

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended 31 December 2011
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report
Commission file number:1-14452

THE GOVERNOR AND COMPANY OF

THE BANK OF IRELAND

(Exact name of registrant as specified in its charter)

IRELAND

(Jurisdiction of incorporation or organisation)

40 MESPIL ROAD, DUBLIN 4, IRELAND

(Address of principal executive offices)

The Governor and Company of the Bank of Ireland

40 Mespil Road,

Dublin 4, Ireland

Telephone no: +353 1 6378000

Facsimile no: +353 76 6234786

(Name, telephone number, facsimile number and address of company contact person)

Securities registered or to be registered pursuant
to Section 12(b) of the Act:

Name of each exchange on which registered

Title of each class

The New York Stock Exchange**

The New York Stock Exchange

—Ordinary stock (nominal value of €0.05 each)

—American Depositary Shares, each representing 40 units of
Ordinary Stock (nominal value of €0.05 each)

** Not for trading, but only in connection with the registration of American Depositary Shares representing such ordinary stock, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of 31 December 2011:

- Ordinary stock (nominal value of €0.05 per unit): 30,132,505,842
- Deferred stock (nominal value of €0.01 per unit) 90,682,081,918
- Preference stock (nominal value of €1.27 per unit): 3,026,598
- Preference stock (nominal value of €0.01 per unit): 1,837,041,304
- Preference stock (nominal value of Stg£1 per unit): 1,876,090

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

YES NO

Note—checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

THE GOVERNOR AND COMPANY OF THE BANK OF IRELAND

ANNUAL REPORT ON FORM 20-F

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PRESENTATION OF INFORMATION

As set out in Note 1 to the Consolidated Financial Statements, on 17 February 2010 the Group changed its fiscal year end from 31 March, to 31 December to align its financial calendar with that of its peer banks. Accordingly, these financial statements cover the twelve month period from 1 January 2011 to 31 December 2011, with comparatives for prior periods covering the twelve month period from 1 January 2010 to 31 December 2010 and the nine month period from 1 April 2009 to 31 December 2009. As a result, the amounts presented in the financial statements are not entirely comparable.

In this Annual Report on Form 20-F (Annual Report or Form 20-F), the term ‘Ordinary Stock’ refers to units of ordinary stock of The Governor and Company of the Bank of Ireland (the Bank) and the term ‘ADSs’ refers to American Depositary Shares each representing the right to receive forty units of ordinary stock and evidenced by American Depositary Receipts (ADRs). On 11 July 2011, the ordinary stock of the Bank was renominialised from €0.10 to €0.05 per unit. For further detail see note 48 to the Consolidated Financial Statements.

The ADSs are listed on the New York Stock Exchange and are evidenced by ADRs issued by The Bank of New York Mellon as Depositary under a Deposit Agreement.

Unless a specific source is identified, all information regarding market and other operating and statistical data provided in this Annual Report is based on the Group’s own estimates. In making estimates, the Group relies on data produced internally and, where appropriate, external sources, including information made public by other market participants or associations.

Information found on any website address included in this Annual Report is not part of or incorporated into this Annual Report and the inclusion of such addresses is for the reader’s reference only.

Certain definitions are also set out in the Appendix to Part I of this Form 20-F.

FORWARD LOOKING INFORMATION

This Annual Report 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 by 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 about 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 Eligible Liabilities Guarantee (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 and requirements to maintain specified levels of regulatory capital;
- 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.

See Item 3 “Key Information—Risk Factors” and under Item 11 “Quantitative and Qualitative Disclosures about Market Risk” in this document for more information on factors that could cause actual results to differ materially from those contemplated by the forward looking statements in this document.

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 may make in documents filed or submitted or may file or submit to the US Securities and Exchange Commission.

DEFINITIONS

For the purposes of this Annual Report, the term “Bank” means The Governor and Company of the Bank of Ireland, the terms “Group” and “Bank of Ireland Group” mean the Bank and its consolidated subsidiaries and, where the context permits, its interests in associated companies and joint ventures.

The term “the State” means the Republic of Ireland, its Government and, where and if relevant, Government departments, agencies and local Government bodies.

Certain financial and statistical information in this Annual Report is presented separately for domestic and foreign activities. Domestic activities include transactions recorded on the books of the Group branches and offices located in Ireland. Foreign activities include transactions recorded on the books of the Group branches and offices in the United Kingdom ‘UK’, the United States of America ‘US’ and elsewhere outside of Ireland.

Unless otherwise stated, for the purposes of this Annual Report, references to ‘Ireland’ exclude Northern Ireland.

Further definitions are set out in the Appendix to Part I of this Form 20-F.

REPORTING CURRENCY

The Group publishes consolidated financial statements in euro “€” or “EUR”. Each euro is made up of one hundred cents, each of which is represented by the symbol “c” in this Annual Report.

References to “dollars”, “US\$”, “\$” or “¢” are to US currency, and references to “Stg£”, “GBP£” and “pounds sterling” are to UK currency. Amounts in dollars, unless otherwise stated, for the current financial (fiscal) year have been translated from euro at the rate prevailing on 31 December 2011 as shown below under “Exchange Rates”. This rate should not be construed as a representation that the euro amounts actually denote such dollar amounts or have been, could have been, or could be converted into dollars at the rate indicated.

EXCHANGE RATES

As a significant portion of the assets, liabilities, income and expenses of the Group is denominated in currencies other than euro, fluctuations in the value of the euro relative to other currencies have an effect on the euro value of assets and liabilities denominated in such currencies as well as on the Group’s results of operations. The principal foreign currencies affecting the Group’s financial statements are sterling and the dollar. At 23 March 2012, the spot rate was US\$1.3263 = €1.00.

The following table sets forth, for the dates or periods indicated, the spot or Noon Buying Rate in New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”) and the rates used by the Group in the preparation of its consolidated financial statements, which are sourced from the European Central Bank (ECB):

| | Year ended 31 December 2011 | Year ended 31 December 2010 | 9 months ended 31 December 2009 | Year ended 31 March 2009 | Year ended 31 March 2008 |
|---|-----------------------------------|-----------------------------------|--|--------------------------------|--------------------------------|
| | | | (dollars per €) | | |
| Dollar/euro rates: | | | | | |
| End of period | 1.2973 | 1.3269 | 1.4332 | 1.3261 | 1.5805 |
| Average ⁽¹⁾ | 1.4002 | 1.3216 | 1.4223 | 1.4103 | 1.4316 |
| High | 1.4875 | 1.4536 | 1.5100 | 1.6010 | 1.5805 |
| Low | 1.2926 | 1.1959 | 1.2903 | 1.2446 | 1.3295 |
| End of period rate used by the Group ⁽²⁾ | 1.2939 | 1.3362 | 1.4406 | 1.3308 | 1.5812 |
| Average rate used by the Group ⁽²⁾ | 1.3920 | 1.3258 | 1.4248 | 1.4321 | 1.4328 |

The highest spot or noon buying rate for each of the last six months was: February 2012: 1.3463, January 2012: 1.3192, December 2011: 1.3487, November 2011: 1.3803, October 2011: 1.4172, September 2011: 1.4283.

The lowest spot or noon buying rate for each of the last six months was: February 2012: 1.3087, January 2012: 1.2682, December 2011: 1.2926, November 2011: 1.3244, October 2011: 1.3281, September 2011: 1.3446.

| | <u>Year ended 31 December 2011</u> | <u>Year ended 31 December 2010</u> | <u>9 months ended 31 December 2009</u> | <u>Year ended 31 March 2009</u> | <u>Year ended 31 March 2008</u> |
|---|--|--|--|---|---|
| | | | (Stg£ per €) | | |
| Sterling/euro rates: | | | | | |
| End of period rate used by the Group ⁽²⁾ . | 0.8353 | 0.8607 | 0.8881 | 0.9308 | 0.7958 |
| Average rate used by the Group ⁽²⁾ | 0.8679 | 0.8579 | 0.8851 | 0.8333 | 0.7116 |

(1) The average of the spot or Noon Buying Rates on the last day of each month during the Group's financial year/period.

(2) The rates used by the Group in the preparation of its consolidated financial statements.

PART 1

Item 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT & ADVISORS

Not applicable.

Item 2 OFFER STATISTICS & EXPECTED TIMETABLE

Not applicable.

Item 3 KEY INFORMATION

SELECTED FINANCIAL DATA

The following tables present selected consolidated financial data which have been derived from the audited consolidated financial statements of the Group. Tables 1 and 2 detail financial data under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) for the years ended 31 December 2011 and 2010, the nine months ended 31 December 2009 and the years ended 31 March 2009 and 2008.

The consolidated financial statements of the Group have been prepared in accordance with IFRS as issued by the IASB for the years ended 31 December 2011 and 2010, the nine months ended 31 December 2009 and the years ended 31 March 2009 and 2008. 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 relaxation, hence these financial statements comply with both IFRS as adopted by the EU and IFRS as issued by the IASB.

The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, the consolidated financial statements of the Group and the notes thereto, which are included in this Annual Report. The financial results should not be construed as indicative of financial results for subsequent periods. See Item 5 “Operating & Financial Review and Prospects”.

As noted in the Presentation of Information, on 17 February 2010 the Group changed its financial year to 31 December (see note 1 to the Consolidated Financial Statements) to align its financial calendar with that of its peer banks.

SELECTED CONSOLIDATED FINANCIAL DATA

Table 1

| | Year ended 31 December 2011 ⁽¹⁾ | Year ended 31 December 2011 | Year ended 31 December 2010 | 9 months ended 31 December 2009 ⁽²⁾ | Year ended 31 March 2009 | Year ended 31 March 2008 |
|---|--|--|-----------------------------------|---|--------------------------------|--------------------------------|
| | US\$m | (in € millions, except per unit amounts and percentages) | | | | |
| Income Statement Data | | | | | | |
| Interest income | 6,125 | 4,618 | 5,179 | 4,188 | 9,717 | 10,397 |
| Interest expense | (4,090) | (3,084) | (2,960) | (2,009) | (6,047) | (7,134) |
| Net interest income | 2,035 | 1,534 | 2,219 | 2,179 | 3,670 | 3,263 |
| Net insurance premium income | 1,232 | 929 | 969 | 665 | 1,069 | 1,940 |
| Fees and commission income | 812 | 612 | 633 | 474 | 717 | 816 |
| Fees and commission expense | (255) | (192) | (257) | (255) | (232) | (150) |
| Net trading income/(expense) | 25 | 19 | 225 | (28) | (307) | (246) |
| Life assurance investment income, gains and losses | (50) | (38) | 474 | 958 | (1,570) | (826) |
| Gain on liability management exercises | 2,373 | 1,789 | 1,402 | 1,037 | — | — |
| Other operating income | 16 | 12 | 199 | 31 | 73 | 238 |
| Total operating income | 6,188 | 4,665 | 5,864 | 5,061 | 3,420 | 5,035 |
| Insurance contract liabilities and claims paid | (995) | (750) | (1,268) | (1,462) | 537 | (798) |
| Total operating income, net of insurance claims | 5,193 | 3,915 | 4,596 | 3,599 | 3,957 | 4,237 |
| Other operating expenses | (2,186) | (1,648) | (1,805) | (1,381) | (2,121) | (2,160) |
| Impact of amendments to defined benefit pension schemes | 3 | 2 | 733 | — | — | — |
| Reversal/(impairment) of goodwill and other intangible assets | 5 | 4 | 2 | (6) | (304) | — |
| Operating profit before impairment charges on financial assets and gain/(loss) on NAMA/deleveraging | 3,015 | 2,273 | 3,526 | 2,212 | 1,532 | 2,077 |
| Impairment charges on financial assets | (2,658) | (2,004) | (2,284) | (4,057) | (1,513) | (232) |
| Gain/(loss) on sale of assets to NAMA including associated costs | 44 | 33 | (2,241) | — | — | — |
| Loss on deleveraging of financial assets | (749) | (565) | — | — | — | — |
| Operating (loss)/profit | (348) | (263) | (999) | (1,845) | 19 | 1,845 |
| Share of results of associates and joint ventures (after tax) | 52 | 39 | 49 | 35 | (42) | 46 |
| Profit/(loss) on disposal of business activities | 45 | 34 | — | (3) | — | — |
| Profit on sale of property | — | — | — | — | — | 39 |
| (Loss)/profit before taxation | (251) | (190) | (950) | (1,813) | (23) | 1,930 |
| Taxation | 305 | 230 | 341 | 344 | 41 | (229) |
| Profit/(loss) for the period | 54 | 40 | (609) | (1,469) | 18 | 1,701 |
| Attributable to non-controlling interests | (7) | (5) | 5 | (9) | (35) | 5 |
| Attributable to stockholders | 61 | 45 | (614) | (1,460) | 53 | 1,696 |
| Profit/(loss) for the period | 54 | 40 | (609) | (1,469) | 18 | 1,701 |
| Earnings/(loss) per unit of €0.05/€0.10/€0.64 ⁽³⁾ ordinary stock | (0.93c) | (0.7c) | (21.5c) ⁽⁴⁾ | (105.5c) ⁽⁴⁾ | 2.7c ⁽⁴⁾ | 109.0c ⁽⁴⁾ |
| Diluted earnings/(loss) per unit of €0.05/€0.10/€0.64 ⁽³⁾ ordinary stock | (0.93c) | (0.7c) | (21.5c) ⁽⁴⁾ | (105.5c) ⁽⁴⁾ | 2.7c ⁽⁴⁾ | 108.6c ⁽⁴⁾ |
| Dividends per unit of €0.05/€0.10/€0.64 ⁽³⁾ ordinary stock ⁽⁵⁾ | — | — | — | — | — | 39.8c ⁽⁴⁾ |
| Number of shares used in EPS calculation (in millions) | 15,704 | 15,704 | 3,811 ⁽⁴⁾ | 1,587 ⁽⁴⁾ | 1,579 ⁽⁴⁾ | 1,543 ⁽⁴⁾ |
| Number of shares used in diluted EPS calculation (in millions) | 15,704 | 15,704 | 3,811 ⁽⁴⁾ | 1,587 ⁽⁴⁾ | 1,579 ⁽⁴⁾ | 1,549 ⁽⁴⁾ |

See next page for footnotes to Table 1.

Table 1 (Continued)

| | Year ended 31 December 2011 ⁽¹⁾ | Year ended 31 December 2011 | Year ended 31 December 2010 | 9 months ended 31 December 2009 | Year ended 31 March 2009 | Year ended 31 March 2008 |
|---|--|--|-----------------------------------|--|--------------------------------|--------------------------------|
| | US\$m | (in € millions, except per unit amounts and percentages) | | | | |
| Balance Sheet Data | | | | | | |
| Total assets | 205,417 | 154,880 | 167,473 | 181,106 | 194,116 | 197,434 |
| Loans and advances to customers (net of impairment provisions) | 131,720 | 99,314 | 114,457 | 119,439 | 133,740 | 135,738 |
| Loans held for sale to NAMA (net of impairment provisions) | — | — | 793 | 9,457 | — | — |
| Other assets classified as held for sale | 3,244 | 2,446 | 119 | — | — | — |
| Loans and advances to banks | 10,689 | 8,059 | 7,458 | 5,031 | 7,886 | 9,409 |
| Allowance for impairment provisions on loans and advances to customers (including loans held for sale to NAMA and loans classified as held for sale) | (8,442) | (6,365) | (5,050) | (5,775) | (1,781) | (596) |
| Available for sale financial assets | 13,610 | 10,262 | 15,576 | 20,940 | 26,858 | 29,307 |
| NAMA senior bonds | 6,653 | 5,016 | 5,075 | — | — | — |
| Deposits from banks | 41,824 | 31,534 | 41,075 | 17,903 | 28,814 | 14,130 |
| Customer accounts | 93,512 | 70,506 | 65,443 | 84,812 | 83,119 | 86,234 |
| Debt securities in issue | 25,364 | 19,124 | 28,693 | 43,144 | 45,133 | 60,842 |
| Subordinated liabilities | 1,891 | 1,426 | 2,775 | 6,053 | 7,942 | 7,808 |
| Non-controlling interests | 66 | 50 | 56 | 50 | 61 | 38 |
| Capital stock | 3,252 | 2,452 | 1,210 | 699 | 699 | 664 |
| Stock premium account | 6,800 | 5,127 | 3,926 | 4,092 | 4,092 | 775 |
| Retained earnings | 4,651 | 3,507 | 3,740 | 3,263 | 4,761 | 5,670 |
| Other reserves | (1,153) | (869) | (1,510) | (1,580) | (2,610) | (400) |
| Own shares held for the benefit of life assurance policyholders | (20) | (15) | (15) | (87) | (90) | (225) |
| Stockholders' equity | 13,531 | 10,202 | 7,351 | 6,387 | 6,852 | 6,484 |

(1) Translated solely for convenience into dollars at €1.00 = US\$1.3263, the Spot Rate on 23 March 2012.

(2) The income statement data for the nine month period ended 31 December 2009 shown in this table is taken from the consolidated income statement on page F-4. This data differs from that shown in the Operating and Financial Review and the Operating Segments note (see note 2 to the consolidated financial statements on page F-52). During 2010, the Group changed the reported presentation of the results of two of its subsidiaries such that the income and other operating expenses are presented on separate line items in the Income Statement and to facilitate a more meaningful comparison, a similar presentation has now been adopted in the Operating and Financial Review and the Operating Segments note (but not in the consolidated income statement or the income statement data in Table 1) for the nine month period ended 31 December 2009. This has led to a decrease in net interest income of €9 million, an increase in other income of €17 million and an increase in operating expenses of €8 million as compared to the amounts previously reported for these line items.

(3) The Group's ordinary stock was renominialised from €0.64 to €0.10 with effect from 19 May 2010 and from €0.10 to €0.05 with effect from 11 July 2011.

(4) The prior years have been adjusted retrospectively to reflect the bonus element of the rights issue, which took place in July 2011. An adjustment factor of 1.007809 has been applied. See note 21 to the consolidated financial statements.

(5) See Item 8 "Financial Information—Dividend Policy" for details of dividends per unit of ordinary stock in dollars.

Table 2

| | Year ended 31 December 2011 | Year ended 31 December 2010 | 9 months ended 31 December 2009 ⁽⁶⁾ | Year ended 31 March 2009 | Year ended 31 March 2008 |
|--|-----------------------------------|-----------------------------------|---|--------------------------------|--------------------------------|
| | (in Percentages %) | | | | |
| Other Financial Data | | | | | |
| Return on average total assets ⁽⁷⁾ | 0.03 | (0.35) | (1.03) | 0.03 | 0.8 |
| Return on average stockholders' equity ⁽⁸⁾ | 0.5 | (8.4) | (25.3) | 0.9 | 24.4 |
| Net interest margin ⁽⁹⁾ | 1.1 | 1.4 | 1.7 | 2.1 | 1.9 |
| Cost/income ratio ⁽¹⁰⁾ | 41* | 39* | 38* | 62 | 50 |
| Impairment provisions on loans and advances to customers ⁽¹¹⁾ | 6 | 4.2 | 2.5 | 1.3 | 0.4 |
| Impairment provisions on loans held for sale to NAMA ⁽¹²⁾ | — | 8.6 | 22.7 | — | — |
| Impairment charges to average total loans ⁽¹³⁾ | 1.7 | 1.6 | 3.9 | 1.0 | 0.2 |
| Stockholders' equity to assets ⁽¹⁴⁾ | 6.6 | 4.4 | 3.5 | 3.3 | 3.3 |
| Dividend payout ratio ⁽¹⁵⁾ | — | — | — | — | 36 |
| | Year ended 31 December 2011 | Year ended 31 December 2010 | 9 months ended 31 December 2009 | Year ended 31 March 2009 | Year ended 31 March 2008 |
| | (in Percentages %) | | | | |
| Capital | Basel II | Basel II | Basel II | Basel II | Basel I |
| Core tier 1 ratio | 15.1 | 9.7 | 8.9 | 9.5 | 5.7 |
| Core tier 1 ratio (PCAR/EBA stress test basis) ⁽¹⁶⁾ | 14.3 | — | — | — | — |
| Tier 1 capital ratio | 14.4 | 9.7 | 9.8 | 12.0 | 8.1 |
| Total capital ratio | 14.7 | 11.0 | 13.4 | 15.2 | 11.1 |

* Impacted by the gain of €1,789 million (year ended 31 December 2010: €1,402 million and 9 month period ended 31 December 2009: €1,037 million) on the repurchase of subordinated liabilities and the gain of €2 million (year ended 31 December 2010: €733 million and 9 month period ended 31 December 2009: €nil) from amendments to defined benefit pension schemes.

- (6) Other financial data for the nine month period ended 31 December 2009 is presented on an annualised basis.
- (7) Return on average total assets represents profit attributable to the ordinary stockholders as a percentage of average total assets. The calculation of the average balances for all years includes daily, weekly or monthly averages for certain reporting units. See Item 5 "Operating & Financial Review and Prospects—Average Balance Sheet and Interest Rates". The Group considers these average balances to be representative of the operations of the Group.
- (8) Return on average stockholders' equity represents profit attributable to the ordinary stockholders as a percentage of average stockholders' funds, excluding minority interests.
- (9) Net interest margin represents net interest income as a percentage of average interest earning assets.
- (10) The cost / income ratio is determined by dividing the total expenses including goodwill impairment of the Group by the total income (including gain on the re-purchase of subordinated liabilities) of the Group including income from associated undertakings and joint ventures.
- (11) Impairment provisions on loans and advances to customers is calculated by dividing the impairment provision on loans and advances to customers by total loans and advances to customers at the balance sheet date.
- (12) Impairment provisions on loans held for sale to NAMA is calculated by dividing the impairment provision on loans held for sale to NAMA by loans held for sale to NAMA at the balance sheet date.

- (13) Impairment charges to average total loans is calculated by dividing impairment charges for the financial period on loans and advances to customers by average loans and advances to customer (including assets classified as held for sale and held for sale to NAMA).*
- (14) Stockholders' equity excludes minority interests.*
- (15) Dividend payout ratio is calculated by dividing the annual equity dividends by profit attributable to ordinary stockholders.*
- (16) 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 FACTORS

This section addresses those risks to the Group's business that are considered material by the Directors. These risks 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.

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.

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 some 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 Gross Domestic Product (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 will require ratification by those member states and will require a referendum in Ireland. The Irish Government has announced that the fiscal treaty referendum will be held on 31 May 2012.

Any failure by Ireland or another member state to ratify this agreement may jeopardise that country's 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 Eligible Liabilities Guarantee (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 2011 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 226. 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 continued 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 Ireland and 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 2011 (the Resolution Act 2011)

The introduction of the Credit Institutions (Stabilisation) Act 2010 (the Stabilisation Act) 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 2011 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 for Finance 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 2011 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 2011 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.

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.

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 and could adversely impact the Group's results, financial condition and prospects.

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 ELG 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 its 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 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 EU 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 for Finance. These rights apply in full for so long as the NPRFC holds any units of 2009 Preference Stock and they are not reduced in line with any reduction in the number of units of 2009 Preference Stock held.

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 Financial Services Authority (FSA) to make Recovery and Resolution Plan (RRP) rules for UK incorporated deposit-takers having regard to international standards relating to RRP.

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 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 Risk Weighted Assets (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 expects 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 publication of 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 disposals, 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 occurrence 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 events 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.

Item 4 INFORMATION ON THE COMPANY

GENERAL

The Governor and Company of the Bank of Ireland was established as a chartered corporation by an Act of the Irish Parliament of 1781/2 and by a Royal Charter of King George III in 1783. The Bank of Ireland Group had total assets of €155 billion at 31 December 2011. The address of the principal executive offices is 40 Mespil Road, Dublin 4, Ireland. (Telephone +35316378000).

The Group provides a broad range of banking and other financial services. All of these services are provided by the Group in Ireland, with selected services being offered in the UK and internationally. The Group has a network of retail branches in Ireland and joint ventures in the UK engaged in the provision of consumer financial services. Corporate Banking and Global Markets conduct the Group's international business with offices in Dublin, London and the US, as well as branches in Paris and Frankfurt.

Subsidiaries of the Group include Bank of Ireland (UK) plc (a UK regulated bank encompassing the Group's successful joint venture with the UK Post Office, the Northern Ireland branch network and its UK business banking and certain other lending activities), Bank of Ireland Life Holdings plc, a life assurance and pensions company in Ireland, ICS Building Society (ICS), a home mortgage business in Ireland, and Bank of Ireland Mortgage Bank (BoIMB).

The Group provided fund management services through its Asset Management businesses. However, on 10 January 2011, the Group completed the sale of Bank of Ireland Asset Management (BIAM) to State Street Global Advisors; on 1 June 2011, the Group completed the sale of Bank of Ireland Securities Services (BoISS) to Northern Trust Corporation, and on 21 April 2011 the Group completed the sale of its 50% holding in Paul Capital Investments LLC to the firm's existing management team.

On 15 July 2010 the European Commission approved the terms of the Group's 2010 EU Restructuring Plan which was required in the context of a review by the European Commission following the Group's receipt of 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 by twelve months from the date originally agreed;
- 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.

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. The Group realized a loss on disposal after transaction costs of €565 million. €0.9 billion of the remaining €1 billion in assets announced has been completed and derecognised since 31 December 2011 with the remaining €0.1 billion expected to settle in the coming months. Further information on deleveraging is shown in note 17 to the Consolidated Financial Statements.

BUSINESS OVERVIEW

The Group provides a broad range of financial services in Ireland to all major sectors of the Irish economy. These include checking and deposit services, overdrafts, term loans, mortgages, business and corporate lending, international asset financing, leasing, instalment credit, invoice discounting, foreign exchange facilities, interest and exchange rate hedging instruments, executor, trustee, life assurance, pension and financial advisory services, including mergers and acquisitions. The Group provides services in euro and other currencies. The Group markets and sells its products on a domestic basis through its extensive nationwide distribution network in Ireland, which consists of 251 full time service branches and approximately 1,246 ATMs, its direct telephone banking service, direct sales forces and its online services.

The Retail UK division incorporates Business Banking in the UK, the branch network in Northern Ireland, the discontinued intermediary sourced mortgage business operating under Bristol & West and Bank of Ireland brands and the joint ventures with the UK Post Office, namely Post Office Financial and Travel Services, which were transferred to the Group's wholly owned banking subsidiary, Bank of Ireland (UK) plc, on 1 November 2010. In addition, the Bank provides corporate lending and treasury products and services to corporate customers in the UK through its Corporate Banking and Global Markets businesses which have offices in Belfast, Bristol and London.

Operations in the rest of the world are undertaken by:

- Corporate Banking, which is engaged in international lending, with offices located in France, Germany, and the US;
- Global Markets, which delivers a comprehensive range of risk management products to the Group's customer base.

