which can be increased to a market rate capped at 18% if the State sells the note to a third party. If the Core tier 1 capital ratio of the Group (as calculated under the terms of the instrument) falls below 8.25%, the note automatically converts to units of ordinary stock. The conversion price at which the note would convert is the volume-weighted average price (VWAP) of the ordinary stock over the 30 days prior to conversion, subject to a minimum conversion price of €0.05 per unit. Further details are set out in note 42.

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50 2010 Recapitalisation of the Bank

During the year ended 31 December 2010, the Bank increased its capital by way of the placing of ordinary stock with institutional investors (the Institutional Placing), the placing of ordinary stock with the NPRFC (the NPRFC Placing), a Rights Issue and debt for equity offers. The proceeds of the Institutional Placing 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 and the NPRFC Placing. 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 units of ordinary stock in issue 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 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 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 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 177 and 178).

The following table shows the impact in the year ended 31 December 2010 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.

	Ordinary Stock		Deferred Stock		2009 Preference Stock		Stock Premium
	Number	€m	Number	€m	Number	€m	€m
Government							
Dividend on 2009 Preference Stock paid in units of ordinary stock[1]	**184,394,378**	**118**	**-**	**-**	**-**	**-**	**(118)**
NPRFC placing[2]	575,555,556	58	-	-	(1,036,000,000)	(11)	(47)
NPRFC rights[2]	1,139,924,901	114	-	-	(626,958,696)	(6)	(108)
Conversion of 2009 Preference Stock		**172**				**(17)**	**(155)**
Other							
Institutional placing[3]	326,797,386	32	-	-	-	-	467
Rights issue[3]	981,992,918	98	-	-	-	-	442
Debt for equity offers[4]	1,086,519,602	108	-	-	-	-	500
Issue of ordinary stock	**-**	**238**	**-**	**-**	**-**	**-**	**1,409**
Transaction costs charged to stock premium	**-**	**-**	**-**	**-**	**-**	**-**	**(121)**
Loss on cancellation of warrants	**-**	**-**	**-**	**-**	**-**	**-**	**(381)**
Renominalisation of share capital	**-**	**(654)**	**1,210,621,289**	**654**	**-**	**-**	**-**
	4,295,184,741	**(126)**	**1,210,621,289**	**654**	**(1,662,958,696)**	**(17)**	**634**

1 Paid in units of €0.64 cents prior to renominalisation of share capital
2 Settled through the conversion of 2009 Preference Stock into units of ordinary stock
3 Issue of new shares for cash
4 Issue of ordinary stock in exchange for debt instruments.

51 Liquidity risk

The tables below summarise the maturity profile of the Group's financial liabilities (excluding those arising from insurance and investment contracts in Bank of Ireland Life and those arising on derivative financial instruments) at 31 December 2011 and 31 December 2010 based on contractual undiscounted repayment obligations. Customer accounts include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the table below. The comparative information has been reclassified on this basis which involved reclassifying a total amount of €16 billion into the demand category from the following categories: €3 billion from up to 3 months, €10 billion from 3-12 months and €3 billion from 1-5 years.

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.

Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €4,954 million and €7,037 million respectively (31 December 2010: €5,271 million and €7,188 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts.

As at 31 December 2011 **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	545	18,748	935	11,550	230	32,008
Customer accounts	48,368	18,378	2,402	1,444	224	70,816
Debt securities in issue	-	2,216	1,138	13,390	5,358	22,102
Subordinated liabilities	-	24	113	1,641	386	2,164
Contingent liabilities	1,242	-	-	-	-	1,242
Commitments	14,295	-	-	5,217	-	19,512
Total	**64,450**	**39,366**	**4,588**	**33,242**	**6,198**	**147,844**

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	48,213	14,987	1,301	1,374	496	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
Total	67,628	57,957	5,807	27,118	11,968	170,478

51 Liquidity risk (continued)

As set out in note 23, 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 2011

Derivative financial instruments	**Demand €m**	**Up to 3 months €m**	**3-12 months €m**	**1-5 years €m**	**Over 5 years €m**	**Total €m**
Derivatives held with hedging intent						
Gross settled derivative liabilities - outflows	-	3,114	8,511	6,530	1,027	19,182
Gross settled derivative liabilities - inflows	-	(3,057)	(8,135)	(6,060)	(748)	(18,000)
Gross settled derivative liabilities - net flows	-	57	376	470	279	1,182
Net settled derivative liabilities	-	179	713	1,947	336	3,175
Total derivatives held with hedging intent		**236**	**1,089**	**2,417**	**615**	**4,357**
Derivative liabilities held with trading intent	1,970	-	-	-	-	1,970
Total derivative cash flows	**1,970**	**236**	**1,089**	**2,417**	**615**	**6,327**

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
Derivatives held with hedging intent						
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
Total derivatives held with hedging intent	-	732	1,518	2,630	614	5,494
Derivative liabilities held with trading intent	1,879	-	-	-	-	1,879
Total derivative cash flows	1,879	732	1,518	2,630	614	7,373

52 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)				
31 December 2011	**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**	**Insurance contracts €m**	**Total €m**
Financial assets								
Cash and balances at central banks	-	-	-	-	-	8,181	-	8,181
Items in the course of collection from other banks	-	-	-	-	-	443	-	443
Trading securities	-	6	-	-	-	-	-	6
Derivative financial instruments	765	4,158	-	-	1,439	-	-	6,362
Other financial assets at fair value through profit or loss	-	-	8,914	-	-	-	-	8,914
Loans and advances to banks	-	-	-	-	-	8,059	-	8,059
Available for sale financial assets	-	-	-	10,262	-	-	-	10,262
NAMA senior bonds	-	-	-	-	-	5,016	-	5,016
Loans and advances to customers	-	-	-	-	-	99,314	-	99,314
Assets held for sale to NAMA	-	-	-	-	-	-	-	-
Other assets classified as held for sale	-	-	-	-	-	2,446	-	2,446
Interest in associates	-	-	31	-	-	-	-	31
Total financial assets	**765**	**4,164**	**8,945**	**10,262**	**1,439**	**123,459**	**-**	**149,034**
Financial liabilities								
Deposits from banks	-	-	132	-	-	31,402	-	31,534
Customer accounts	-	-	1,785	-	-	68,721	-	70,506
Items in the course of transmission to other banks	-	-	-	-	-	271	-	271
Derivative financial instruments	538	3,835	-	-	1,645	-	-	6,018
Debt securities in issue	-	-	457	-	-	18,667	-	19,124
Liabilities to customers under investment contracts	-	-	4,954	-	-	-	-	4,954
Insurance contract liabilities	-	-	-	-	-	-	7,037	7,037
Subordinated liabilities	-	-	27	-	-	1,399	-	1,426
Other short positions	-	4	-	-	-	-	-	4
Total financial liabilities	**538**	**3,839**	**7,355**	**-**	**1,645**	**120,460**	**7,037**	**140,874**

52 Measurement basis of financial assets and financial liabilities (continued)

31 December 2010	At fair value through profit or loss: Derivatives designated as fair value hedging instruments €m	At fair value through profit or loss: Held for trading €m	At fair value through profit or loss: Designated upon initial recognition €m	At fair value through other comprehensive income: Available for sale €m	At fair value through other comprehensive income: Cash flow hedge derivatives €m	Loans and advances / Held at amortised cost €m	Insurance contracts €m	Total €m
Financial assets								
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
Total financial assets	924	3,909	10,071	15,576	1,700	129,292	-	161,472
Financial liabilities								
Deposits from banks	-	-	412	-	-	40,663	-	41,075
Customer accounts	-	-	1,471	-	-	63,972	-	65,443
Items in the course of transmission to other banks	-	-	-	-	-	293	-	293
Derivative financial instruments	557	3,457	-	-	1,431	-	-	5,445
Debt securities in issue	-	-	545	-	-	28,148	-	28,693
Liabilities to customers under investment contracts	-	-	5,271	-	-	-	-	5,271
Insurance contract liabilities	-	-	-	-	-	-	7,188	7,188
Subordinated liabilities	-	-	83	-	-	2,692	-	2,775
Total financial liabilities	557	3,457	7,782	-	1,431	135,768	7,188	156,183

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 2011		31 December 2010	
	Fair values €m	**Contractual amount due on maturity €m**	Fair values €m	Contractual amount due on maturity €m
Deposits from banks	132	132	412	412
Customer accounts	1,785	1,997	1,471	1,628
Liabilities to customers under investment contracts	4,954	4,954	5,271	5,271
Debt securities in issue	457	662	545	915
Subordinated liabilities	27	75	83	166
Financial liabilities designated at fair value through profit or loss	**7,355**	**7,820**	**7,782**	**8,392**

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 53.

53 Fair values of financial assets and financial liabilities

The Group's accounting policy on valuation of financial instruments is set out on page 193, while pages 208 and 209 give 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 arm's 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 or at recent arm's length market transactions.

These techniques are subjective in nature and involve assumptions which are based upon management's view of market conditions at the 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 2011 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 52 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.

Certain derivatives are valued using unobservable inputs relating to counterparty credit which are significant to their valuation. The effect of using reasonably possible alternative assumptions in the valuation of these derivatives would be to increase their fair value by up to €20 million or decrease their fair value by up to €20 million, with a corresponding impact on the income statement.

In addition a small number of derivative financial instruments are valued using significant unobservable inputs other than counterparty credit. 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 unobservable inputs.

Assets held for sale to NAMA - derivatives
The Group has no assets held for sale to NAMA at 31 December 2011. In relation to derivatives held for sale to NAMA at 31 December 2010, counterparty credit was not considered observable and was significant to their valuation.

53 Fair values of financial assets and financial liabilities (continued)

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 alternative assumptions would not have a material impact on the value of these assets.

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 €2 million or to increase their fair value by up to €12 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. A 0.50% increase / (decrease) in the discount rate used to value the debt would result in an decrease of €4 million (increase of €4 million) in its fair value, with a corresponding impact on other comprehensive income.

Debt securities in issue and subordinated liabilities

These instruments comprise debt securities in issue and subordinated liabilities with a fair value of €484 million (31 December 2010: €628 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 is 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. In addition the Group considers the credit spread applicable to Irish Government bonds. A 1% increase / (decrease) in the estimated credit spread at 31 December 2011 would result in a decrease of €26 million / (increase of €26 million) in the fair value of the liabilities, 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 Group incorporates the effect of changes in its own credit spread when valuing these instruments. The Group estimates this spread by reference to recent transactions in the same instrument or in similar instruments issued by the Group.

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 202. 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.

53 Fair values of financial assets and financial liabilities (continued)

Loans and advances to customers and other assets classified as held for sale
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 estimated using valuation techniques which include:

- 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; and
- recent arm's length transactions in similar assets.

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, valuations in the repo market and the yield on Irish Government bonds of similar maturity.

Assets held for sale to NAMA
The Group had no assets held for sale to NAMA at 31 December 2011. Assets held for sale to NAMA were 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 198.

At 31 December 2010, the Group estimated that the discount to gross loan value on the remaining loans held for sale to NAMA would 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 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 following table 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 unobservable market data is significant in determining the fair value of the instrument. Unobservable 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.

53 Fair values of financial assets and financial liabilities (continued)

31 December 2011	**Level 1 €m**	**Level 2 €m**	**Level 3 €m**	**Total €m**
Financial assets held at fair value				
Trading securities	6	-	-	6
Derivative financial instruments	-	5,831	531	6,362
Other financial assets at FVTPL	8,270	627	17	8,914
AFS financial assets	9,442	646	174	10,262
Interest in associates	-	-	31	31
	17,718	**7,104**	**753**	**25,575**
As a % of fair value assets	**69.3%**	**27.8%**	**2.9%**	**100%**
Financial liabilities held at fair value				
Deposits from banks	-	132	-	132
Customer accounts	-	1,774	11	1,785
Derivative financial instruments	-	5,968	50	6,018
Liabilities to customers under investment contracts	-	4,954	-	4,954
Insurance contract liabilities	-	7,037	-	7,037
Debt securities in issue	-	-	457	457
Other short position	4	-	-	4
Subordinated liabilities	-	-	27	27
	4	**19,865**	**545**	**20,414**
As a % of fair value liabilities	**-**	**97.3%**	**2.7%**	**100%**

31 December 2010	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets held at fair value				
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
	23,746	8,152	282	32,180
As a % of fair value assets	73.8%	25.3%	0.9%	100%
Financial liabilities held at fair value				
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
	-	19,718	697	20,415
As a % of fair value liabilities	-	96.6%	3.4%	100%

53 Fair values of financial assets and financial liabilities (continued)

Movements in level 3 assets

31 December 2011	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	17	32	7	200	26	282
Total gains or losses in:						
Profit or loss						
- Net trading expense	-	12	-	-	-	12
- Other income	-	-	-	14	-	14
- Impairment charges	-	-	-	(16)	-	(16)
- Share of results of associates	-	-	-	-	-	-
Other comprehensive income	-	-	-	3	-	3
Additions	-	91	-	26	5	122
Disposals	-	-	(7)	(40)	-	(47)
Redemptions	-	-	-	(4)	-	(4)
Transfers out of level 3						
- from level 3 to level 2	-	(6)	-	(16)	-	(22)
Transfers into level 3						
- from level 2 to level 3	-	402	-	7	-	409
Closing balance	**17**	**531**	**-**	**174**	**31**	**753**
Total gains / (losses) for the year included in profit or loss for assets held in level 3 at the end of the reporting year	-	280	-	-	-	280
Other transfers						
- from level 1 to level 2	-	-	-	19	-	19
- from level 2 to level 1	-	-	-	-	-	-

The transfer from level 3 to level 2 arose as result of the availability of observable market prices at 31 December 2011 which were unavailable at 31 December 2010 or as a result of unobservable inputs becoming less significant to the fair value measurement of these assets.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

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53 Fair values of financial assets and financial liabilities (continued)

Movements in level 3 assets

31 December 2010	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	-	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
Closing balance	17	32	7	200	26	282
Total gains / (losses) for the year included in profit or loss for assets held in level 3 at the end of the reporting year	-	6	(16)	(70)	5	(75)
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 at 31 December 2010 which were unavailable at 31 December 2009.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to their fair value measurement.

53 Fair values of financial assets and financial liabilities (continued)

Movements in level 3 liabilities **31 December 2011**	**Customer accounts €m**	**Derivative financial instruments €m**	**Derivatives held for sale to NAMA €m**	**Debt securities in issue €m**	**Subordinated liabilities €m**	**Total €m**
Opening Balance	42	27	-	545	83	697
Exchange adjustments	-	-	-	(3)	-	(3)
Total gains or losses in:						
Profit or loss						
- Net trading expense	-	(4)	-	(3)	(10)	(17)
- Other income	-	-	-	-	(2)	(2)
Other Comprehensive income	-	-	-	-	-	-
Additions	-	10	-	-	-	10
Disposals	-	-	-	-	-	-
Redemptions and maturities	-	(4)	-	(82)	(44)	(130)
Transfers out of level 3						
- from level 3 to level 2	(35)	-	-	-	-	(35)
Transfers into level 3						
- from level 2 to level 3	4	21	-	-	-	25
Closing balance	**11**	**50**	**-**	**457**	**27**	**545**
Total gains / (losses) for the year included in profit or loss for liabilities held at the end of the reporting year	5	(31)	-	(40)	-	(66)

The transfer from level 3 to level 2 arose as a result of an ability to obtain observable market prices at 31 December 2011 which were unavailable at 31 December 2010.

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 31 December 2010	Customer accounts €m	Derivative financial instruments €m	Derivatives held for sale to NAMA €m	Debt securities in issue €m	Subordinated liabilities €m	Total €m
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
Closing balance	42	27	-	545	83	697
Total gains / (losses) for the year included in profit or loss for liabilities held at the end of thereporting year	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 at 31 December 2010 which were unavailable at 31 December 2009.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming less significant to their fair value measurement of these liabilities.