CORPORATE STRUCTURE

As at 31 December 2011 the Group organised its businesses into Retail Ireland (formerly Retail Republic of Ireland), Bank of Ireland Life (BoI Life), Retail UK (formerly UK Financial Services), Corporate and Treasury (formerly Capital Markets), and Group Centre. Corporate and Treasury includes Corporate Banking, Global Markets and IBI Corporate Finance business. The Group's operations extend geographically throughout Ireland, the UK, Europe and the US. The segmental analysis note, shown in note 2 to the Consolidated Financial Statements includes an analysis of profit contributions by both geographic segments and by business classes. See also Item 5 "Operating & Financial Review and Prospects" and note 60 and note 17 to the Consolidated Financial Statements for further information in relation to the EU restructuring plan and divestments.

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

Bank of Ireland Life comprises the Group's businesses that operate in the life and pensions market in Ireland. New Ireland Assurance Company plc (NIAC) is a manufacturer of pension, life assurance and related products for individuals and SME's as well as a distributor in the independent intermediary and direct sales channels. Bank of Ireland Life is the distributor to Group customers in Ireland through the branch network. As one of its commitments under the Approved 2010 EU Restructuring Plan the Group is required to sell NIAC. A key amendment to the approved 2010 EU Restructuring Plan as reflected in the 2011 EU Restructuring Plan, which was approved on 20 December 2011, is that the divestment period for NIAC will be extended by twelve months from the date originally agreed.

Corporate and Treasury (formerly Capital Markets)

The principal constituents of the Corporate and Treasury division are Corporate Banking, Global Markets and IBI Corporate Finance.

Corporate Banking provides integrated relationship banking services to a significant number of the major Republic of Ireland and Northern Ireland corporations, financial institutions and multi-national corporations operating in or out of the island of Ireland. The range of lending products provided includes, but is not limited to, 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 London, Paris, Frankfurt and the United States. Its international lending business includes, but is not limited to, acquisition finance, project finance, term lending, and asset based financing, principally in the United Kingdom, Europe and the US.

Global Markets is responsible for managing the Group's interest rate and foreign exchange risks, while also responsible for 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, but are not limited to, dealing in foreign exchange spot and forward contracts, options, inter bank deposits and loans, financial futures, bonds, swaps and forward rate agreements and equity tracker products. Global Markets also operates in the United Kingdom and the US.

IBI Corporate Finance provides independent financial advice to public and private companies on takeovers, mergers and acquisitions, disposals and restructurings, in addition to fund raisings, public flotations and stock exchange listings.

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.

Group Centre

Group Centre comprises the central support functions for the Group including Finance, Group Credit and Market Risk, Group Governance Risk and Human Resources. In the Group's financial statements, Group Centre also reflects the costs associated with capital management activities, unallocated support costs and the cost of the Government Guarantee Scheme.

Name change

The Group changed the name of three of its segments as detailed above with no change to composition of its segments.

PRINCIPAL CAPITAL EXPENDITURES AND DIVESTITURES

Acquisitions

There were no principal acquisitions in the three financial periods to 31 December 2011.

Divestitures

The principal capital divestitures in the three financial periods to 31 December 2011 consist of the following:

Burdale Financial Holdings Limited (Burdale)

On 19 December 2011 the Group announced the sale of Burdale Financial Holdings Limited (Burdale) to Wells Fargo International Banking Corporation. Burdale is a 100% subsidiary of the Group and is a provider of comprehensive asset based lending to the UK and US markets. 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.

In the year ended 31 December 2011 an impairment charge of €45 million on goodwill relating to Burdale was recognised in the income statement.

Foreign Currency Exchange Corporation (FCE Corporation)

During the year ended 31 December 2011 the Group disposed of its interest in Foreign Currency Exchange Corporation (FCE Corporation). FCE Corporation was a 100% subsidiary of the Group and provides foreign currency note services and international money payment services to a large number of banking institutions throughout the US and Canada. 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.

Paul Capital Investments LLC

During the year ended 31 December 2011 the Group disposed of its interest in Paul Capital Investments 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 Investments LLC to the firm's existing management team for consideration of €9 million. The profit was less than €1 million. This sale represented the Group's exit from institutional fund management and the completion of another element of the Group's EU Restructuring and Viability Plan.

Bank of Ireland Securities Services (BoISS)

During the year ended 31 December 2011 the Group disposed of its interest in Bank of Ireland Securities Services (BoISS). BoISS was a 100% subsidiary of the Group and is a provider of asset administration. 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.

Bank of Ireland Asset Management (BIAM)

During the year ended 31 December 2011 the Group disposed of its interest in Bank of Ireland Asset Management (BIAM). BIAM was a 100% subsidiary of the Group and is a provider of investment management solutions to Irish and international clients. 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.

Guggenheim Alternative Asset Management LLC

At 31 March 2009, the Group held a 71.5% interest in Guggenheim Alternative Asset Management LLC (Guggenheim). During the nine month period ended 31 December 2009, the Group disposed of a 49.5% interest in Guggenheim and disposed of the remaining interest (22%) during the year ended 31 December 2010. Guggenheim acted as a US based fund of hedge funds managed within the Corporate and Treasury division of the Group. Similar to Iridian, the significant drop in assets under management in the latter part of the last financial year following the turmoil in global markets prompted the Group to consider its strategic options for this business. The disposal of the 49.5% stake was concluded on 31 August 2009 with a resulting profit on disposal of €7 million. The remaining 22% interest was of negligible value with minimal control or influence.

Iridian Asset Management LLC

During the nine month period ended 31 December 2009 the Group disposed of its interest in Iridian Asset Management LLC (Iridian). Iridian was a 100% subsidiary of BIAM US Inc and acted as an Institutional Asset Manager in the US market within the Corporate and Treasury division of the Group. The disposal was concluded on 30 June 2009 with a resulting loss on disposal of €10 million.

MATERIAL SUBSIDIARIES

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 Life Holdings Limited ⁽¹⁾ | Life assurance and pensions | Ireland | 31 December |
| Bank of Ireland Mortgage Bank ⁽¹⁾ | Mortgage lending and issuance of 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⁾ | Mortgage lending and deposit gathering | Ireland | 31 December |
| New Ireland Assurance Company plc ⁽¹⁾ | Life assurance business | Ireland | 31 December |
| Midasgrange Limited (t/a Post Office Financial Services) ⁽³⁾ | Retail financial services | England and Wales | 31 March |
| Bank of Ireland (I.O.M.) Limited | Retail Banking | Isle of Man | 31 December |

(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. Except as otherwise indicated, 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.

DESCRIPTION OF PROPERTY

At 31 December 2011, the Group operated 295 full time retail bank branches of which 251 were in Ireland and 44 in Northern Ireland. There are no full service retail bank branches in Britain.

The property at 40 Mespil Road, Dublin 4 having approximately 11,133 square metres (120,000 square feet) of net floor space became the Group's Head Office with effect from 12 April 2010 and the registered office of the Governor and Company of the Bank of Ireland on 1 July 2010.

The head office of New Ireland Assurance is located at 9-12 Dawson Street, Dublin 2, Ireland. The head office and administrative buildings occupy approximately 5,388 square metres (58,000 square feet) of net floor space. New Ireland Assurance also has a network of 7 branches operating through New Ireland Assurance Company plc.

The Bank of Ireland Group's former headquarters, located at Lower Baggot Street, Dublin 2, Ireland, comprise a complex of three buildings constructed in the 1970's having approximately 20,439 square metres (220,000 square feet) of net floor space, which the Bank leases on commercial terms. The Bank has exercised the break option and will be handing the property back in August 2012. The Group also occupies approximately 47,909 square metres (516,000 square feet) of net floor space for central functions in Dublin, of which 3,723 square metres (40,000 square feet) is sublet, in addition to the offices and administrative buildings of New Ireland Assurance and the multi occupied property at 40 Mespil Road.

The Bank's UK operations occupies approximately 35,524 square metres (382,000 square feet) of net floor space in the UK for business centres and administrative support functions. As a result of changes in the UK operations there are a number of leased premises that are no longer used in support of business operations. The majority of these premises are held on individual leases with different expiry dates. These

properties are either sublet or vacant and on the market. There are no new major projects in progress which will have a significant bearing on occupied floor space but opportunities to exit leases and consolidate space are being reviewed or taken as and when they arise.

Operations in the rest of the world are undertaken by Corporate Banking through offices located in the UK, France, Germany and the US and by Global Markets through offices located in the UK and the US. These premises are owned directly by the Group or held under commercial leases. The premises are subject to continuous maintenance and upgrading and are considered suitable and adequate for the Group's current and anticipated operations. Details of acquisitions and disposals during the year are given in note 36 to the consolidated financial statements under the heading "Property, Plant and Equipment".

Following the sale and leaseback of 36 branches in October 2006, and a further 30 properties in September 2007, the Group now leases back these properties under operating leases which give rise to a total annual rental commitment of €13 million (31 December 2010: €12 million).

COMPETITION

The Bank of Ireland Group faces ongoing competition in all of its major markets. Other financial services groups, including local banks and domestic and foreign financial services companies, compete for business in these markets.

Ireland

Bank of Ireland provides a comprehensive range of banking services in Ireland and faces competition from various types of institutions in the financial services sector, both domestic and foreign.

The Bank's main competitors across the full range of banking activities are other banks, in particular, Allied Irish Banks plc, Ulster Bank Limited, National Irish Bank Limited, and Irish Life and Permanent plc.

Allied Irish Banks plc and Irish Life and Permanent plc each have their head offices in Dublin. Ulster Bank Limited is a subsidiary of The Royal Bank of Scotland Group plc and National Irish Bank Limited is a subsidiary of Danske Bank A/S.

In addition to these banks, there is also competition in different segments from building societies, the Irish Post Office, credit unions and other banks operating in Ireland.

The general competitive environment in Ireland is subject to the operation of the Competition Act, 2002 (as amended). The Competition (Amendment) Bill 2011 has been introduced to strengthen competition law enforcement in Ireland through increased penalties and sanctions. In the UK (including Northern Ireland) the competitive environment is subject to the Competition Act 1998 and the Enterprise Act 2002. National legislation in Ireland reflects and supplements EU competition legislation.

United Kingdom

The Bank of Ireland Group's operations in the UK, conducted primarily through its FSA regulated UK subsidiary, Bank of Ireland UK plc focus on specific market niches, in particular business banking, retail savings, mortgage lending and retail financial services (the latter through a joint venture with the UK Post Office).

The UK has a competitive and sophisticated financial market. The Group's principal competitors include other providers of personal and commercial financial services, such as banks, building societies, supermarkets and insurance companies many of which have extensive branch networks throughout the UK and some with direct or online-only propositions. Significant recent developments to the UK competitive landscape have included the acquisition of Northern Rock by Virgin and the opening of Metro Bank.

While one of the initial impacts of the financial crisis on the UK market was to consolidate the market share of the largest market participants (for example, the Lloyds TSB merger with HBOS and the acquisition of the Bradford and Bingley deposit book by Santander), UK regulators have a clear position to promote increased competition in the market in order to counter the perceived impact of this consolidation—see under Inquiries below.

International

In those markets where the Group's strategy is to create niche businesses internationally the range and number of competitors is even more extensive. In addition, certain businesses based in Ireland, such as corporate finance, face competition on an international rather than a national basis.

Inquiries

The UK Independent Commission on Banking published its Final Report in September 2011, developing suggestions previously set out in its Interim Report of April 2011 as to how competition between banks could be encouraged and about the divestiture of the Lloyds HBOS to improve competition by enabling the entry of a strong effective challenger. In February 2012, the outgoing Director General of Fair Trading gave a speech calling for greater competition in the retail banking sector, failing which he argued that the market should be referred to the Competition Commission for investigation. Greater competition in the UK market might ultimately benefit the Bank of Ireland Group as a 'challenger' brand in the UK but could also result in increased cost and operational complexity in the short to medium term.

In 2011, the UK Competition Commission varied its previous (2008) Order in relation to Personal Current Accounts in Northern Ireland, largely to align it with EU legislation in the Consumer Credit and Payment Services Directives respectively. The broad intention of the 2008 Order is to enhance competition in the Northern Ireland market, following an enquiry by the Commission.

Also in 2011, Consumer Focus brought a super-complaint under the Enterprise Act 2002 that charges for purchasing foreign currency and using cards overseas can be confusing and often not at all clear for UK consumers. Discussions between the office of Fair Trading and the industry bodies involved led to an agreement on various actions to remedy this. Bank of Ireland Group will abide by this agreement in relation to its UK debit and credit cards and its foreign exchange joint venture with the UK Post Office.

In March 2012 the UK Government published plans for an extensive reform of UK competition law following a consultation exercise. These plans include the establishment of a single Competition and Markets Authority, to simplify and strengthen the competition landscape in the UK.

SUPERVISION AND REGULATION

IRELAND

1. General regulation and supervision

Measures by the Irish Government to support the Irish financial sector have resulted in closer supervision of financial institutions as well as additional regulatory requirements relating to the specific measures implemented, such as the NPRFC Investment, the ELG scheme and NAMA.

Banking activities in Ireland are regulated and supervised by the Central Bank. The Irish banking law regulations consist primarily of the 1942 to 2011 (including the Central Bank Reform Act 2010 which is described in more detail below), the Central Bank and Credit Institutions (Resolution) Act 2011 (see page 38), the 1992 Supervision Regulations, the 1992 Licensing Regulations, regulations made by the Minister for Finance under the European Communities Act 1972 and regulatory notices issued by the Central Bank. These ministerial regulations and regulatory notices implement EU directives relating to banking regulation, including the First Banking Coordination Directive, the Second Banking Coordination

Directive, the Solvency Ratio Directive, the Own Funds Directive, the Large Exposures Directive, the Deposit Guarantee Scheme Directive, the Capital Adequacy Directive and the Capital Requirements Directive. To the extent that areas of banking activity are the subject of EU directives, the provisions of Irish banking law reflect the requirements of those directives.

The Central Bank Reform Act 2010 (the 2010 Reform Act) was commenced on 1 October 2010. The 2010 Reform Act creates a single fully integrated Central Bank with a unitary board, the Central Bank Commission, chaired by the Governor of the Central Bank. The Financial Regulator was dissolved and most of its existing functions were merged into the new structure. The Central Bank is now responsible and accountable for the prudential supervision of individual financial firms, ensuring the best interests of consumers of financial services are protected through conduct of business rules and contributing to the stability of the financial system overall.

The Central Bank also has responsibility for ensuring the efficient and effective operation of payment and settlement systems, for the provision of analysis and comment to support national economic policy development and for the performance of functions imposed on the Central Bank under the Treaty of Rome and the Statute of the European System of Central Banks.

The 2010 Reform Act also included:

- the requirement for the Central Bank to approve, prior to their appointment, key office holders in financial service providers (the types of office holder to which this obligation will apply will be prescribed by secondary legislation or by orders issued by the Central Bank);
- the power of the Central Bank to suspend or remove a director, chief executive or other senior executive (prescribed in secondary legislation) from his or her position in a financial services provider;
- the power of the Central Bank to impose levies for the purposes of funding regulation of financial service providers.

The 2010 Reform Act removed the promotion of financial services as one of the functions of the Central Bank. The 2010 Reform Act also provided for the transfer of some of the consumer information and education functions from the Central Bank to the National Consumer Agency, with the National Consumer Agency being granted the power to impose levies on financial service providers, including the Bank, for the purposes of funding its performance of these functions.

The Central Bank and Financial Services Authority of Ireland (CBFSAI) Act, 2003 (CBFSAI Act), established the Irish Financial Services Appeals Tribunal, which hears and determines appeals under any of the designated enactments or statutory instruments referred to above that have the effect of imposing a sanction or liability on any person. The provisions of the CBFSAI Act, 2003 relating to the Irish Financial Services Appeals Tribunal became effective on 1 August 2004.

All Irish licensed banks are obliged to draw up and publish their annual accounts in accordance with the European Communities (Credit Institutions: Accounts) Regulations, 1992 (as amended, including by the European Communities (Credit Institutions) (Fair Value Accountancy) Regulations, 2004 and the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations, 2010). As a listed entity, the Group is required to prepare its financial statements in accordance with IFRS and with those parts of the Companies Acts applicable to companies reporting under IFRS and Article 4 of the EU Council Regulation 1606/2002 of 19 July 2002.

Subject to the provisions of the 1992 Licensing Regulations relating to mutual recognition of credit institutions authorised elsewhere in the EU, the Central Bank Act, 1971 (the 1971 Act) restricts the carrying on of banking business in Ireland to holders of licences granted under the 1971 Act. The 1971 Act stipulates that licence holders must maintain a minimum deposit with the Central Bank. The Central Bank has a qualified discretion to grant or refuse a licence and may attach conditions to any licences granted. The Bank holds a licence granted under the 1971 Act. The Central Bank, after consultation with the Minister for Finance, may revoke a licence under certain circumstances specified in the 1971 Act.

The Central Bank has statutory power to carry out inspections of the books and records of licence holders and to obtain information from licence holders about their banking and bank related business. Pursuant to this power, the Central Bank carries out regular review meetings and periodically inspects licensed banks. The Central Bank is also empowered by law to obtain information from licence holders about their banking and bank related business.

The Central Bank may also prescribe ratios to be maintained between, and requirements as to the composition of, the assets and liabilities of licensed banks and to make regulations for the prudent and orderly conduct of banking business of such banks.

The Group is required to comply with the liquidity requirements applied by the Central Bank and with the requirements of local regulators in those jurisdictions in which liquidity requirements apply to the Group. The Central Bank requires that banks have sufficient payment resources (cash inflows and marketable assets) to cover 100% of the expected cash outflows in the 0 to 8 day time horizon and 90% of expected cash outflows in the 8 to 30 day time horizon.

The Group is also subject to EU rules relating to capital adequacy, and in the area of monitoring and control of large exposures, by way of the Banking Consolidation Directive as implemented in Irish legislation. The capital framework as set out in the Capital Requirements Directive has been transposed into Irish law via the European Communities (Capital Adequacy of Investment Firms) Regulations 2006 (S.I. No. 660 of 2006) and the European Communities (Capital Adequacy of Credit Institutions) Regulations 2006 (S.I. No. 661 of 2006) (as amended by the European Communities (Capital Adequacy of Credit Institutions) (Amendment) Regulations 2009 (S.I. No. 514 of 2009)) and by way of administrative notice. These regulations set forth minimum start up and ongoing capital requirements for banks licensed by the Central Bank and require applicants for a licence to notify the Central Bank of the identity of certain shareholders and the size of their holdings in the applicant. The Central Bank also sets requirements and standards from time to time for the assessment of applications for licences. The most recent requirements and standards which were published initially in the “Quarterly Review of the Central Bank, Winter 1995” have been updated regularly and are non-statutory requirements which are applied by the Central Bank to credit institutions as a supplement to the statutory requirements referred to generally in this paragraph but do not purport to interpret or refer comprehensively to the statutory provisions applicable to credit institutions.

The Group is subject to extensive regulation and regulatory supervision in relation to the levels of capital in its business. As a result of the current environment and market events, the minimum regulatory requirements imposed on the Group, as well as the manner in which the existing regulatory capital is calculated could change in the future.

Capital Requirements Directive II (CRD II) is a package of measures adopted by the European Parliament and Council on 16 September 2009 and implemented in Ireland by the European Communities (Directive 2009/111/EC Regulations) 2010, the most important of which are as follows:

- Technical changes to the capital requirements for the trading book, including credit risk mitigation for counterparty credit risk;

- Rules and regulations to strengthen the co-operation between supervisors in crisis situations and to strengthen the powers of (host) supervisors to collect information about systemically relevant branches of supervised financial institutions;
- Improving the quality of firms' capital by establishing clear EU-wide criteria for assessing the eligibility of hybrid capital to be counted as part of a firm's overall capital. CRD II specifies the features that hybrid capital must have regarding permanence, flexibility of payments and loss absorbency to be eligible as Tier 1 Capital;
- Enhancing the management of large exposures by restricting a firm's lending beyond a certain limit to any one party;
- Further elaboration of the rules on liquidity risk management; and
- Improving the risk management of securitisation, including a requirement to ensure that a firm does not invest in a securitisation unless the originator retains an economic interest.

Capital Requirements Directive III was implemented on 1 January 2011 by the European Communities (Directive 2010/76/EU) Regulations 2010 with some specific items being phased in over the next two years. It introduces a number of changes in response to the recent and current market conditions, which may:

- Increase the capital requirements for trading books to ensure that a firm's assessment of the risks connected with its trading book better reflects the potential losses from adverse market movements in stressed conditions;
- Limit investments in re-securitisations and impose higher capital requirements for re-securitisations to make sure that firms take proper account of the risks of investing in such complex financial products; and
- Increase disclosure standards.

On 16 December 2009, the Basel Committee on Banking Supervision, a forum for regular co-operation on banking supervisory matters, published a consultation paper entitled "Strengthening the resilience of the banking sector". The consultation paper contains proposals to strengthen the global capital framework by, among other things, raising the quality of the Core Tier 1 Capital base in a harmonised manner (including through changes to the items which give rise to adjustments to that capital base), strengthening the risk coverage of the capital framework, promoting the build up of capital buffers and introducing a global minimum liquidity standard for the banking sector. The consultation paper was open for consultation until 16 April 2010. On 26 July 2010, the Basel Committee on Banking Supervision announced revised proposals, which were further clarified on 12 September 2010. The final paper was published on 16 December 2010 entitled "Basel III: A global regulatory framework for more resilient banks and banking systems".

On 26 February 2010, the European Commission issued a public consultation document on further possible changes to Capital Requirements Directive (CRD) IV which is closely aligned with the initial proposals of 16 December 2009 from the Basel Committee. 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.

The Solvency II Directive (Directive 2009/138/EC) is a fundamental review of the capital adequacy regime for the European insurance industry. When implemented (required by 31 October 2012) the capital structure and overall governance of the Group's life assurance business will alter significantly to the extent

that New Ireland Assurance Company plc has not been disposed of in accordance with the terms of the Revised 2011 EU Restructuring Plan and this may have an impact on the capital structure of the Group.

When the changes to minimum capital standards are implemented as currently proposed, in particular the changes proposed by the Basel Committee and the CRD IV consultation document relating to the definition of instruments that are eligible to be included within the Core tier 1 Capital base, they are expected to have an impact on the capital and asset and liability management of the Group.

The Group's operations in overseas locations are subject to the regulations and reporting requirements of the regulatory and supervisory authorities in the overseas locations with the Central Bank having overall responsibility for their regulation and supervision. The Central Bank is required to supervise the Group on a consolidated basis, i.e. taking account of the entire Group activities and relationships.

Licensed banks must notify their existing fees and charges and related terms and conditions, and any changes therein from time to time to the Central Bank, who can direct that no fees, charges or increases or changes therein be made without its approval.

All credit institutions are obliged to take the necessary measures to counteract money laundering effectively in accordance with the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 and the guidance notes relating to the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010.

The Central Bank of Ireland issued a paper in December 2011 entitled "Impairment Provisioning and Disclosure Guidelines" which sets out guidelines regarding the policies, procedures and disclosures which should be adopted for loans and receivables financial assets that are subject to impairment review.

Following engagement with the Central Bank of Ireland, the Group has provided additional Credit disclosures in the Annual Report for the year ended 31 December 2011 in relation to Residential mortgage disclosures, Impairment, Divisional split of asset quality and disclosures relating to assets held for sale. These are included within section 2.1 Credit Risk of the Risk Management Report (Item 11).

As outlined in Item 3 "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".

Under the European Communities (Deposit Guarantee Schemes) Regulations, 1995 (as amended) the Central Bank also operates a statutory depositor protection scheme (the Deposit Guarantee Scheme) which both licensed banks (including the Bank) and building societies (including ICS Building Society) are required to fund by lodging funds in a deposit protection account maintained by the Central Bank. The Deposit Guarantee Scheme provides compensation in respect of current accounts, demand deposit accounts and term deposit accounts. The maximum level of compensation payable to any one depositor was increased in 2008 to €100,000 per depositor per licensed financial institution regulated by the Central Bank. The Deposit Guarantee Scheme does not have an end date. The ELG scheme applies to relevant deposits in addition to the Deposit Guarantee Scheme. The first €100,000 of a depositor's funds at an institution is covered by the Deposit Guarantee Scheme and any excess is covered by the ELG scheme.

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).

In February 2012, the Minister for Finance gave notice that at the request of Bank of Ireland (UK) plc and pursuant to paragraph 13 of the Schedule to the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009, deposits made with Bank of Ireland (UK) plc after 30 March 2012 will not be guaranteed under the scheme.

Under the Deposit Guarantee Scheme, the compensation payment process is initiated by either the Central Bank determining that a credit institution is unable to repay deposits due to its financial condition, or a court making a ruling, for reasons directly related to a credit institution's financial circumstances, that suspends depositors' ability to make claims against that institution. The Central Bank is expected to pay compensation to depositors within 21 days of a determination that deposits are unavailable, or of a ruling by the court (subject to the terms and conditions set out in the regulations).

In 1997, the EU Investor Compensation Directive laid down basic requirements for investor compensation schemes. This was done to provide a harmonised minimum level of investor protection across the EU. In Ireland, this Directive was transposed into Irish law pursuant to the Investor Compensation Act, 1998 under which the Investor Compensation Company Limited ("ICCL") was established. The main purpose of the scheme is to provide adequate funds out of which eligible investors (private clients) of failed investment firms are compensated for financial losses arising. The funds are generated solely from contributions from investment firms. The current contribution rate varies depending on the nature of the investment services provided and in certain situations, on the number of clients being provided with services by the firm. In the Group, Bank of Ireland Insurance and Investments Limited and Bank of Ireland Private Banking contribute to this fund.

This scheme covers certain investment products i.e. non-deposit based products where the investment intermediary is unable, due to its financial circumstances, to return client money or investment instruments owed or belonging to a private client. The amount recoverable from the ICCL is currently 90% of the customer's net loss from the investment product, or €20,000, whichever is the smaller. The ICCL can only begin the process of making compensation payments to eligible investors once it has been advised by the Central Bank that an authorised investment firm has either: been the subject of a court ruling which prevents the firm returning money or investment instruments to clients; or been the subject of a determination by the Central Bank that the firm is unable to meet its obligations arising from claims by clients.

In addition to the deposits covered by the above Regulations and by the ELG scheme, 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).

The Central Bank has implemented a Consumer Protection Code and Minimum Competency Requirements. The Consumer Protection Code, fully effective from July 2007, applies to banks and building societies, insurance undertakings, investment business firms, mortgage intermediaries and credit unions. The Central Bank issued a revised Code of Practice in relation to Consumer Protection in the last quarter of 2011 and this revised code is being implemented in 2012. The Consumer Protection Code requires regulated entities to know their customers and their suitability for products or services, to prepare terms of business and minimum levels of information for customers, including disclosure requirements and customer record obligations, to identify all charges, fees or other rewards connected with the supply of a service and to establish processes to deal with errors, complaints and conflicts of interest. There are also detailed rules on the fairness of advertising, and specific sectoral rules on banking products, loans, insurance services and investment products.

The Minimum Competency Requirements, effective from January 2007, require employees of regulated entities who provide advice on or sell retail financial products to acquire the competencies set out therein and to engage in continuing professional development on an ongoing basis. The Central Bank issued a revised code of practice in relation to the Minimum Competency Requirements in 2011 which is effective from December 2011 and has been implemented by the Group.

A financial services ombudsman's bureau and a financial services ombudsman council have been established under the Central Bank and Financial Services Authority Act of 2004. This Act also sets out the functions and powers of that council and bureau, respectively.

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 (to 31 December 2012), 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.

The Central Bank and Credit Institutions (Resolution) Act 2011 (the Resolution Act 2011)

See page 38.

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 and on 30 November 2011 the Central Bank published amended Regulations and revised Standards. This 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 Regulations and Standards of Fitness and Probity 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.

European Banking Authority (EBA) Guidelines on Internal Governance

The EBA published new Guidelines on Internal Governance in September 2011 which are to be implemented by 31 March 2012. The Central Bank has directed the full implementation of these Guidelines which cover: Corporate Structure and Organisation; Management Body; Risk Management; Internal Control; Systems and Continuity; and Transparency. These Guidelines have been implemented by the Group.

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 venture, 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 RRP.

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 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.

Financial Regulator—Prudential Capital Assessment Review

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 were 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)⁽¹⁾.

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) 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 was less than €20 million at 31 December 2010 were not expected to transfer to

(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".

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 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 2011 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.

Recapitalisation of the Bank

Information on the Recapitalisation of the Bank in the years ended 31 December 2011 and 31 December 2010 is shown in notes 49 and 50 to the consolidated financial statements.

2. Government Guarantee Schemes

The Government introduced the Credit Institutions Financial Support (CIFS) scheme on 30 September 2008 which guaranteed the deposits and certain liabilities of covered institutions and expired on 29 September 2010.

On 9 December 2009, the Minister for Finance commenced the Eligible Liabilities Guarantee (ELG) scheme which is intended to facilitate participating institutions issuing debt securities and taking deposits with a maturity of up to five years on either a guaranteed or unguaranteed basis, provided the relevant liabilities are acquired during an Issuance Window which was initially scheduled to expire on 29 September 2010 but which has subsequently been extended as set out below. The Bank joined the scheme on 11 January 2010. The costs of participating in the ELG scheme may be changed at the Minister for Finance's discretion.

On 1 June 2011, the Minister for Finance announced that the European Commission approved an extension of a modified ELG scheme to enable the issuance period to extend to 31 December 2011 subject to six monthly state aid approval by the European Commission (which is the maximum period permitted for such approval under the European Commission's policy on guarantee schemes in the financial sector). The extension of the ELG scheme was initially approved by the European Commission until 31 December 2011. The Irish Government has subsequently extended the ELG scheme for a further period of one year to 31 December 2012 and 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.

Under the ELG scheme and the CIFS scheme, the Minister for Finance may impose restrictions on the expansion of capital and lending activity of the Group as a covered institution, the declaration and payment of dividends and the implementation of buy-backs or share redemptions. No covered institution, including the Group, may acquire shares in any other credit institution or financial institution, establish subsidiaries or enter into or acquire new businesses where such activities would increase the liability of the covered institution under the ELG scheme or the CIFS scheme. In addition, the NTMA may issue directions to covered institutions to comply with some or all of the provisions of conduct, transparency and reporting requirements applicable to covered institutions under the ELG scheme and the CIFS scheme. These restrictions continue under the terms of the ELG scheme and survive the expiry of the CIFS scheme.

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).

In February 2012, the Minister for Finance gave notice that at the request of Bank of Ireland (UK) plc and pursuant to paragraph 13 of the Schedule to the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009, deposits made with Bank of Ireland (UK) plc after 30 March 2012 will not be guaranteed under the scheme.

3. NAMA

As a Participating Institution in NAMA, the Bank is subject to additional directions from the Central Bank and/or the Minister for Finance as to the conduct of its business. Under section 206 of the NAMA Act, the Central Bank may, with the approval of the Minister for Finance, give a direction to a Participating Institution in order to achieve the purposes of the NAMA Act. A direction under this section may restrict balance sheet growth, restrict the institution's ability to take over other credit institutions, require balance sheet reductions, or restrict or require consolidation and merger of Participating Institutions. Under section 207 of the NAMA Act the Central Bank may also direct a Participating Institution in writing to make any report that the Central Bank considers necessary to monitor the Participating Institution's compliance with the obligations under or by virtue of the NAMA Act. Pursuant to section 208 of the NAMA Act, a Participating Institution may also be directed by the Minister for Finance to draw up, or amend a restructuring or business plan and take reasonable steps to ensure than any draft business plan

submitted to the Minister for Finance accurately contains all relevant information. If the Minister for Finance approves a draft business plan, the Participating Institution is obliged to take reasonable steps to implement that plan.

Section 131 of the NAMA Act provides that a Participating Institution from which NAMA has acquired an Eligible Bank Asset may be obliged to continue to service (i.e. manage) the Eligible Bank Asset and a Participating Institution must comply with directions given by NAMA in respect of servicing such assets. In addition, Section 133 of the NAMA Act provides that NAMA may, for the furtherance of the achievement of its purposes under the Act, give directions to a Participating Institution to deal in a specified way with an Eligible Bank Asset which was not acquired. In exercising servicing obligations for NAMA, a Participating Institution must ensure that all relevant authorisations, consents and licences are in place. It is also possible that NAMA may itself service Eligible Bank Assets that it acquires.

Credit Review Guidelines under the NAMA Act

On 30 March 2010 the Minister for Finance brought into force the Credit Review Guidelines regarding lending practices and procedures relating to the review of decisions of Participating Institutions, including the Bank, to refuse credit. The guidelines set out the procedures to be operated by the Credit Reviewer. The Credit Reviewer has the power to review a Participating Institution's decision to refuse a credit application for between €1,000 and €250,000 by an SME, a sole trader or a farming enterprise. Where the Credit Reviewer makes a recommendation that, considering the viability and repayment capacity of the applicant, the credit facilities should have been granted, the Participating Institution is required to either comply with the recommendation or issue an explanation as to why compliance with the recommendation is not appropriate. The guidelines do not grant the Credit Reviewer the power to override the lending decision of the Participating Institution.

In addition to the power to review individual applications, the Credit Reviewer also has a general power to review the lending policies (including from the perspective of a particular sector) of each Participating Institution and to issue reports to the Minister for Finance following such a review.

NPRFC Investment

See Item 10 Charter and Bye-Laws.

4. New and proposed legislation impacting the regulation and supervision of the banking sector

The Central Bank and Credit Institutions (Resolution) Act 2011 (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 (the Resolution Act 2011). Under the Resolution Act 2011 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.

Personal Insolvency Bill

On 24 January 2012 the Department of Justice published the heads of the proposed “Draft General Scheme of Personal Insolvency Bill” (the Draft Bill). The Government has indicated that a draft of the Bill in a form in which it can be introduced to parliament will be published by end of April 2012. The contents of the Draft Bill may be subject to change throughout the stages of the legislative process.

The Draft Bill proposes the introduction of three non-judicial debt settlement procedures for individuals and a further reform of the bankruptcy regime (following initial reforms in 2011). Two of the proposed new arrangements will concern unsecured debt and will allow for the write-down or restructuring of unsecured debt owed by certain eligible individuals. The third proposed new arrangement will allow for the write-down or restructuring of both secured and unsecured debt owed by certain eligible individuals.

The Bank has and will continue to engage constructively with all stakeholders in connection with the process.

UNITED KINGDOM

The Group’s subsidiary bank in the United Kingdom, Bank of Ireland (UK) plc, comprises the Group’s Post Office joint venture, its branch business in Northern Ireland, assets from its former intermediary mortgage business, and other parts of its UK business banking operations.

Bank of Ireland (UK) plc

Bank of Ireland (UK) plc, a wholly owned subsidiary of the Group, commenced business on 1 November 2010. It is a United Kingdom registered bank which is directly authorised and regulated by the FSA and therefore subject to the full FSA prudential and conduct of business regulatory regime.

Bank of Ireland (UK) plc has, since its inception, undertaken the majority of Group banking business within the United Kingdom, which includes current account banking services, lending and deposit gathering through the Northern Ireland branch network and business banking relationship managers; all new residential mortgage lending within the United Kingdom; and certain business and consumer credit provision activities.

As well as banking activities undertaken in its own name Bank of Ireland (UK) plc also owns and manages the Group interest in its financial services joint venture with the Post Office Limited. Bank of Ireland (UK) plc also acts as the product provider for deposits, residential mortgages and other banking products provided under this joint venture arrangement. As a consequence of these joint venture arrangements Post Office Limited is an appointed representative of Bank of Ireland (UK) plc for those activities it carries out which are regulated by the FSA.

As a consequence of Bank of Ireland (UK) plc being authorised by the FSA, deposits held with the firm are protected by the Financial Services Compensation Scheme (FSCS) which protects the first £85,000 of deposits, per depositor, per institution.

Bank of Ireland

Under the Banking Consolidation Directive, the Bank of Ireland has the right to provide banking services on a cross border basis, or through the establishment of a branch, to clients located in other EEA member states (known as host member states) on the basis of its home (Irish) authorisation, without the need for separate authorisation by the competent authorities of those host member states. This is known as passporting.

The Bank of Ireland has exercised its EU passport rights to provide banking services in the United Kingdom through its UK branch and also the provision of services on a cross border basis. These services consist of corporate banking and the management of those residential mortgage contracts within the United Kingdom that have not been transferred to Bank of Ireland (UK) plc.

The powers of the FSA in relation to passported EEA credit institutions (such as the Bank of Ireland) are less extensive than those which it has in relation to UK authorized credit institutions (such as Bank of Ireland (UK) plc). Pursuant to the principle of home country control incorporated in the Banking Consolidation Directive, the competent authority of the home country (in Ireland, the Central Bank) has primary responsibility for the supervision of credit institutions incorporated in another EEA state. The FSA, however, retains specific responsibility, in conjunction with the Central Bank, for supervising the liquidity of branches of EEA credit institutions which operate in the United Kingdom. The FSA also has the right to carry out on-the-spot verifications of supervisory information relating to branches to ensure that EEA credit institutions carrying on activities listed in the Banking Consolidation Directive in the United Kingdom take sufficient steps to protect against risks arising from their open positions on financial markets in the United Kingdom. The FSA is also able to apply conduct of business rules to credit institutions providing banking services in the United Kingdom. For example, in relation to deposit taking, it has made rules about conduct of business, approval of advertisements, the handling of complaints and the avoidance of money laundering.

Under the Banking Consolidation Directive as implemented in the United Kingdom, the FSA is empowered in specified circumstances to impose a prohibition on, or to restrict the listed activities of, an EEA credit institution providing services into the United Kingdom. Consistent with the allocation of supervisory responsibilities in the Banking Consolidation Directive, the FSA would usually exercise its power only after consulting the relevant home state authority which, as a “consolidated supervisor” under the Banking Consolidation Directive, amongst other things, coordinates the gathering and dissemination of information amongst any relevant supervisory authorities. The home state authority also provides for the exchange of information and the planning and co-ordination of supervisory activities in crisis situations and in cases where the authorities become aware of contraventions of the law by institutions covered by the Banking Consolidation Directive operating in their territory. In addition to being able to enforce its conduct of business rules, the FSA also has certain enforcement powers under UK legislation.

Companies Act 2006 and Bank of Ireland Act 1821

As the Group has established a place of business in England, it is subject to the provisions of the United Kingdom Companies Act 2006 that affect overseas companies.

In respect of its banking operations in Northern Ireland, the Group is empowered under the Bank of Ireland Act 1821 to issue bank notes as local currency, and is subject to the provisions of the Bankers (Northern Ireland) Act 1928, the Bank of Ireland and Subsidiaries Act 1969 and the UK Financial Services and Markets Act 2000 (as amended) (FSMA) in respect thereof. The Group intends to transfer the note issue activities to Bank of Ireland (UK) plc. A private bill to enable this to happen (the Bank of Ireland (UK) plc Bill) has been passed by the UK Parliament.

Regulatory oversight by the FSA

Since 1 December 2001, the FSA’s power and responsibilities derive from the FSMA. The scope of the FSMA was extended in 2004 to include the sale and administration of certain retail mortgages and long-term care insurance, and in 2005 for general insurance intermediation. It was further extended in 2009 to include the provision of certain banking services that were previously covered by the Banking Code.

The FSA’s basic method of supervising banks involves the regular reporting of statistical information and a regular set of returns giving balance sheet and consolidated statement of income data, material on the

maturity structure of assets and liabilities, sector—analysis of business and details of concentration of risk in assets and deposits. Review meetings are held by the FSA with the management of regulated firms. Under the risk based approach introduced in 2001, the FSA's supervision of banks is based on a systematic analysis of the risk profile of each bank. The FSA also publishes requirements it expects banks to meet on matters such as capital adequacy, limits on large exposures to individual entities and groups of closely connected entities, and liquidity.

In order to maintain authorisation under the FSMA, regulated firms (such as Bank of Ireland (UK) plc) must be able to demonstrate that they meet (and will continue to meet) a number of threshold conditions set out in the FSMA. For example, authorised firms must have adequate financial resources, not have close links of a nature that would impede the FSA's supervision of the firm and generally satisfy the FSA that they are a fit and proper person. In addition, firms are subject to the rules set out in the FSA Handbook, which also provides guidance on the application and interpretation of these rules. The FSA Handbook contains rules governing senior management arrangements, systems and controls, conduct of business, training and competence, money laundering and complaints handling. Any person within an FSA-regulated firm performing a controlled function will also need to be personally approved by the FSA under its Approved Persons regime. Approved persons are individually regulated by the FSA, and personally accountable to it, and must meet ongoing standards of conduct and fitness and propriety. The FSA has the power to take a wide range of disciplinary actions against regulated firms and any FSA approved persons, including private warnings, public censure, the imposition of fines, the variation, suspension or termination of the firm's authorisation or the removal of approved status from individuals.

The regulation of retail mortgages under the FSMA is in relation to regulated mortgage contracts, which are, broadly speaking, owner occupier credit agreements made on or after 31 October 2004 with individuals (whether consumer or business customers) and secured by first ranking security over land in the United Kingdom. Subject to exemptions and exclusions: (a) a regulated mortgage contract is unenforceable against the borrower without a court order if the lender or the broker did not hold FSA authorisation; and (b) any qualifying credit, which is any credit to an individual secured on land in the United Kingdom, is unenforceable against the borrower without a court order if it results from a financial promotion that is not issued or approved by an FSA authorised person. An individual borrower may have a claim for damages against an FSA authorised person for breach of FSA Handbook rules.

As a result of the EU Third Money Laundering Directive, the UK Money Laundering Regulations 2007 place a requirement on banks to verify the identity and address of customers opening accounts in the United Kingdom, and to keep records to help prevent money laundering and fraud. Guidance in respect of the Money Laundering Regulations 2007 is contained in the Guidance Notes of the Joint Money Laundering Steering Group, including in respect of the identification of new customers, record keeping and otherwise.

On 1 November 2009, the FSA introduced its Banking Conduct Regime for retail banking. The main constituents of the regime are: (a) extending the FSA's principles for businesses as they apply to deposit taking, from prudential matters only, to conduct of business matters in addition; (b) conduct of business requirements in the Payment Services Regulations 2009 ('PSR'), which apply to certain payment services made in euro or sterling; and (c) FSA Handbook rules on banking conduct of business, which apply to deposit taking in respects not covered by the PSR. On 1 November 2009, the British Bankers' Association, the Building Societies Association and the UK Cards Association launched The Lending Code, a voluntary code on unsecured lending to personal and small business customers, which is monitored and enforced by the Lending Standards Board.

UK Banking Act 2009

Under the UK Banking Act 2009 (the Banking Act), substantial powers have been granted to HM Treasury, the Bank of England and the FSA (the Authorities) as part of a special resolution regime (SRR).

These powers enable the Authorities to deal with a UK bank (such as the Bank of Ireland (UK) plc), building society or other UK institution with permission to accept deposits pursuant to FSMA (each a relevant entity) in circumstances in which the Authorities consider its failure has become highly likely and a threat is posed to the public interest. The SRR consists of three stabilisation options and two insolvency and administration procedures applicable to UK banks which may be commenced by the Authorities. The stabilisation options provide for: (i) private sector transfer of all or part of the business of the relevant entity; (ii) transfer of all or part of the business of the relevant entity to a bridge bank established by the Bank of England; and (iii) temporary public ownership (nationalisation) of the relevant entity. In each case, the Authorities have been granted wide powers under the Banking Act including powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively.

The purpose of the stabilising options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the stabilisation options may only be exercised if (a) the FSA is satisfied that a relevant entity (such as the Bank of Ireland (UK) plc) is failing, or is likely to fail, to satisfy the threshold conditions within the meaning of section 41 of the FSMA (which are the conditions that a relevant entity must satisfy in order to retain its authorisation to accept deposits), (b) following consultation with the other Authorities, the FSA determines that it is not reasonably likely that (ignoring the stabilising options) action will be taken that will enable the relevant entity to satisfy those threshold conditions, and (c) the Authorities consider the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial systems, public confidence in the UK banking system and the protection of depositors). It is therefore possible that one of the stabilisation options could be exercised prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated.

HM Treasury or the Bank of England may exercise extensive share transfer powers (applying to a wide range of securities) and property transfer powers (including powers for partial transfers of property, rights and liabilities subject to certain protections made under The Banking Act 2009 (Restrictions of Partial Property Transfers) Order 2009) in respect of the Bank of Ireland (UK) plc. Exercise of these powers could involve taking various actions in relation to any securities issued by the Bank of Ireland (UK) plc (including ordinary shares) without the consent of the Bank (as its sole shareholder), including (among other things): (i) transferring the shares notwithstanding any restrictions on transfer and free from any trust, liability or encumbrance; (ii) converting the shares into another form or class; (iii) modifying or disapplying certain terms of the shares; and/or (iv) where property is held on trust, removing or altering the terms of such trust.

The Financial Service Compensation Scheme

The FSMA established the Financial Services Compensation Scheme (FSCS). This applies to the activities of Bank of Ireland (UK) plc but not those of Bank of Ireland in the UK (which are covered by the Irish compensation scheme arrangements summarised above), The FSCS pays compensation to eligible customers of FSA authorised financial services firms that are unable, or likely to be unable, to pay claims against them. The levels of compensation are, for example, for firms declared in default on or after 1 January 2010 (31 December 2010 deposits), per customer, per firm and per type of claim: (a) for deposits, 100% of the first £85,000 (100% of the first sterling amount equivalent to €100,000 for firms declared in default on or after 1 January 2011); (b) for mortgage advice and arranging, 100% of the first £50,000; and (c) for insurance, 90% of the claim with no upper limit (except compulsory insurance is protected in full). Claims on the FSCS are funded by loans from the Bank of England and by levies on FSA authorised firms. FSA authorised deposit takers may be required to pay increased levies to repay such loans from the Bank of England.

With effect from 31 March 2012 all new and existing instant access deposits made with Bank of Ireland (UK) plc will no longer be covered by the Irish ELG. Existing depositors with fixed term deposits will remain covered by the Irish ELG until maturity or 30 March 2017, whichever date is earlier.

Financial Ombudsman Service

The FSMA also established the Financial Ombudsman Service (FOS), which determines complaints by eligible complainants in relation to FSA authorised financial services firms, consumer credit licensees and certain other businesses, in respect of activities and transactions within its jurisdiction. These arrangements cover the activities of both Bank of Ireland (UK) plc and the Bank of Ireland in the UK.

The FOS determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of financial award by the FOS is £150,000 (effective January 2012) plus interest and costs. The FOS may also make directions awards, which direct the business to take steps as the FOS considers just and appropriate.

Consumer protection legislation

In the United Kingdom, persons carrying on consumer credit business, consumer hire business or an ancillary credit business need a consumer credit licence from the UK Office of Fair Trading (OFT) under the UK Consumer Credit Act 1974 (CCA). The OFT from time to time issues general or sector specific guidance on what it expects of consumer credit licensees, and breaches of law and of OFT guidance may be taken into account by the OFT in determining whether a person is fit to hold a licence. The OFT has certain disciplinary powers in relation to consumer credit licensees, including imposing requirements and financial penalties for breach of such requirements. Various members of the Group are consumer credit licensees in relation to regulated consumer credit lending and mortgage broking.

The regulation of credit under the CCA is in relation to regulated consumer credit agreements, which are credit agreements made with individuals (whether consumer or business customers) subject to any applicable financial limits and exemptions. For example, a regulated mortgage contract under the FSMA is not a regulated consumer credit agreement under the CCA. A regulated consumer credit agreement is unenforceable against the borrower: (a) without an OFT order if the lender or the broker did not hold a consumer credit licence in relation to regulated consumer credit lending or broking respectively; or (b) without a court order, or totally in certain circumstances, if agreement requirements were not complied with. A borrower may have a claim against a lender in certain circumstances in relation to misrepresentation or breach of contract by a supplier in a transaction financed by a regulated consumer credit agreement.

The OFT is also the consumer and competition authority under the UK Enterprise Act 2002. The OFT and other bodies may enforce consumer legislation under the Enterprise Act 2002 by seeking an informal undertaking, or a formal undertaking, from a business, or seeking a court enforcement order against a business.

Proposals for Reform

Since the May 2010 UK general election, a number of proposals for reform have been brought forward. Those that are likely to have a particular affect on the Group are summarised below.

Reform of the Financial Regulatory System

In 2010, the government outlined its proposals for a new regulatory system. It announced that the FSA would be succeeded by two new regulatory authorities—the Prudential Regulation Authority (PRA), responsible for the prudential supervision of banks and insurance, and the Financial Conduct Authority

(FCA), focusing on consumer protection and market regulation—creating a ‘twin peaks’ style regulatory model in the UK.

The FSA have made progress towards establishing the new regulatory structure, setting out the operating philosophies and vision for the PRA and FCA and working on the detailed design of the two organisations.

During 2012/13, the FSA aim to achieve two significant milestones towards its transition to the new regulatory system:

- It will move to a ‘twin-peaks’ regulatory model within the FSA on 2 April 2012. There will be two independent but coordinated groups of supervisors for banks, insurers and major investment firms covering prudential and conduct; and
- It will then ‘cutover’ to the new authorities and legal framework; the point at which the FSA ceases to exist and formally splits into the PRA and FCA. The precise date of this legal cutover depends on the parliamentary timetable and legislative process, but the FSA’s planning assumption is that it will be early in 2013.

The FSA’s transition plans are designed to ensure an orderly and progressive transition to the new regulatory system, together with the opportunity to refine its thinking and processes. During the transition, the FSA will remain as a single regulatory authority and it will continue to deliver against its statutory objectives and business priorities.

Simple Financial Products

The UK Government is consulting on proposed principles for a new category of simple products, giving consumers a straightforward option for comparing and buying products. It is intended that simple products should ensure that people understand the products they need, help them make better choices, and encourage competition in the market.

Reform of Consumer Credit Legislation

The UK Government is considering the merits of transferring responsibility for consumer credit regulation from the Office of Fair Trading (OFT) to the new the new conduct of business regulator the Financial Conduct Authority (the creation of which forms part of its wider proposals for reforming the UK regulatory system—see above).

New PPI (Payment Protection Insurance) Complaints Handling Procedures

The FSA has implemented (from 1 December 2010) a package of measures to ensure customers are treated more fairly when buying or complaining about Payment Protection Insurance including:

- new handbook guidance to ensure complaints are handled properly, and redressed fairly where appropriate;
- an explanation of when and why firms should analyse their past complaints to identify if there are serious flaws in sales practices that may have affected complainants and even non-complainants; and
- an open letter setting out common sales failings to help firms identify bad practice.

Independent Commission on Banking

The UK Government has established the Independent Commission on banking which published an Interim Report in March 2011 and a final report in September 2011. Amongst the suggestions addressed were that:

- systemically important banks should have an equity ratio of at least 10% provided that they also have genuinely loss-absorbing debt.
- in structural support of that approach to capital, there should be a UK retail ‘ring-fence’ which would require ‘universal’ banks to maintain the UK retail capital ratio—that is, not to run down the capital supporting UK retail activities below the required level in order to shift it, say, to global wholesale and investment banking.
- as well as having more capital support, UK retail banking needs to be more competitive.

In December 2011, the UK government published its response to the independent Commission on Banking’s final report on recommended reforms to improve stability and competition in UK banking, which included some recommendations for inclusion in the Financial Services Bill. The government has confirmed that it will be implementing the main recommendations of the report in full—namely, that high-street banking activities be separated from investment banking activities by a ring-fence, that banks hold a higher capital buffer and that competition in the banking sector be strengthened. Primary and secondary legislation relating to the ring-fence will be completed within this Parliament.

Mortgage Market Review

The FSA’s Mortgage Market Review has been ongoing since 2010. In December 2011, the FSA issued a consultation paper as part of the Review, proposing a future regime with the following key features:

- income will have to be verified in every mortgage application;
- lenders do not have to consider in detail what borrowers spend but cannot ignore unavoidable bills, such as heating and council tax;
- interest-only mortgages can still be offered as long as borrowers have a credible plan to repay the capital, however, it is not sufficient to rely on the anticipation of rising property values;
- lenders will have to consider the impact of increases in interest rates in line with current market expectations;
- some applicants, such as those trying to consolidate debts with a mortgage, will have to get advice to ensure they understand the full implications and costs; and
- existing borrowers will be unaffected and lenders will have the flexibility to provide new mortgages to some existing customers even where they do not meet the new affordability requirements.

UNITED STATES

In the United States, the Bank, its Connecticut branch, its representative offices and certain of its US non-bank subsidiaries are subject to a comprehensive regulatory structure involving numerous federal and state statutes, rules and regulations.

The Bank operates a branch in Connecticut from which it conducts a wholesale banking business. The branch is licensed by and is subject to regulation and examination by the Connecticut Department of Banking. The Bank has representative offices in the States of New York and Illinois. These representative offices are licensed by their respective states and are subject to the laws and regulations of those states. In addition, the Board of Governors of the Federal Reserve System exercises supervisory and regulatory authority over the branch, the representative offices and has umbrella or overall supervisory responsibility

for the US activities of the Group. US and State laws and regulations, including prudential restrictions, limit the permissible US activities of a foreign bank. For example, the branch has limits on the amount of credit it may grant to a single borrower, the branch may not accept retail deposits, and branch deposits and obligations are not insured by the US Federal Deposit Insurance Corporation or any other United States government agency. In addition, the Connecticut Department of Banking has the authority to take possession of the business and property of the Group located in Connecticut in certain circumstances relating to the branch. Such circumstances generally include violations of law, unsafe business practices and insolvency.