53 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 2011 and 31 December 2010 are set out in the table below.

	31 December 2011		31 December 2010	
	Carrying amount €m	**Fair values €m**	Carrying amount €m	Fair values €m
Financial instruments held for trading				
Debt securities[1]	6	6	151	151
Derivative financial instruments - trading				
Foreign exchange contracts[1]	(89)	(89)	135	135
Interest rate contracts[1]	281	281	132	132
Equity and commodity contracts[1]	131	131	27	27
Non-trading financial instruments				
Assets				
Cash and balances at central banks[1]	8,181	8,181	1,014	1,014
Items in course of collection from other banks[1]	443	443	491	491
Loans and advances to banks	8,059	7,993	7,458	7,454
Loans and advances to customers (including assets classified as held for sale)	101,747	86,653	114,457	103,172
Assets held for sale to NAMA[2]	-	-	804	661
Available for sale financial assets[1]	10,262	10,262	15,576	15,576
NAMA senior bonds	5,016	5,055	5,075	5,075
Other financial assets at fair value through profit or loss[1]	8,914	8,914	10,045	10,045
Liabilities				
Deposits from banks	31,534	31,574	41,075	41,047
Customer accounts	70,506	70,495	65,443	65,545
Items in the course of transmission to other banks[1]	271	271	293	293
Debt securities in issue	19,124	15,989	28,693	26,060
Liabilities to customers under investment contracts[1]	4,954	4,954	5,271	5,271
Insurance contract liabilities[1]	7,037	7,037	7,188	7,188
Subordinated liabilities	1,426	1,142	2,775	1,150
Derivative financial instruments - hedging				
Interest rate contracts and foreign exchange contracts[1]	21	21	636	636

[1] *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.*

[2] *Assets held for sale to NAMA at 31 December 2010 were measured on the same basis in the balance sheet as prior to their classification as held for sale. For the purposes of presenting the fair value of the total portfolio of assets held for sale to NAMA, the Group applied a 25% discount (being the mid point of the Group's expected range) to all such loans.*

54 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	31 December 2011 €m	31 December 2010 €m
Cash and balances at central banks	8,181	1,014
Loans and advances to banks (with an original maturity of less than 3 months)	7,591	7,121
Cash and cash equivalents	**15,772**	**8,135**

Cash and balances at central banks is made up as follows:

Cash and balances at central banks	**Year ended 31 December 2011 €m**
United Kingdom (Bank of England)	7,624
United States (Federal Reserve)	194
Other (cash holdings)	363
Total	**8,181**

The Group's exposure to the United Kingdom set out above primarily relates to liquid assets in excess of regulatory liquidity requirements held by Bank of Ireland (UK) plc.

55 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 year ended 31 December 2011 determined in accordance with IFRS is €375 million. The profit after tax determined in accordance with IFRS for the year ended 31 December 2010 was €1,248 million.

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 Depository Shares (ADSs). The Group implemented a ratio change with respect to its American Depository Receipt (ADR) programme, effective from 14 October 2011, where the ratio changed from one ADS representing four units of ordinary stock (1:4), to one ADS representing 40 units of ordinary stock (1:40). Following this change, each ADS represents the right to receive 40 units of ordinary stock and evidenced by American Depository Receipts (ADRs).

56 Related party transactions

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 amounts outstanding at the year end date are set out in notes 28 and 39.

(a) Associates and joint ventures

The Group provides to and receives from its associates and joint ventures certain banking and financial services, which are not material to the Group, on similar terms to third party transactions. These include loans, deposits and foreign currency transactions. The amounts outstanding at the year end date are set out in notes 28 and 39.

Where appropriate under tax rules, the Group claims from or surrenders tax losses to its associates and joint ventures. In these cases, payments, equal to the value of the losses claimed or surrendered, are made to or received from the associates or joint ventures concerned.

56 Related party transactions (continued)

(b) Pension funds

The Group provides a range of normal banking and financial services, which are not material to the Group, 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. Details on the Group's contributions to the pension funds are set out in note 46.

The Group occupies a number of premises owned by the Group's pension schemes. The total value of these properties at 31 December 2011 is €24 million (31 December 2010: €25 million). The total rental income paid to the Group's pension schemes during the year ended 31 December 2011 was €2.1 million (year ended 31 December 2010: €2.1 million).

The assets of the Group's pension schemes assets included Bank of Ireland stock amounting to €2 million at 31 December 2011 (31 December 2010: €2 million).

At 31 December 2010, €2,825 million of the BSPF assets were managed by Bank of Ireland Asset Management Limited (BIAM) and Bank of Ireland Securities Services (BoISS) acted as custodian for these assets. As set out in note 19, BIAM was sold to State Street Global Advisors (SSGA) in January 2011 and BoISS was sold to Northern Trust Corporation in June 2011. The pension scheme assets continue to be managed by SSGA and Northern Trust continues to act as custodian for these assets.

At 31 December 2010, €9 million of the BSPF assets were managed by Paul Capital International LLC. As set out in note 19, Paul Capital International LLC was disposed of by the Group in April 2011.

During the year ended December 2011, fees of €1.4 million (year ended 31 December 2010: €5.1 million) were paid to the Group by the BSPF. The fees during the year ended 31 December 2011 were principally in relation to services carried out by the Group relating to the administration of the pension schemes. In the year ended 31 December 2010, the fees also included amounts paid to BIAM and BoISS in relation to the services described above.

(c) Transactions with the State

The State, through both the Group's participation in the ELG scheme and the investment by the NPRFC in the 2009 Preference Stock of the Bank, is a related party of the Group.

Details of individually or collectively significant transactions with the State and entities under its control or joint control are set out in note 57.

56 Related party transactions (continued)

(d) Transactions with Directors and Key Management Personnel

(i) Loans to Directors

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 Acts disclosures, Directors means the Court of Directors and any past Directors who were Directors during the relevant period.

Directors' emoluments are set out in the Remuneration Report on pages 160 to 168.

Where no amount is shown in the tables below, this indicates either a credit balance, a balance of nil, or a balance of less than €500.

Companies Acts disclosure Loans	Balance as at 1 January 2011[1] €'000	Balance as at 31 December 2011[1] €'000	Aggregate maximum amount outstanding during the year ended 31 December 2011[2] €'000
Directors at 31 December 2011			
R Boucher			
Mortgage total	206	176	206
Other loans total[3]	687	660	672
Credit card total	1	2	16
Total	**894**	**838**	**894**
T Considine			
Credit card total	1	3	3
Total	**1**	**3**	**3**
J Kennedy			
Mortgages total	776	651	776
Credit card total	-	3	3
Current account total	-	-	1
Total	**776**	**654**	**780**
P Kennedy			
Mortgages total	5,078	5,046	5,078
Credit card total	3	16	16
Current account total	-	-	2
Total	**5,081**	**5,062**	**5,096**
P Molloy			
Other loan total	127	-	127
Credit card total[4]	15	10	15
Total	**142**	**10**	**142**
P Mulvihill			
Credit card total	-	-	-
Current account total	-	-	-
Total	**-**	**-**	**-**

1 *Balance includes principal and interest.*
2 *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*
3 *Foreign currency amounts are converted into euro using exchange rates at 31 December 2011, 31 December 2010 and the average exchange rate for the year as appropriate.*
4 *On terms similar to those available to staff generally.*

56 Related party transactions (continued)

	Balance as at 1 January 2011[1] €'000	Balance as at 31 December 2011[1] €'000	Aggregate maximum amount outstanding during the year ended 31 December 2011[2] €'000
J Walsh			
Credit card total	1	2	4
Current account total	-	8	10
Total	**1**	**10**	**14**
Directors no longer in office at 31 December 2011			
J O' Donovan (retired 31 December 2011)			
Credit card total[4]	1	3	5
Current account total[4]	-	-	28
Total	**1**	**3**	**33**
D Crowley (retired 15 June 2011)			
Mortgages total	496	542	575
Other loan total	10	-	10
Credit cards total[3,4]	15	16	20
Current accounts total[4]	-	-	1
Total	**521**	**558**	**606**
P Haran (retired 15 June 2011)			
Mortgage total	105	89	105
Credit card total	-	1	6
Total	**105**	**90**	**111**
H A McSharry (retired 15 June 2011)			
Mortgages total	92	-	92
Credit card total	1	6	6
Total	**93**	**6**	**98**

[1] *Balance includes principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*
[3] *Foreign currency amounts are converted into euro using exchange rates at 31 December 2011, 31 December 2010 and the average exchange rate for the year as appropriate.*
[4] *On terms similar to those available to staff generally.*

D Donovan (retired 15 June 2011), D Holt (retired 15 June 2011), R Hynes (retired 31 December 2011), P Butler and P O'Sullivan had no loans from the Group during the year ended 31 December 2011.

All Directors except T Considine 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 relevant 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 similar transactions with other persons unconnected with the Bank and of similar financial standing and do not involve more than the normal risk of collectability.

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.

56 Related party transactions (continued)

Companies Acts disclosure Loans	Balance as at 1 January 2010[1] €'000	Balance as at 31 December 2010[1] €'000	Aggregate maximum amount outstanding during the Year ended 31 December 2010[2] €'000
Directors at 31 December 2010			
R Boucher			
Mortgage total	235	206	235
Other loans total[3]	708	687	732
Credit card total	3	1	15
Total	946	894	982
T Considine			
Credit card total	1	1	3
Total	1	1	3
D Crowley			
Mortgages total	614	496	614
Other loan total	18	10	18
Credit cards total[3,4]	14	15	26
Current accounts total[4]	-	-	2
Total	646	521	660
D Donovan			
Credit card total	-	-	2
Total	-	-	2
P Haran			
Mortgage total	120	105	120
Credit card total	2	-	2
Total	122	105	122
J Kennedy			
Mortgages total	1,301	776	1,301
Other loan total	98	-	98
Credit card total	-	-	2
Current account total	-	-	4
Total	1,399	776	1,405

[1] Balance includes principal and interest.
[2] These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.
[3] Foreign currency amounts are converted into euro using exchange rates at 31 December 2010, 31 December 2009 and the average exchange rate for the year as appropriate.
[4] On terms similar to those available to staff generally.

56 Related party transactions (continued)

	Balance as at 1 January 2010[1] €'000	Balance as at 31 December 2010[1] €'000	Aggregate maximum amount outstanding during the Year ended 31 December 2010[2] €'000
H A McSharry			
Mortgages total	120	92	120
Credit card total	5	1	8
Total	125	93	128
P Molloy			
Other loan total	500	127	500
Credit card total[3]	7	15	15
Total	507	142	515
J O' Donovan			
Credit card total[3]	2	1	6
Total	2	1	6
J Walsh			
Credit card total	1	1	3
Current account total	-	-	28
Total	1	1	31
P Kennedy			
Mortgages total	4,666	5,078	5,078
Credit card total	7	3	7
Current account total	-	-	175
Total	4,673	5,081	5,260
Directors no longer in office at 31 December 2010			
D McCourt			
Mortgage total	348	348	348
Other loans total	45	79	79
Credit card total	3	3	3
Total	396	430	430
T Neill			
Credit card total	3	-	3
Total	3	-	3

[1] *Balance includes principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*
[3] *On terms similar to those available to staff generally.*

D Holt, R Hynes and P O'Sullivan had no loans with the Group during the year ended 31 December 2010.

56 Related party transactions (continued)

(ii) Loans to connected persons on favourable terms

2011	Balance as at 31 December 2011[1] €'000	Maximum amounts outstanding during the year ended 31 December 2011[2] €'000	Number of persons as at 31 December 2011	Maximum number of persons during the year ended 31 December 2011
Connected Persons[3] of the following Directors:				
D Crowley	5	5	1	1
P Molloy	2	7	1	2

While the above arrangements are on favourable terms the terms are similar to those available to staff generally.

2010	Balance as at 31 December 2010[1] €'000	Maximum amounts outstanding during the year ended 31 December 2010[2] €'000	Number of persons as at 31 December 2010	Maximum number of persons during the year ended 31 December 2010
Connected Persons[3] of the following Directors:				
D Crowley	1	4	1	1
P Molloy	2	8	2	2

[1] *Balance includes principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*
[3] *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.*

(iii) Loans to connected persons - Central Bank licence condition disclosures

Under its banking licence, the Bank is required to disclose in its annual audited financial statements 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 is subject to certain de minimis exemptions and to exemptions for loans relating to principal private residences where the total of such loans to an individual connected person does not exceed €1 million.

The following information is presented in accordance with this licence condition.

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56 Related party transactions (continued)

2011	Balance as at 31 December 2011[1] €'000	Maximum amounts outstanding during the year ended 31 December 2011[2] €'000	Number of persons as at 31 December 2011	Maximum number of persons during the year ended 31 December 2011
Connected persons[3] of the following Directors				
Persons connected to H A McSharry	236	264	1	1
Persons connected to P Kennedy	2,053	2,118	1	1
Persons connected to P Butler	548	573	1	1
Persons connected to P Molloy	1,258	2,386	2	2

2010	Balance as at 31 December 2010[1] €'000	Maximum amounts outstanding during the year ended 31 December 2010[2] €'000	Number of persons as at 31 December 2010	Maximum number of persons during the year ended 31 December 2010
Connected persons[3] of the following Directors				
Persons connected to P Molloy	640	35,195	1	2
Persons connected to H A McSharry	264	530	1	2
Persons connected to P Kennedy	2,109	2,183	1	1

1 Balance includes principal and interest.
2 These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.
3 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.

(iv) Key management personnel (KMP) - loans and deposits (IAS 24)

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 executive Directors, the GEC comprises the Head of Retail (Ireland and UK), the Head of Non-Core, the Group Chief Governance Risk Officer, the Chief Credit and Market Risk Officer, the Head of Group HR and the Head of Group Manufacturing. Key management personnel, including Directors, hold products with Group companies in the ordinary course of business.

Other than as indicated by [4] on pages 295 and 296, all loans to non-executive 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 similar transactions with other persons, and do not involve more than the normal risk of collectability. 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.

56 Related party transactions (continued)

The aggregate amounts outstanding, in respect of all loans, quasi-loans and credit transactions between the Bank and its key management personnel, as defined above, together with members of their close families and entities influenced by them are shown in the table below:

IAS 24 Disclosures

Key Management Personnel 2011	Balance as at 1 January 2011[1] €'000	Balance as at 31 December 2011[1] €'000	Maximum amounts outstanding during the year ended 31 December 2011[2] €'000	Total number of KMP as at 1 January 2011	Total number of KMP as at 31 December 2011
Loans[3]	13,999	8,159	8,794	20	17
Deposits[3]	17,353	11,009	17,953	22	19

Key Management Personnel 2010	Balance as at 1 January 2010[1] €'000	Balance as at 31 December 2010[1] €'000	Maximum amounts outstanding during the year ended 31 December 2010[2] €'000	Total number of KMP as at 1 January 2010	Total number of KMP as at 31 December 2010
Loans	10,458	13,999	17,055	22	20
Deposits	20,519	17,353	39,696	26	22

[1] Balance includes principal and interest.
[2] 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. The maximum amount outstanding was calculated using the maximum balance on each account. The highest maximum outstanding liability for any member of key management personnel and their close family did not exceed €5.1 million during the year ended 31 December 2011 (31 December 2010: €5.3 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, in which case the greater of the balance at the start of the year and the balance at the end of the year has been included as the maximum balance amount. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.
[3] The opening balance includes balances and transactions with KMP who have retired during 2010 and are not therefore related parties during the current year.

Key management personnel 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 2011 or 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 €0.825 million, (31 December 2010: €1.673 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.

The Bank has a lien amounting to €3,200 (31 December 2010: €nil) over the deposit account of one Director which is in respect of an overdraft facility provided on a current account.

A guarantee amounting to €4,000 at 31 December 2011 (31 December 2010: €880,000) in favour of the Group has been entered into by one KMP and the Group has entered into a guarantee in favour of one Director amounting to €50,000 at 31 December 2011 (31 December 2010: €50,000). The connected person of one Director has entered into guarantees in favour of the Group amounting to €184,000. A guarantee by one Director amounting to €280,000 in favour of the Group was cancelled in June 2011. There were no calls on these guarantees during the year ended 31 December 2011 or 31 December 2010.

56 Related party transactions (continued)

(v) Compensation of key management personnel

Details of compensation paid to key management personnel are provided below:

Remuneration	Year ended 31 December 2011 €'000	Year ended 31 December 2010 €'000
Salaries and other short term benefits[1]	5,870	6,102
Post employment benefits[2]	451	(685)
Payment in lieu of notice	-	-
Total remuneration before amounts waived	6,321	5,417
Amounts waived[3]	(260)	(294)
	6,061	**5,123**

[1] *Comprises gross salary, fees, cash in lieu of pension, car allowance and other short term benefits paid in the year.*
[2] *This comprises Employer contributions paid to pension funds. In the prior year, the Group CEO, R Boucher voluntarily waived his contractual option to retire at 55 on a pension without actuarial reduction. The prior year figure included an amount in respect of this change.*
[3] *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. The voluntary waiver has been extended until 31 December 2012 for R Boucher.*

57 Summary of relations with the State

The State, through both the Group's participation in the Government Guarantee Schemes and the investment by the NPRFC in the 2009 Preference Stock of the Bank, is a related party of the Group.

(a) Ordinary stock

During the year ended 31 December 2011, the State's proportionate holding of the ordinary stock of the Bank reduced significantly following the Rights Issue, the debt for equity and cash offers and in particular the sale by the State of a significant number of units of ordinary stock in the Bank to a group of institutional investors and fund managers. See note 49 for further detail on these transactions.

As a result, at 31 December 2011 the State held 15% of the ordinary stock of the Bank (31 December 2010: 36%).

(b) 2009 Preference Stock

At 31 December 2011 and at 31 December 2010, there were 1,837,041,304 number of units of 2009 Preference Stock in issue all of which were held by the NPRFC.

On 21 February 2011, the Bank paid a cash dividend of €214.5 million on the 2009 Preference Stock to the NPRFC. In February 2010, in accordance with the terms of the instrument, 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[1] (which equated to a share price of €1.3582).

The terms and conditions attaching to the 2009 Preference Stock are outlined in note 48.

(c) Contingent Capital note

In July 2011 the Group issued a Contingent Capital note to the State, satisfying the requirement under the 2011 PCAR to issue €1 billion of Contingent Capital. The nominal value of this note is €1 billion and cash proceeds of €985 million were received (net of a fee paid to the State of €15 million). The note has a term of five years and a coupon of 10%, which can be increased to a maximum of 18% if the State sells the note to a third party. For further details see note 42.

(d) Fees paid

Fees paid to the State in connection with the recapitalisation of the Bank (see note 49) amounted to €83 million (year ended 31 December 2010: €52 million).

[1] *Defined in Capital Stock in Government Guarantee - Defined Terms, section of Other information, page 363.*

57 Summary of relations with the State (continued)

(e) Guarantee schemes

Credit Institutions (Eligible Liabilities Guarantee) Scheme (ELG scheme)

On 11 January 2010, four Group entities (the Governor and Company of the Bank of Ireland, Bank of Ireland Mortgage Bank, ICS Building Society and Bank of Ireland (IOM) Limited) were accepted into the State's Eligible Liabilities Guarantee 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 government guarantee which had previously been provided under the Credit Institutions (Financial Support) Scheme 2008 (the CIFS Scheme), which expired on 29 September 2010.

The ELG scheme provides a guarantee for relevant customer deposits. In November 2011 the Minister for Finance introduced flexibility for covered institutions to issue certain customer deposits in unguaranteed form. At 31 December 2011, no such unguaranteed deposits had been issued by the Group. The guarantee also provides flexibility to issue certain debt securities in both unguaranteed and guaranteed form (up to a maximum maturity of five 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 (2008 / C270 / 02) and subject to prior consultation with the EU Commission.

Dated subordinated debt, covered bonds and other forms of secured funding are not guaranteed under the ELG scheme.

The Irish Government has extended the ELG scheme for a further period of one year to 31 December 2012. The extension is subject to EU state aid approval every six months, which is the maximum period permitted for such approval under the European Commission's policy on guarantee schemes in the financial sector. The EU Commission has approved the extension to 30 June 2012. Debt securities and deposits issued under the ELG scheme prior to 30 June 2012 will be covered to maturity, subject to a maximum maturity of five years.

An approval by the EU Commission of a further extension of the ELG scheme to 31 December 2012 would ensure that debt securities and deposits issued under the ELG scheme prior to 31 December 2012 would be covered up to their maturity, subject to a maximum term of five years.

The following table summarises the fees paid under the ELG and CIFS Schemes during the years ended 31 December 2011 and 2010 and the liabilities covered at each balance sheet date.

	Year ended 31 December 2011	Year ended 31 December 2010
Liabilities covered at year end	**€bn**	**€bn**
ELG		
- Customer deposits	26	29
- Debt securities in issue	6	7
- Deposits by banks*	10	3
Total	**42**	**39**
Fees for the year	**€m**	**€m**
ELG	449	275
CIFS	-	68
Total	**449**	**343**

** The charge under the guarantee relates to Government guaranteed debt issued and retained by the Group which are used as collateral for these deposits.*

57 Summary of relations with the State (continued)

European Communities (Deposit Guarantee Schemes) Regulations, 1995

Under the European Communities (Deposit Guarantee Schemes) Regulations, 1995 as amended by the State on 20 September 2008, deposits of up to €100,000 per depositor per licensed financial institution regulated by the Central Bank are guaranteed by the State. This Scheme covers current accounts, demand deposit accounts and term deposit accounts. The Scheme is funded by credit institutions lodging funds in a deposit protection account maintained at the Central Bank.

In addition to the deposits covered by these Regulations and by the ELG scheme as set out above, certain other Group deposits are covered by the deposit protection schemes in other jurisdictions, chiefly the UK Financial Services Compensation Scheme (in respect of deposits issued by Bank of Ireland (UK) plc) and the Isle of Man Depositors Compensation Scheme (in respect of deposits issued by Bank of Ireland (I.O.M.) Limited).

(f) Indemnity on Ministerial Guarantee

On 23 December 2010, the Bank entered into a facility deed (the deed) with the Central Bank, providing for an uncommitted facility to the Group, guaranteed by the Minister for Finance. In entering into the deed, the Bank also entered into a counter indemnity agreement with the Minister for Finance. This agreement 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 coterminous with payment of interest and prepayment of principal in full under the deed.

The facility was initially for an amount of €10 billion, with the Central Bank having the option to increase this to an amount determined at its absolute discretion. The facility reached a maximum amount of €14 billion during the year ended 31 December 2011. At 31 December 2011, the amount of the facility was €10 billion, and this was subsequently reduced to €5 billion on 23 January 2012. The facility is currently due to expire on 23 April 2012.

(g) Bonds issued by the State

At 31 December 2011 the Group held bonds issued by the State with a carrying value of €4,222 million (31 December 2010 €3,811 million). Further details are set out on page 82 in the Risk Management Report.

(h) Bonds issued by NAMA

At 31 December 2011 the Group held bonds issued by NAMA with a carrying value of €5,129 million (31 December 2010 €5,173 million).

	31 December 2011 €m	31 December 2010 €m
NAMA senior bonds	5,016	5,075
NAMA subordinated bonds	113	98
Total	**5,129**	**5,173**

57 Summary of relations with the State (continued)

(i) National Asset Management Agency (NAMA)
Details on NAMA are set out in notes 15, 16, 26, 27 and 29.

(j) 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 has also issued 49 million A shares to NAMA. As a result the Group holds 17% 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.

On a winding-up, the return on B shares is capped at 110% 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).

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 State bonds. A dividend of €1.7 million was received by the Group on 1 April 2011.

The Group had no involvement with NAMAIL prior to 30 March 2010.

(k) Other transactions with the State and entities under its control or joint control
In addition to the matters set out above, the Group enters into other transactions in the normal course of business with the State, its agencies and entities under its control or joint control. These transactions 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 is considered to be individually or collectively significant.

57 Summary of relations with the State (continued)

The entities listed below (including their subsidiaries and joint ventures) were under the control of the State at 31 December 2011 and are considered to be related parties of the Group at that date. The Group held bonds with a carrying value of €93 million (31 December 2010: €416 million) issued by these entities as follows:

	31 December 2011 €m	31 December 2010 €m
Senior bonds		
Allied Irish Banks plc (AIB)[1]	57	180
Irish Bank Resolution Corporation (IBRC)[2]	36	89
Irish Life and Permanent (ILP)[3]	-	96
Total senior bonds	**93**	**365**
Subordinated bonds		
Allied Irish Banks plc	-	42
Irish Bank Resolution Corporation	-	-
Irish Life and Permanent plc	-	9
Total subordinated bonds	**-**	**51**
Total	**93**	**416**

1 *During the year ended 31 December 2011, AIB acquired EBS Building Society (EBS). At 31 December 2010 and up to the date of this acquisition, both AIB and EBS were related parties of the Group.*
2 *During the year ended 31 December 2011, the assets and liabilities of Irish Nationwide Building Society (INBS) were transferred to Anglo Irish Bank Corporation Limited (Anglo) as a result of a transfer order under the Credit Institutions (Stabilisation Act) 2010. Subsequently, Anglo changed its name to Irish Bank Resolution Corporation Limited (IBRC). Both Anglo and INBS were related parties of the Group at 31 December 2010.*
3 *During the year ended 31 December 2011, ILP came under the control of the State and hence became a related party of the Group.*

There was an impairment charge of €16 million on a holding of ILP subordinated debt in the year ended 31 December 2011 and an impairment charge of €98 million on a holding of AIB subordinated debt in the year ended 31 December 2010.

In addition, at 31 December 2011, the Group had loans to AIB of €70 million (31 December 2010: €34 million) which were included in loans and advances to banks and deposits from IBRC of €9 million (31 December 2010: €80 million which were included in deposits from banks .

At 31 December 2011, the Group held deposits from the National Treasury Management Agency (NTMA) of nil (31 December 2010: €200 million). These deposits were on normal commercial terms. The maximum amount of these deposits during the year was €3.2 billion.

58 Principal undertakings

The principal Group undertakings at 31 December 2011 were:

Name	Principal activity	Country of incorporation	Statutory year end
Bank of Ireland International Finance Limited[1]	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[1]	Life assurance and pensions	Ireland	31 December
Bank of Ireland Mortgage Bank[1]	Mortgage lending and mortgage covered securities	Ireland	31 December
Bank of Ireland (UK) plc[1]	Retail financial services	England and Wales	31 December
First Rate Exchange Services Holdings Limited[2]	Foreign exchange	England and Wales	31 March
ICS Building Society[1]	Building society	Ireland	31 December
Midasgrange Limited (t/a Post Office Financial Services, POFS)[3]	Retail financial services	England and Wales	31 March

[1] *Direct subsidiary of The Governor and Company of the Bank of Ireland*
[2] *This entity is a joint venture with the UK Post Office, in which the Group holds 50% of the equity of the business.*
[3] *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.

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 Registation 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 2011, the total amount outstanding in respect of mortgage covered securities issued was €12.2 billion (31 December 2010: €10.2 billion). At 31 December 2011, the total amount of principal outstanding in the mortgage covered pool including mortgage assets and cash was €19.6 billion (31 December 2010: €14.7 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 2011 BoIMB had no such debt securities in issue (31 December 2010: €3.6 billion).

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.

59 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.

		31 December 2011		31 December 2010	
Activity	**Company**	**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[1]	Stg£2,633	Stg£2,470	Stg£2,887	Stg£2,806
	Bowbells plc[2]	Stg£7,170	Stg£5,119	Stg£7,701	Stg£5,699
	Colston No 1 PLC[2]	Stg£3,509	Stg£2,904	Stg£3,867	Stg£3,158
	Colston No 2 PLC[2]	Stg£1,996	Stg£1,665	Stg£2,288	Stg£1,892
	Colston No 3 PLC[3]	-	-	Stg£2,763	Stg£2,222
	Colston No 4 PLC[2]	Stg£1,849	Stg£1,476	Stg£2,106	Stg£1,642
	Kildare Securities Limited[4]	€1,760	€1,647	€1,799	€1,721
	Melepard CDO 1 Limited[2]	€933	€933	€1,208	€1,208
	Morrigan CMBS I Limited[3]	-	-	€1,214	€1,210
	Pirus Securities Limited[2]	€1,977	€1,564	€2,039	€1,627
Acquiring other financial assets and issuing debt securities.	Avondale Securities[5]	€584	€293	€713	€318
Acquiring a pool of acquisition finance loans assets which it has issued a series of loan notes to finance.	Partholon CDO 1 plc[6]	€247	€242	€360	€390

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.

1 During the year, the Group repurchased Stg£625 million of the notes issued by this entity.
2 The Group holds all the notes issued by these entities.
3 Colston No. 3 PLC and Morrigan CMBS I Limited ceased operations and the notes were redeemed in full during the year ended 31 December 2011.
4 During the year, the Group repurchased €414 million of the notes issued by this entity.
5 The assets 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 1.41%, the present value of the defined block of policies is €584 million at 31 December 2011 and was €713 million at 31 December 2010.
6 The Group holds 25% of the subordinated loan notes. The Group also holds €36 million of B1 / CCC- rated notes which it intends to hold until maturity. This investment is eliminated on consolidation.

		31 December 2011		31 December 2010	
Activity	**Company**	**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£3,881	Stg£2,701[1]	Stg£5,219	Stg£4,001[1]

1 All the borrowings of Bank of Ireland Covered Bonds LLP have been advanced by other Group companies.

60 Life assurance business

Value of the In Force Asset	31 December 2011 €m	31 December 2010 €m
At beginning of year	538	497
Income statement movement in value of the in force asset (gross of tax)	(19)	41
At end of year	**519**	**538**

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 6.4 years as at 31 December 2011 (31 December 2010: 6.8 years).

The key economic assumptions used in the calculation of the value of the in force business are set out below:

	31 December 2011	31 December 2010
Risk discount rate	7.0%	7.75%
Unit growth rate	4.75%	5.75%
Shareholder tax rate	12.5%	12.5%

The process used in determining the key economic and experience assumptions is set out below:

Risk discount rate:	The risk discount rate is the rate used to discount the future 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. In line with December 2010 the Euro Swap curve is used as a benchmark for an international mix of fixed interest assets as opposed to the previously used Irish Government benchmark bond. The risk discount rate applied to future cash flows at December 2011 is 7% (31 December 2010: 7.75%).
Unit growth rate:	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 5.75% at 31 December 2010 to 4.75% at 31 December 2011.
Shareholder tax rate:	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.
Mortality and morbidity:	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.
Persistency:	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.
Maintenance expenses:	Allowance is made for future policy costs by reference to current and expected future costs. Explicit allowance is made for future expense inflation.

60 Life assurance business (continued)

Sensitivities

The table below indicates the standalone impact of changes in the key assumptions on profit.

	31 December 2011	31 December 2010
1% increase in risk discount rate	(€24 million)	(€29 million)
1% decrease in risk discount rate	€11 million	€32 million
10% improvement in mortality	€6 million	€8 million
10% deterioration in persistency	(€14 million)	(€15 million)
5% improvement in maintenance expenses	€7 million	€7 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.

61 EU restructuring plan

On 15 July 2010 the European Commission approved the terms of the Group's 2010 EU Restructuring Plan which is required in the context of a review by the European Commission following the Group's receipt the State aid.