By operating a branch in the United States, the Bank and its subsidiaries are subject to regulation by the Board of Governors of the Federal Reserve System under various laws, including the Bank Holding Company Act of 1956, as amended (BHCA), and the International Banking Act of 1978. In this regard, the Bank has elected to become a 'financial holding company' (FHC) under the BHCA. FHCs may engage in a broader spectrum of commercial activities, including underwriting and dealing in securities and merchant banking activities, than are permitted to banking organisations that are not FHCs. To maintain its FHC status, the Bank is required to meet or exceed certain capital ratios and its branch is required to meet or exceed certain examinations ratings. The failure to maintain FHC status could limit the activities of the Bank and its subsidiaries in the US and it may have other adverse consequences.

The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) is broad and sweeping, and will change the way in which the Group is regulated in the US and in some cases outside the US. Since enactment of the Dodd-Frank Act in July 2010, there has been a stream of proposed regulations and final regulations issued by the various financial sector administrative agencies (e.g., the SEC, the CFTC, the Federal Reserve Board) and others are expected. These regulations include new rules for derivatives trading, prohibitions on proprietary trading and the sponsorship of, and investment in, hedge funds and private equity funds, new regulations for foreign investment advisors and heightened prudential standards for large banking organisations. The Dodd-Frank Act also makes changes to the corporate governance requirements applicable to Boards, stricter controls for determining conflicts of interest, procedures for receipt, retention and treatment of complaints, and say-on-pay of executive compensation and severance payments for departing employees. As of this date, it is still uncertain whether the cost or impact of compliance with the Dodd-Frank Act will be materially adverse (measured by revenue) to the Group. A definitive analysis of the effects of the legislation will not be available until all the final regulations have been fully adopted.

A major focus of US governmental policy relating to financial institutions in recent years has been combating money laundering and terrorist financing and enforcing compliance with US economic sanctions issued by the Office of Foreign Assets Control. The Bank Secrecy Act as amended by the USA PATRIOT Act imposes obligations on the branch and subsidiaries to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to ensure compliance with US economic sanctions against designated foreign countries, nationals and others. Failure of a financial institution to maintain and implement adequate programmes to combat money laundering and terrorist financing or to ensure economic sanction compliance, could have serious legal, monetary and reputational consequences for the institution.

ISLE OF MAN

The Isle of Man Depositors Compensation Scheme (the Scheme) was established by the Depositors' Compensation Scheme Regulations 2010, in which Bank of Ireland (IOM) Limited, as a licensed deposit taker, participates. The Scheme compensates depositors with money in current and deposit accounts in financial institutions in the Isle of Man (including in the Bank) with up to £50,000 of net deposits (loans may be netted off against any deposits held with the same deposit taker) per individual depositor or £20,000 for most other categories of depositor. Cover is calculated per depositor, per deposit taker, if a bank fails.

Participants in the Scheme may be directed, by written notice, to make contribution levies in respect of the Scheme compensation fund. The net total amounts to be provided to the Fund in respect of all compensation costs arising from defaults in any period of ten years must not exceed—(a) £100,000,000 from the Treasury; and (b) £100,000,000 from all participants. These levies may, in any one financial year of the Scheme, equate to the greater of £50,000 and a sum representing 0.175% of the average deposits of the participant as determined by the Scheme Manager, up to a maximum of £500,000. In addition, participants in the Scheme may be directed to provide security in respect of any present or future levy contributions.

Bank of Ireland (IOM) Limited became a participating institution for the purposes of the ELG on 11 January 2010. Deposits not covered by the Isle of Man Scheme are covered by the ELG.

ECONOMIC CONDITIONS AFFECTING THE GROUP

The majority of the Group's business activities are in Ireland and the UK.

The Irish economy returned to growth, albeit modest, in 2011 after three years of recession: the Central Statistics Office (CSO) estimates that GDP last year rose by 0.7% in volume terms. The recovery has been led by exports (which now account for approximately 100% of GDP, with imports at 75%), which grew by 4.1% in 2011 (Source: CSO), offset by a 0.7% decline in imports. Domestic spending remains weak, however: consumer spending fell by 2.7% in 2011, government spending declined by 3.7%, while capital spending fell by over 10% (Source: CSO). The latter category includes construction spending which has fallen substantially since 2007, notably in terms of private residential construction. The Central Bank expects the economy to expand again by 0.5% in 2012, with export growth again offsetting a further decline in domestic spending.

Employment in Ireland rose for the first time in four years in the final quarter of 2011 (Source: CSO), and although the labour force has also fallen (primarily due to net emigration), the unemployment rate has risen sharply, from a low of 4.5% in 2006 to 14.6% in the latter part of 2011 and still remains above 14%. Inflation, as measured by the Consumer Price Index (CPI), rose to an average of 2.6% in 2011 from (0.9%) the previous year, reducing real household income growth and consumer spending. Interest rates in Ireland are set by the European Central Bank (ECB) and the ECB raised the repo rate in the first half of 2011, from 1% to 1.5%, but reduced it again back to 1% in the final two months of the year. Bank lending to the private sector is contracting (Source: Irish Central Bank) and the CSO data shows that residential property prices started falling in 2007 and at January 2012 had declined by over 48% from the peak. Commercial property prices have also fallen steeply, by approximately 65% (Source Investment Property Databank (IPD) index) and the Irish Government reduced the stamp duty on non-residential property transactions from 6% to 2% in the 2012 Budget and introduced a tax incentive for buyers of commercial property.

The downturn in the economy and the decision by the Irish government to provide capital support to the domestic banking system contributed to a substantial increase in Ireland's annual fiscal deficit and in total sovereign debt: Standard & Poors (S&P) has cut Ireland's sovereign debt rating to BBB+. In November 2010 the Government agreed a package with the IMF, the EU and the ECB ('the troika') incorporating official loans (and some bilateral loans) amounting to €67.5 billion to be drawn down as required to fund the fiscal deficit and to aid in the recapitalisation of the banking system. In return the Irish Government is required to meet quarterly fiscal targets and has committed to reducing the annual fiscal deficit to under 3% of GDP by 2015, from a Department of Finance estimate of 9.8% in 2011. The 2012 Budget projected a deficit of 8.6% of GDP. Ireland's membership of the euro also requires adherence to a set of fiscal rules and the Irish Government has announced that a referendum will be held on whether Ireland should ratify a new 'Fiscal Compact', which stipulates that members must run balanced budgets and enshrine that in domestic law.

The UK economy returned to growth in 2010 after a recession in the previous year and expanded again by 0.8% in 2011 (Source: Office for National Statistics (ONS)). The independent Office for Budget Responsibility (OBR) expects the economy to grow by 0.8% in 2012, although ONS data shows that GDP contracted by 0.2% in the final quarter of 2011. The unemployment rate has risen to 8.4% in the final quarter of 2011 from less than 5.5% in 2007. Inflation, as measured by the CPI, has been above the Bank of England's (BOE) 2% target for some time (averaging 4.5% in 2011 and 3.3% in 2010) but the BOE believed that there was a significant risk that inflation would eventually fall well below the target. Consequently the BOE cut interest rates to an historic low of 0.5% and has embarked on more unconventional policies, including the purchase of £325 billion in government bonds, in an effort to boost credit creation and stimulate economic activity. Mortgage lending has begun to increase, albeit modestly, (Source: Bank of England), although it is still very weak relative to the position in 2007, and house prices have also risen by approximately 10% from the lowest level (Source: Nationwide index). Commercial property values also fell substantially in the recession but have also increased (Source: IPD index.)

Item 4A UNRESOLVED STAFF COMMENTS

None.

Item 5 OPERATING & FINANCIAL REVIEW AND PROSPECTS

Overview

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

The Group further strengthened its 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).

The Group also made substantial strides towards its deleveraging objectives by front-loading and announcing €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. Of the €8.6 billion announced during 2011, €7.6 billion had been completed and derecognised by 31 December 2011. €0.9 billion of the remaining €1 billion in assets announced has been completed and derecognised since 31 December 2011 with the remaining €0.1 billion expected to settle in the coming months.

In addition, the Group achieved strong momentum and growth in customer deposits in the second half of the year, following its capital raise, and as a result, the Group's 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. The Group also raised €4.2 billion of unguaranteed secured term funding which, together with its participation in the ECB's December 2011 and March 2012 three year LTRO offerings, increased the tenure of its wholesale funding.

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 the Group is ahead of schedule in implementing the business disposals required under the plan.

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

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 the Group's UK Mortgage, Corporate Banking and unsecured consumer books have been offset by continued deterioration in the arrears profile in its 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 on loans and advances to customers peaked at €2.9 billion in 2009. While these impairment charges have reduced since then, they have remained at an elevated level of c.€1.9 billion in 2010 and 2011. The Group expects 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 the Group's 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. The Group 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 the Group's Share Register a number of significant international institutional investors and fund managers.

At 31 December 2011, the Group's Core tier 1 and Total capital ratios were 15.1% (14.3% PCAR/EBA stress test basis) and 14.7% respectively, compared to its 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 Risk Weighted Assets (RWA) re-weighting based on credit model experience.

Further progress on balance sheet reductions

The Group's deleveraging plan envisages reducing the size of its 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 its international businesses announcing divestments totalling €8.6 billion of which €7.6 billion had been completed and derecognised by 31 December 2011. 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. €0.9 billion of the remaining €1 billion in assets announced has been completed and derecognised since 31 December 2011 with the remaining €0.1 billion expected to settle in the coming months. The Group expects to be able to complete the remaining divestments well within the envisaged time frame and expects that the aggregate discounts on our €10 billion divestments will be achieved within the overall base case discount assumed in PCAR 2011.

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 its UK mortgage portfolios. This term funding together with the Group's participation in the ECB's three year December 2011 Long Term Refinancing Operation (LTRO) (€7.5 billion) and March 2012 LTRO (€4.8 billion) enabled the Group to lengthen the tenure of its wholesale funding such that 55% of its wholesale funding at 31 December 2011 had a remaining maturity of more than one year, compared to 32% at 31 December 2010.

The Group achieved strong momentum and growth in its customer deposits in the second half of the year, representing good progress towards its goal of funding its loan books by customer deposits and term funding. The Group increased its deposit base by 8%, which, together with the reduction in the size of its loan books, resulted in an improvement in its 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 the Group to significantly reduce the liquidity it receives 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 the Group's 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, the Group obtained approval to accept non-ELG covered deposits from corporate customers.

Continued support for our customers

Bank of Ireland remains committed to supporting, protecting and growing both existing and new customer relationships in its core Irish and international businesses while contributing positively to economic recovery, particularly in Ireland. The Group has met its 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 its 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. The Group's Irish Corporate Banking and Treasury businesses continued to strongly support its Irish Corporate customers with a consistent long-term relationship based approach to their needs.

In the UK, the Group's successful joint venture with the UK post office continues to exceed our expectations in terms of the number of new savings customers that it has attracted as well as strong retention of existing customers. Sales of the Group's other financial services products through the Post Office were in line with its expectations. The Group's commitment to the UK market and the robustness of that commitment is demonstrated and underpinned by the establishment of the Group's UK regulated banking subsidiary in November 2010. The Group has continued to invest in meeting our customers' needs through developing new products and service offerings and enhancing its infrastructure. The Group is

making a significant investment in improving our payment systems and eBanking and telebanking/mobile propositions.

Outlook for the Group

Through the implementation of its strategy and by focusing on its key priorities, the Group has 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 it strong market positions in its chosen markets for its core businesses. The Group has been making material embedded reductions in its cost base with a more robust and efficient infrastructure being delivered.

Trading conditions in the Group's 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 its products and progress towards the normalisation of impairment charges in its 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 the Group's net interest margins has become more difficult.

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

Having made considerable progress on its balance sheet and cost priorities, which will continue to require very close attention, the Group remain very focussed on its 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 its customer franchises in its core businesses.

Economic 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⁾

Irish GDP grew by 0.7%⁽⁴⁾ in 2011 following three years of contraction, although GNP, which adjusts for external profit and interest flows, recorded a 2.5%⁽⁴⁾ decline following a modest rise of 0.3%⁽⁴⁾ the previous year. However, the growth last year was due to a strong first half of the year as the economy contracted in the second half. Exports grew by 4.1% in 2011, which helped to offset another decline in domestic demand. Consumer spending fell by 2.7% last year, government consumption slid by 3.7% and capital investment fell for a fourth consecutive year, by 10.6%. On a quarterly basis, GDP declined by 0.2% in Q4 following a 1.1% fall in Q3, which means the economy slipped back into recession over the second half of the year. Exports fell by 1.1% in Q4 from the previous quarter, reflecting the slowdown in the international

economy generally, though consumer spending increased by 0.5% while capital spending rose by 14%. Risks to the Irish economy exist on the external front, given the slowdown in Europe in particular.

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 the unemployment rate remaining above 14%. Employment did rise in Q4 11, the first increase in employment in a quarter in four years, but it is unlikely that employment growth can be sustained through 2012. Capital spending has been volatile on a quarterly basis, notably investment in machinery and equipment, but remains on a moderating downward trend, although the continuing 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 0.8%⁽⁶⁾ 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 January 2012 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⁾.

See item 4 'Information on the Company—Economic conditions affecting the Group'.

(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*

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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. Details of these critical accounting estimates and judgements are set out on pages F-41 to F-44 of this document.

LIQUIDITY AND CAPITAL RESOURCES

The Group's exposure to liquidity risk is governed by the Group's liquidity and funding policy approved by the Court and the Group Risk Policy Committee (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).

See the capital management section on pages 243 to 246 in Item 11 'Quantitative and Qualitative Disclosures about Market Risk' for further details about our capital management objectives and policies.

OFF BALANCE SHEET ARRANGEMENTS

| <u>Contingent Liabilities</u> | <u>31 December 2011 €m</u> | <u>31 December 2010 €m</u> |
|---|------------------------------------|------------------------------------|
| Acceptances and endorsements | 10 | 35 |
| Guarantees and irrevocable letters of credit | 983 | 1,482 |
| Other contingent liabilities | 249 | 599 |
| | <u>1,242</u> | <u>2,116</u> |
| Lending commitments | <u>19,512</u> | <u>23,541</u> |
| Total contingent liabilities and commitments | <u>20,754</u> | <u>25,657</u> |

Lending commitments are agreements to lend to customers in accordance with contractual provisions; these are either for a specified period or, as in the case of credit cards and overdrafts, represent a revolving credit facility which can be drawn down at any time, provided that the agreement has not been terminated. The total amounts of unused commitments do not necessarily represent future cash requirements, in that commitments often expire without being drawn upon.

Further information on Off Balance Sheet items is shown in note 47 to the consolidated financial statements.

ANALYSIS OF RESULTS OF OPERATIONS

Basis of Presentation

The Group changed its financial year end from 31 March to 31 December with effect from 31 December 2009. As a consequence of this change, the income statements for the Group are presented for the year ended 31 December 2011 compared to the year ended 31 December 2010 and the nine month period ended 31 December 2009. The balance sheets are 31 December 2011 compared to 31 December 2010.

The analysis of the impairment charge for the year ended 31 December 2010 and the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been re-presented on 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 Group income statement has been presented on a statutory basis while the individual divisional income statements have been presented on an underlying basis in accordance with IFRS 8—Operating Segments. Information on the divisions and their underlying performance is shown in note 2 to the Consolidated Financial Statements – Operating segments (page F-47 to F-55).

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 deleveraging of financial assets, gains or charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through

profit or loss', 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 58 for further information.

The divisional underlying performance is reconciled to the Group statutory performance on pages 106 to 108.

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.

Percentages presented throughout this report are calculated on the absolute underlying figures and so may differ from the percentage variances calculated on the rounded numbers presented.

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

| <u>Core tier 1 capital generated</u> | <u>€m</u> | <u>€m</u> |
|--|--------------|---------------------|
| 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 | <u>1,908</u> | |
| | | 4,359 |
| Less: | | |
| Fees and other costs | | <u>(146)</u> |
| Core tier 1 capital generated⁽³⁾ | | <u>4,213</u> |
| | | |
| <u>Tier 2 capital generated</u> | <u>€m</u> | <u>€m</u> |
| Contingent Capital note (nominal value) | 1,000 | |
| Less placing fee | <u>(15)</u> | |
| Tier 2 capital generated⁽³⁾ | | <u>985</u> |

(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 F-4, 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 42).

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 42 to the Consolidated Financial Statements.

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

Review of Group Performance

Group Income Statement

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|--|---|---|---|
| Net interest income | 1,534 | 2,219 | 2,170 |
| Other income (net of insurance claims) | 2,381 | 2,377 | 1,437 |
| Total operating income (net of insurance claims) | 3,915 | 4,596 | 3,607 |
| Operating expenses | (1,642) | (1,070) | (1,395) |
| Impairment charges on financial assets (excluding assets sold to NAMA) | (1,960) | (2,027) | (2,335) |
| Impairment charges on assets sold to NAMA | (44) | (257) | (1,722) |
| Gain/(loss) on sale of assets to NAMA including associated costs | 33 | (2,241) | — |
| Loss on deleveraging of financial assets | (565) | — | — |
| Share of results of associates and joint ventures (post tax) . . . | 39 | 49 | 35 |
| Profit/(loss) on disposal of business activities | 34 | — | (3) |
| Total loss before tax | (190) | (950) | (1,813) |
| Taxation | 230 | 341 | 344 |
| Profit/(loss) | 40 | (609) | (1,469) |
| Attributable to non-controlling interests | (5) | 5 | (9) |
| Attributable to stock holders | 45 | (614) | (1,460) |
| Profit/(loss) | 40 | (609) | (1,469) |
| Basic EPS per share | (0.7c) | (21.5c)* | (105.5c)* |
| Diluted EPS per share | (0.7c) | (21.5c)* | (105.5c)* |

* Restated to reflect the bonus element of the Rights Issue which took place in July 2011.

Income

The period on period changes in ‘net interest income’ and ‘net other income’ are affected by certain IFRS income classifications. Under IFRS, certain assets and liabilities can be designated at ‘fair value through profit or loss’ (FVTPL). Where the Group has designated liabilities at ‘fair value through profit or loss’, the total fair value movements on these liabilities, including interest expense, are reported in ‘net other income’. However, the interest income on any assets which are funded by these liabilities is reported in ‘net interest income’. In addition, debt is raised in a variety of currencies and the resulting foreign exchange and interest rate risk is managed using derivative instruments-the cost of which is reported in ‘net other income’.

Net Interest Income

The following table shows net interest income for the year ended 31 December 2011, the year ended 31 December 2010 and the nine month period ended 31 December 2009.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|-------------------------------|---|---|---|
| Net interest income | 1,534 | 2,219 | 2,170 |

Year ended 31 December 2011 compared to the year ended 31 December 2010

Net interest income of €1,534 million decreased by €685 million in the year ended 31 December 2011 from €2,219 million for the year ended 31 December 2010.

The Group has incurred higher Government guarantee fees in the year ended 31 December 2011 compared to the year ended 31 December 2010. 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. As the fees payable under the ELG scheme are directly attributable to and incremental to the issue of a security or the raising of a deposit, they are included in the calculation of the effective interest rate of that security or deposit and classified, under accounting rules, as part of 'Net interest income'. The fees payable under the Credit Institutions Financial Support (CIFS) scheme relate to the average balances of covered liabilities during the period, including liabilities that may have existed at the date of the introduction of the scheme. Therefore they are not directly attributable to or incremental to the issue of a specific security or the raising of a deposit and, under accounting rules, are classified as part of 'Net other income'. The CIFS scheme expired on 29 September 2010.

The decrease in net interest income of €685 million is primarily due to a reduction in average interest earning assets arising from sale of assets to NAMA, disposal of loan portfolios and loan repayments, and the increase in Government guarantee fees outlined above.

Year ended 31 December 2010 compared to the nine month period ended 31 December 2009

Net interest income of €2,219 million increased by €49 million in the year ended 31 December 2010 from €2,170 million for the nine month period ended 31 December 2009.

The Group incurred higher Government guarantee fees in the year ended 31 December 2010 compared to the nine month period ended 31 December 2009. On 11 January 2010, the relevant deposit taking entities within the Group were accepted as participating financial institutions in the Eligible Liabilities Guarantee (ELG) scheme. In the year ended 31 December 2010 the Group incurred fees of €275 million under the ELG scheme. As the fees payable under the ELG scheme are directly attributable to and incremental to the issue of a security or the raising of a deposit, they are included in the calculation of the effective interest rate of that security or deposit and classified, under accounting rules, as part of 'Net interest income'. The fees payable under the Credit Institutions Financial Support (CIFS) scheme relate to the average balances of covered liabilities during the period, including liabilities that may have existed at the date of the introduction of the scheme. Therefore they are not directly attributable to or incremental to the issue of a specific security or the raising of a deposit and, under accounting rules, are classified as part of 'Net other income'. The CIFS scheme expired on 29 September 2010.

The increase in net interest income is primarily due to the longer reporting period and improved asset pricing. These increases were partly offset by the cost of the ELG scheme, the increased cost of deposits in highly competitive markets, the higher cost of wholesale funding and lower average earning assets.

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

IFRS classifications

The table below sets out a reconciliation of net interest income under IFRS to net interest income after adjusting for IFRS classifications.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|--|---|---|---|
| Net interest income (IFRS) | 1,534 | 2,219 | 2,170 |
| Impact of IFRS classifications | <u>(102)</u> | <u>(175)</u> | <u>(71)</u> |
| | <u>1,432</u> | <u>2,044</u> | <u>2,099</u> |

Net interest income is impacted by the classification of certain income between interest expense and other income (net of insurance claims) under IFRS which relates to the designation of certain financial instruments under the fair value option. This treatment resulted in additional net interest income of €102 million for the year ended 31 December 2011 (year ended 31 December 2010: €175 million; nine month period ended 31 December 2009: €71 million), offset by a similar reduction in ‘other income (net of insurance claims)’ in the three reporting periods. After adjusting for the impact of the IFRS classifications, the Group’s net interest income decreased by €612 million in the year ended 31 December 2011 (year ended 31 December 2010: decreased by €55 million).

The main drivers of the IFRS income classifications (which are classified as part of other income under IFRS) in the year ended 31 December 2011, the year ended 31 December 2010 and the nine month period ended 31 December 2009 are outlined below.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|--|---|---|---|
| <i>Liabilities designated at fair value through profit or loss</i> | | | |
| Trading expense | 42 | 38 | 25 |
| Insurance contract liabilities and claims paid | 40 | 10 | 5 |
| <i>Derivatives not designated under hedge accounting</i> | | | |
| Trading expense | <u>20</u> | <u>127</u> | <u>41</u> |
| | <u>102</u> | <u>175</u> | <u>71</u> |

Year ended 31 December 2011 compared to the year ended 31 December 2010

The decrease in the year ended 31 December 2011 compared to the year ended 31 December 2010 is largely due to changes in the composition of derivatives within the banking book and movements in interest rates, partially offset by the higher cost of deposits (at fair value through profit or loss).

Year ended 31 December 2010 compared to the nine month period ended 31 December 2009

The significant increase in the year ended 31 December 2010 compared to the nine month period ended 31 December 2009 is largely as a result of the de-designation by the Group of a number of hedging derivatives in the year ended 31 December 2010. These derivatives no longer qualify for hedge accounting under IFRS, meaning the interest cost of these derivatives was recognised in trading expense in the year ended 31 December 2010, whereas this cost was recognised in net interest income for the nine month period ended 31 December 2009.

Group Net Interest Margin (Group Net Yield)

The following table sets forth the Group's net interest margin for the year ended 31 December 2011, the year ended 31 December 2010 and the nine month period ended 31 December 2009.

| | Year ended 31 December 2011 €bn | Year ended 31 December 2010 €bn | 9 months ended 31 December 2009 €bn |
|--|--|--|--|
| Average interest earning assets | <u>142</u> | <u>160</u> | <u>172</u> |
| Group net interest margin—annualised (Group net yield) (%) . | <u>1.08%</u> | <u>1.39%</u> | <u>1.68%</u> |

Year ended 31 December 2011 compared to the year ended 31 December 2010

The Group net interest margin for the year ended 31 December 2011 declined by 31 basis points to 1.08% as compared to a net interest margin of 1.39% for the year ended December 2010. 15 basis points of the decrease is due to the cost of the ELG scheme and 4 basis points is due to the classification of certain items under IFRS.

Net interest income (before deducting the cost of the ELG scheme and excluding the impact of IFRS income classification) of €1,881 million for the year ended 31 December 2011 has declined by €438 million compared to €2,319 million for the year ended 31 December 2010. The reduction is due to an 11% reduction in average earning assets in 2011 together with a lower net interest margin.

The main drivers of the remaining decrease of 12 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;
- 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 prior year; and
- 1 basis point decrease due to the gain in disposal of business activities in the year ended 31 December 2010.

partly offset by:

- 13 basis points increase due to higher asset pricing;
- 4 basis points increase due to savings on the cost of subordinated debt; and
- 2 basis points increase due to the impact of the coupon stopper in the year ended 31 December 2010.

Year ended 31 December 2010 compared to the nine month period ended 31 December 2009

The Group net interest margin for the year ended 31 December 2010 declined by 29 basis points to 1.39% as compared to a net interest margin (annualised) of 1.68% for the nine month period ended 31 December 2009. 12 basis points of the decrease was due to the classification of certain income under IFRS as mentioned above in the net interest income section and the cost of the ELG scheme, which the Group joined in January 2010, which was €275 million in the year ended 31 December 2010.

Net interest income (before deducting the cost of the ELG scheme and excluding the impact of IFRS income classifications) of €2,319 million for the year ended 31 December 2010 increased by €220 million compared to €2,099 million for the nine month period ended 31 December 2009. The increase of €220 million was primarily due to the longer reporting period, partly offset by lower net interest income due to a 7% reduction in average earning assets in 2010 together with a lower net interest margin.

The key drivers of the remaining margin decrease of 17 basis points (annualised) were as follows:

- 20 basis points decrease due to margin attrition on customer deposits as a result of intense competition and the low interest rate environment;
- 12 basis points decrease due to higher costs of wholesale funding;
- 2 basis points decrease due to lower treasury income;
- 2 basis points decrease due to balance sheet structure and lower earnings on capital partly offset by an improved asset mix; and
- 5 basis points decrease due to the impact of the “coupon stopper” on certain subordinated debt (see page 58) and the gain on disposal of business activities.

Partly offset by:

- 23 basis points increase due to higher asset pricing.