Following the March 2011 PCAR / PLAR review, the Group submitted its 2011 EU Restructuring Plan to the European Commission, which was subsequently approved on 20 December 2011.

The key amendments to the approved 2010 EU Restructuring Plan reflected in the 2011 EU Restructuring Plan are as follows:

- The divestment period for New Ireland Assurance Company plc will be extended to December 2013;
- The planned divestment of ICS Building Society will no longer proceed;
- The measures to facilitate competition in the Irish banking market will now apply from 1 January 2013 to 31 December 2015 and may involve broadening of the relevant product scope;
- The commitment from the Group not to pay dividends on Ordinary Stock has been extended to the earlier of (i) 31 December 2015 or (ii) a date when the 2009 Preference Stock is either redeemed or no longer owned by the State;
- The commitment from the Group with respect to restrictions on acquisitions has been extended to the earlier of (i) 31 December 2015 or (ii) a date when the State's holding of the 2009 Preference Stock, Ordinary Stock and Contingent Capital note are redeemed, repaid or no longer owned by the State; and
- The Group's commitment with respect to restrictions on the level of marketing spend will apply for a further eighteen months.

For further information on deleveraging see notes 17 and 30.

62 Post balance sheet events

On 1 February 2012, the sale of Burdale completed. For further information see note 30.

63 Approval of financial statements

The Court of Directors approved the financial statements on 19 February 2012.

Index to the Bank financial statements

Bank balance sheet

as at 31 December 2011

	Notes	31 December 2011 €m	31 December 2010 €m
ASSETS			
Cash and balances at central banks		523	914
Items in the course of collection from other banks		226	193
Trading securities	c	6	151
Derivative financial instruments	d	5,999	5,946
Other financial assets at fair value through profit or loss	e	49	94
Loans and advances to banks	f	62,766	59,340
Available for sale financial assets	g	15,497	17,261
NAMA senior bonds	h	5,016	5,075
Loans and advances to customers	i	61,435	75,203
Assets held for sale to NAMA	j	-	791
Other assets classified as held for sale	k	1,278	-
Shares in Group undertakings	l	3,491	2,839
Intangible assets	n	308	312
Property, plant and equipment	o	288	320
Current tax asset		36	85
Deferred tax	x	1,241	1,026
Other assets	p	708	781
Retirement benefit asset	w	5	10
Total assets		**158,872**	**170,341**
EQUITY AND LIABILITIES			
Deposits from banks	q	80,131	87,952
Customer accounts	r	48,699	50,632
Items in the course of transmission to other banks		100	155
Derivative financial instruments	d	6,418	5,850
Debt securities in issue	s	8,620	12,448
Other liabilities	t	3,644	3,815
Provisions	u	36	54
Retirement benefit obligations	w	358	368
Subordinated liabilities	v	1,386	2,700
Total liabilities		**149,392**	**163,974**
Equity			
Capital stock	z	2,452	1,210
Stock premium account		5,117	3,920
Retained earnings		2,718	2,594
Other reserves		(807)	(1,357)
Stockholders' equity		**9,480**	**6,367**
Total equity and liabilities		**158,872**	**170,341**

Patrick J Molloy	***Patrick O'Sullivan***	***Richie Boucher***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Secretary*

Bank statement of changes in equity

for the year ended 31 December 2011

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Capital Stock		
Balance at the beginning of the year	1,210	699
Issue of ordinary stock	1,242	238
Conversion of 2009 Preference Stock	-	155
Dividend on 2009 Preference Stock paid in ordinary stock	-	118
Balance at the end of the year	**2,452**	**1,210**
Stock premium account		
Balance at the beginning of the year	3,920	4,090
Premium on issue of ordinary stock	1,331	1,409
Transaction costs	(118)	(125)
Transferred to retained earnings	(16)	(800)
Loss on cancellation of warrants	-	(381)
Conversion of 2009 Preference Stock	-	(155)
Dividend on 2009 Preference Stock paid in ordinary stock	-	(118)
Balance at the end of the year	**5,117**	**3,920**
Retained earnings		
Balance at the beginning of the year	2,594	213
Profit for year attributable to stockholders	*375*	*1,248*
Dividends on 2009 Preference stock and other equity interests paid in cash	*(222)*	-
Profit retained	153	1,248
Repurchase of capital notes	41	-
Transfer to revaluation reserves	(3)	
Transfer from stock premium	16	800
Transfer from share based payments reserve	5	4
Net actuarial (loss) / gain on defined benefit pension schemes	(88)	327
Other movements	-	2
Balance at the end of the year	**2,718**	**2,594**
Other Reserves:		
Available for sale reserve		
Balance at the beginning of the year	(654)	(264)
Net changes in fair value	(5)	(601)
Deferred tax on reserve movements	(5)	53
Transfer to income statement (before tax)		
- On asset disposal	28	(10)
- Impairment	20	168
Balance at the end of the year	**(616)**	**(654)**
Cash flow hedge reserve		
Balance at the beginning of the year	(231)	(503)
Net changes in fair value	(530)	(97)
Transferred to income statement (before tax)		
- Net interest income	156	412
- Net trading expense (foreign exchange) income / (expense)	732	(2)
Deferred tax on reserve movements	(35)	(41)
Balance at the end of the year	**92**	**(231)**
Foreign exchange reserve		
Balance at the beginning of the year	(602)	(687)
Exchange adjustments during the year	142	85
Balance at the end of the year	**(460)**	**(602)**

Bank statement of changes in equity (continued)

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Capital reserve		
Balance at the beginning of the year	48	48
Balance at the end of the year	**48**	**48**
Share based payments reserve		
Balance at the beginning of the year	12	22
Charge to the income statement	-	(6)
Transfer to retained earnings	(5)	(4)
Balance at the end of the year	**7**	**12**
Revaluation reserve		
Balance at the beginning of the year	9	23
Revaluation of property	(8)	(18)
Deferred tax on revaluation of property	2	4
Transfer from retained earnings	3	-
Balance at the end of the year	**6**	**9**
Other equity reserves		
US$150 million capital note		
Balance at the beginning of the year	61	114
Repurchase of capital note	(61)	(53)
Balance at the end of the year	**-**	**61**
Capital contribution		
Balance at the beginning of the year	-	-
Contribution during the year	116	-
Balance at the end of the year	**116**	**-**
Core and secondary tranche warrants		
Balance at the beginning of the year	-	110
Cancellation of warrants	-	(110)
Balance at the end of the year	**-**	**-**
Total other reserves	**(807)**	(1,357)
Total stockholders' equity	**9,480**	**6,367**

Patrick J Molloy
Governor

Patrick O'Sullivan
Deputy Governor

Richie Boucher
Group Chief Executive

Helen Nolan
Secretary

Bank cash flow statement

for the year ended 31 December 2011

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Cash flows from operating activities		
Profit before taxation	156	687
Dividends received from Group undertakings	(146)	(1,420)
Depreciation and amortisation	117	124
Impairment charges on financial assets (including assets sold to NAMA)	1,328	1,782
(Gain) / loss on sale of assets to NAMA including associated costs	(41)	2,437
Decline in value of property below cost	11	9
Interest expense on subordinated liabilities and other capital instruments	166	226
Impact of amendments to defined benefit pension schemes	(2)	(583)
Gain on subordinated liability management exercises	(1,208)	(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'	(56)	(360)
Loss on deleveraging of financial assets	457	-
Other non-cash items	96	75
Cash flows from operating activities before changes in operating assets and liabilities	**878**	**2,121**
Net change in items in the course of collection from other banks	(88)	170
Net change in trading securities	145	252
Net change in derivative financial instruments	946	(1,605)
Net change in other financial assets at fair value through profit or loss	45	(24)
Net change in loans and advances to banks	(4,389)	(5,482)
Net change in loans and advances to customers	6,095	7,015
Net change in other assets	285	(138)
Net change in deposits from banks	(7,783)	26,821
Net change in customer accounts	(1,972)	(21,742)
Net change in debt securities in issue	(3,828)	(15,140)
Net change in other liabilities	(204)	1,590
Effect of exchange translation and other adjustments	(729)	165
Net cash flows from operating assets and liabilities	**(11,477)**	**(8,118)**

Bank cash flow statement (continued)

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Net cash flows from operating activities before taxation	**(10,599)**	**(5,997)**
Taxation refunded	1	4
Net cash flows from operating activities	**(10,598)**	**(5,993)**
Investing activities (section a)	7,325	4,189
Financing activities (section b)	1,736	(589)
Net change in cash and cash equivalents	**(1,537)**	**(2,393)**
Opening cash and cash equivalents	6,723	8,815
Effect of exchange translation adjustments	(3)	301
Closing cash and cash equivalents (note ad)	**5,183**	**6,723**
(a) Investing activities		
Additions to available for sale financial assets	(11,659)	(7,745)
Disposal of available for sale financial assets	13,628	12,035
Additions to property, plant and equipment	(31)	(40)
Disposal of property, plant and equipment	5	2
Additions to intangible assets	(71)	(40)
Disposal of intangible assets	2	1
Increase in investment in subsidiaries	(501)	(1,444)
Dividends received from Group undertakings	146	1,420
Net proceeds from disposal of loan portfolios	5,806	-
Cash flows from investing activities	**7,325**	**4,189**
(b) Financing activities		
Net proceeds from Rights Issue and institutional placing[1]	1,790	908
Net proceeds from Contingent Capital note	985	-
Consideration paid in respect of liability management exercises	(592)	-
Dividends on other equity interests	(222)	(1)
Interest paid on subordinated liabilities	(225)	(255)
Cancellation of warrants	-	(491)
Redemption of subordinated liabilities	-	(750)
Cash flows from financing activities	**1,736**	**(589)**

[1] The institutional placing took place during the year ended 31 December 2010.

Patrick J Molloy	***Patrick O'Sullivan***	***Richie Boucher***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Secretary*

Notes to the Bank financial statements

a 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 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 reflect the financial position of the Bank only and do not consolidate the results of any subsidiaries. The accounts are presented in euro millions except where otherwise indicated.

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 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 182 to 203 where applicable.

The preparation of 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 207 to 209 of the Group's annual report.

b Auditors' remuneration (excluding VAT)

	Notes	**Year ended 31 December 2011 Total €m**	Year ended 31 December 2010 Total €m
Audit and assurance services			
Statutory audit		1.8	2.3
Assurance services			
- Assurance services relating to Capital Raising		1.8	0.8
- Other assurance services	(i)	2.3	2.7
		5.9	**5.8**
Other services			
Taxation services		0.1	-
Other non-audit services		-	-
Auditors' remuneration		**6.0**	**5.8**

The figures in the above table relate to fees paid to the Statutory Auditor, PricewaterhouseCoopers (PwC) Ireland. The Group Audit Committee has reviewed the level of fees and is satisfied that it has not impacted 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.

c Trading securities

	31 December 2011 €m	31 December 2010 €m
Debt securities – listed	6	151
Trading securities	**6**	**151**

The Bank holds a portfolio of bonds for trading purposes with an average rating of A (31 December 2010: BBB+).

d Derivative financial instruments

Information on derivatives is outlined in note 23 to the consolidated financial statements.

The notional amounts and fair values of derivative instruments held by the Bank are set out in the following tables:

		Fair Values	
31 December 2011	**Contract / notional amount €m**	**Assets €m**	**Liabilities €m**
Derivatives held for trading			
Foreign exchange derivatives			
Currency forwards	10,439	93	168
Currency swaps	753	36	50
Over the counter currency options	371	3	3
Total foreign exchange derivatives held for trading	**11,563**	**132**	**221**
Interest rate derivatives			
Interest rate swaps	224,684	3,278	3,309
Cross currency interest rate swaps	10,563	454	598
Forward rate agreements	3,035	3	2
Over the counter interest rate options	5,443	98	91
Total interest rate derivatives held for trading	**243,725**	**3,833**	**4,000**
Equity contracts and credit derivatives			
Equity index linked contracts held	5,125	130	83
Equity conversion feature in Contingent Capital note	1,000	84	-
Credit derivatives	378	2	2
Total derivative assets / liabilities held for trading	**261,791**	**4,181**	**4,306**
Derivatives held for hedging			
Derivatives designated as fair value hedges			
Interest rate swaps	15,763	286	501
Cross currency interest rate swaps	732	93	3
Total designated as fair value hedges	**16,495**	**379**	**504**
Derivatives designated as cash flow hedges			
Interest rate swaps	80,791	1,369	1,288
Cross currency interest rate swaps	15,436	69	320
Currency forwards	19	1	-
Total designated as cash flow hedges	**96,246**	**1,439**	**1,608**
Total derivative assets / liabilities held for hedging	**112,741**	**1,818**	**2,112**
Total derivative assets / liabilities	**374,532**	**5,999**	**6,418**
Amounts include:			
Due from / to Group undertakings	40,531	59	424

d Derivative financial instruments (continued)

The notional amounts and fair values of derivative instruments held by the Bank are set out in the following tables:

31 December 2010	Contract / notional amount €m	Fair values Assets €m	Fair values Liabilities €m
Derivatives held for trading			
Foreign exchange derivatives			
Currency forwards	25,557	385	242
Currency swaps	1,033	48	55
Over the counter currency options	1,210	8	8
Total foreign exchange derivatives held for trading	27,800	441	305
Interest rate derivatives			
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
Total interest rate derivatives held for trading	313,208	3,619	3,479
Equity contracts and credit derivatives			
Equity index linked contracts held	5,334	134	107
Credit derivatives	420	-	-
Total derivative assets / liabilities held for trading	346,762	4,194	3,891
Derivatives held for hedging			
Derivatives designated as fair value hedges			
Interest rate swaps	16,005	321	537
Cross currency interest rate swaps	1,577	223	1
Total designated as fair value hedges	17,582	544	538
Derivatives designated as cash flow hedges			
Interest rate swaps	76,048	1,207	1,421
Currency forwards	23	1	-
Total designated as cash flow hedges	76,071	1,208	1,421
Total derivative assets / liabilities held for hedging	93,653	1,752	1,959
Total derivative assets / liabilities	440,415	5,946	5,850
Amounts include:			
Due from / to Group undertakings	32,725	73	430

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 64, the Bank uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of €6.0 billion at 31 December 2011 (31 December 2010: €5.9 billion), €3.9 billion (31 December 2010: €3.5 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 €2.2 billion (31 December 2010: €1.8 billion) placed with derivative counterparties in respect of the net derivative liability position of €2.1 billion (31 December 2010: €2.5 billion).

Net derivative assets of €2.1 billion (31 December 2010: €2.4 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 2011 cash collateral of €0.6 billion (31 December 2010: €0.7 billion) was held against these assets and is reported within Deposits from banks (note q).

d Derivative financial instruments (continued)

The Bank 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 Bank's fixed rate debt held and debt issued portfolios.

Cash flow hedges

The Bank 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 floating rate assets and liabilities and from foreign currency assets. Movements in the cash flow hedge reserve are shown in the statement of changes in equity (page 313).

The years in which the hedged cash flows are expected to occur are shown in the table below.

31 December 2011	**Up to 1 year €m**	**Between 1 to 2 years €m**	**Between 2 to 5 years €m**	**More than 5 years €m**	**Total €m**
Forecast receivable cash flows	12,480	3,698	875	611	17,664
Forecast payable cash flows	(219)	(198)	(406)	(710)	(1,533)

31 December 2010	Up to 1 year €m	Between 1 to 2 years €m	Between 2 to 5 years €m	More than 5 years €m	Total €m
Forecast receivable cash flows	214	285	1,038	460	1,997
Forecast payable cash flows	(208)	(320)	(909)	(765)	(2,202)

The hedged cash flows are expected to impact the income statement in the following years, excluding any hedge accounting adjustments that may be applied:

31 December 2011	**Up to 1 year €m**	**Between 1 to 2 years €m**	**Between 2 to 5 years €m**	**More than 5 years €m**	**Total €m**
Forecast receivable cash flows	16,252	285	568	559	17,664
Forecast payable cash flows	(277)	(174)	(392)	(690)	(1,533)

31 December 2010	Up to 1 year €m	Between 1 to 2 years €m	Between 2 to 5 years €m	More than 5 years €m	Total €m
Forecast receivable cash flows	254	307	1,015	421	1,997
Forecast payable cash flows	(277)	(331)	(872)	(722)	(2,202)

The increase in hedged cash flows during the year ended 31 December 2011 is due to the designation in cash flow hedge relationships of cross currency swaps entered into by the Bank to hedge foreign currency assets.

During the year ended 31 December 2011 and 31 December 2010, there were no forecast transactions to which the Bank has applied hedge accounting which were no longer expected to occur.

e Other financial assets at fair value through profit or loss

	31 December 2011 €m	31 December 2010 €m
Loans and advances	49	94
Other financial assets at fair value through profit or loss	**49**	**94**

f Loans and advances to banks

	31 December 2011 €m	31 December 2010 €m
Placements with other banks	60,887	56,047
Mandatory deposit with central banks	1,300	2,999
Funds placed with central banks	162	216
Securities purchased with agreement to resell	417	79
	62,766	**59,341**
Less allowance for impairment on loans and advances to banks	-	(1)
Loans and advances to banks	**62,766**	**59,340**
Amounts include:		
Due from Group undertakings	57,136	52,685

Placements with other banks includes cash collateral of €2.2 billion (31 December 2010: €1.8 billion) placed with derivative counterparties in relation to net derivative liability positions (note d).

For the purpose of disclosure of credit risk exposures, loans and advances to banks are included within other financial instruments of €90 billion 31 December 2010: €88 billion) in note m.

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 2011 was €417 million (31 December 2010: €79 million).

The Bank is required to maintain some mandatory deposits with the Central Bank and the Bank of England which amounted to €1,300 million at 31 December 2011 (31 December 2010: €2,999 million). Such mandatory deposits are included within loans and advances to banks.

An amount of €1,012 million included within mandatory deposits with central banks relates to collateral in respect of notes in circulation (31 December 2010: €967 million).

g Available for sale financial assets

	31 December 2011 €m	31 December 2010 €m
Government bonds	4,269	3,183
Other debt securities		
- listed	4,909	10,441
- unlisted	6,319	3,636
Equity securities		
- listed	-	1
Available for sale financial assets	**15,497**	**17,261**
Amounts include:		
Due from Group undertakings	5,945	3,404

At 31 December 2011, available for sale financial assets of €7.8 billion (31 December 2010: €12.9 billion) had been pledged to third parties in sale and repurchase agreements. The Bank has not derecognised any securities delivered in repurchase agreements.

Included within unlisted debt securities are NAMA subordinated bonds with a fair value of €113 million (31 December 2010: €98 million) and a nominal value of €280 million (31 December 2010: €271 million). 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 h). The subordinated bonds are not guaranteed by the State, they are not marketable and the payment of interest and repayment of capital is dependent on the performance of NAMA. An impairment charge of €70 million was incurred on the NAMA subordinated bonds during the year ended 31 December 2010.

The movement on available for sale financial assets is analysed as follows:

	31 December 2011 €m	31 December 2010 €m
At beginning of year	17,261	21,826
Revaluation, exchange and other adjustments	174	(280)
Additions	11,659	7,913
Sales	(3,897)	(3,337)
Redemptions	(9,731)	(8,698)
Amortisation	51	5
Impairment charge	(20)	(168)
At end of year	**15,497**	**17,261**

During the year 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 were no longer considered to be traded in an active market. At the date of this reclassification, the effective interest rate on reclassified assets ranged from 4.75% to 5.75% with expected recoverable cash flows of €85 million. At the date of this reclassification, the Bank had the intention and ability to hold these assets for the forseeable future or until maturity. No subsequent reclassifications have been made up to 31 December 2011.

g Available for sale financial assets (continued)

The table below sets out the carrying amounts and fair values of the reclassified assets:

	31 December 2011		31 December 2010	
	Carrying amounts €m	**Fair Value €m**	Carrying amounts €m	Fair Value €m
AFS financial assets reclassified to loans and advances to customers	35	48	42	54

Interest income of €10 million (year ended 31 December 2010: €17 million) and an impairment charge of €nil (year ended 31 December 2010: €24 million) have been recognised in the income statement for the year ended 31 December 2011 in relation to these assets. If the assets had not been reclassified a fair value loss of €6 million (year ended 31 December 2010: €36 million) would have been recognised in other comprehensive income and the impairment charge would have been €nil (year ended 31 December 2010: €24 million).

h NAMA senior bonds

	31 December 2011 €m	31 December 2010 €m
NAMA senior bonds	**5,016**	**5,075**

The Bank received as consideration for the assets transferred to NAMA a combination of Government guaranteed bonds (NAMA senior bonds) issued by NAMA (95% of the nominal consideration) and NAMA subordinated bonds issued by NAMA (5% of the nominal consideration).

The interest rate on NAMA senior bonds is six month Euribor, set semi-annually on 1 March and 1 September. The maturity of these bonds is 1 March 2012. NAMA may, with the consent of the Bank, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

During the year ended 31 December 2011, the Bank received bonds with a nominal value of €232 million as consideration for assets transferred to NAMA and bonds with a nominal value of €221 million were redeemed.

At 31 December 2011 and 31 December 2010, all NAMA senior bonds had been pledged to Monetary Authorities in sale and repurchase agreements.

i Loans and advances to customers

	31 December 2011 €m	31 December 2010 €m
Loans and advances to customers	65,223	77,918
Finance leases and hire purchase receivables (see analysis below)	640	800
	65,863	78,718
Less allowance for impairment charges on loans and advances to customers	(4,428)	(3,515)
Loans and advances to customers	**61,435**	**75,203**
Amounts include:		
Due from Group undertakings	11,635	15,394

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 2011 €m	31 December 2010 €m
Gross investment in finance leases:		
Not later than 1 year	379	449
Later than 1 year and not later than 5 years	315	411
Later than 5 years	1	5
	695	865
Unearned future finance income on finance leases	(55)	(65)
Net investment in finance leases	**640**	**800**
The net investment in finance leases is analysed as follows:		
Not later than 1 year	371	444
Later than 1 year and not later than 5 years	268	352
Later than 5 years	1	4
	640	**800**

The Bank's material leasing arrangements include the provision of instalment credit and leasing finance for both consumer and commercial customers.

j Assets held for sale to NAMA

During the year ended 31 December 2011, the Bank completed the transfer of the remaining Eligible Bank Assets to NAMA, such that at 31 December 2011 the Bank did not have any assets held for sale to NAMA.

The movement on assets held for sale to NAMA is analysed as follows:

31 December 2011 **Movement in assets held for sale to NAMA**	**Assets Gross €m**	**Impairment Provision €m**	**Carrying Value €m**
Opening balance at 1 January 2011			
Loans held for sale (including accrued interest of €4 million)	856	(72)	784
Derivatives held for sale	7	-	7
	863	**(72)**	**791**
Movements during the year			
Sale of assets to NAMA	(498)	198	(300)
Changes in eligibility and other items	(365)	(82)	(447)
Impairment charges during the year	-	(44)	(44)
Closing balance at 31 December 2011	**-**	**-**	**-**

31 December 2010 Movement in assets held for sale to NAMA	Assets Gross €m	Impairment Provision €m	Carrying Value €m
Opening balance at 1 January 2010			
Loans held for sale (including accrued interest of €31 million)	12,093	(2,736)	9,357
Derivatives held for sale	93	-	93
	12,186	(2,736)	9,450
Movements during the year			
Sale of assets to NAMA	(9,311)	2,217	(7,094)
Changes to scope of NAMA	(2,072)	689	(1,383)
Changes in eligibility and other items	60	(23)	37
Impairment charges during the year	-	(219)	(219)
Closing balance at 31 December 2010	863	(72)	791
Of which			
Loans held for sale (including accrued interest of €4 million)	856	(72)	784
Derivatives held for sale	7	-	7
Closing balance at 31 December 2010	863	(72)	791

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.

j Assets held for sale to NAMA (continued)

At 31 December 2010, the Bank had €791 million of assets held for sale to NAMA as set out below:

Assets held for sale to NAMA (net of impairment provisions)	31 December 2010 €m
Loans and advances to customers	
- Retail Ireland	5
- Retail UK	602
- Corporate and Treasury	173
	780
Derivative financial instruments held for sale to NAMA	
- Corporate and Treasury	7
Accrued interest	4
	791

Further information on NAMA is shown in note 29 to the consolidated financial statements.

k Other assets and liabilities classified as held for sale

Assets classified as held for sale	31 December 2011 €m	31 December 2010 €m
UK Mortgage Loan Portfolio	802	-
Project Finance Loan Portfolio	476	-
Total	**1,278**	**-**

At 31 December 2011, the Bank considered that it was highly probable that the following loan portfolios would be disposed of within twelve months and they are classified as assets held for sale:

- a portfolio of Project Finance loans amounting to €476 million and forming part of the Corporate and Treasury division; and
- a UK Mortgage Loan Portfolio forming part of the Retail UK division, consisting of loans and advances to customers of €802 million.

The loan portfolios continue to be measured on the same basis as prior to their classification as assets held for sale. In particular, loans and advances to customers continue to be measured at amortised cost less any incurred impairment losses.

The Bank expects to incur a loss on disposal of these portfolios.

I Shares in Group undertakings

	31 December 2011 €m	31 December 2010 €m
At beginning of year	2,839	2,033
Exchange adjustments	29	24
Increase in investments	931	2,638
Share redemption	(302)	(1,854)
Disposal of investments	(6)	-
Impairment of investments	-	(2)
At end of year	**3,491**	**2,839**
Group undertakings of which		
- Credit Institutions	2,570	2,032
- Others	921	807
	3,491	**2,839**

The Bank's Shares in Group Undertakings are reviewed if events or circumstances indicate that impairment may have occurred, by comparing the carrying value of each investment 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. The calculation of the recoverable amount for each cash generating unit 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 amount of shares in Group undertakings 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 rate appropriate for the business is applied (see below). The next five years' cash flows are consistent with approved plans for each business.

Growth rates
Growth rates beyond five years are determined by reference to long-term economic growth rates, inflation projections or long term bond yields.

Discount rate
The discount rate applied is the pre-tax weighted average cost of capital for the Bank 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 11% 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 in the review. No impairment was identified in the year ended 31 December 2011(€2 million year ended 31 December 2010).

m Credit risk exposures

Asset Quality - Loans and advances to customers and Other assets classified as held for sale

The tables and analysis below summarise the Bank's Loans and advances to customers and Other assets classified as held for sale 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 2011 Loans and advances to customers	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Financial assets neither past due nor impaired	16,605	25,772	9,191	1,547	53,115
Financial assets past due but not impaired	1,357	381	845	118	2,701
Impaired	142	3,368	6,263	274	10,047
Total	**18,104**	**29,521**	**16,299**	**1,939**	**65,863**

31 December 2011 Other assets classified as held for sale	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Financial assets neither past due nor impaired	802	476	-	-	1,278
Financial assets past due but not impaired	-	-	-	-	-
Impaired	-	-	-	-	-
Total	**802**	**476**	**-**	**-**	**1,278**

Details of the credit risk methodologies, including the weighted average indexed LTV for the mortgage loan book, are set out on pages 124 to 128 of the Risk Management Report. The majority of the Bank's mortgage loan book is in Retail UK.

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 2010 Loans and advances to customers	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
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
Total	22,031	34,620	19,747	2,320	78,718

31 December 2010 Loans held for sale to NAMA	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Financial assets neither past due nor impaired	-	-	443	-	443
Financial assets past due but not impaired	-	-	11	-	11
Impaired	-	-	398	-	398
Total	-	-	852	-	852

m Credit risk exposures (continued)

Financial Assets 'neither past due nor impaired': Loans and advances to customers and Other assets classified as held for sale
The tables below provide an analysis of Loans and advances to customers and Other assets classified as held for sale 'neither past due nor impaired' by asset classification based on an assessment of the credit quality of the borrower.

31 December 2011 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	16,399	3,374	699	925	21,397
Satisfactory quality	166	18,073	3,056	576	21,871
Acceptable quality	40	2,857	3,290	46	6,233
Lower quality but not past due nor impaired	-	1,468	2,146	-	3,614
Total	**16,605**	**25,772**	**9,191**	**1,547**	**53,115**

31 December 2011 Risk profile Other assets classified as held for sale neither past due nor impaired	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
High quality	802	297	-	-	1,099
Satisfactory quality	-	167	-	-	167
Acceptable quality	-	12	-	-	12
Lower quality but not past due nor impaired	-	-	-	-	-
Total	**802**	**476**	**-**	**-**	**1,278**

m Credit risk exposures (continued)

Financial Assets 'neither past due nor impaired': Loans and advances to customers and 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 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
Total	20,435	31,498	13,592	1,864	67,389

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
Total	-	-	443	-	443

m Credit risk exposures (continued)

Financial Assets 'Past due but not impaired': Loans and advances to customers and Other assets classified as held for sale

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 2011 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	578	251	437	59	1,325
Past due 31 – 60 days	232	75	320	41	668
Past due 61 – 90 days	102	55	88	18	263
Past due more than 90 days	445	-	-	-	445
Total	**1,357**	**381**	**845**	**118**	**2,701**

None of the Other assets classified as held for sale were 'past due but not impaired' at 31 December 2011.

m Credit risk exposures (continued)

Financial Assets 'Past due but not impaired': Loans and advances to customers and 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 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
Total	1,438	402	1,243	151	3,234

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	-	-	-	-	-
Total	-	-	11	-	11

m Credit risk exposures (continued)

31 December 2011

Impaired financial assets	**Residential mortgages €m**	**Non-Property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Impaired financial assets	142	3,368	6,263	274	10,047
Provision at 1 January 2011	80	1,211	2,031	265	3,587
Exchange adjustments	2	9	17	-	28
Charge against income statement	40	428	790	50	1,308
- Loans and advances to customers	*40*	*428*	*747*	*50*	*1,265*
- Assets sold to NAMA	*-*	*-*	*43*	*-*	*43*
Recoveries	-	(1)	(2)	6	3
Amounts written off	(26)	(166)	(85)	(107)	(384)
Release of provisions on sale of assets to NAMA	-	-	(193)	-	(193)
Release of provision on loan book disposal	-	4	(14)	-	(10)
Other movements	2	17	62	8	89
Provision at 31 December 2011	**98**	**1,502**	**2,606**	**222**	**4,428**

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
Provision at 1 January 2010	87	819	3,880	353	5,139
Exchange adjustments	4	(4)	32	1	33
Charge against income statement	24	589	889	112	1,614
- Loans and advances to customers	*24*	*575*	*659*	*112*	*1,370*
- Assets sold to NAMA	*-*	*14*	*230*	*-*	*244*
Recoveries	2	1	(2)	2	3
Amounts written off	(12)	(80)	(168)	(185)	(445)
Release of provisions on sale of assets to NAMA	-	(22)	(2,195)	-	(2,217)
Transfers (to Bank of Ireland (UK) plc)	(27)	(115)	(436)	(27)	(605)
Other movements	2	23	31	9	65
Provision at 31 December 2010	80	1,211	2,031	265	3,587

Repossessed collateral

As at 31 December 2011, the Bank had collateral held as security, as follows:

	31 December 2011 €m	31 December 2010 €m
Residential properties		
- Ireland	-	-
- UK and other	20	27
	20	27
Other	11	7
Total	**31**	**34**

Further to the changes to IFRS 7, introduced as part of the improvements to IFRSs 2010, the information on repossessed collateral as at 31 December 2010 has been restated to show the amounts held at that date.