Interest Rates—Ireland, UK and US

| | 31 December 2011 % | 31 December 2010 % | 31 December 2009 % |
|---|--------------------------|--------------------------|--------------------------|
| Ireland | | | |
| <i>European interbank offered rate:</i> | | | |
| One month Euribor | 1.02% | 0.78% | 0.45% |
| Three month Euribor | 1.36% | 1.01% | 0.70% |
| United Kingdom | | | |
| <i>London interbank offered rate:</i> | | | |
| One month | 0.77% | 0.59% | 0.52% |
| Three month | 1.08% | 0.76% | 0.61% |
| United States | | | |
| Prime Rate | 3.25% | 3.25% | 3.25% |

Other Income (net of insurance claims)

The following table shows other income (net of insurance claims) for the year ended 31 December 2011, the year ended 31 December 2010 and the nine month period ended 31 December 2009.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|--|---|---|---|
| Net insurance premium income | 929 | 969 | 665 |
| Fee and commission income | 612 | 633 | 474 |
| Fee and commission expense | (192) | (257) | (255) |
| Net trading income/(expense) | 19 | 225 | (28) |
| Life assurance investment income, gains and losses | (38) | 474 | 958 |
| Gain on liability management exercises | 1,789 | 1,402 | 1,037 |
| Insurance contract liabilities and claims paid | (750) | (1,268) | (1,462) |
| Other operating income | 12 | 199 | 48 |
| Other income (net of insurance claims) | <u>2,381</u> | <u>2,377</u> | <u>1,437</u> |

Year ended 31 December 2011 compared to the year ended 31 December 2010

Other income (net of insurance claims) of €2,381 million for the year ended 31 December 2011 increased by €4 million compared to €2,377 million for the year ended 31 December 2010. IFRS income classifications, as mentioned above have also impacted 'other income (net of insurance claims)' (a charge of €102 million in the year ended 31 December 2011 versus a charge of €175 million in the year ended 31 December 2010).

Following 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 the Group recognised a gain of €1,789 million 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.

During the year ended 31 December 2011 a gain of €56 million was recognised 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.

The principal other items within net other income, after adjusting for IFRS income classifications, which contributed to the increase in other income in the year ended 31 December 2011 included:

- 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;
- 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).
- Other income from Banking and Corporate and Treasury businesses decreased by €14 million reflecting decreased fees on products and services; and
- Other income from Bank of Ireland Life decreased by €11 million.

Year ended 31 December 2010 compared to the nine month period ended 31 December 2009

Other income (net of insurance claims) of €2,377 million for the year ended 31 December 2010 increased by €940 million compared to €1,437 million for the nine month period ended 31 December 2009. IFRS income classifications, as mentioned above also impacted ‘other income (net of insurance claims)’ (a charge of €175 million in the year ended 31 December 2010 versus a charge of €71 million in the nine month period ended 31 December 2009).

Following the successful completion of liability management exercises during the year ended 31 December 2010 the Group recognised a gain of €1,402 million in its income statement as follows:

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

During the year ended 31 December 2010 a gain of €360 million was recognised arising from the impact of the change in credit spreads relating to the Group’s issued notes and other deposits accounted for at ‘fair value through profit or loss’ compared to a charge of €6 million on these liabilities in the nine month period ended 31 December 2009. These liabilities consisted of certain subordinated debt, certain structured senior debt and tracker deposits.

The principal other items within other income (net of insurance claims) and after the impact of IFRS income classifications which contributed to the increase in other income (net of insurance claims) in the year ended 31 December 2010 included:

- lower levels of fees and charges in the Banking and Corporate and Treasury businesses offset by the longer reporting period;
- higher operating income in Bank of Ireland Life together with the impact of the longer reporting period partly offset by the impact of economic assumption changes;
- a positive movement of €88 million due to the change in value of investment properties. In the nine month period ended 31 December 2009 investment properties held on the Group’s balance sheet fell in value by €62 million reflecting depressed yields in very uncertain markets. There was some recovery in the value of international investment properties in the year ended 31 December 2010 which was the principal driver of the gain of €26 million in this period;
- a provision of €74 million in the nine month period ended 31 December 2009 relating to a court hearing in connection with a European property investment;
- a gain of €17 million arose in the year ended 31 December 2010, on the unwind of the fair value hedge adjustment associated with fixed rate subordinated bonds following liability management exercises, compared to a charge of €28 million in the nine month period ended 31 December 2009;

- a charge of €68 million relating to the CIFS scheme in the year ended 31 December 2010. This was €37 million lower than the equivalent charge of €105 million in the nine month period ended 31 December 2009. The CIFS scheme expired on 29 September 2010;
- 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;
- a reduction of €14 million in the investment variance in Bank of Ireland Life with investment returns at more normalised levels in the year ended 31 December 2010 compared to the strong recovery seen in world equity and investment markets in the nine month period ended 31 December 2009; and
- reduced fees from asset management activities of €12 million arising from the disposal of Guggenheim Alternative Asset Management LLC (Guggenheim) in June 2009 and Iridian Asset Management LLC (Iridian) in August 2009.

Operating expenses

The following table sets out the Group's other operating expenses for the year ended 31 December 2011, the year ended 31 December 2010 and for the nine month period ended 31 December 2009.

| <u>Operating expenses</u> | <u>Year ended 31 December 2011 €m</u> | <u>Year ended 31 December 2010 €m</u> | <u>9 months ended 31 December 2009 €m</u> |
|---|---|---|---|
| Staff costs (excluding pension costs) | 772 | 836 | 640 |
| Pension costs | 88 | (559) | 149 |
| Other costs | 782 | 793 | 606 |
| Total Operating expenses | <u>1,642</u> | <u>1,070</u> | <u>1,395</u> |
| Average staff numbers (full time equivalents) | <u>13,671</u> | <u>14,284</u> | <u>14,755</u> |

Year ended 31 December 2011 compared to the year ended 31 December 2010

Operating expenses of €1,642 million for the year ended 31 December 2011 were €572 million higher compared to operating expenses of €1,070 million for the year ended 31 December 2010. The main driver of the increase was a once-off credit of €733 million in the year ended 31 December 2010 following amendments to the Group's defined-benefit pension schemes. This was partly offset by cost savings arising from a reduction in underlying pension costs and business disposals in 2011.

Staff costs (excluding pension costs) of €772 million for the year ended 31 December 2011 were €64 million lower when compared to €836 million for the year ended 31 December 2010 as a result of lower staff numbers. 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 €782 million for the year ended 31 December 2011 were €11 million lower when compared to €793 million for the year ended 31 December 2010. Costs increases arose on property impairments, the transition of IT outsourcing contracts and higher regulatory costs related to the PCAR/PLAR 2011 process. This was more than offset by lower costs of restructuring and cost savings following business disposals.

Year ended 31 December 2010 compared to the nine month period ended 31 December 2009

Operating expenses of €1,070 million for the year ended 31 December 2010 were €325 million lower when compared to operating expenses of €1,395 million for the nine month period ended 31 December 2009 primarily due to the impact of amendments to defined benefit pension schemes of €733 million but also reflecting lower staff numbers, continued tight management of all costs and the impact of changes in pensions benefits.

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

During 2010, the Group completed its review of its defined benefit pension schemes and made changes to pension benefits under these schemes. A pension credit to the income statement of €559 million for the year ended 31 December 2010 compared to pension costs of €149 million for the nine month period ended 31 December 2009 was primarily due to the changes to the pension benefits arising from the above review partly offset by the longer reporting period.

Impairment Charges on Financial Assets

Impairment charges on loans and advances to customers

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 ⁽¹⁾ €m | 9 months ended 31 December 2009 ⁽¹⁾ €m |
|--|---|--|--|
| Impairment charges on loans and advances to customers | | | |
| Residential mortgages | 469 | 404 | 231 |
| —Retail Ireland | 444 | 341 | 159 |
| —Retail UK | 25 | 63 | 72 |
| Non-property SME and corporate | 497 | 609 | 655 |
| —Republic of Ireland SME | 281 | 291 | 339 |
| —UK SME | 74 | 126 | 46 |
| —Corporate | 142 | 192 | 270 |
| Property and construction | 893 | 719 | 1,281 |
| —Investment | 593 | 448 | 305 |
| —Land and development | 300 | 271 | 976 |
| Consumer | 80 | 127 | 166 |
| Total impairment charges on loans and advances to customers | <u>1,939</u> | <u>1,859</u> | <u>2,333</u> |

(1) The analysis of the impairment charge for the year ended 31 December 2010 and the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been represented 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.

Year ended 31 December 2011 compared to the year ended 31 December 2010

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 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.

(2) Per 'The Daft.ie rental report—An analysis of recent trends in the Irish rental market 2011, Quarter 4'.

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.

Year ended 31 December 2010 compared to the nine month period ended 31 December 2009

Impairment charges on loans and advances to customers of €1,859 million for the year ended 31 December 2010 were €474 million or 20% lower compared to impairment charges of €2,333 million for the nine month period ended 31 December 2009.

Impairment charges on Residential mortgages increased by €173 million from €231 million for the nine month period ended 31 December 2009 to €404 million for the year ended 31 December 2010. The ongoing economic slowdown in Ireland including lower levels of employment, reduced disposable income and falling house prices continued to adversely impact the level of mortgage arrears which increased significantly in 2010. In addition the buy to let element of the Irish residential mortgage book was impacted by a lower demand for rental properties caused in part by net migration out of Ireland which, together with the existing levels of oversupply in the housing market put downward pressure on rental income. This led to an increase in impaired loans with a corresponding increase in the impairment charge. In the UK, the level of Residential mortgage arrears was up marginally year on year and the related impairment charge was below expectations.

The impairment charge on the Non-property SME and corporate loan portfolio was €609 million for the year ended 31 December 2010 compared to €655 million for the nine month period ended 31 December 2009. Despite the longer reporting period the impairment charge on this portfolio reduced. Losses in Corporate Banking in the year ended 31 December 2010 were significantly lower than in the nine month period ended 31 December 2009. In particular, the leveraged acquisition finance portfolio which is very well spread geographically and sectorally benefitted from the global economic recovery and achieved some provision write-backs. However the stressed economic conditions in Ireland, continued poor consumer sentiment and a heightened level of business insolvencies negatively impacted trading conditions and caused general pressure on the Non-property SME sector. Those SME sectors correlated with consumer spending were particularly impacted.

The impairment charge of €719 million on the Property and construction portfolio for the year ended 31 December 2010 reduced by €562 million compared to the impairment charge of €1,281 million for the

nine month period ended 31 December 2009. The Property and construction portfolio amounted to €24.4 billion at 31 December 2010 comprising of €19.8 billion of investment property loans and €4.6 billion of land and development loans.

The impairment charge on the investment property element of the Property and construction portfolio was €448 million for the year ended 31 December 2010 compared to €305 million for the nine month period ended 31 December 2009. Impairment charges on the investment property loan book increased due to the impact of underlying economic conditions, reduced asset values and low levels of transactions and illiquidity in property markets which continued, particularly in Ireland, to reduce rental flows and delay recovery prospects.

The impairment charge on the land and development element of the Property and construction portfolio was €271 million for the year ended 31 December 2010 compared to €976 million for the nine month period ended 31 December 2009. The impairment charge in the nine month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, oversupply of residential housing stock in Ireland and generally weak economic conditions, particularly in Ireland. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to investor uncertainty.

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

Impairment charge on assets sold to NAMA

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 ⁽¹⁾ €m | 9 months ended 31 December 2009 ⁽¹⁾ €m |
|--|---|--|--|
| Impairment charges on assets sold to NAMA | | | |
| Residential mortgages | 1 | 13 | 6 |
| Non-property SME and corporate | — | 14 | 4 |
| Property and construction | <u>43</u> | <u>230</u> | <u>1,712</u> |
| Impairment charges on assets sold to NAMA | <u>44</u> | <u>257</u> | <u>1,722</u> |

(1) The analysis of the impairment charge for the year ended 31 December 2010 and the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been re-presented on 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.

Year ended 31 December 2011 compared to the year ended 31 December 2010

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.

Year ended 31 December 2010 compared to the nine month period ended 31 December 2009

The impairment charge on assets sold to NAMA of €257 million for the year ended 31 December 2010 which has reduced by €1,465 million compared to the impairment charges of €1,722 million for the nine month period ended 31 December 2009. The impairment charge in the nine month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, an oversupply of residential housing stock in Ireland and generally weak economic conditions, particularly in Ireland. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to a lack of demand from investors.

The impairment charges on assets sold or held for sale to NAMA of €257 million in the year ended 31 December 2010 reflects the impact of underlying economic conditions, reduced asset values and low levels of transactions and illiquidity in property markets which have continued to reduce rental flows and delay recovery prospects.

Impairment charge on available for sale financial assets (AFS)

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 |
|--|--|--|--|
| Impairment charges on available for sale (AFS) financial assets | | | |
| Allied Irish Banks plc subordinated bonds | — | 98 | — |
| NAMA subordinated bonds | — | 70 | — |
| Irish Life and Permanent plc subordinated bonds | 16 | — | — |
| Other | <u>5</u> | <u>—</u> | <u>2</u> |
| Impairment charges on available for sale (AFS) financial assets | <u>21</u> | <u>168</u> | <u>2</u> |

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. An impairment charge on Available for sale financial (AFS) assets of €2 million (€1 million each in Corporate Banking and Global Markets) was incurred in the nine month period ended 31 December 2009.

Gain/(loss) on sale of assets to NAMA

The gain/(loss) on sale of assets to NAMA reflects those assets that were sold to NAMA in the year ended 31 December 2011 and the year ended 31 December 2010 as set out below. There were no transfers to NAMA during the nine month period ended 31 December 2009.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m |
|--|---|---|
| Gain/(loss) on sale of assets to NAMA | | |
| 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 | 2,237 |
| Other items | (3) | (123) |
| | <u>(57)</u> | <u>(2,241)</u> |
| Adjustment to consideration in respect of assets transferred during 2010 ⁽²⁾ | 90 | — |
| Gain/(loss) on sale of assets to NAMA | <u>33</u> | <u>(2,241)</u> |

(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 to the Consolidated Financial Statements).*

(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.*

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).

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. €0.9 billion of the remaining €1 billion in assets announced has been completed and derecognised since 31 December 2011 with the remaining €0.1 billion expected to settle in the coming months. 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 on page F-71.

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

| <u>Year ended 31 December 2011</u> | <u>Consideration received (net of costs) €bn</u> | <u>Carrying value of assets derecognised €bn</u> | <u>Total loss on deleveraging €bn</u> |
|---|--|--|---|
| 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 | <u>2.9</u> | <u>3.0</u> | <u>(0.1)</u> |
| Total | <u>7.0</u> | <u>7.6</u> | <u>(0.6)</u> |

Taxation

Year ended 31 December 2011 compared to the year ended 31 December 2010

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 due to losses incurred in both years (see note 20 on page F-75). The effective tax rate for the year ended 31 December 2011 was a credit of 121% compared to a credit of 36% for the year ended 31 December 2010.

Year ended 31 December 2010 compared to the nine month period ended 31 December 2009

The taxation credit for the Group was €341 million for the year ended 31 December 2010 compared to a taxation credit of €344 million for the nine month period ended 31 December 2009 due to losses incurred in both periods (see note 20 on page F-75). The effective tax rate for the year ended 31 December 2010 was a credit of 36% compared to a credit of 19% for the nine months ended 31 December 2009.

Consolidated Balance Sheet

| | <u>31 December 2011 €bn</u> | <u>31 December 2010 €bn</u> |
|---|-------------------------------------|-------------------------------------|
| Loans and advances to customers (after impairment provisions) | 102 | 114 |
| Assets held for sale to NAMA (after impairment provisions) | — | 1 |
| Liquid assets | 31 | 30 |
| Other assets | <u>22</u> | <u>22</u> |
| Total assets | <u>155</u> | <u>167</u> |
| Customer deposits | 71 | 65 |
| Wholesale funding | 51 | 70 |
| Subordinated liabilities | 1 | 3 |
| Other liabilities | <u>22</u> | <u>22</u> |
| Total liabilities | <u>145</u> | <u>160</u> |
| Stockholders' equity | <u>10</u> | <u>7</u> |
| Total liabilities and stockholders' equity | <u>155</u> | <u>167</u> |

Loans and advances to customers

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. 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. 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 loss on deleveraging of financial assets see note 17 on page F-71.

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.

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 below.

| Composition by division Loans and advances to customers | 31 December 2011 | | 31 December 2010 | |
|--|------------------|------|------------------|------|
| | €bn | % | €bn | % |
| Retail Ireland | 49 | 45% | 50 | 42% |
| Retail UK | 44 | 41% | 49 | 41% |
| <i>Retail UK (Stg£bn equivalent)</i> | 37 | — | 42 | — |
| Corporate and Treasury | 15 | 14% | 20 | 17% |
| 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 | — |

| Composition by portfolio Loans and advances to customers | 31 December 2011 | | 31 December 2010 | |
|---|-------------------------|-------------|-------------------------|--------------|
| | €bn | % | €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%) |
| <i>This is presented in the balance sheet on page F-6 as:</i> | | | | |
| 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 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 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.

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

For further information on the assets held for sale see note 30 to the Consolidated Financial Statements. Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the Risk Management Report. See pages 175 to 253.

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.

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

| <u>Composition by division Assets held for sale to NAMA</u> | 31 December 2010 | |
|--|------------------|-------------|
| | €bn | % |
| Retail Ireland | — | — |
| Retail UK | 0.7 | 78% |
| <i>Retail UK (Stg£bn equivalent)</i> | 0.6 | — |
| Corporate and Treasury | 0.2 | 22% |
| Assets held for sale to NAMA (before impairment provisions) | 0.9 | 100% |
| Impairment provisions | (0.1) | — |
| Assets held for sale to NAMA (after impairment provisions) | 0.8 | — |

| <u>Composition by portfolio Assets held for sale to NAMA</u> | 31 December 2010 | |
|--|------------------|-------------|
| | €bn | % |
| Land and development | 0.2 | 22% |
| Associated (principally investment property) | 0.7 | 78% |
| Assets held for sale to NAMA (before impairment provisions) | 0.9 | 100% |
| Impairment provisions | (0.1) | — |
| Assets held for sale to NAMA (after impairment provisions) | 0.8 | — |

The movement in assets held for sale to NAMA and the related impairment provisions during the year ended 31 December 2011 is shown below:

| <u>Movement in assets sold or held for sale to NAMA</u> | Total assets €bn | Impairment provision €bn | Carrying value €bn |
|---|---------------------|--------------------------------|--------------------------|
| Balance at 31 December 2010 | 0.9 | (0.1) | 0.8 |
| Sale of assets to NAMA | (0.5) | 0.2 | (0.3) |
| Change in eligibility criteria, net | (0.4) | (0.1) | (0.5) |
| Balance at 31 December 2011 | — | — | — |

Liquid Assets

| <u>Liquid assets</u> | <u>31 December 2011 €bn</u> | <u>31 December 2010 €bn</u> |
|--|-------------------------------------|-------------------------------------|
| Cash at other banks | 8 | 7 |
| Cash and balances at Central Banks | 8 | 3 |
| Government bonds | 5 | 4 |
| — <i>Ireland</i> | 4 | 3 |
| — <i>UK</i> | 1 | 1 |
| NAMA senior bonds | 5 | 5 |
| Covered bonds | 4 | 4 |
| Senior bank bonds | 1 | 7 |
| | <u>31</u> | <u>30</u> |

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 by 25% of the redemptions expected by 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 202 and 204.

Customer Deposits

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

Group customer deposits were €71 billion at 31 December 2011 compared to €65 billion at 31 December 2010 as set out in the table below. 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.

| | 31 December 2011 €bn | 31 December 2010 €bn |
|--|----------------------------|----------------------------|
| Customer deposits | | |
| 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 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 they 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

| Wholesale funding sources | 31 December 2011 | | 31 December 2010 | |
|--|------------------|-------------|------------------|-------------|
| | €bn | % | €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 would 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.

In March 2012, the Group participated in the second ECB three year LTRO when it converted c.€4.8 billion of mainly shorter term funding to three year funding with a maturity of February 2015.

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's three year LTRO offerings. 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. This reflects the overall reduction in wholesale funding achieved to date and expected further reductions in wholesale funding in line with PLAR targets.

Subordinated Liabilities

| <u>Movement in subordinated liabilities</u> | <u>31 December 2011 €m</u> |
|--|------------------------------------|
| Balance at 31 December 2010 | 2,775 |
| Exchange or repurchase of subordinated liabilities | (2,258) |
| Other (call option) | <u>(100)</u> |
| | 417 |
| Contingent Capital note (table 14) | <u>1,009</u> |
| Balance at 31 December 2011 | <u>1,426</u> |

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.

| | 31 December 2011 €m |
|---|------------------------------------|
| Issue of Contingent Capital note | |
| Nominal value | 1,000 |
| Fee paid on issue | <u>(15)</u> |
| Net cash proceeds received | 985 |
| Capital contribution ⁽¹⁾ | <u>(116)</u> |
| Value of Contingent Capital note on issue date | <u>869</u> |

(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.

| | Issue date (29 July 2011) €m | Movement €m | 31 December 2011 €m |
|---|---|------------------------|------------------------------------|
| <i>This is presented in the balance sheet on page F-6 as:</i> | | | |
| Subordinated liability | (960) | (49) | (1,009) |
| Embedded derivative asset | <u>91</u> | <u>(8)</u> | <u>83</u> |
| | <u>(869)</u> | <u>(57)</u> | <u>(926)</u> |

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 F-131.

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

| <u>Movements in Stockholders' Equity</u> | <u>Year ended 31 December 2011 €m</u> | <u>Year ended 31 December 2010 €m</u> |
|--|---|---|
| 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 | <u>10,202</u> | <u>7,351</u> |

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 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 against 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

| <u>Other assets and other liabilities</u> | <u>31 December 2011 €bn</u> | <u>31 December 2010 €bn</u> |
|---|-------------------------------------|-------------------------------------|
| Other assets | 22 | 22 |
| — <i>Bank of Ireland Life assets</i> | 12 | 13 |
| — <i>Derivative financial instruments</i> | 6 | 6 |
| — <i>Deferred tax asset</i> | 1 | 1 |
| — <i>Other assets</i> | 3 | 2 |
| Other liabilities | 22 | 22 |
| — <i>Bank of Ireland Life liabilities</i> | 12 | 13 |
| — <i>Derivative financial instruments</i> | 6 | 5 |
| — <i>Other liabilities</i> | 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

The following table outlines the components of the Group's regulatory capital together with key capital ratios at 31 December 2011 and 31 December 2010.

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

| Key Capital Ratios | 31 December 2011 | | 31 December 2010 | |
|---|------------------|----------|------------------|----------|
| | €bn | % of RWA | €bn | % 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 to the Consolidated Financial Statements.

Capital raising initiatives

Liability Management Exercises

As set out in note 9 to the Consolidated Financial Statements, 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:

| | Subordinated liabilities €m | Mortgage- backed securities €m | Total €m |
|---|-----------------------------------|---|---------------------|
| Gain on liability management exercises pursuant to 2011 PCAR | | | |
| Debt for equity offer | 1,177 | — | 1,177 |
| Cash offer | 219 | 307 | 526 |
| Call option | 101 | — | 101 |
| | <u>1,497</u> | <u>307</u> | <u>1,804</u> |
| Transaction costs | | | (32) |
| Gain on liability management exercises pursuant to 2011 PCAR | | | <u><u>1,772</u></u> |

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 to the Consolidated Financial Statements.

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 | <u>1,844</u> | <u>288</u> | <u>377</u> | <u>(58)</u> | <u>2,451</u> |
| Rights issue | — | 954 | 954 | — | 1,908 |
| | <u>1,844</u> | <u>1,242</u> | <u>1,331</u> | <u>(58)</u> | <u>4,359</u> |
| 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 | <u>(45)</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>(45)</u> |
| 2011 recapitalisation of the Bank, net of transaction costs and taxation | <u>1,783</u> | <u>1,242</u> | <u>1,201</u> | <u>(58)</u> | <u>4,168</u> |

(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.

Divisional Performance—on an Underlying basis

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|--|---|---|---|
| Income statement—underlying loss before tax | | | |
| Retail Ireland | (1,017) | (1,467) | (1,514) |
| Bank of Ireland Life | 26 | 70 | 69 |
| Retail UK | (324) | (558) | (805) |
| Corporate and Treasury | 386 | (973) | (600) |
| Group Centre | (561) | (531) | (116) |
| Consolidation ⁽¹⁾ | (31) | — | — |
| Underlying loss before tax | <u>(1,521)</u> | <u>(3,459)</u> | <u>(2,966)</u> |
| Non-core items | 1,331 | 2,509 | 1,153 |
| Loss before tax | <u>(190)</u> | <u>(950)</u> | <u>(1,813)</u> |

(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.

Underlying is defined in pages 53 and 54. The individual divisional income statements have been presented on an underlying basis in accordance with IFRS 8—Operating Segments. Information on the divisions and their underlying performance is shown in note 2 to the Consolidated Financial Statements—Operating Segments (pages F-47 to F-55).

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.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 ⁽¹⁾ €m | 9 months ended 31 December 2009 ⁽¹⁾ €m |
|--|---|--|--|
| Retail Ireland: Income statement | | | |
| Net interest income | 849 | 1,010 | 879 |
| Net other income | 297 | 347 | 129 |
| Operating income | 1,146 | 1,357 | 1,008 |
| Operating expenses | (861) | (919) | (694) |
| Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA | 285 | 438 | 314 |
| Impairment charges on loans and advances to customers | (1,297) | (1,142) | (1,245) |
| Assets sold to NAMA: | | | |
| —Impairment charges on assets sold to NAMA | (9) | (100) | (591) |
| —Gain/(loss) on sale of assets to NAMA | 1 | (675) | — |
| Share of results of associates and joint ventures (after tax) . . . | 3 | 12 | 8 |
| Underlying loss before tax | (1,017) | (1,467) | (1,514) |
| Loans and advances to customers (€bn) ⁽²⁾ | 45 | 47 | 51 |
| Customer deposits (€bn) | 36 | 35 | 35 |

(1) The analysis of the impairment charge for the year ended 31 December 2010 and the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been represented 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) Loans and advances to customers are net of impairment provisions.

Year ended 31 December 2011 compared to the year ended 31 December 2010

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).

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 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.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 ⁽¹⁾ €m | Change % |
|--|---|--|-------------|
| Impairment charges on loans and advances to customers | | | |
| 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.

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.

(1) Per 'The Daft.ie rental report—An analysis of recent trends in the Irish rental market 2011, Quarter 4'.

In the year ended 31 December 2011 there was a gain on sale of assets to NAMA of €1 million.

| <u>Assets sold to NAMA</u> | <u>Year ended 31 December 2011 €m</u> | <u>Year ended 31 December 2010⁽¹⁾ €m</u> |
|---|---|---|
| Impairment charges on assets sold to NAMA | (9) | (100) |
| Gain/(loss) on sale of assets to NAMA | <u>1⁽²⁾</u> | <u>(675)</u> |

(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.*

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.