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, 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.

Other financial instruments are rated using external ratings attributed to external agencies or are assigned an internal rating based on the Group's internal models, or a combination of both. Mappings to external ratings agencies in the table below are therefore indicative only.

Asset quality: Other financial instruments with ratings equivalent to:	**31 December 2011 €m**	**31 December 2011 %**	31 December 2010 €m	31 December 2010 %
AAA to AA+	4,270	5%	6,928	8%
AA- to A-	10,025	11%	12,215	14%
BBB+ to BBB-	74,227	82%	67,728	77%
BB+ to BB-	638	1%	1,118	1%
B+ to B-	512	1%	55	-
Lower than B-	123	-	152	-
Total	**89,795**	**100%**	**88,196**	**100%**

n Intangible assets

	Computer software externally purchased €m	**Computer software internally generated €m**	**Other externally purchased intangible assets €m**	**Total intangible assets €m**
Cost				
At 1 January 2011	**136**	**719**	**69**	**924**
Exchange adjustments	1	4	1	6
Reclassifications	-	4	-	4
Transfer from Group undertakings	-	4	-	4
Additions	1	67	1	69
Disposals / write-offs	(12)	(2)	-	(14)
At 31 December 2011	**126**	**796**	**71**	**993**
Accumulated amortisation				
At 1 January 2011	**(108)**	**(477)**	**(27)**	**(612)**
Exchange adjustments	(1)	(3)	(1)	(5)
Transfer from Group undertakings	-	(2)	-	(2)
Disposals / write-offs	10	2	-	12
Reversal of impairment	-	-	4	4
Charge for the year	(8)	(69)	(5)	(82)
At 31 December 2011	**(107)**	**(549)**	**(29)**	**(685)**
Net Book Value at 31 December 2011	**19**	**247**	**42**	**308**

n Intangible assets (continued)

	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total intangible assets €m
Cost				
At 1 January 2010	213	724	59	996
Exchange adjustments	3	4	1	8
Additions	1	30	9	40
Disposals / write-offs	(81)	(39)	-	(120)
At 31 December 2010	136	719	69	924
Accumulated amortisation				
At 1 January 2010	(177)	(442)	(24)	(643)
Exchange adjustments	(3)	(1)	-	(4)
Disposals / write-offs	81	38	-	119
Reversal of impairment	-	-	2	2
Charge for the year	(9)	(72)	(5)	(86)
At 31 December 2010	(108)	(477)	(27)	(612)
Net Book Value at 31 December 2010	28	242	42	312

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**
Cost or valuation						
At 1 January 2011	131	141	515	7	18	812
Exchange adjustments	-	1	3	-	-	4
Transfer from Group undertakings	-	-	1	-	-	1
Additions	-	1	3	3	23	30
Disposals	(4)	(3)	(34)	(5)	-	(46)
Revaluation						
- Recognised in the income statement	(11)	-	-	-	-	(11)
- Recognised in other comprehensive income	(8)	-	-	-	-	(8)
Reclassifications	-	14	7	-	(25)	(4)
At 31 December 2011	**108**	**154**	**495**	**5**	**16**	**778**
Accumulated depreciation						
At 1 January 2011	-	(79)	(406)	(7)	-	(492)
Exchange adjustments	-	(1)	(3)	-	-	(4)
Disposals	-	3	33	5	-	41
Reclassificatons	-	(2)	2	-	-	-
Charge for the year	-	(11)	(23)	(1)	-	(35)
At 31 December 2011	**-**	**(90)**	**(397)**	**(3)**	**-**	**(490)**
Net book value at 31 December 2011	**108**	**64**	**98**	**2**	**16**	**288**

o Property, plant and equipment (continued)

Property, plant and equipment at 31 December 2011 held at fair value was €108 million (31 December 2010: €131 million). The historical cost of property, plant and equipment held at fair value at 31 December 2011 was €82 million (31 December 2010 as restated: €81 million). The net book value of property plant and equipment at 31 December 2011 held at cost less accumulated depreciation and impairment amounted to €180 million (31 December 2010: €189 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
Cost or valuation						
At 1 January 2010	160	134	579	7	11	891
Exchange adjustments	-	-	6	-	-	6
Additions	-	4	14	-	22	40
Disposals / write-offs	(2)	(3)	(92)	-	-	(97)
Revaluation						
- Recognised in the income statement	(18)	-	-	-	-	(18)
- Recognised in other comprehensive income	(9)	-	-	-	-	(9)
Reclassifications	-	6	8	-	(15)	(1)
At 31 December 2010	131	141	515	7	18	812
Accumulated depreciation						
At 1 January 2010	-	(70)	(470)	(6)	-	(546)
Exchange adjustments	-	-	(3)	-	-	(3)
Disposals / write-offs	-	4	91	-	-	95
Charge for the year	-	(13)	(24)	(1)	-	(38)
At 31 December 2010	-	(79)	(406)	(7)	-	(492)
Net book value at 31 December 2010	131	62	109	-	18	320

Property
A revaluation of Bank property was carried out as at 31 December 2011. All freehold and long leasehold (50 years or more unexpired) commercial properties were valued by Lisney 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 2011 €m	31 December 2010 €m
Future Capital Expenditure:		
- contracted but not provided for in the financial statements	22	32
- authorised by the Directors but not contracted	52	40

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.

o Property, plant and equipment (continued)

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 including the required break option notice period and the amount of any penalty rent.

Minimum future rentals under non-cancellable operating leases are as follows:

	Payable 31 December 2011 €m	Receivable 31 December 2011 €m	Payable 31 December 2010 €m	Receivable 31 December 2010 €m
Not later than 1 year	68	4	66	4
Later than 1 year and not later than 5 years	226	5	206	7
Later than 5 years	425	1	412	1

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 €8 million in relation to sub-lease rental (year ended 31 December 2010: €10 million).

Finance leases

The Bank leases computer equipment under finance lease agreements. The leases range from 1 to 5 years, contain no material contingent rents or restrictions imposed by lease agreements and contain standard terms of renewal.

	At 31 December 2011			At 31 December 2010		
	Total minimum future payments €m	Future finance charges €m	Present value of finance lease commitments €m	Total minimum future payments €m	Future finance charges €m	Present value of finance lease commitments €m
Not later than 1 year	2	(1)	1	-	-	-
Later than 1 year not later than 5 years	2	(1)	1	-	-	-
Later than 5 years	-	-	-	-	-	-

The net carrying amount of the assets held under finance leases at 31 December 2011 is €2 million (31 December 2010: €nil).

p Other assets

	31 December 2011 €m	31 December 2010 €m
Interest receivable	469	470
Sundry and other debtors	144	211
Accounts receivable and prepayments	95	100
Other assets	**708**	**781**
Other assets are analysed as follows:		
Within 1 year	708	781
After 1 year	-	-
	708	**781**

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q Deposits from banks

	31 December 2011 €m	31 December 2010 €m
Deposits from banks	50,414	51,562
Securities sold under agreement to repurchase	29,585	35,978
Other bank borrowings	132	412
Deposits by banks	**80,131**	**87,952**
Amounts include:		
Due to Group undertakings	49,394	49,060

Deposits from banks includes cash collateral of €0.6 billion (31 December 2010: €0.7 billion) received from derivative counterparties in relation to net derivative asset positions (note d).

The Bank has reduced its usage of liquidity facilities provided by Monetary Authorities to €22 billion (net) (31 December 2010: €23 billion (net)) and reduced exceptional liquidity assistance provided by the Central Bank of Ireland to €nil (31 December 2010: €8 billion). €15 billion (31 December 2010: €31 billion) rolls over on a short term basis (up to three months).

r Customer accounts

	31 December 2011 €m	31 December 2010 €m
Term deposits and other products	21,903	27,294
Demand deposits	7,846	2,723
Current accounts	18,950	20,615
Customer accounts	**48,699**	**50,632**
Amounts include:		
Due to Group undertakings	7,196	8,656

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.

At 31 December 2011, the Bank's largest 20 customer deposits amounted to 4.1% (31 December 2010: 4%) of customer accounts.

At 31 December 2010, current accounts of €0.6 billion were presented net against related loans and advances to customers in accordance with IAS 32. At 31 December 2011, these balances no longer meet the criteria for net presentation and accordingly are presented gross.

Term deposits and other products include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in note aa.

s Debt securities in issue

	31 December 2011 €m	31 December 2010 €m
Bonds and medium term notes	8,604	11,996
Other debt securities in issue	16	452
Debt securities in issue	**8,620**	**12,448**

t Other liabilities

	31 December 2011 €m	31 December 2010 €m
Short positions in securities	1,539	1,680
Notes in circulation	971	814
Accrued interest payable	718	709
Sundry creditors	147	278
Accruals and deferred income	10	67
Finance lease obligations	2	-
Other	257	267
Other liabilities	**3,644**	**3,815**

Other liabilities at 31 December 2011 and 31 December 2010 are due within one 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.

u Provisions

	Restructuring €m	Onerous contracts €m	Legal €m	Other €m	Total €m
As at 1 January 2011	28	11	15	-	54
Reclassifications	(6)	8	(4)	2	-
Exchange adjustments	1	-	-	-	1
Charge to income statement	-	6	14	3	23
Unwinding of discount	-	1	-	-	1
Utilised during the year	(17)	(11)	-	(1)	(29)
Unused amounts reversed during the year	(3)	(1)	(10)	-	(14)
As at 31 December 2011	**3**	**14**	**15**	**4**	**36**

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 €3 million (31 December 2010: €28 million) in respect of restructuring activities.

It is expected that this provision will be used within the next twelve months.

Onerous contracts
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 fourteen years. It is expected that €4 million of this provision will be used within the next twelve months.

Legal
This provision includes certain legal claims brought against the Bank by third parties.

It is expected that this provision will be used within the next twelve months.

Other
It is expected that this provision will be used within the next twelve months.

v Subordinated liabilities

	31 December 2011 €m	31 December 2010 €m
Undated loan capital		
Stg£75 million $13^3/_8$% Perpetual Subordinated Bonds	91	144
	91	**144**
Dated loan capital		
€600 million Subordinated Floating Rate Notes 2017	1	48
€750 million Floating Rate Subordinated Notes 2017	-	93
Stg£400 million Fixed / Floating Rate Subordinated Notes 2018	-	180
US$600 million Subordinated Floating Rate Notes due 2018	-	138
Stg£75 million 10¾% Subordinated Bonds 2018	-	104
€650 million Fixed / Floating Rate Subordinated Notes 2019	-	215
Stg£500 million Fixed / Floating Rate Subordinated Notes 2036	-	6
Stg£450 million Dated Callable Step-up Fixed / Floating Rate Subordinated Notes 2020	-	586
€1,002 million 10% Fixed Rate Subordinated Notes 2020	225	757
Stg£197 million 10% Fixed Rate Subordinated Notes 2020	33	237
CAD$400 million Fixed / Floating Rate Subordinated Notes 2015	27	83
CAD$145 million Fixed / Floating Rate Subordinated Notes 2018	-	109
€1 billion 10% Convertible Contingent Capital Notes 2016	1,009	-
	1,295	**2,556**
	1,386	**2,700**

Further details on subordinated liabilities are contained in note 42 of the consolidated financial statements.

During the year the Bank repurchased and / or exchanged certain subordinated liabilities as part of its on going capital management activities. For further information see note 9 of the consolidated financial statements.

w Retirement benefit obligations

The Bank 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 Bank has been advised by independent actuaries, Towers Watson.

The most significant defined benefit scheme in the Bank is the Bank of Ireland Staff Pensions Fund (BSPF) which accounts for approximately 75% of the pension deficit on the Bank's balance sheet, further details of which are provided in the Group's retirement benefit note (Note 46).

Pension Levy

The Irish Finance Act (No.2) Act 2011 introduced a stamp duty levy of 0.6% on the market value of assets under management in Irish pension funds, for years 2011 to 2014 (inclusive). The levy is based on scheme assets as at 30 June in each year or as at the end of the preceding scheme financial year. No decision has yet been taken as to who will ultimately bear this levy. Accounting standards require that a charge for the 0.6% levy for 2011 be included in the financial statements for the year ended 31 December 2011 in the form of a reduction in scheme assets. The charge of €18 million has been recognised within Other Comprehensive Income for the year ended 31 December 2011 as it did not form part of the Expected return on Assets for 2011, which was determined at the start of the year.

The accounting will be updated to reflect the final decision as to who will ultimately bear the levy once it is taken.

Financial and Mortality Assumptions

Financial and mortality assumptions used in deriving valuations of the Bank's defined benefit obligation are the same as those used in deriving the valuation of the Group's defined benefit obligation, see note 46 for further details.

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 2011 and 31 December 2010 were as follows:

	31 December 2011 Expected long term rates of return				31 December 2010 Expected long term rates of return			
	RoI %	**UK %**	**Fund %**	**Market Value €m**	RoI %	UK %	Fund %	Market Value €m
Equities	7.50	7.50	52.9	2,221	7.25	8.00	53.6	2,008
Debt securities	4.33	3.81	39.7	1,668	4.44	4.52	36.1	1,354
Property	6.00	6.00	6.1	255	6.00	6.00	6.5	245
Cash and other	2.30	3.00	1.3	57	2.60	4.10	3.8	141
Total market value of schemes' assets				4,201				3,748
Actuarial value of liabilities of funded schemes				(4,545)				(4,097)
Aggregate deficit in funded schemes				(344)				(349)
Unfunded schemes				(9)				(9)
Net defined benefit pension deficit				(353)				(358)
This is shown in the balance sheet as:								
Retirement benefit obligations				358				368
Retirement benefit asset				(5)				(10)
				353				**358**

The scheme assets have been valued on a bid basis.

The retirement benefit schemes' assets include Bank of Ireland stock amounting to €2 million (31 December 2010: €2 million) and property occupied by the Bank to the value of €24 million (31 December 2010: €25 million).

w Retirement benefit obligations (continued)

Defined benefit pension schemes	31 December 2011 €m	31 December 2010 €m	31 December 2009 €m
Present value of obligations	4,554	4,106	4,884
Scheme assets	4,201	3,748	3,410
Deficit within schemes	**353**	**358**	**1,474**

Expected employer contributions for the year ended 31 December 2012 are €215 million, inclusive of €117 million of additional contributions related to the Group pensions review set out on page 265. Expected employee contributions for the year ended 31 December 2012 are €13 million.

Sensitivity analysis for each of the key assumptions used to measure the scheme liabilities at 31 December 2011.

Factor	Change in assumption	BSPF Impact on actuarial liabilities
Discount rate	Decrease 0.1%	Increase 1.8%
Rate of Inflation	Decrease 0.1%	Decrease 1.6%
Rate of salary growth	Decrease 0.1%	Decrease 0.1%
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.

x Deferred tax

	31 December 2011 €m	31 December 2010 €m
The movement on the deferred tax account is as follows:		
At beginning of year	1,026	777
Income statement credit for year	226	287
Available for sale financial assets – credit / (charge) to other comprehensive income	(5)	53
Cash flow hedges – charge to other comprehensive income	(35)	(41)
Revaluation / reclassification of property during year	2	3
Pensions	15	(62)
Other movements	12	9
At end of year	**1,241**	**1,026**
Deferred tax assets and liabilities are attributable to the following items:		
Deferred tax assets		
Pensions and other post retirement benefits	50	55
Provision for loan impairment	12	12
Other provisions	21	11
Cash flow hedge reserve	5	40
Available for sale reserve	83	88
Unutilised tax losses	1,100	849
Deferred tax assets	**1,271**	**1,055**
Deferred tax liabilities		
Accelerated capital allowances / (charges):		
- on finance leases	(1)	(2)
- on equipment used by the Bank	-	2
Property revaluation surplus	(11)	(16)
Other temporary differences	(18)	(13)
Deferred tax liabilities	**(30)**	**(29)**
Represented on the balance sheet	**1,241**	**1,026**

The amount of the deferred tax asset expected to be recovered within one year is €21 million. None of the deferred tax liability is expected to be settled within one year.

This note should be read in conjunction with note 45 to the consolidated financial statements.

y Contingent liabilities and commitments

The tables below give 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 2011 Contract amount €m	31 December 2010 Contract amount €m
Contingent liabilities		
Acceptances and endorsements	10	35
Guarantees and irrevocable letters of credit	726	1,005
Other contingent liabilities	236	572
	972	**1,612**
Commitments		
Documentary credits and short term trade related transactions	178	185
Undrawn note issuance and revolving underwriting facilities	100	100
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- revocable or irrevocable with original maturity of 1 year or less	9,276	11,421
- irrevocable with original maturity of over 1 year	2,931	3,895
	12,485	**15,601**

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.

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.

z Capital stock

Authorised	31 December 2011	31 December 2010
Eur€	**€m**	€m
90 billion units of €0.05 ordinary stock (31 December 2010: 24 billion units of €0.10 ordinary stock)	4,500	2,400
228 billion units of €0.01 deferred stock (31 December 2010: 2 billion of €0.54 deferred stock)	2,280	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
Stg£	**£m**	£m
100 million units of non-cumulative preference stock of Stg£1 each	100	100
100 million units of undesignated preference stock of Stg£0.25 each	25	25
US$	**$m**	$m
8 million units of non-cumulative preference stock of US$25 each	200	200
100 million units of undesignated preference stock of US$0.25 each	25	25

Allotted and fully paid	31 December 2011 €m	31 December 2010 €m
30.132 billion units of €0.05 ordinary stock (31 December 2010: 5.299 billion units of €0.10 ordinary stock)	1,506	529
91.981 billion units of €0.01 deferred stock (31 December 2010: 1.210 billion units of €0.54 deferred stock)	920	654
22.0 million units of €0.05 (31 December 2010: 22.0 million units of €0.10 treasury stock)	1	2
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	18	18
	2,452	**1,210**

	Ordinary Stock		Treasury Stock	
Movements in ordinary and treasury stock (units)	**31 December 2011**	31 December 2010	**31 December 2011**	31 December 2010
At beginning of year	5,299,413,620	1,004,216,989	22,008,690	22,008,690
Long term performance stock plan (LTPSP)	-	11,890	-	-
2011 Capital Raise - Rights Issue	19,077,889,032	-	-	-
2011 Capital Raise - liability management exercises	5,755,203,190	-	-	-
2010 Recapitalisation of the Bank and dividend on 2009 Preference Stock	-	4,295,184,741	-	-
At end of year	**30,132,505,842**	**5,299,413,620**	**22,008,690**	**22,008,690**

For further information on Capital stock refer to note 48 and note 49 of 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).

aa Liquidity risk

The tables below summarise the maturity profile of the Bank's financial liabilities at 31 December 2011 and 31 December 2010 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. Customer accounts include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the table below. The comparative information has been reclassified on this basis which involved reclassifying a total amount of €17 billion into the demand category from the following categories: €7 billion from up to 3 months, €4 billion from 3-12 months, €5 billion from 1-5 years and €1 billion from over 5 years.

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 2011 **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	11,095	37,278	10,839	18,984	3,585	81,781
Customer accounts	38,876	6,293	2,348	1,235	258	49,010
Debt securities in issue	-	2,121	720	6,439	375	9,655
Subordinated liabilities	-	24	101	1,573	331	2,029
Contingent liabilities	972	-	-	-	-	972
Commitments	9,554	-	-	2,931	-	12,485
Total	**60,497**	**45,716**	**14,008**	**31,162**	**4,549**	**155,932**

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	40,222	7,872	1,192	1,278	478	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
Total	61,045	64,144	13,657	29,133	6,530	174,509

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 2011 **Derivative financial instruments**	**Demand €m**	**Up to 3 months €m**	**3-12 months €m**	**1-5 years €m**	**Over 5 years €m**	**Total €m**
Derivatives held with hedging intent						
Gross settled derivative liabilities - outflows	-	3,031	8,359	6,498	371	18,259
Gross settled derivative liabilities - inflows	-	(2,977)	(7,991)	(6,049)	(321)	(17,338)
Gross settled derivative liabilities - net flows	-	54	368	449	50	921
Net settled derivative liabilities	-	179	710	1,936	335	3,160
Total derivatives held with hedging intent	**-**	**233**	**1,078**	**2,385**	**385**	**4,081**
Derivative liabilities held with trading intent	1,970	-	-	-	-	1,970
Total derivative cash flows	**1,970**	**233**	**1,078**	**2,385**	**385**	**6,051**

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
Derivatives held with hedging intent						
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
Total derivatives held with hedging intent	-	730	1,513	2,607	503	5,353
Derivative liabilities held with trading intent	1,878	-	-	-	-	1,878
Total derivative cash flows	1,878	730	1,513	2,607	503	7,231

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 (OCI)			
31 December 2011	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	Total €m
Financial assets							
Cash and balances at central banks	-	-	-	-	-	523	523
Items in the course of collection from other banks	-	-	-	-	-	226	226
Trading securities	-	6	-	-	-	-	6
Derivative financial instruments	379	4,181	-	-	1,439	-	5,999
Other financial assets at fair value through profit or loss	-	-	49	-	-	-	49
Loans and advances to banks	-	-	-	-	-	62,766	62,766
Available for sale financial assets	-	-	-	15,497	-	-	15,497
NAMA senior bonds	-	-	-	-	-	5,016	5,016
Loans and advances to customers	-	-	-	-	-	61,435	61,435
Other assets classified as held for sale	-	-	-	-	-	1,278	1,278
Total financial assets	**379**	**4,187**	**49**	**15,497**	**1,439**	**131,244**	**152,795**
Financial liabilities							
Deposits from banks	-	-	132	-	-	79,999	80,131
Customer accounts[2]	-	-	2,826	-	-	45,873	48,699
Items in the course of transmission to other banks	-	-	-	-	-	100	100
Derivative financial instruments	504	4,306	-	-	1,608	-	6,418
Debt securities in issue	-	-	457	-	-	8,163	8,620
Short positions in securities[1]	-	1,539	-	-	-	-	1,539
Subordinated liabilities	-	-	27	-	-	1,359	1,386
Total financial liabilities	**504**	**5,845**	**3,442**	**-**	**1,608**	**135,494**	**146,893**

[1] *Included within other liabilities on the Bank's balance sheet.*
[2] *Included in customer accounts for the year ended 31 December 2011 is an amount of €1,576 million (Designated upon initial recognition at fair value through profit or loss) which represents deposits held at fair value by the Bank on behalf of its subsidiaries. This is classified as 'at fair value through profit or loss' as this classification is considered to more appropriately reflect the nature of these transactions. The analysis at 31 December 2010 has been amended to reclassify an amount of €1,255 million from 'Loans and advances / Held at amortised cost' to 'at fair value through profit or loss'. These transactions are classified as level 2 financial liabilities held at fair value. Further detail is shown in note ac.*

ab Measurement basis of financial assets and financial liabilities (continued)

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)			
31 December 2010	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	Total €m
Financial assets							
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
Total financial assets	544	4,352	94	17,261	1,208	141,509	164,968
Financial liabilities							
Deposits from banks	-	-	412	-	-	87,540	87,952
Customer accounts[2]	-	-	2,649	-	-	47,983	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
Short position in securities[1]	-	1,680	-	-	-	-	1,680
Subordinated liabilities	-	-	83	-	-	2,617	2,700
Total financial liabilities	538	5,571	3,689	-	1,421	150,198	161,417

[1] *Included within other liabilities on the Bank's balance sheet.*
[2] *Included in customer accounts for the year ended 31 December 2011 is an amount of €1,576 million (Designated upon initial recognition at fair value through profit or loss) which represents deposits held at fair value by the Bank on behalf of its subsidiaries. This is classified as 'at fair value through profit or loss' as this classification is considered to more appropriately reflect the nature of these transactions. The analysis at 31 December 2010 has been amended to reclassify an amount of €1,255 million from 'Loans and advances / Held at amortised cost' to 'at fair value through profit or loss'. These transactions are classified as level 2 financial liabilities held at fair value. Further detail is shown in note ac.*

ac Fair values of financial assets and financial liabilities

Fair value hierarchy

The following tables show, 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 unobservable market data is significant in determining the fair value of the instrument. Unobservable 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 2011	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets held at fair value				
Trading securities	6	-	-	6
Derivative financial instruments	-	5,468	531	5,999
Other financial assets at FVTPL	-	49	-	49
AFS financial assets	15,074	307	116	15,497
	15,080	**5,824**	**647**	**21,551**
As a % of fair value assets	**70%**	**27%**	**3%**	**100%**
Financial liabilities held at fair value				
Deposits from banks	-	132	-	132
Customer accounts	-	2,815	11	2,826
Derivative financial instruments	-	6,368	50	6,418
Debt securities in issue	-	-	457	457
Short position in securities[1]	1,539	-	-	1,539
Subordinated liabilities	-	-	27	27
	1,539	**9,315**	**545**	**11,399**
As a % of fair value liabilities	**13%**	**82%**	**5%**	**100%**

[1] *Included within other liabilities on the Bank's balance sheet.*

ac Fair values of financial assets and financial liabilities (continued)

31 December 2010	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets held at fair value				
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
	17,081	6,233	145	23,459
As a % of fair value assets	73%	26%	1%	100%
Financial liabilities held at fair value				
Deposits from banks	-	412	-	412
Customer accounts	-	2,607	42	2,649
Derivative financial instruments	-	5,823	27	5,850
Debt securities in issue	-	-	545	545
Short positions in securites[1]	1,680	-	-	1,680
Subordinated liabilities	-	-	83	83
	1,680	8,842	697	11,219
As a % of fair value liabilities	15%	79%	6%	100%

[1] *Included within other liabilities on the Bank's balance sheet.*

ac Fair values of financial assets and financial liabilities (continued)

Movements in level 3 assets

31 December 2011	Derivative financial instruments €m	Derivatives held for sale to NAMA €m	Available for sale financial assets €m	Total €m
Opening balance	32	7	106	145
Total gains or losses in:				
- Profit or loss	11	-	(2)	9
- Other Comprehensive income	-	-	4	4
Additions	91	-	10	101
Disposals	-	(7)	(2)	(9)
Redemptions	-	-	(4)	(4)
Transfers into level 3				
- from level 2 to level 3	403	-	4	407
Transfers out of level 3				
- from level 3 to level 2	(6)	-	-	(6)
Closing balance	**531**	**-**	**116**	**647**
Total gains / (losses) for the year included in profit or loss for assets held in level 3 at the end of the reporting year	280	-	-	280
Other transfers				
- from level 1 to level 2	-	-	-	-
- from level 2 to level 1	-	-	-	-

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to their fair value measurement.

The transfer from level 3 to level 2 arose as result of unobservable inputs becoming less significant to the fair value measurement of these assets.

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
Closing balance	32	7	106	145
Total gains / (losses) for the year included in profit or loss for assets held in level 3 at the end of the reporting year	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 liabilities

31 December 2011	**Customers accounts €m**	**Derivative financial instruments €m**	**Derivatives held for sale to NAMA €m**	**Debt securities in issue €m**	**Subordinated liabilities €m**	**Total €m**
Opening balance	42	27	-	545	83	697
Exchange adjustments	-	-	-	(3)	(2)	(5)
Total gains or losses in:						
- Profit or loss	-	(3)	-	(4)	(10)	(17)
Additions	-	9	-	-	-	9
Redemptions and maturities	-	(4)	-	(81)	(44)	(129)
Transfers out of level 3						
- from level 3 to level 2	(35)	-	-	-	-	(35)
Transfers into level 3						
- from level 2 to level 3	4	21	-	-	-	25
Closing balance	**11**	**50**	**-**	**457**	**27**	**545**
Total gains / (losses) for the year included in profit or loss for liabilities held at the end of the reporting year	(5)	31	-	4	-	30

The transfer from level 3 to level 2 arose as a result of the availability of observable market prices at 31 December 2011 which were unavailable at 31 December 2010.

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

31 December 2010	Customers accounts €m	Derivative financial instruments €m	Derivatives held for sale to NAMA €m	Debt securities in issue €m	Subordinated liabilities €m	Total €m
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
Closing balance	42	27	-	545	83	697
Total gains / (losses) for the year included in profit or loss for liabilities held at the end of the reporting year	39	12	-	(124)	(53)	(126)

The transfer from level 3 to level 2 arose as a result of the availability of observable market prices at 31 December 2010 which were unavailable at 31 December 2009.

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)

The carrying amount and the fair value of the Bank's financial assets and financial liabilities as at 31 December 2011 and 31 December 2010 are set out in the table below.

	31 December 2011		31 December 2010	
	Carrying amount €m	Fair values €m	Carrying amount €m	Fair values €m
Financial instruments held for trading				
Debt securities[1]	6	6	151	151
Derivative financial instruments - trading				
Foreign exchange contracts[1]	(89)	(89)	136	136
Interest rate contracts[1]	(167)	(167)	140	140
Equity and commodity contracts[1]	131	131	27	27
Non-trading financial instruments				
Assets				
Cash and balances at central banks[1]	523	523	914	914
Items in the course of collection from other banks[1]	226	226	193	193
Loans and advances to banks	62,766	62,701	59,340	59,275
Loans and advances to customers (including assets classified as held for sale)	62,713	55,018	75,203	64,453
Assets held for sale to NAMA[2]	-	-	791	649
Available for sale financial assets[1]	15,497	15,497	17,261	17,261
NAMA senior bonds	5,016	5,055	5,075	5,075
Other financial assets at fair value through profit or loss[1]	49	49	94	94
Liabilities				
Deposits from banks	80,131	80,131	87,952	87,887
Customer accounts	48,699	48,699	50,632	50,585
Items in the course of transmission to other banks[1]	100	100	155	155
Debt securities in issue	8,620	7,540	12,448	11,964
Short position in securities[1]	1,539	1,539	1,680	1,680
Subordinated liabilities	1,386	1,119	2,700	1,430
Derivative financial instruments - hedging				
Interest rate contracts and foreign exchange contracts[1]	(293)	(293)	207	207

[1] 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.

[2] Assets held for sale to NAMA at 31 December 2010 were measured on the same basis in the balance sheet as prior to their classification as held for sale. For the purposes of presenting the fair value of the total portfolio of assets held for sale to NAMA, the Group applied a 25% discount (being the mid point of the Group's expected range) to all such loans.

ad Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	31 December 2011 €m	31 December 2010 €m
Cash and balances at central banks	523	914
Loans and advances to banks (with an original maturity of less than 3 months)	4,660	5,809
Cash and cash equivalents	**5,183**	**6,723**

ae 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 Depository Shares (ADSs). The Bank implemented a ratio change with respect to its American Depository Receipt (ADR) programme, effective from 14 October 2011, where the ratio changed from one ADS representing four units of ordinary stock (1:4), to one ADS representing 40 units of ordinary stock (1:40). Following this change, each ADS represents the right to receive 40 units of ordinary stock and evidenced by American Depository 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 f, g, i, q and r of the Bank financial statements.