Year ended 31 December 2010 compared to the nine month period ended 31 December 2009

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

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

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

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

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

Impairment charges on loans and advances to customers of €1,142 million for the year ended 31 December 2010 was €103 million lower compared to the impairment charges of €1,245 million for the nine month period ended 31 December 2009. Impairment charges remained elevated due to the economic downturn, high levels of unemployment 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 2010⁽¹⁾ €m | 9 months ended 31 December 2009⁽¹⁾ €m | Change % |
|--|---|---|---------------------|
| Residential mortgages | 341 | 159 | 114% |
| —Owner occupied mortgages | 176 | 101 | 74% |
| —Buy to let mortgages | 165 | 58 | 184% |
| Non-property SME and corporate | 291 | 339 | (15%) |
| Property and construction | 420 | 606 | (31%) |
| —Investment | 260 | 151 | 72% |
| —Land and development | 160 | 455 | (65%) |
| Consumer | 90 | 141 | (36%) |
| Impairment charges on loans and advances to customers | 1,142 | 1,245 | (8%) |

(1) The analysis of the impairment charge for the year ended 31 December 2010 and the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been represented 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 Residential mortgages of €341 million for the year ended 31 December 2010 was €182 million higher compared to the impairment charge of €159 million for the nine month period ended 31 December 2009. The ongoing economic slowdown in Ireland including lower levels of employment reduced disposable income and falling house prices continued to adversely impact the level of mortgage arrears which increased significantly in 2010. In addition the buy to let element of the Irish residential mortgage book was impacted by lower demand for rental properties caused in part by net migration out of Ireland which, together with the existing levels of oversupply in the housing market put downward pressure on rental income. This led to an increase in impaired loans with a corresponding increase in impairment charges.

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

The impairment charge on the Property and construction portfolio of €420 million for the year ended 31 December 2010 was €186 million lower compared to the impairment charge of €606 million for the nine month period ended 31 December 2009. The impairment charge in the nine month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, oversupply of residential housing stock in Ireland and generally weak economic conditions, particularly in Ireland. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to investor uncertainty.

The impairment charge on the Consumer loan book of €90 million for the year ended 31 December 2010 was €51 million lower compared to the impairment charge of €141 million for the nine month period ended

31 December 2009 despite the longer reporting period as the default rates were better than expected. In addition the loan book reduced faster than expected reflecting debt repayment and a dearth of demand for new loans and other credit facilities.

The impairment charges on assets sold to NAMA of €100 million for the year ended 31 December 2010 was €491 million lower compared to the impairment charges of €591 million for the nine month period ended 31 December 2009. The impairment charges in the nine month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, an oversupply of residential housing stock in Ireland and the generally weak economic conditions. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to a lack of demand from investors. In the year ended 31 December 2010, lower house prices, an oversupply of residential housing stock and illiquid property markets adversely impacted asset quality and led to an impairment charge of €100 million.

In the year ended 31 December 2010, Retail Ireland sold loans and associated derivatives to NAMA of €2.6 billion (before impairment provisions), resulting in a loss on sale of assets to NAMA of €675 million.

| <u>Assets sold to NAMA</u> | <u>Year ended 31 December 2010⁽¹⁾ €m</u> | <u>9 months ended 31 December 2009⁽¹⁾ €m</u> |
|---|---|---|
| Impairment charges on assets sold to NAMA | (100) | (591) |
| Gain/(loss) on sale of assets to NAMA | (675) | — |

(1) The analysis of the impairment charge for the year ended 31 December 2010 and the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been represented 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.

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 60 to the Consolidated Financial Statements, 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.

| <u>Bank of Ireland Life: Income statement (IFRS performance)</u> | <u>Year ended 31 December 2011 €m</u> | <u>Year ended 31 December 2010 €m</u> | <u>9 months ended 31 December 2009 €m</u> |
|--|---|---|---|
| Operating income | 174 | 178 | 125 |
| Operating expenses | (101) | (103) | (82) |
| Operating profit | <u>73</u> | <u>75</u> | <u>43</u> |
| Investment variance | (28) | 9 | 23 |
| Economic assumption changes | (19) | (14) | 3 |
| Underlying profit before tax | <u>26</u> | <u>70</u> | <u>69</u> |

Year ended 31 December 2011 compared to the year ended 31 December 2010

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.

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.

Year ended 31 December 2010 compared to the nine month period ended 31 December 2009

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

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

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

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

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

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).

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 ⁽¹⁾ €m | 9 months ended 31 December 2009 ⁽¹⁾ €m |
|--|--|---|---|
| Retail UK: Income statement | | | |
| Net interest income | 319 | 507 | 411 |
| Net other income | 103 | 54 | 61 |
| Operating income | 422 | 561 | 472 |
| Operating expenses | (328) | (319) | (267) |
| Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA | 94 | 242 | 205 |
| Impairment charges on loans and advances to customers | (375) | (383) | (628) |
| Assets sold to NAMA: | | | |
| —Impairment charge on assets sold to NAMA | (23) | (25) | (320) |
| —Loss on sale of assets to NAMA | (6) | (346) | — |
| Share of results of associates and joint ventures (after tax) | 31 | 32 | 23 |
| Underlying loss before tax | (279) | (480) | (720) |
| Underlying loss before tax (€m equivalent) | (324) | (558) | (805) |
| Loans and advances to customers (£bn) ⁽²⁾ | 36 | 42 | 46 |
| Customer deposits (£bn) | 22 | 18 | 19 |

(1) The analysis of the impairment charge for the year ended 31 December 2010 and the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been represented 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) Loans and advances to customers are net of impairment provisions.

Year ended 31 December 2011 compared to the year ended 31 December 2010

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).

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 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.

| | Year ended 31 December 2011 £m | Year ended 31 December 2010 ⁽¹⁾ £m | Change % |
|--|--|---|-------------|
| Impairment charges on loans and advances to customers | | | |
| 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.

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.

| | Year ended 31 December 2011 £m | Year ended 31 December 2010 ⁽¹⁾ £m |
|---|--|---|
| Assets sold to NAMA | | |
| Impairment charges on assets sold to NAMA | (23) | (25) |
| Loss on sale of assets to NAMA | (6) | (346) |

(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 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 compared to a loss of £346 million for the year ended 31 December 2010.

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.

Year ended 31 December 2010 compared to the nine month period ended 31 December 2009

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

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

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

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

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

Impairment charge on loans and advances to customers of £383 million for the year ended 31 December 2010 compares to impairment charges of £628 million for the nine month period ended 31 December 2009.

| | Year ended 31 December 2010 ⁽¹⁾ £m | 9 months ended 31 December 2009 ⁽¹⁾ £m | Change % |
|--|---|---|--------------|
| Impairment charges on loans and advances to customers | | | |
| Residential mortgages | 54 | 64 | (16%) |
| —Standard mortgages | 8 | 15 | (47%) |
| —Buy to let mortgages | 39 | 34 | 15% |
| —Self certified mortgages | 7 | 15 | (53%) |
| Non-property SME and corporate | 109 | 43 | 153% |
| Property and construction | 189 | 500 | (62%) |
| —Investment | 104 | 75 | 39% |
| —Land and development | 85 | 425 | (80%) |
| Consumer | 31 | 21 | 48% |
| Impairment charges on loans and advances to customers | 383 | 628 | (39%) |

(1) The analysis of the impairment charge for the year ended 31 December 2010 and the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been represented 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 Residential mortgages decreased by £10 million from £64 million for the nine month period ended 31 December 2009 to £54 million for the year ended 31 December 2010. Despite the longer reporting period and the marginal increase in the level of residential mortgage arrears, the impairment charge on this portfolio reduced reflecting more stable house prices and unemployment levels.

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

The impairment charge of £189 million on the Property and construction portfolio for the year ended 31 December 2010 reduced by £311 million compared to the impairment charge of £500 million for the nine month period ended 31 December 2009. The impairment charge in the nine month period ended 31 December 2009 reflected the continuing underlying economic conditions, reduced asset values and low levels of transactions and illiquidity in property markets.

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

| <u>Assets sold to NAMA</u> | Year ended 31 December 2010⁽¹⁾ £m | 9 months ended 31 December 2009⁽¹⁾ £m |
|---|---|---|
| Impairment charges on assets sold to NAMA | (25) | (320) |
| Loss on sale of assets to NAMA | (346) | — |

(1) The analysis of the impairment charge for the year ended 31 December 2010 and the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been represented 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 assets sold to NAMA** of £25 million for the year ended 31 December 2010 compared to an impairment charge of £320 million for the nine month period ended 31 December 2009. The impairment charge on assets sold to NAMA in the nine month period ended 31 December 2009 reflected the sharp deterioration in the property market, which was significantly impacted by falling property prices, a negative outlook for asset values and generally weak economic conditions.

In the year ended 31 December 2010, Retail UK sold assets to NAMA of £1.7 billion (before impairment provisions), resulting in a loss on sale of assets to NAMA of £346 million.

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 Investments LLC during the year ended 31 December 2011.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 ⁽¹⁾ €m | 9 months ended 31 December 2009 €m |
|--|--|---|--|
| Corporate and Treasury: Income statement | | | |
| Net interest income | 742 | 885 | 705 |
| Net other income | 44 | 43 | 83 |
| Operating income | 786 | 928 | 788 |
| Operating expenses | (187) | (287) | (230) |
| Operating profit before impairment charges on financial assets and loss on sale of assets to NAMA | 599 | 641 | 558 |
| Impairment charges on loans and advances to customers | (207) | (269) | (389) |
| Impairment charge on available for sale (AFS) financial assets . . | (21) | (98) | (2) |
| Assets sold to NAMA: | | | |
| —Impairment charges on assets sold to NAMA | (9) | (126) | (768) |
| —Gain/(loss) on sale of assets to NAMA | 24 | (1,121) | — |
| Share of results of associates and joint ventures (after tax) | — | — | 1 |
| Underlying profit/(loss) before tax | 386 | (973) | (600) |
| Loans and advances to customers (€bn) ⁽²⁾ | 14 | 20 | 25 |
| Customer deposits (€bn) | 8 | 9 | 29 |

(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) Loans and advances to customers are net of impairment provisions.

Year ended 31 December 2011 compared to the year ended 31 December 2010

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).

The change in 'Net interest income' and 'Net other income' is impacted by IFRS income classifications between the two income categories (see page 59).

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | Change % |
|--|--|--|--------------|
| Net interest income | | | |
| 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.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | Change % |
|---|--|--|--------------|
| Net other income | | | |
| 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.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 ⁽¹⁾ €m | Change % |
|--|--|---|--------------|
| Impairment charges on loans and advances to customers | | | |
| 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 2010 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.

| <u>Assets sold to NAMA</u> | <u>Year ended 31 December 2011 €m</u> | <u>Year ended 31 December 2010⁽¹⁾ €m</u> |
|---|---|---|
| Impairment charges on assets sold to NAMA | (9) | (126) |
| 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.

Year ended 31 December 2010 compared to the nine month period ended 31 December 2009

Corporate and Treasury reported an underlying loss before tax of €973 million for the year ended 31 December 2010 compared with an underlying loss before tax of €600 million for the nine month period ended 31 December 2009.

The change in ‘net interest income’ and ‘net other income’ is impacted by IFRS income classifications between the two income categories (see page 59).

| <u>Net interest income</u> | <u>Year ended 31 December 2010 €m</u> | <u>9 months ended 31 December 2009 €m</u> | <u>Change %</u> |
|--|---|---|---------------------|
| Net interest income | 885 | 705 | 26% |
| IFRS income classifications | (165) | (67) | (146%) |
| Net interest income after IFRS income classifications | <u>720</u> | <u>638</u> | <u>13%</u> |

Net interest income after IFRS income classifications amounted to €720 million for the year ended 31 December 2010 and increased by €82 million compared to €638 million for the nine month period ended 31 December 2009 due primarily to the longer reporting period and increased asset pricing which

was partly offset by lower net interest income due to a 13% reduction in average earning assets together with the increased cost of wholesale funding.

| <u>Net other income</u> | <u>Year ended 31 December 2010 €m</u> | <u>9 months ended 31 December 2009 €m</u> | <u>Change %</u> |
|---|---|---|---------------------|
| Net other income | 43 | 83 | (48%) |
| IFRS income classifications | 165 | 67 | 146% |
| Net other income after IFRS income classifications | 208 | 150 | 39% |

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

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

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

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

| <u>Impairment charges on loans and advances to customers</u> | <u>Year ended 31 December 2010⁽¹⁾ €m</u> | <u>9 months ended 31 December 2009 €m</u> | <u>Change %</u> |
|--|---|---|---------------------|
| Non-property SME and Corporate | 192 | 270 | (29%) |
| Property and construction | 77 | 119 | (35%) |
| —Investment | 70 | 67 | 4% |
| —Land and development | 7 | 52 | (87%) |
| Total impairment charges on loans and advances to customers | 269 | 389 | (31%) |

(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 the Non-property SME and Corporate portfolio was €192 million for the year ended 31 December 2010. Despite the longer reporting period the impairment charge on this portfolio has reduced. Losses in Corporate Banking in the year ended 31 December 2010 were significantly lower than in the nine month period ended 31 December 2009. In particular, the leveraged acquisition finance portfolio which is very well spread geographically and sectorally benefitted from the global economic recovery and achieved some provision write-backs.

The impairment charge on the Property and construction portfolio was €77 million for the year ended 31 December 2010 compared to an impairment charge of €119 million for the nine month period ended 31 December 2009 due to a recovery in certain international investment property markets and a lower level of tenant defaults than expected.

An **impairment charge on assets sold to NAMA** of €126 million was incurred in the year ended 31 December 2010 compared to €768 million for the nine month period ended 31 December 2009. The impairment charge in the nine month period ended 31 December 2009 reflected the sharp deterioration in the property market which was significantly impacted by falling property prices, a negative outlook for asset values, an oversupply of residential housing stock in Ireland and generally weak economic conditions, particularly in Ireland. In addition, the uncertainties which existed in the latter half of 2009 as the NAMA process evolved led to a low level of transactions in the Irish commercial property sector due to a lack of demand from investors. In the year ended 31 December 2010, lower house prices, an oversupply of residential housing stock and illiquid residential and commercial property markets, particularly in Ireland, adversely impacted asset quality and led to an impairment charge of €126 million.

| <u>Assets sold to NAMA</u> | Year ended 31 December 2010⁽¹⁾ €m | 9 months ended 31 December 2009 €m |
|---|---|---|
| Impairment charges on assets sold to NAMA | (126) | (768) |
| Gain/(loss) on sale of assets to NAMA | <u>(1,121)</u> | <u>—</u> |

(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.*

| <u>Business Unit: Operating profit before tax</u> | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|---|---|---|---|
| Corporate Banking | 380 | 488 | 410 |
| Global Markets | 204 | 121 | 128 |
| Asset Management Services | 10 | 28 | 22 |
| Division Centre | <u>5</u> | <u>4</u> | <u>(2)</u> |
| Operating profit before tax | <u>599</u> | <u>641</u> | <u>558</u> |

Year ended 31 December 2011 compared to the year ended 31 December 2010

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.

Year ended 31 December 2010 compared to the nine month period ended 31 December 2009

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

Despite the longer reporting period to 31 December 2010, Global Markets operating profit (before impairment charges on available for sale financial assets) was €121 million for the year ended 31 December 2010 compared to €128 million for the nine month period ended 31 December 2009.

The nine month period ended 31 December 2009 was positively impacted by gains arising as a result of good positioning in a falling interest rate environment.

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

Group Centre

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

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|--|--|--|--|
| Group Centre: Income statement | | | |
| Government guarantee fees: | | | |
| —ELG | (449) | (275) | — |
| —CIFS | — | (68) | (105) |
| Government guarantee fees | (449) | (343) | (105) |
| Other income | (7) | 33 | 74 |
| Net operating income | (456) | (310) | (31) |
| Operating expenses | (118) | (104) | (85) |
| Operating loss before impairment charges on financial assets and loss on sale of assets to NAMA | (574) | (414) | (116) |
| 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) | (116) |

Year ended 31 December 2011 compared to the year ended 31 December 2010

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.

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;
- 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 (AFS) financial assets** 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.

Year ended 31 December 2010 compared to the nine month period ended 31 December 2009

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

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

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

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

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

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

The charges arising on the **sale of assets to NAMA** of €47 million includes a provision required under accounting standards in relation to the ongoing costs to the Group of servicing the assets sold to NAMA during the year ended 31 December 2010 together with the costs associated with the sale of those assets.

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⁾ | 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 deleveraging of financial assets | — | — | — | — | — | — | — | — | — | — | — | — | (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) |

(1) Underlying performance excludes the impact of non-core items (see page 53).

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 ⁽²⁾ €m | Impairment charges available for sale assets €m | Impairment charges on assets held for sale to NAMA ⁽²⁾ €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 ⁽¹⁾ | 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) |

(1) Underlying performance excludes the impact of non-core items (see page 53).

(2) 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.

Income Statement—Operating Segments

| 9 months ended 31 December 2009 | Net interest income €m | Insurance net premium income €m | Other income €m | Total operating income €m | Insurance contract liabilities and claims paid €m | Total operating income net of insurance claims €m | Operating expenses €m | Operating profit / (loss) before impairment charges on financial assets €m | Impairment charges on loans and advances to customers ⁽²⁾ €m | Impairment charges on available for sale assets €m | Impairment charges on assets held for sale to NAMA ⁽²⁾ €m | Share of results of associates and joint ventures (after tax) €m | Disposal of business activities €m | Profit / (loss) before taxation €m |
|---|---------------------------------|---|-----------------------|------------------------------------|--|---|-----------------------------|---|--|---|---|---|---|--|
| Retail Ireland | 879 | — | 129 | 1,008 | — | 1,008 | (694) | 314 | (1,245) | — | (591) | 8 | — | (1,514) |
| Bank of Ireland Life | (2) | 643 | 952 | 1,593 | (1,442) | 151 | (82) | 69 | — | — | — | — | — | 69 |
| Retail UK | 465 | — | 70 | 535 | — | 535 | (304) | 231 | (699) | — | (363) | 26 | — | (805) |
| Corporate and Treasury | 705 | — | 83 | 788 | — | 788 | (230) | 558 | (389) | (2) | (768) | 1 | — | (600) |
| Group Centre | 65 | 22 | (98) | (11) | (20) | (31) | (85) | (116) | — | — | — | — | — | (116) |
| Group-underlying ⁽¹⁾ | 2,112 | 665 | 1,136 | 3,913 | (1,462) | 2,451 | (1,395) | 1,056 | (2,333) | (2) | (1,722) | 35 | — | (2,966) |
| Non Core Items: | | | | | | | | | | | | | | |
| — Gain on liability management exercises | — | — | 1,037 | 1,037 | — | 1,037 | — | 1,037 | — | — | — | — | — | 1,037 |
| — Charges arising on the movement in credit spreads in the Group's own debt and deposits accounted for at 'fair value through profit or loss' | — | — | (6) | (6) | — | (6) | — | (6) | — | — | — | — | — | (6) |
| — Impact of 'coupon stopper' on certain subordinated debt | 58 | — | 9 | 67 | — | 67 | — | 67 | — | — | — | — | — | 67 |
| — Gross-up of policyholder tax in the Life Business | — | — | 64 | 64 | — | 64 | — | 64 | — | — | — | — | — | 64 |
| — Investment return on treasury stock held for policyholders in the Life Business | — | — | (6) | (6) | — | (6) | — | (6) | — | — | — | — | — | (6) |
| — Loss on disposal of business activities | — | — | — | — | — | — | — | — | — | — | — | — | (3) | (3) |
| Group total | 2,170 | 665 | 2,234 | 5,069 | (1,462) | 3,607 | (1,395) | 2,212 | (2,333) | (2) | (1,722) | 35 | (3) | (1,813) |

(1) Underlying performance excludes the impact of non-core items (see page 53).

(2) The analysis of the impairment charge for the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been re-presented on 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.

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, the year ended 31 December 2010 and the nine months ended 31 December 2009. Rates for the nine month period have been annualised. 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 explanation of the underlying business trends in the Group's net interest margin is explained on page 60.

| | 31 December 2011 | | | 31 December 2010 | | | 31 December 2009 | | |
|--|------------------|--------------|------------|------------------|--------------|------------|------------------|--------------|------------|
| | Average balance | Interest | Rate | Average balance | Interest | Rate | Average balance | Interest | Rate |
| | €m | €m | % | €m | €m | % | €m | €m | % |
| ASSETS | | | | | | | | | |
| Loans and advances to banks⁽¹⁾ | | | | | | | | | |
| Domestic offices | 4,699 | 28 | 0.6 | 5,589 | 43 | 0.8 | 5,619 | 39 | 0.9 |
| Foreign offices | 5,111 | 36 | 0.7 | 3,357 | 24 | 0.7 | 3,284 | 9 | 0.4 |
| Loans and advances to customers⁽²⁾ | | | | | | | | | |
| Domestic offices | 62,509 | 2,706 | 4.3 | 73,081 | 2,902 | 4.0 | 78,956 | 2,293 | 3.9 |
| Foreign offices | 51,073 | 1,239 | 2.4 | 57,935 | 1,626 | 2.8 | 59,440 | 1,349 | 3.0 |
| Available for sale financial assets and NAMA Senior Bonds | | | | | | | | | |
| Domestic offices | 16,675 | 587 | 3.5 | 19,371 | 577 | 3.0 | 23,037 | 490 | 2.8 |
| Foreign offices | 2,324 | 22 | 0.9 | 790 | 7 | 0.9 | 919 | 8 | 1.2 |
| Other financial assets at fair value through profit or loss | | | | | | | | | |
| Domestic offices | 14 | — | — | 77 | — | — | 53 | — | — |
| Foreign offices | 56 | — | — | 95 | — | — | 202 | — | — |
| Total interest earning assets | 142,461 | 4,618 | 3.2 | 160,295 | 5,179 | 3.2 | 171,510 | 4,188 | 3.3 |
| Domestic offices | 83,897 | 3,322 | 4.0 | 98,118 | 3,522 | 3.6 | 107,665 | 2,822 | 3.5 |
| Foreign offices | 58,564 | 1,296 | 2.2 | 62,177 | 1,657 | 2.7 | 63,845 | 1,366 | 2.9 |
| | 142,461 | 4,618 | 3.2 | 160,295 | 5,179 | 3.2 | 171,510 | 4,188 | 3.3 |
| Allowance for impairment losses | (5,222) | — | — | (5,900) | — | — | (3,103) | — | — |
| Non interest earning assets | 21,399 | — | — | 22,975 | — | — | 20,398 | — | — |
| Total assets | 158,638 | 4,618 | 2.9 | 177,370 | 5,179 | 2.9 | 188,805 | 4,188 | 3.0 |
| Percentage of assets applicable to foreign activities | | | | | | | | | |
| | 37.8% | | | 36.9% | | | 36.0% | | |

(1) Including cash and balances at Central banks.

(2) Including assets held for sale to NAMA and other assets classified as held for sale.

| | 31 December 2011 | | | 31 December 2010 | | | 31 December 2009 | | |
|---|------------------|--------------|------------|------------------|--------------|------------|------------------|--------------|------------|
| | Average balance | Interest | Rate | Average balance | Interest | Rate | Average balance | Interest | Rate |
| | €m | €m | % | €m | €m | % | €m | €m | % |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | | | | |
| Deposits from banks | | | | | | | | | |
| Domestic offices | 38,229 | 751 | 2.0 | 25,370 | 276 | 1.1 | 24,531 | 192 | 1.0 |
| Foreign offices | 288 | 14 | 4.9 | 325 | 10 | 3.1 | 1,803 | 6 | 0.4 |
| Customer accounts | | | | | | | | | |
| Domestic offices | 30,852 | 606 | 2.0 | 41,570 | 708 | 1.7 | 42,297 | 372 | 1.2 |
| Foreign offices | 22,677 | 786 | 3.5 | 26,409 | 759 | 2.9 | 31,166 | 623 | 2.7 |
| Debt securities in issue | | | | | | | | | |
| Domestic offices | 18,428 | 722 | 3.9 | 31,514 | 851 | 2.7 | 31,444 | 568 | 2.4 |
| Foreign offices | 2,986 | 34 | 1.2 | 5,673 | 44 | 0.8 | 9,116 | 86 | 1.3 |
| Subordinated liabilities | | | | | | | | | |
| Domestic offices | 1,524 | 133 | 8.7 | 3,840 | 225 | 5.9 | 3,146 | 97 | 4.2 |
| Foreign offices | 618 | 38 | 6.1 | 868 | 87 | 10.0 | 3,373 | 65 | 2.6 |
| Total interest bearing liabilities | 115,602 | 3,084 | 2.7 | 135,569 | 2,960 | 2.2 | 146,876 | 2,009 | 1.8 |
| Domestic offices | 89,033 | 2,212 | 2.5 | 102,294 | 2,060 | 2.0 | 101,418 | 1,229 | 1.6 |
| Foreign offices | 26,569 | 872 | 3.3 | 33,275 | 900 | 2.7 | 45,458 | 780 | 2.3 |
| | 115,602 | 3,084 | 2.7 | 135,569 | 2,960 | 2.2 | 146,876 | 2,009 | 1.8 |
| Current accounts | 12,862 | — | — | 9,564 | — | — | 9,332 | — | — |
| Other non interest bearing liabilities . . | 21,153 | — | — | 25,003 | — | — | 24,855 | — | — |
| Stockholders' equity | 9,021 | — | — | 7,234 | — | — | 7,742 | — | — |
| Total liabilities and stockholders' equity | 158,638 | 3,084 | 1.9 | 177,370 | 2,960 | 1.7 | 188,805 | 2,009 | 1.4 |
| Percentage of liabilities applicable to foreign activities 28.9% | 20.6% | | | 16.9% | | | 22.6% | | |

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

The balance sheets of the life assurance companies have been consolidated and are reflected under 'non interest earning assets' and 'other non interest bearing liabilities'.