Further information is shown in note 56 to the consolidated financial statements.

af 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) The Bank has 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 Car Loans Limited, Bank of Ireland Commercial Finance Limited, Bank of Ireland International Finance Limited, Bank of Ireland Outsourcing Services 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, September Leasing Limited, Hibernian Bank Limited, The National Bank of Ireland Limited, The National Bank of Ireland Nominees Limited, Laurus Limited, Enterprise Finance Europe Limited, Bank of Ireland Treasury Limited, IT Systems and Infrastructure Services Limited, Centurion Card Services Limited, New Holland Finance (Ireland) Limited, International Factors (Ireland) Limited, Venson Fleet Solutions Limited, Bank of Ireland International Financial Services Co., C and I (International) Holdings, C and I (Managed) Holdings, BOI-IF Services No. 2 Company, BOI-IF Services No. 4 Company, BOI-IF Services No. 10 Company, Bank of Ireland Treasury and International Banking Limited, The Investment Bank of Ireland Limited, Professional Audit Services Limited, BOI-IF Services No. 5 Company, Kilkenny Promotion Project Limited, Bank of Ireland Finance Limited, Bank of Ireland Leasing Limited, December Leasing Limited, Bank of Ireland Life Holdings Limited, Bank of Ireland Insurance Management Services Limited, Bank of Ireland Insurance & Investments Limited, Bank of Ireland Pensions Trust, Bank of Ireland Trust Services Limited, BIAM Holdings, Central Pensions Administration Limited, C and I (Division) Holdings, Bank of Ireland Unit Managers Limited, IBI Property Nominees Limited, BOI Capital Holdings Limited, Lansdowne Leasing, Lortland, Rolmur, Tockhill, Trustcase Limited, Nerville, Scribe Holdings Limited, Bank of Ireland Nominee 6 Limited, Bank of Ireland Nominee 1 Limited, Bank of Ireland Nominee 2 Limited, Bank of Ireland Nominee 3 Limited, Bank of Ireland Nominee 4 Limited, Bank of Ireland Nominee 5 Limited.

(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 year ended 31 December 2011 determined in accordance with IFRS is €375 million. The profit after tax determined in accordance with IFRS for the year ended 31 December 2010 was €1,248 million.

Subsidiary information in relation to the Bank is contained in note 59 to the consolidated financial statements.

Post balance sheet events are shown in note 62 to the consolidated financial statements.

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 year ended 31 December 2011 and the year ended 31 December 2010. The calculations of average balances are based on daily, weekly or monthly averages, depending on the reporting unit. The average balances used are considered to be representative of the operations of the Group. The Group's operating divisions are managed on a product margin basis, with funding and interest exposure managed centrally by Global Markets. 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 13 to 14.

Average Balance Sheet

	Year ended 31 December 2011			Year ended 31 December 2010		
	Average Balance €m	**Interest[1] €m**	**Rate %**	Average Balance €m	Interest €m	Rate %[2]
Assets						
Loans and advances to banks	9,810	64	0.7	8,946	67	0.7
Loans and advances to customers[2]	113,582	3,945	3.5	131,016	4,528	3.5
Available for sale financial assets and NAMA senior bonds	18,999	609	3.2	20,161	584	2.9
Other financial assets at fair value through profit or loss	70	-	-	172	-	-
Total interest earning assets	**142,461**	**4,618**	**3.2**	**160,295**	**5,179**	**3.2**
Allowance for impairment charges	(5,222)	-	-	(5,900)	-	-
Non interest earning assets	21,399	-	-	22,975	-	-
Total Assets	**158,638**	**4,618**	**2.9**	**177,370**	**5,179**	**2.9**
Liabilities and stockholders' equity						
Deposits from banks	38,518	675[1]	1.8	25,695	262[1]	1.0
Customer accounts	53,529	1,094[1]	2.0	67,979	1,272[1]	1.9
Debt securities in issue	21,414	695[1]	3.2	37,187	839[1]	2.3
Subordinated liabilities	2,141	171	8.0	4,708	312	6.6
Total interest earning liabilities	**115,602**	**2,635**	**2.3**	**135,569**	**2,685**	**2.0**
Current accounts	12,862	-	-	9,564	-	-
Non interest bearing liabilities	21,153	-	-	25,003	-	-
Stockholders' Equity	9,021	-	-	7,234	-	-
Total liabiities and Stockholders' Equity	**158,638**	**2,635**	**1.7**	**177,370**	**2,685**	**1.5**

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'.

[1] *Excludes the cost of the ELG scheme of €449 million (year ended 31 December 2010: €275 million) which is included within interest expense.*
[2] *Includes assets held for sale to NAMA and other assets classified as held for sale.*

Consolidated income statement

for the year ended 31 December 2011

(EURO, US$ & STG£)	€m	US$m[1]	Stg£m[1]
Interest income	4,618	5,975	3,857
Interest expense	(3,084)	(3,990)	(2,576)
Net interest income	**1,534**	**1,985**	**1,281**
Net insurance premium income	929	1,202	776
Fee and commission income	612	792	511
Fee and commission expense	(192)	(248)	(160)
Net trading income	19	24	16
Life assurance investment income, gains and losses	(38)	(49)	(32)
Gain on liability management exercises	1,789	2,315	1,494
Other operating income	12	15	10
Total operating income	**4,665**	**6,036**	**3,896**
Insurance contract liabilities and claims paid	(750)	(970)	(626)
Total operating income, net of insurance claims	**3,915**	**5,066**	**3,270**
Other operating expenses	(1,644)	(2,128)	(1,373)
Impact of amendments to defined benefit pension scheme	2	3	2
Operating profit before impairment charges on financial assets and gain / (loss) on NAMA	**2,273**	**2,941**	**1,899**
Impairment charges on financial assets (excluding assets sold to NAMA)	(1,960)	(2,536)	(1,638)
Impairment charges on assets sold to NAMA	(44)	(57)	(37)
Gain on sale of assets to NAMA including associated costs	33	43	28
Loss on deleveraging of financial assets	(565)	(731)	(472)
Operating loss	**(263)**	**(340)**	**(220)**
Share of results of associates and joint ventures (after tax)	39	50	33
Profit on disposal of business activities	34	44	28
Loss before taxation	**(190)**	**(246)**	**(159)**
Taxation credit	230	298	192
Profit for the year	**40**	**52**	**33**
Attributable to non-controlling interests	(5)	(6)	(4)
Attributable to stockholders	45	58	37
Profit for the year	**40**	**52**	**33**

[1] *Converted at closing exchange rates as set out on page 189.*

Consolidated balance sheet

as at 31 December 2011

(EURO, US$ & STG£)	€m	US$m[1]	Stg£m[1]
ASSETS			
Cash and balances at central banks	8,181	10,585	6,833
Items in the course of collection from other banks	443	573	370
Trading securities	6	8	5
Derivative financial instruments	6,362	8,232	5,314
Other financial assets at fair value through profit or loss	8,914	11,534	7,446
Loans and advances to banks	8,059	10,428	6,732
Available for sale financial assets	10,262	13,278	8,572
NAMA senior bonds	5,016	6,490	4,190
Loans and advances to customers	99,314	128,501	82,956
Other assets classified as held for sale	2,446	3,165	2,043
Interest in associates	31	40	26
Interest in joint ventures	245	317	204
Intangible assets – other	393	509	328
Investment properties	1,204	1,558	1,006
Property, plant and equipment	336	435	281
Current tax assets	9	12	8
Deferred tax assets	1,381	1,787	1,154
Other assets	2,270	2,937	1,896
Retirement benefit asset	8	10	7
Total assets	**154,880**	**200,399**	**129,371**
EQUITY AND LIABILITIES			
Deposits from banks	31,534	40,802	26,340
Customer accounts	70,506	91,228	58,894
Items in the course of transmission to other banks	271	350	226
Derivative financial instruments	6,018	7,787	5,027
Debt securities in issue	19,124	24,745	15,974
Liabilities to customers under investment contracts	4,954	6,410	4,138
Insurance contract liabilities	7,037	9,105	5,878
Other liabilities	3,111	4,025	2,599
Current tax liabilities	86	111	72
Provisions	38	49	32
Deferred tax liabilities	88	114	74
Retirement benefit obligations	422	546	352
Subordinated liabilities	1,426	1,845	1,191
Other liabilities classified as held for sale	13	17	11
Total liabilities	**144,628**	**187,134**	**120,808**
Equity			
Capital stock	2,452	3,172	2,048
Stock premium account	5,127	6,634	4,283
Retained earnings	3,507	4,538	2,929
Other reserves	(869)	(1,125)	(726)
Own stock held for the benefit of life assurance policyholders	(15)	(19)	(13)
Stockholders' equity	**10,202**	**13,200**	**8,521**
Non-controlling interests	50	65	42
Total equity	**10,252**	**13,265**	**8,563**
Total equity and liabilities	**154,880**	**200,399**	**129,371**

[1] *Converted at closing exchange rates as set out on page 189.*

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: (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 (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 (c) any other changes in the capital structure of the Bank;
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— (a) that stands specified by order by the Minister under section 6(1) of the Credit Institutions (Financial Support) Act 2008; and (b) that has joined this Scheme in accordance with paragraph 5 of the Schedule to S.I. No. 411 of 2008.
Government	the Government of Ireland;
Government Entity	(i) the NTMA, the NPRFC, the NPRF, 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 (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;
Minister for Finance	the Minister for Finance of Ireland;
Thirty Day Average Price	(i) 100% 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 (ii) 95% 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);

Stockholder information

Holders of ordinary stock

Stockholder profile	31 December 2011 % by value	31 December 2010 % by value
Ireland	18%	42%
UK	8%	6%
US	56%	13%
Europe / other	7%	8%
Retail	11%	31%
	100%	**100%**

Analysis of stockholdings:

Stockholding range - units of stock As at 31 December 2011	**Number of stockholders**	**% of total holders**	**Stock held units**	**% of total stock**
Up to 500	21,012	21.27%	4,186,978	0.01%
501 to 1,000	10,786	10.92%	8,299,608	0.03%
1,001 to 5,000	31,573	31.96%	81,262,030	0.27%
5,001 to 10,000	12,016	12.17%	87,746,639	0.29%
10,001 to 50,000	17,464	17.68%	386,502,531	1.28%
50,001 to 100,000	3,124	3.16%	222,009,359	0.74%
100,001 to 500,000	2,195	2.22%	430,912,679	1.43%
Over 500,000*	612	0.62%	28,888,461,390	95.95%
Total	**98,782**	**100.00%**	**30,109,381,214**	**100.00%**

* *Excludes stockholdings held by Bank of Ireland Life*

Stockholding range - units of stock As at 31 December 2010	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%
Total	96,142	100.00%	5,293,719,448	100.00%

* *Excludes stockholdings held by Bank of Ireland 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 €0.05 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 Depository Shares (ADSs), each ADS representing the right to receive forty units of ordinary stock and evidenced by American Depository 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 1 447 5571
or
Contact via website: 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 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 year ended 31 December 2011 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/about-boi-group/investor-relations/financial-information) 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.

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Internet address

Further information about the Bank of Ireland Group can be obtained from the internet at www.bankofireland.com

Abbreviations

ACS	Asset Covered Securities
ADR	American Depository Receipts
ADS	American Depository Shares
AFS	Available for sale
AGC	Annual General Court
AIB	Allied Irish Bank
ALCO	Group Asset and Liability Committee
APE	Annual Premium Equivalent
BIAM	Bank of Ireland Asset Management
BIGPF	Bank of Ireland Group Pension Fund
BoI	Bank of Ireland
BoI G.P.	Bank of Ireland General Partner
BoI Life	Bank of Ireland Life
BoIGM	Bank of Ireland Global Markets
BoISS	Bank of Ireland Security Services
bps	Basis points
BSPF	Bank of Ireland Staff Pensions Fund
CCMA	Code of Conduct on Mortgage Arrears
CCMRO	Chief Credit & Market Risk Officer
CCN	Contingent Capital Note
CDO	Collateralised debt obligation
CDS	Credit Default Swaps
CEBS	Committee of European Banking Supervisors
CEO	Chief Executive Officer
CGU	Cash generating units
CIFS	Credit Institutions (Financial Support) Scheme
CMBS	Commercial Mortgage-Backed Securities
CRC	Court Risk Committee
CRD	Capital Requirements Directive (European Union)
CSAs	Collateral Support Agreements
CSO	Central Statistics Office
DBRS	Dominion Bond Rating Service
DGS	Deposit Guarantee Scheme
EAD	Exposure at default
EBA	European Banking Authority
EBS	Educational Building Society
Ecap	Economic capital
ECB	European Central Bank
EEC	European Ecomonic Community
EIR	Effective interest rate
ELA	Emergency Lending Authority
ELG	Eligible Liabilities Guarantee Scheme
EMS	Environmental Management System
EPS	Earnings per share
ESOS	Executive Stock Option Scheme
ESRB	European Systemic Risk Board
ESRI	Economic and Social Research Institute
EU	European Union
Euribor	Euro Inter Bank Offered Rate
EWMA	Exponentially Weighted Moving Average
FCE	Foreign Currency Exchange Corporation
FRES	First Rate Exchange Services
FRN	Floating Rate Note
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Market Act
FVTPL	Fair Value Through Profit or Loss
FX	Foreign Exchange
GAAP	Generally Accepted Accounting Practice
GAC	Group Audit Committee
GCC	Group Credit Committee
GCR	Group Credit Review
GDC	Group Deleveraging Committee
GDP	Gross Domestic Product
GEC	Group Executive Committee
GIA	Group Internal Audit
GRCOR	Group Regulatory Compliance and Operational Risk
GRCOR	Group Regulatory Compliance and Operational Risk Committee
GRPC	Group Risk Policy Committee
HFS	Held for Sale
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	Incurred but not Reported
IBRC	Irish Banking Resolution Corporation
ICAAP	Internal Capital Adequacy Assessment Process
ICU	Independent Control Unit
IDA	Irish Development Authority Ireland
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ILP	Irish Life and Permanent
IMF	International Monetary Fund
INBS	Irish Nationwide Building Society
IOM	Isle of Man
IPO	Initial Public Offering
IRBA	Internal Ratings Based Approach
ISDA	International Swaps and Derivative Association
IT	Information Technology
KMP	Key Management Personnel
KRAs	Key Result Areas
LGD	Loss Given Default
Libor	London Inter Bank Offered Rate
LLC	Limited Liability Company
LLP	Limited Liability Partnership
LP	Limited Partnership
LTIP	Long Term Incentive Plan
LTPSP	Long Term Performance Stock Plan
LTRO	Long Term Refinancing Operation
MARP	Mortgage Arrears Resolution Process
MBPN	Mortgage-backed promissory note
NAMA	National Asset Management Agency
NAMAIL	National Asset Management Agency Investment Limited
NCA	National Consumer Agency
NIAC	New Ireland Assurance Company plc
NIE	Northern Ireland Electricity
NPRF	National Pensions Reserve Fund
NPRFC	National Pensions Reserve Fund Commission
NSFR	Net Stable Funding Ratio
NTMA	National Treasury Management Agency
N&G	Group Nomination and Governance Committee
OCI	Other Comprehensive Income
OEX	Operational Risk Exchange
PCAR	Prudential Assessment Capital Review
PD	Probability of default

PLAR	Prudential Liquidity Assessment Review
POFS	Post Office Financial Services
PRC	Portfolio Review Committee
PwC	PricewaterhouseCoopers
RAR	Risk Adjusted Returns
RAROC	Risk adjusted return on economic capital
REM COM	Group Remuneration Committee
RFSP	Regulated Financial Services Provider
RMC	Risk Measurement Committee
ROE	Return on Equity
RoI	Republic of Ireland
RRP	Recovery and Resolution Plan
RWA	Risk weighted assets
SAYE	Save as you earn
SEAI	Sustainable Energy Authority of Ireland
SIC	Standing Interpretations Committee
SME	Small Medium Enterprises
SOCI	Statement of other comprehensive income
SOx	Sarbanes Oxley Act of 2002
SPE	Special Purpose Entity
SSGA	State Street Global Advisors
TSA	The Standardised Approach
TSB	Trustee Savings Bank
TSR	Total shareholder return
TtC	Through-the-Cycle
VaR	Value at Risk
VAT	Value Added Tax
VWAP	Volume-weighted Average Price

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