Change in Net Interest Income—Volume and Rate Analysis

The following table allocates changes in net interest income between volume and rate for the year ended 31 December 2011 compared to the the year ended 31 December 2010 and the year ended 31 December 2010 compared to the nine months ended 31 December 2009. Volume and rate variances have been calculated based on movements in average balances over the period and changes in average interest earning assets and average interest bearing liabilities. Changes due to a combination of volume and rate are allocated rateably to volume and rate.

| | Year ended 31 December 2011 | | | Year ended 31 December 2010 | | |
|--|--------------------------------------|-----------------------|---------------------|--------------------------------|-----------------------|---------------------|
| | Increase/(Decrease) due to change in | | | | | |
| | Average Volume €m | Average Rate €m | Net Change €m | Average Volume €m | Average Rate €m | Net Change €m |
| INTEREST EARNING ASSETS | | | | | | |
| Loans to and advances to banks | | | | | | |
| Domestic offices | (6) | (9) | (15) | — | 4 | 4 |
| Foreign offices | 12 | — | 12 | — | 15 | 15 |
| Loans and advances to customers | | | | | | |
| Domestic offices | (520) | 324 | (196) | (155) | 764 | 609 |
| Foreign offices | (180) | (207) | (387) | (33) | 310 | 277 |
| Available for sale financial assets | | | | | | |
| Domestic offices | (33) | 43 | 10 | (57) | 144 | 87 |
| Foreign offices | 14 | 1 | 15 | (1) | — | (1) |
| Other financial assets at fair value through profit or loss | | | | | | |
| Domestic offices | — | — | — | — | — | — |
| Foreign offices | — | — | — | — | — | — |
| Other | — | — | — | — | — | — |
| Total interest income | (713) | 152 | (561) | (246) | 1,237 | 991 |
| INTEREST BEARING LIABILITIES | | | | | | |
| Deposits from banks | | | | | | |
| Domestic offices | 183 | 292 | 475 | 7 | 77 | 84 |
| Foreign offices | (1) | 5 | 4 | — | 4 | 4 |
| Customer accounts | | | | | | |
| Domestic offices | (251) | 149 | (102) | (6) | 342 | 336 |
| Foreign offices | (59) | 86 | 27 | (73) | 209 | 136 |
| Debt securities in issue | | | | | | |
| Domestic offices | 1,503 | (1,632) | (129) | 1 | 282 | 283 |
| Foreign offices | (851) | 841 | (10) | (29) | (13) | (42) |
| Subordinated liabilities | | | | | | |
| Domestic offices | (488) | 396 | (92) | 25 | 103 | 128 |
| Foreign offices | (21) | (28) | (49) | (5) | 27 | 22 |
| Other | — | — | — | — | — | — |
| Total interest expense | 15 | 109 | 124 | (80) | 1,031 | 951 |
| Total change in net interest income | (728) | 43 | (685) | (166) | 206 | 40 |

DESCRIPTION OF ASSETS AND LIABILITIES

The following sections provide information relating to the assets and liabilities of the Bank of Ireland Group.

Assets

Loan portfolio

Loans and advances to customers in the tables on pages 113 to 123 include loans and advances to customers and loans held for sale at 31 December 2011. 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 comparative tables for 31 December 2010 and 31 December 2009 include assets held for sale to NAMA.

For an analysis of the asset quality of the Group's loans and advances to customers, see pages 187 to 200.

The Bank of Ireland Group's loan portfolio comprises of loans to customers (including overdrafts) and installment credit and finance lease receivables.

The Group provides mortgage loans for house purchases as well as home improvement loans and secured personal loans to existing mortgage customers. The Group has a wide range of home mortgage loan products including amortising, interest only and endowment loans. Interest on mortgage loans is typically at a floating rate but the Group also makes some fixed rate loans.

The Group's residential mortgage portfolio at 31 December 2011 is widely diversified by individual borrower and amounts to 53% (31 December 2010: 50%) of loans and advances to customers (pre impairment provisions).

The Group loan book comprises exposure of 19% or €21 billion (31 December 2010: 21%/ €25 billion) to property and construction lending, and exposure of 12% or €13 billion (31 December 2010: 12%/ €14 billion) to business and other services.

With the exception of residential mortgages, property and construction and business and other services, the Group's exposure to credit risk from its lending activities in any individual sector or industry does not exceed 10% of loans and advances to customers.

Total loans and advances to customers

The following tables set forth the Bank of Ireland Group's total loans and advances to customers at 31 December 2011, 2010 and 2009 and at 31 March 2009 and 2008 using data prepared in accordance with IFRS.

The Risk Management Report on pages 175 to 253 contains a description of the Group's loan loss provisioning methodology. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

| | 31 December 2011 €m | 31 December 2010 €m | 31 December 2009 €m | 31 March 2009 €m | 31 March 2008 €m |
|--|---------------------------|---------------------------|---------------------------|------------------------|------------------------|
| Ireland | | | | | |
| Personal | | | | | |
| —Residential mortgages | 27,854 | 28,067 | 28,196 | 27,647 | 26,696 |
| —Other lending | 1,993 | 2,401 | 2,906 | 3,406 | 6,589 |
| Property and construction | 10,381 | 11,761 | 19,472 | 19,358 | 20,313 |
| Business and other services | 9,193 | 9,660 | 11,983 | 10,782 | 9,032 |
| Manufacturing | 3,160 | 3,806 | 4,511 | 6,049 | 5,727 |
| Distribution | 3,469 | 3,897 | 4,463 | 3,343 | 3,726 |
| Transport | 1,186 | 1,225 | 778 | 935 | 1,860 |
| Financial | 906 | 1,758 | 1,088 | 1,919 | 1,720 |
| Agriculture | 1,628 | 1,609 | 1,726 | 1,954 | 1,379 |
| Energy | 838 | 1,454 | 1,438 | 2,555 | 1,131 |
| Total Ireland | <u>60,608</u> | <u>65,638</u> | <u>76,561</u> | <u>77,948</u> | <u>78,173</u> |
| United Kingdom & Other | | | | | |
| Personal | | | | | |
| —Residential mortgages | 29,636 | 32,199 | 32,274 | 31,241 | 34,065 |
| —Other lending | 1,321 | 1,298 | 1,434 | 2,231 | 2,820 |
| Property and construction | 10,199 | 13,501 | 16,038 | 14,597 | 15,283 |
| Business and other services | 3,849 | 4,461 | 3,627 | 6,032 | 3,016 |
| Manufacturing | 1,134 | 1,581 | 1,744 | 1,740 | 1,362 |
| Distribution | 591 | 758 | 525 | 795 | 572 |
| Transport | 198 | 324 | 618 | 319 | 379 |
| Financial | 262 | 310 | 1,354 | 349 | 439 |
| Agriculture | 205 | 161 | 388 | 57 | 113 |
| Energy | 99 | 69 | 108 | 212 | 112 |
| Total United Kingdom & Other | <u>47,494</u> | <u>54,662</u> | <u>58,110</u> | <u>57,573</u> | <u>58,161</u> |
| Gross loans and advances to customers . . . | 108,102 | 120,300 | 134,671 | 135,521 | 136,334 |
| Allowance for loan losses | (6,365) | (5,050) | (5,775) | (1,781) | (596) |
| Total loans and advances to customers . . . | <u>101,737</u> | <u>115,250</u> | <u>128,896</u> | <u>133,740</u> | <u>135,738</u> |

Total loans to customers (%)

The following table sets forth the percentage of total loans to customers represented by each category of loan at 31 December 2011, 2010 and 2009 and at 31 March 2009 and 2008 using data prepared in accordance with IFRS.

| | 31 December 2011 €m | 31 December 2010 €m | 31 December 2009 €m | 31 March 2009 €m | 31 March 2008 €m |
|---|---------------------------|---------------------------|---------------------------|------------------------|------------------------|
| Ireland | | | | | |
| Personal | | | | | |
| —Residential mortgages | 25.8% | 23.3% | 20.9% | 20.4% | 19.6% |
| —Other lending | 1.8% | 2.0% | 2.2% | 2.5% | 4.8% |
| Property and construction | 9.6% | 9.8% | 14.5% | 14.3% | 14.9% |
| Business and other services | 8.5% | 8.0% | 8.9% | 8.0% | 6.6% |
| Manufacturing | 2.9% | 3.2% | 3.3% | 4.5% | 4.2% |
| Distribution | 3.2% | 3.3% | 3.3% | 2.5% | 2.7% |
| Transport | 1.1% | 1.0% | 0.6% | 0.7% | 1.4% |
| Financial | 0.9% | 1.5% | 0.8% | 1.4% | 1.3% |
| Agriculture | 1.5% | 1.3% | 1.3% | 1.4% | 1.0% |
| Energy | 0.8% | 1.2% | 1.1% | 1.8% | 0.8% |
| Total Ireland | <u>56.1%</u> | <u>54.6%</u> | <u>56.9%</u> | <u>57.5%</u> | <u>57.3%</u> |
| United Kingdom & Other | | | | | |
| Personal | | | | | |
| —Residential mortgages | 27.4% | 26.8% | 24.0% | 23.1% | 25.0% |
| —Other lending | 1.2% | 1.1% | 1.0% | 1.6% | 2.1% |
| Property and construction | 9.4% | 11.2% | 11.9% | 10.8% | 11.2% |
| Business and other services | 3.6% | 3.7% | 2.7% | 4.5% | 2.2% |
| Manufacturing | 1.1% | 1.3% | 1.3% | 1.2% | 1.0% |
| Distribution | 0.5% | 0.6% | 0.4% | 0.6% | 0.4% |
| Transport | 0.2% | 0.3% | 0.4% | 0.2% | 0.3% |
| Financial | 0.2% | 0.2% | 1.0% | 0.3% | 0.3% |
| Agriculture | 0.2% | 0.1% | 0.3% | 0.0% | 0.1% |
| Energy | 0.1% | 0.1% | 0.1% | 0.2% | 0.1% |
| Total United Kingdom & Other | <u>43.9%</u> | <u>45.4%</u> | <u>43.1%</u> | <u>42.5%</u> | <u>42.7%</u> |
| Group total loan portfolio | <u>100%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

Analysis of Loans to Customers by Maturity and Interest Rate Sensitivity

The following tables analyse loans by maturity and interest rate sensitivity. Overdrafts, which represent a significant proportion of the portfolio, are classified as repayable within one year. Approximately 5% of the Bank of Ireland Group's loan portfolio at 31 December 2011 was provided on a fixed rate basis. Fixed-rate loans are defined as those loans for which the interest rate is fixed for the full life of the loan. Variable-rate loans include some loans for which the interest rate is fixed for an initial period (e.g. some residential mortgages) but not for the full life of the loan. The interest rate exposure is managed by Global

Markets within agreed policy parameters. See Item 11 “Quantitative and Qualitative Disclosures about Market Risk”.

| | Within 1 year €m | After 1 year but within 5 years €m | After 5 years €m | Total €m |
|--|------------------------|---|------------------------|----------------|
| Ireland | 11,643 | 14,936 | 34,029 | 60,608 |
| United Kingdom & Other | 9,446 | 13,275 | 24,773 | 47,494 |
| Total loans by maturity | <u>21,089</u> | <u>28,211</u> | <u>58,802</u> | <u>108,102</u> |
| Fixed rate | 1,279 | 2,375 | 1,446 | 5,100 |
| Variable rate | 19,810 | 25,836 | 57,356 | 103,002 |
| Total loans by maturity | <u>21,089</u> | <u>28,211</u> | <u>58,802</u> | <u>108,102</u> |

The following table sets forth an analysis of loans by maturity within each classification as at 31 December 2011.

| | Within 1 year €m | After 1 year but within 5 years €m | After 5 years €m | Total €m |
|---|------------------------|---|------------------------|----------------|
| Ireland | | | | |
| Personal | | | | |
| —Residential mortgages | 1,242 | 4,343 | 22,269 | 27,854 |
| —Other lending | 1,372 | 385 | 236 | 1,993 |
| Property and construction | 3,763 | 2,907 | 3,711 | 10,381 |
| Business and other services | 2,348 | 2,731 | 4,114 | 9,193 |
| Manufacturing | 757 | 1,735 | 668 | 3,160 |
| Distribution | 1,053 | 1,175 | 1,241 | 3,469 |
| Transport | 154 | 516 | 516 | 1,186 |
| Financial | 305 | 395 | 206 | 906 |
| Agriculture | 532 | 545 | 551 | 1,628 |
| Energy | 117 | 204 | 517 | 838 |
| Total Ireland | <u>11,643</u> | <u>14,936</u> | <u>34,029</u> | <u>60,608</u> |
| United Kingdom & Other | | | | |
| Personal | | | | |
| —Residential mortgages | 1,825 | 6,581 | 21,230 | 29,636 |
| —Other lending | 813 | 506 | 2 | 1,321 |
| Property and construction | 5,216 | 3,114 | 1,869 | 10,199 |
| Business and other services | 867 | 1,666 | 1,316 | 3,849 |
| Manufacturing | 307 | 696 | 131 | 1,134 |
| Distribution | 121 | 371 | 99 | 591 |
| Transport | 37 | 140 | 21 | 198 |
| Financial | 99 | 72 | 91 | 262 |
| Agriculture | 128 | 63 | 14 | 205 |
| Energy | 33 | 66 | 0 | 99 |
| Total UK & Other | <u>9,446</u> | <u>13,275</u> | <u>24,773</u> | <u>47,494</u> |
| Group total loan portfolio | <u>21,089</u> | <u>28,211</u> | <u>58,802</u> | <u>108,102</u> |

Movement in the allowances for loan losses

An analysis of the Group's impairment provisions at 31 December 2011 is set out on page F-93.

Impaired loans increased from €11,384 million at 31 December 2010 to €13,478 million at 31 December 2011, or from 946bps to 1,247bps of total loans.

Total balance sheet provisions against loans and advances to customers were €6,365 million at 31 December 2011 compared to €5,050 million at 31 December, 2010. Impairment provisions as a percentage of total loans were 589bps (31 December 2010: 420 bps), the ratio being 202bps (31 December 2010: 120bps) for the Group mortgage book and 1,029bps (31 December 2010: 720 bps) for non-mortgage lending.

Impairment provisions as a percentage of impaired loans (the 'Coverage Ratio') is 47% at 31 December 2011, which compares to 44% at 31 December 2010.

The following table presents information regarding the movement in the allowance for loan losses for the year ended 31 December 2011 and 2010, the nine months ended 31 December 2009 and for each of the two years ended 31 March 2009 and 2008 using data prepared in accordance with IFRS.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months to 31 December 2009 €m | Year ended 31 March 2009 €m | Year ended 31 March 2008 €m |
|---|---|---|--|--------------------------------------|--------------------------------------|
| Allowance at beginning of period | 5,049.8 | 5,775.0 | 1,781.0 | 596.1 | 428.1 |
| Total allowance | 5,049.8 | 5,775.0 | 1,781.0 | 596.1 | 428.1 |
| Exchange and other adjustments | 48.0 | 28.5 | 47.7 | 4.4 | (29.1) |
| Other Movements | (106.5) | (2,141.4) | 33.4 | (18.5) | — |
| Recovery of amounts previously charged off: | | | | | |
| Ireland | 2.6 | (3.2) | 0.9 | 3.4 | 10.1 |
| United Kingdom | 4.3 | 8.4 | 2.3 | 4.9 | 3.2 |
| Total recovery of amounts previously charged off | 6.9 | 5.2 | 3.2 | 8.3 | 13.3 |
| Amounts charged off: | | | | | |
| Ireland | (293.2) | (566.1) | (54.9) | (197.4) | (30.0) |
| United Kingdom | (322.4) | (167.8) | (90.3) | (47.3) | (12.7) |
| Total amounts charged off | (615.6) | (733.9) | (145.2) | (244.7) | (42.7) |
| Provision for impairment losses charged to income: | | | | | |
| Ireland | 1,491.6 | 1,594.2 | 2,986.5 | 1,050.5 | 171.3 |
| United Kingdom | 490.9 | 522.2 | 1,068.4 | 384.9 | 55.2 |
| | 1,982.5 | 2,116.4 | 4,054.9 | 1,435.4 | 226.5 |
| Impairment loss write back | — | — | — | — | — |
| Allowance at end of period | 6,365.1 | 5,049.8 | 5,775.0 | 1,781.0 | 596.1 |
| Total allowance | 6,365.1 | 5,049.8 | 5,775.0 | 1,781.0 | 596.1 |
| Total allowance is split as follows: | | | | | |
| Loans and advances to customers | 6,365.1 | 4,974.4 | 2,997.0 | 1,781.0 | 596.1 |
| Loans held for sale to NAMA | — | 75.4 | 2,778.0 | — | — |
| Total allowance | 6,365.1 | 5,049.8 | 5,775.0 | 1,781.0 | 596.1 |

Provisions and allowances for loan losses (%)

The following table presents additional information regarding provisions and allowances for loan losses for the year ended 31 December 2011 and 2010, the nine months ended 31 December 2009 and for each of the two years ended 31 March 2009 and 2008 using data prepared in accordance with IFRS.

| | Year ended 31 December 2011 % | Year ended 31 December 2010 % | 9 months to 31 December 2009 % | Year ended 31 March 2009 % | Year ended 31 March 2008 % |
|---|--|--|---|-------------------------------------|-------------------------------------|
| Allowance at end of year as a percentage of total loans to customers at end of year: | | | | | |
| Ireland | 7.78 | 5.41 | 5.61 | 1.69 | 0.64 |
| United Kingdom | 3.47 | 2.74 | 2.55 | 0.80 | 0.15 |
| Total | <u>5.89</u> | <u>4.20</u> | <u>4.29</u> | <u>1.31</u> | <u>0.44</u> |
| Specific | 4.96 | 3.52 | 3.42 | 0.90 | 0.32 |
| IBNR | 0.93 | 0.67 | 0.86 | 0.41 | 0.12 |
| Total | <u>5.89</u> | <u>4.20</u> | <u>4.29</u> | <u>1.31</u> | <u>0.44</u> |
| Allowance at end of year as a percentage of impaired loans at end of year | | | | | |
| Ireland | 50.76 | 45.54 | 42.17 | 31.84 | 63.72 |
| United Kingdom | 39.38 | 41.80 | 46.76 | 39.15 | 32.65 |
| Total | <u>47.23</u> | <u>44.36</u> | <u>43.26</u> | <u>33.45</u> | <u>56.16</u> |
| Average loans to customers ⁽¹⁾ (€m) . . . | <u>113,582</u> | <u>131,016</u> | <u>138,396</u> | <u>140,905</u> | <u>134,269</u> |
| Provisions charged to income as a percentage of average loans to customers: | | | | | |
| Specific | 1.57 | 1.86 | 3.34 | 0.75 | 0.14 |
| IBNR | 0.18 | (0.24) | 0.57 | 0.27 | 0.03 |
| Total | <u>1.75</u> | <u>1.62</u> | <u>3.91</u> | <u>1.02</u> | <u>0.17</u> |
| Net loans charged off as a percentage of average loans to customers | 0.54 | 0.56 | 0.14* | 0.17 | 0.02 |

(1) Average loans include average interest earning and non-interest earning loans.

* Annualised.

Loans charged off

The following table provides information regarding loans charged off for the year ended 31 December 2011 and 2010, the nine months ended 31 December 2009 and for each of the two years ended 31 March 2009 and 2008 using data prepared in accordance with IFRS.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months to 31 December 2009 €m | Year ended 31 March 2009 €m | Year ended 31 March 2008 €m |
|---------------------------------------|---|---|--|--------------------------------------|--------------------------------------|
| Ireland | | | | | |
| Personal | | | | | |
| —Residential mortgages | 2.3 | 7.0 | — | 0.1 | 0.1 |
| —Other lending | 109.1 | 165.8 | 41.6 | 77.2 | 9.1 |
| Property and construction | 15.2 | 124.9 | 0.7 | 0.8 | 2.4 |
| Business and Other Services | 66.7 | 41.8 | 5.0 | 113.1 | 14.0 |
| Manufacturing | 50.0 | 140.3 | 0.4 | 2.8 | 2.4 |
| Distribution | 31.6 | 40.0 | 7.1 | 1.3 | 1.1 |
| Transport | 7.1 | 16.9 | — | — | — |
| Financial | 6.4 | 22.2 | — | — | — |
| Agriculture | 4.0 | 7.0 | 0.1 | 2.1 | 0.9 |
| Energy | 0.8 | 0.2 | — | — | — |
| | <u>293.2</u> | <u>566.1</u> | <u>54.9</u> | <u>197.4</u> | <u>30.0</u> |
| United Kingdom | | | | | |
| Personal | | | | | |
| —Residential mortgages | 46.5 | 36.7 | 29.4 | 9.6 | 2.9 |
| —Other lending | 37.4 | 36.9 | 34.5 | 8.8 | 6.9 |
| Property and construction | 151.3 | 74.8 | — | 14.3 | 1.0 |
| Business and Other Services | 52.7 | 7.6 | 19.6 | 8.5 | 1.1 |
| Manufacturing | 2.3 | 0.9 | 0.3 | 3.3 | 0.5 |
| Distribution | 25.4 | 0.2 | 6.5 | 2.7 | 0.2 |
| Transport | 0.5 | 0.5 | — | — | — |
| Financial | 4.9 | 9.3 | — | — | — |
| Agriculture | 1.4 | 0.9 | — | 0.1 | 0.1 |
| Commercial mortgages | — | — | — | — | — |
| | <u>322.4</u> | <u>167.8</u> | <u>90.3</u> | <u>47.3</u> | <u>12.7</u> |
| Group total | <u>615.6</u> | <u>733.9</u> | <u>145.2</u> | <u>244.7</u> | <u>42.7</u> |

Recoveries of loans previously charged off

The following table presents an analysis of the Group's recoveries of loans previously charged off (net of legal fees) for the year ended 31 December 2011 and 2010, the nine months ended 31 December 2009 and for each of the two years ended 31 March 2009 and 2008 using data prepared in accordance with IFRS.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months to 31 December 2009 €m | Year ended 31 March 2009 €m | Year ended 31 March 2008 €m |
|---------------------------------------|---|---|--|--------------------------------------|--------------------------------------|
| Ireland | | | | | |
| Personal | | | | | |
| —Residential mortgages | (2.2) | (1.1) | — | — | — |
| —Other lending | 6.1 | 0.6 | 0.2 | 2.0 | 4.7 |
| Property and construction | (1.5) | (1.6) | — | — | — |
| Business and Other Services | 0.2 | (0.8) | 0.7 | 1.4 | 4.9 |
| Manufacturing | — | — | — | — | — |
| Distribution | — | (0.1) | — | — | 0.1 |
| Transport | — | — | — | — | — |
| Financial | — | — | — | — | — |
| Agriculture | — | (0.2) | — | — | 0.4 |
| | <u>2.6</u> | <u>(3.2)</u> | <u>0.9</u> | <u>3.4</u> | <u>10.1</u> |
| United Kingdom | | | | | |
| Personal | | | | | |
| —Residential mortgages | (0.2) | 2.2 | 0.3 | 4.0 | 2.2 |
| —Other lending | 4.2 | 3.8 | 1.6 | — | 1.0 |
| Property and construction | — | — | — | 0.9 | — |
| Business and Other Services | 0.3 | 2.4 | 0.4 | — | — |
| Manufacturing | — | — | — | — | — |
| Distribution | — | — | — | — | — |
| Transport | — | — | — | — | — |
| Financial | — | — | — | — | — |
| Agriculture | — | — | — | — | — |
| Commercial mortgages | — | — | — | — | — |
| | <u>4.3</u> | <u>8.4</u> | <u>2.3</u> | <u>4.9</u> | <u>3.2</u> |
| Group total | <u>6.9</u> | <u>5.2</u> | <u>3.2</u> | <u>8.3</u> | <u>13.3</u> |

Analysis of allowances for loan losses by sector

The following table presents an analysis of allowances for loan losses at 31 December 2011, 2010, 2009 and at 31 March 2009 and 2008, using data prepared in accordance with IFRS.

| | 31 December 2011 €m | 31 December 2010 €m | 31 December 2009 €m | 31 March 2009 €m | 31 March 2008 €m |
|---|---------------------------|---------------------------|---------------------------|------------------------|------------------------|
| Ireland | | | | | |
| Personal | | | | | |
| —Residential mortgages | 606.5 | 377.0 | 133.2 | 49.3 | 0.0 |
| —Other lending | 194.5 | 223.3 | 271.7 | 195.0 | 136.0 |
| Property and construction | 1,884.1 | 1,395.5 | 2,207.5 | 371.0 | 46.0 |
| Business and Other Services | 615.1 | 491.3 | 406.7 | 174.0 | 125.0 |
| Manufacturing | 171.5 | 153.7 | 247.7 | 52.5 | 20.5 |
| Distribution | 344.9 | 265.7 | 163.9 | 30.0 | 20.4 |
| Transport | 58.4 | 48.0 | — | — | — |
| Financial | 6.4 | 10.2 | — | — | — |
| Agriculture | 58.7 | 42.8 | 29.8 | 14.0 | 10.6 |
| Energy | 23.4 | 7.5 | 10.3 | 10.7 | 0.2 |
| | <u>3,963.5</u> | <u>3,015.0</u> | <u>3,470.8</u> | <u>896.5</u> | <u>358.7</u> |
| United Kingdom | | | | | |
| Personal | | | | | |
| —Residential mortgages | 56.1 | 63.2 | 34.1 | 26.2 | 5.5 |
| —Other lending | 40.7 | 39.7 | 33.9 | 40.7 | 20.6 |
| Property and construction | 1,051.5 | 890.5 | 969.9 | 221.9 | 16.5 |
| Business and Other Services | 164.6 | 149.4 | 86.6 | 16.5 | 11.3 |
| Manufacturing | 63.7 | 40.1 | 1.8 | 1.5 | 2.2 |
| Distribution | 9.0 | 23.3 | 14.7 | 13.9 | 11.2 |
| Transport | 3.4 | 0.6 | — | — | — |
| Financial | 11.6 | 15.3 | — | — | — |
| Agriculture | 1.9 | 1.6 | 0.1 | 0.6 | 0.3 |
| Commercial mortgages | — | — | — | — | — |
| | <u>1,402.5</u> | <u>1,223.7</u> | <u>1,141.1</u> | <u>321.3</u> | <u>67.6</u> |
| Total specific allowance | <u>5,366.0</u> | <u>4,238.7</u> | <u>4,611.9</u> | <u>1,217.8</u> | <u>426.3</u> |
| Total IBNR allowance | <u>999.1</u> | <u>811.1</u> | <u>1,163.1</u> | <u>563.2</u> | <u>169.8</u> |
| Total Group allowance | <u>6,365.1</u> | <u>5,049.8</u> | <u>5,775.0</u> | <u>1,781.0</u> | <u>596.1</u> |

Loan losses as a percentage of total loans

The following table presents an analysis of allowances for loan losses as a percentage of total loans at 31 December 2011, 2010 and 2009 and at 31 March 2009 and 2008 using data prepared in accordance with IFRS.

| | 31 December 2011 % | 31 December 2010 % | 31 December 2009 % | 31 March 2009 % | 31 March 2008 % |
|---|--------------------------|--------------------------|--------------------------|-----------------------|-----------------------|
| Ireland | | | | | |
| Personal | | | | | |
| —Residential mortgages | 2.18 | 1.34 | 0.47 | 0.18 | — |
| —Other lending | 9.76 | 9.30 | 9.35 | 5.73 | 2.06 |
| Energy | 2.79 | 0.52 | 0.72 | 0.42 | 0.02 |
| Business and other services | 6.69 | 5.08 | 3.39 | 1.61 | 1.37 |
| Manufacturing | 5.43 | 4.04 | 5.49 | 0.87 | 0.35 |
| Distribution | 9.94 | 6.82 | 3.67 | 0.90 | 0.55 |
| Transport | 4.92 | 3.92 | — | — | — |
| Financial | 0.71 | 0.58 | — | — | — |
| Agriculture | 3.61 | 2.66 | 1.73 | 0.73 | 0.77 |
| Property and construction | 18.15 | 11.87 | 11.34 | 1.92 | 0.23 |
| | <u>6.54</u> | <u>4.59</u> | <u>4.53</u> | <u>1.15</u> | <u>0.46</u> |
| United Kingdom | | | | | |
| Personal | | | | | |
| —Residential mortgages | 0.19 | 0.20 | 0.11 | 0.08 | 0.02 |
| —Other lending | 3.08 | 3.06 | 2.37 | 1.82 | 0.73 |
| Property and construction | 10.31 | 6.60 | 6.05 | 1.52 | 0.18 |
| Business and Other Services | 4.28 | 3.35 | 2.39 | 0.27 | — |
| Manufacturing | 5.62 | 2.54 | 0.10 | 0.09 | — |
| Distribution | 1.52 | 3.08 | 2.80 | 1.75 | 0.11 |
| Transport | 1.72 | 0.18 | — | — | 1.98 |
| Financial | 4.43 | 4.95 | — | — | — |
| Agriculture | 0.93 | 1.01 | 0.04 | 1.05 | 0.27 |
| Energy | — | — | — | 0.05 | — |
| Commercial mortgages | — | — | — | — | 0.39 |
| | <u>2.95</u> | <u>2.24</u> | <u>1.96</u> | <u>0.56</u> | <u>0.12</u> |
| Total specific allowance | <u>4.96</u> | <u>3.52</u> | <u>3.42</u> | <u>0.90</u> | <u>0.31</u> |
| Total IBNR allowance | <u>0.93</u> | <u>0.67</u> | <u>0.87</u> | <u>0.41</u> | <u>0.12</u> |
| Total Group allowance | <u>5.89</u> | <u>4.20</u> | <u>4.29</u> | <u>1.31</u> | <u>0.44</u> |

Risk elements in lending

The US Securities and Exchange Commission (“SEC”) requires potential credit risk elements in lending to be analysed as (i) loans accounted for on a non-accrual basis; (ii) accruing loans which are contractually past due 90 days or more as to principal or interest payments; (iii) loans not included in (i) or (ii) which are “troubled debt restructurings” as defined in Statement of Financial Accounting Standards No. 15 “Accounting by Debtors and Creditors for Troubled Debt Restructurings”, and (iv) potential problem loans not included in (i), (ii) or (iii).

These categories reflect US financial reporting practices which differ from those used by the Bank of Ireland Group. See Item 11 “Quantitative and Qualitative Disclosures about Market Risk—Loan Loss Provisioning”.

The amount of loans set out below do not give effect to available security and are before the deduction of specific provisions, which would have been so reported had the Commission’s classifications been employed. The category of non-accrual loans includes those loans on which interest continues to be accrued but against which specific provisions have been made.

The table below details the information using data prepared in accordance with IFRS for the year ended 31 December 2011 and 2010, the nine months ended 31 December 2009 and for each of the two years ended 31 March 2009 and 2008.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months to 31 December 2009 €m | Year ended 31 March 2009 €m | Year ended 31 March 2008 €m |
|--|---|---|--|--------------------------------------|--------------------------------------|
| Loans accounted for on a non-accrual basis | | | | | |
| Ireland ⁽¹⁾ | 8,450 | 6,934 | 8,490 | 2,984 | 549 |
| United Kingdom ⁽¹⁾ | 3,204 | 2,719 | 2,446 | 838 | 133 |
| Total | <u>11,654</u> | <u>9,653</u> | <u>10,936</u> | <u>3,822</u> | <u>682</u> |
| Accruing loans which are contractually past due 90 days or more as to principal or interest⁽²⁾ | | | | | |
| Ireland | 838 | 862 | 1,692 | 1,159 | 255 |
| United Kingdom | 986 | 869 | 722 | 341 | 125 |
| Total | <u>1,824</u> | <u>1,731</u> | <u>2,414</u> | <u>1,500</u> | <u>380</u> |
| Home Mortgage Loans—Accruing loans which are contractually past due 90 days or more as to principal or interest⁽³⁾ | | | | | |
| Ireland | 1,361 | 760 | 699 | 430 | 198 |
| United Kingdom | 603 | 711 | 661 | 516 | 194 |
| Total | <u>1,964</u> | <u>1,471</u> | <u>1,360</u> | <u>946</u> | <u>392</u> |
| Total risk elements in lending | <u>15,442</u> | <u>12,855</u> | <u>14,710</u> | <u>6,268</u> | <u>1,454</u> |
| Restructured loans not included above . . | <u>722</u> | <u>115</u> | <u>189</u> | <u>71</u> | <u>—</u> |

(1) Includes loans in Ireland and the UK where interest is accrued but provision has been made. The loans on which no interest is accrued amounted to €1,124 million at 31 December 2011 (31 December 2010: €554 million, 31 December 2009: €3,342 million, 31 March 2009: €1,194 million and 31 March 2008: €358 million) and the provisions thereon amounted to €724 million at 31 December 2011 (31 December 2010: €383 million, 31 December 2009: €1,299 million, 31 March 2009: €369 million and 31 March 2008: €199 million).

(2) Overdrafts generally have no fixed repayment schedule and are not included in this category.

(3) Includes Home Mortgage Loans in Ireland and the UK (31 December 2011: €1,361 million in Ireland and €603 million in the UK) which are secured and, typically in the UK, where the original loan to value ratio exceeds 75%, benefit from mortgage indemnity insurance.

The Bank of Ireland Group generally expects that loans, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to

comply with loan repayment terms, would be included under its definition of non-accrual loans and would therefore have been reported in the above table.

It is not normal practice for banks in Ireland or the UK to take property onto their books in settlement of problem loans or to classify them as Other Real Estate Owned. Where formal insolvency procedures are entered into, the property charged to the Group is sold by the receiver, administrator or liquidator, with the proceeds received by the Group. Loans subject to insolvency proceedings are included within non-performing loans in the table above, to the extent that they are not written off. This treatment is also followed for loans in Ireland and the UK which would be classified as “In-Substance Foreclosure” under US reporting practices.

Cross Border Outstandings

Cross border outstandings are those outstandings that create claims outside a reporting center’s country unless loaned in and funded or hedged in the local currency of the borrower. They comprise loans, acceptances, interest bearing deposits with other banks, other interest bearing investments, leases and any other monetary assets, but exclude finance provided within the Bank of Ireland Group. The geographical and sectoral breakdown is based on the country and sector of the borrower or of the guarantor of ultimate risk.

Cross border outstandings exceeding 1% of total assets are set forth in the following table.

| | Banks and other financial institutions €m | Government and official institutions €m | Commercial and industrial and other private sector €m | Total €m | As percentage of total assets⁽¹⁾ % |
|---|--|--|--|---------------------|--|
| Loans accounted for on a non-accrual basis | | | | | |
| As at 31 December 2011, United Kingdom . . . | 817 | — | 910 | 1,727 | 1.12% |
| As at 31 December 2010, United Kingdom . . . | 1,334 | — | 1,521 | 2,855 | 1.70% |
| As at 31 December 2009, United Kingdom . . . | <u>1,593</u> | <u>—</u> | <u>1,104</u> | <u>2,697</u> | <u>1.49%</u> |

(1) Assets, consisting of total assets as reported in the consolidated balance sheet plus acceptances were €154.9 billion at 31 December 2011 (€167.5 billion at 31 December 2010 and €181.1 billion at 31 December 2009).

Cross border outstandings to borrowers in countries in which such outstandings amounted to between 0.75% and 1.0% of total assets in aggregate were €nil million at 31 December 2011, €nil at 31 December 2010 and €nil at 31 December 2009. In December 2011 there were no such cross border outstandings (December 2010: €nil; December 2009: €nil).

Debt Securities

The following table shows the book value of Bank of Ireland Group's debt securities at 31 December 2011, 31 December 2010 and 31 December 2009.

| | 31 December 2011 €m | 31 December 2010 €m | 31 March 2009 €m |
|--|---------------------------|---------------------------|------------------------|
| Irish Government | 4,222 | 3,131 | 1,026 |
| Other European Government | 347 | 605 | 29 |
| US Treasury and US Government agencies | 1 | — | — |
| Mortgage backed obligations | — | — | — |
| Collateralised Mortgage Obligations | 385 | 473 | 530 |
| Corporate bonds | 4,911 | 10,875 | 18,741 |
| Other securities | 343 | 442 | 558 |
| | <u>10,209</u> | <u>15,526</u> | <u>20,884</u> |

The market value of Bank of Ireland Group's Irish Government securities (the book value of which exceeded 10% of stockholders' equity) at 31 December 2011 was €4.2 billion (31 December 2010: €3.1 billion, 31 December 2009: €1.0 billion).

The following table categorises the Group's available for sale debt securities by maturity and weighted average yield at 31 December 2011.

| | At 31 December 2011 | | | | | | | |
|---|-----------------------|--|---------------------------------------|--|--|--|-----------------------|--|
| | Less than 1 year | | More than 1 year less than 5 years | | More than 5 year less than 10 years | | After 10 years | |
| | Market value €m | Weighted average percent yield % | Market value €m | Weighted average percent yield % | Market value €m | Weighted average percent yield % | Market value €m | Weighted average percent yield % |
| Irish Government | 437 | 4.3% | 2,798 | 7.1% | 987 | 7.3% | — | — |
| Other European Government | 319 | 2.7% | 28 | 5.2% | — | — | — | — |
| US Treasury & US Government agencies | 1 | 0.2% | — | — | — | — | — | — |
| Mortgage backed obligations | — | — | — | — | — | — | — | — |
| Collateralised mortgage obligations | 133 | 1.6% | 173 | 2.3% | 45 | 2.5% | 34 | 3.1% |
| Corporate bonds | 853 | 3.0% | 3,085 | 3.7% | 853 | 4.5% | 120 | 4.4% |
| Other | 157 | 1.9% | 51 | 1.5% | 135 | 13.7% | — | — |
| Total market value | <u>1,900</u> | | <u>6,135</u> | | <u>2,020</u> | | <u>154</u> | |

Maturity is remaining contractual maturity except for mortgage backed securities where maturity has been calculated on an expected duration basis. The weighted average yield for each range of maturities is calculated by dividing the annual interest income prevailing at the balance sheet date by the book value of securities held at that date.

The figures included in the table above are net of impairment charges of €21 million in the year ended 31 December 2011 (year ended 31 December 2010: €168 million, nine months ended 31 December 2009: €2 million).

Loans and Advances to Banks

The Group places funds with other banks for a number of reasons, including liquidity management, the facilitation of international money transfers and the conduct of documentary credit business with correspondent banks.

Limits on the aggregate amount of placings that may be made with individual institutions are established in accordance with Group credit policy.

The following table analyses placings with banks, based on the branches from which the placing is made for the year ended 31 December 2011, the year ended 31 December 2010 and the nine months ended 31 December 2009. Placings with banks are included in Loans and Advances to Banks in the financial statements.

| | <u>31 December 2011 €m</u> | <u>31 December 2010 €m</u> | <u>31 December 2009 €m</u> |
|--|------------------------------------|------------------------------------|------------------------------------|
| Placings with banks repayable within 30 days: | | | |
| Domestic | 4,346 | 4,531 | 4,021 |
| Foreign | <u>2,102</u> | <u>2,245</u> | <u>39</u> |
| Total | <u>6,448</u> | <u>6,776</u> | <u>4,060</u> |
| Placings with banks repayable beyond 30 days: | | | |
| Domestic | 526 | 608 | 923 |
| Foreign | <u>1,085</u> | <u>74</u> | <u>48</u> |
| Total | <u>1,611</u> | <u>682</u> | <u>971</u> |
| Total | <u>8,059</u> | <u>7,458</u> | <u>5,031</u> |

LIABILITIES

Deposits

The following table analyses average deposits by customers based on the location of the branches in which the deposits are recorded for the year ended 31 December 2011, the year ended 31 December 2010 and the nine months ended 31 December 2009.

| | <u>31 December 2011 €m</u> | <u>31 December 2010 €m</u> | <u>31 December 2009 €m</u> |
|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Branches in Ireland | 42,371 | 51,089 | 51,612 |
| Branches outside Ireland | <u>24,020</u> | <u>26,454</u> | <u>31,183</u> |
| Total | <u>66,391</u> | <u>77,543</u> | <u>82,795</u> |

| | Average interest rate during year ended 31 December 2011 % | Year ended 31 December 2011 €m | Average interest rate during year ended 31 December 2010 % | Year ended 31 December 2010 €m | Average interest rate during 9 months ended 31 December 2009 % | 9 months ended 31 December 2009 €m |
|---------------------------------------|--|--------------------------------|--|--------------------------------|--|------------------------------------|
| Branches in Ireland | | | | | | |
| Current accounts: | | | | | | |
| Interest bearing | 0.3 | 1,107 | 0.1 | 2,203 | 0.2 | 864 |
| Non-interest bearing | — | 11,519 | — | 9,519 | — | 9,315 |
| Deposit accounts: | | | | | | |
| Demand | 0.5 | 9,306 | 0.6 | 17,799 | 0.3 | 18,253 |
| Time | 3.0 | 20,439 | 1.9 | 21,568 | 1.9 | 23,180 |
| Total branches in Ireland | | 42,371 | | 51,089 | | 51,612 |
| Branches outside Ireland | | | | | | |
| Current accounts: | | | | | | |
| Interest bearing | 1.1 | 2,443 | 1.1 | 4,023 | 0.5 | 2,387 |
| Non-interest bearing | — | 1,343 | — | 45 | — | 17 |
| Deposit accounts: | | | | | | |
| Demand | 1.7 | 8,274 | 0.8 | 12,235 | 0.7 | 13,908 |
| Time | 3.0 | 11,960 | 3.8 | 10,151 | 4.9 | 14,871 |
| Total branches outside Ireland | | 24,020 | | 26,454 | | 31,183 |
| Total | | 66,391 | | 77,543 | | 82,795 |

Rates for the nine month period are annualised. The interest rates shown above exclude the cost of the ELG scheme which is included within interest expense in the consolidated income statement (see note 4 to the consolidated financial statements). The calculations of average balances are based on daily, weekly or monthly averages, depending on the reporting unit.

Current accounts are checking accounts raised through the Group's branch network and in Ireland are primarily non-interest bearing. Demand deposits bear interest at rates which vary from time to time. Such accounts are not subject to withdrawal by check or similar instrument and have no fixed maturity dates.

Time deposits are generally larger and bear higher rates of interest than demand deposits but have predetermined maturity dates.

The following table shows details of the Group's large time deposits and certificates of deposit (US\$100,000 and over or the equivalent in other currencies) by time remaining until maturity.

| | At 31 December 2011 | | | |
|--------------------------------|---------------------|---------------|----------------|-------------------|
| | 0-3 months €m | 3-6 months €m | 6-12 months €m | Over 12 months €m |
| Time deposits | | | | |
| Domestic branches | 13,207 | 1,415 | 781 | 1,374 |
| Foreign branches | 3,053 | 1,600 | 9 | 47 |
| Certificates of deposit | | | | |
| Domestic branches | — | — | 16 | — |
| Foreign branches | — | — | — | — |
| | <u>16,260</u> | <u>3,015</u> | <u>806</u> | <u>1,421</u> |

Non-resident deposits held in domestic branches at 31 December 2011 accounted for approximately 2% of total deposits.

Return on Equity and Assets

Please see Table 2 In “Selected Consolidated Financial Data” on page 10 for further details.

Short-Term Borrowings

The following table shows details of short term borrowings of the Group for the year ended 31 December 2011, the year ended 31 December 2010 and the nine months ended 31 December 2009.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|-------------------------------------|--|--|--|
| Debt securities in issue | | | |
| End of year outstandings | 19,124 | 28,693 | 43,144 |
| Highest month-end balance | 28,086 | 45,274 | 43,144 |
| Average balance | 21,414 | 37,187 | 40,560 |
| Average rate of interest | | | |
| At year end | 4.2% | 1.7% | 1.6% |
| During year | 3.2% | 2.2% | 1.5% |
| Deposits by banks | | | |
| End of year outstandings | 1,949 | 5,097 | 4,909 |
| Highest month end balance | 7,891 | 6,747 | 10,199 |
| Average balance | 5,416 | 4,299 | 8,354 |
| Average rate of interest | | | |
| At year end | 1.6% | 1.9% | 0.7% |
| During year | 2.9% | 1.1% | 0.8% |
| Repurchase agreements | | | |
| End of year outstandings | 29,585 | 35,978 | 12,994 |
| Highest month end balance | 36,869 | 35,978 | 27,144 |
| Average balance | 33,102 | 21,396 | 17,980 |
| Average rate of interest | | | |
| At year end | 1.4% | 1.3% | 0.9% |
| During year | 1.6% | 1.0% | 0.8% |

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.

Average interest rates during the year are computed by dividing total interest expense by the average amount borrowed. Average interest rates at year end are average rates for a single day and as such may reflect one-day market distortion, which may not be indicative of generally prevailing rates. The interest rates shown above exclude the cost of the ELG Scheme which is included within interest expense in the consolidated income statement (see note 4 to the Consolidated Financial Statements).

Item 6 DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS AND SENIOR MANAGEMENT

The strategic direction of the Group is provided by the Court of Directors (the “Court”) which comprises executive and non-executive Directors. Management is delegated to certain officers and committees of the Court. The table below details the roles held by members of the Court of Directors, the years in which they were appointed a Director and, in the case of Executive Directors, the year of their appointment to their present position in square brackets. This information is correct as at 20 March 2012.

| <u>Name</u> | <u>Age</u> | <u>Position held</u> | <u>Year appointed a Director</u> |
|---------------------------------|------------|---|----------------------------------|
| Directors | | | |
| Patrick Molloy | 74 | Governor | 2009 |
| Patrick O’Sullivan | 62 | Deputy Governor and Senior Independent Director | 2009 |
| Richie Boucher [2009] | 53 | Group Chief Executive | 2006 |
| Andrew Keating [2012] | 41 | Group Chief Financial Officer | 2012 |
| Jerome Kennedy | 63 | Non-Executive Director | 2007 |
| Tom Considine | 67 | Non-Executive Director | 2009 |
| Joe Walsh | 68 | Non-Executive Director | 2009 |
| Patrick Kennedy | 42 | Non-Executive Director | 2010 |
| Kent Atkinson | 66 | Non-Executive Director | 2012 |
| Pat Butler | 51 | Non-Executive Director | 2011 |
| Patrick Haren | 61 | Non-Executive Director | 2012 |
| Patrick Mulvihill | 49 | Non-Executive Director | 2011 |
| Executive Officers | | | |
| Des Crowley | 52 | Chief Executive Officer, Retail (UK) | |
| Denis Donovan | 58 | Acting Chief Executive, Corporate and Treasury and Head of Non Core | |
| Julie Sharp | 46 | Head of Group HR | |
| Helen Nolan | 54 | Group Secretary | |
| Peter Morris | 55 | Chief Governance Risk Officer | |
| Liam McLoughlin | 48 | Chief Executive Officer, Retail (Ireland) | |
| Vincent Mulvey | 51 | Chief Credit and Market Risk Officer | |
| Senan Murphy | 43 | Head of Group Manufacturing | |

Non-Executive Officers

Patrick Molloy (74)

Governor

Patrick was Group Chief Executive Officer of the Bank from 1991 to 1998. He subsequently served as a non-executive Director from 1998 to 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.

Patrick 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).

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).

Patrick O'Sullivan (62)

Deputy Governor and Senior Independent 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).

External Appointments include: Chairman of Old Mutual plc, Senior Independent Director of Man Group plc and non-executive Director of COFRA Group in Switzerland. 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).

Executive Directors

Richie Boucher (53)

Group Chief Executive

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).

External Appointments include: None.

Committee Appointments include: None.

Andrew Keating (41)

Group Chief Financial Officer

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.

External Appointments include: None.

Committee Appointments include: None.

Non-Executive Directors

Jerome Kennedy (63)

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).

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).

Tom Considine (67)

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).

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).

Joe Walsh (68)

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).

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.

Patrick Kennedy (42)

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).

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).

Kent Atkinson (66)

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.

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 and the Court Risk Committee since January 2012.

Pat Butler (51)

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.

External Appointments include: None.

Committee Appointments include: Member of the Group Nomination and Governance Committee since December 2011 and Court Risk Committee since December 2011.

Patrick Haren (61)

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.

External Appointments include: None.

Committee Appointments include: Member of the Group Audit Committee since January 2012 and Group Remuneration Committee since January 2012.

Patrick Mulvihill (49)

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.

External Appointments include: Non-executive Director of Goldman Sachs Bank (Europe) plc.

Committee Appointments include: Member of the Group Audit Committee since December 2011 and Court Risk Committee since December 2011.

The information below is as at 20 March 2012.

Senior Independent Director

Patrick O'Sullivan

Group Audit Committee

Jerome Kennedy (Chairman)

Kent Atkinson

Tom Considine

Patrick Haren

Patrick Mulvihill

Patrick O'Sullivan

Group Remuneration Committee

Joe Walsh (Chairman)
Patrick Haren
Patrick Kennedy
Patrick Molloy

Group Nomination and Governance Committee

Patrick Molloy (Chairman)
Pat Butler
Patrick O'Sullivan
Joe Walsh

Court Risk Committee

Tom Considine (Chairman)
Kent Atkinson
Pat Butler
Jerome Kennedy
Patrick Kennedy
Patrick Mulvihill

Group Risk Policy Committee

Vincent Mulvey (Chairman)
Richie Boucher
Des Crowley
Denis Donovan
Andrew Keating
Liam McLoughlin
Peter Morris
Declan Murray
Helen Nolan
Mick Sweeney

Group Investment Committee

Richie Boucher (Chairman)
Des Crowley
Denis Donovan
Andrew Keating
Liam McLoughlin
Peter Morris
Vincent Mulvey
Helen Nolan
Julie Sharp
Senan Murphy

Trustees of the Bank Staff Pensions Fund

Heather Ann McSharry (Chairman)
Tom Considine
Patrick O'Sullivan

Terms of Office of the Directors

With the exception of those Directors appointed by the Minister for Finance, all Directors appointed between Annual General Courts are submitted to stockholders for election at the first Annual General Court following their co-option. In line with emerging corporate governance practice all Directors who sought re-election have done so on an annual basis. The normal retirement age for Executive Directors is 60.

REMUNERATION OF DIRECTORS AND OFFICERS

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 (EBA) 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 175 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 various commitments and undertakings given to the Minister for Finance as a condition of the Transaction Agreement with the Irish Government (July 2011).

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's 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 a number of commitments and undertakings which the Group gave to the Minister for Finance in respect of remuneration practices. These latter commitments and undertakings were 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.

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 various commitments and undertakings given to the Minister for Finance as a condition of the Transaction Agreement with the Irish Government (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 note 61 to the Consolidated Financial Statements):

- 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 to the Consolidated Financial Statements on pages F-128 to F-129, conditional awards had previously been made to the Executive Directors as set out in the table on page F-176. 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 to the Consolidated Financial Statements on pages F-127 to F-128);
- 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 to the Consolidated Financial Statements on page F-126);
- 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 (for further details see note 48 to the Consolidated Financial Statements on pages F-126 to F-127); 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.

Group Pension Plans

The Group operates a number of pension plans in Ireland and overseas. The plans are funded and are primarily of the defined benefit type and the assets of the plans are held in separate trustee administered funds. Payments to these defined benefit funds are determined on an actuarial basis, designed to build up reserves during the working life of employees to pay the employees, or their dependants, a pension after retirement. A formal actuarial valuation is undertaken at least triennially to determine the payments to each of these defined benefit funds. At each valuation the funds' actuaries assess whether the liabilities of each fund, based on current salary levels, are fully funded on a discontinuance basis.

The total pension cost including curtailment gains for the Group in respect of the year ended 31 December 2011 was a credit of €84 million of which a credit of €66 million related to the main scheme.

Interest of Management in Certain Transactions

With the exception of the transactions with the NPRFC as noted below, no transaction material to the Group has been entered into in the last three fiscal years to which the Group or any of its subsidiaries was a party in which any member of key management personnel, any significant shareholder of the Group or any close family members had a direct or indirect material interest, and to the knowledge of the Group, no such transactions are presently proposed. Further details of Related Party Transactions with key management personnel are outlined in note 55 to the consolidated financial statements. For information about material transactions with the NPRFC see notes 49, 50 and 56 to the Consolidated Financial Statements. The NPRFC holds approximately 15.13% as at 20 March 2012 of the outstanding units of ordinary stock.

Indebtedness of Directors and Executive Officers

The aggregate amount of indebtedness of key management personnel (17 persons) and their connected persons, on normal commercial/staff terms, to the Bank of Ireland Group amounted to €8 million at 31 December 2011. The interest rates payable thereon and other terms were at prevailing market rates and terms and reflect ordinary commercial/staff transactions and do not involve more than the normal risk of collectability or present other unfavourable features. The aggregate amount of indebtedness of key management personnel of the Bank included in the above figure, on terms similar to those on which loans are made to members of staff generally, which are at interest rates more favourable than prevailing market rates, was €0.825 million at 31 December 2011. These staff loans were made in accordance with the US Sarbanes Oxley Act and the rules thereunder, which permits these loans if the loans are made on the same basis as, and on terms no more favourable than, loans made available to employees generally. For further information refer to note 55 to the Consolidated 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 145 to 152 and 133 to 134.

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 144. 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 'preapproval 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 (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 128 to 133.

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 | | 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 | A | B | A | B | A | B | A | B |
| Richie Boucher | 13 | 13 | 26 | 26 | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Pat Butler (<i>Appointed 23 December 2011</i>) | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Tom Considine | 13 | 13 | 26 | 26 | 8 | 8 | 4 | 4 | — | — | — | — | — | — | — | — | 7 | 7 | 2 | 2 |
| Des Crowley* | 7 | 7 | 12 | 11 | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Denis Donovan* | 7 | 7 | 12 | 12 | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Paul Haran* | 7 | 7 | 12 | 11 | 4 | 4 | 2 | 1 | — | — | — | — | — | — | — | — | — | — | — | — |
| Dennis Holt* | 7 | 6 | 12 | 11 | — | — | — | — | 2 | 1 | 2 | 2 | — | — | — | — | — | — | — | — |
| Rose Hynes** | 13 | 12 | 26 | 26 | — | — | — | — | 5 | 5 | 5 | 5 | 4 | 4 | 9 | 9 | 7 | 7 | 2 | 2 |
| Jerome Kennedy | 13 | 13 | 26 | 25 | 8 | 8 | 4 | 4 | — | — | — | — | 4 | 4 | 9 | 8 | 7 | 7 | 2 | 2 |
| Patrick Kennedy (<i>Appointed to Remuneration Committee and Risk Committee 13 January 2011</i>) | 13 | 13 | 26 | 26 | — | — | — | — | — | — | — | — | 4 | 4 | 8 | 8 | 7 | 7 | 2 | 2 |
| Patrick Mulvihill (<i>Appointed 23 December 2011</i>) | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Patrick Molloy | 13 | 13 | 26 | 26 | — | — | — | — | 5 | 5 | 5 | 5 | 4 | 4 | 9 | 9 | — | — | — | — |
| Heather Ann McSharry* | 7 | 7 | 12 | 12 | 4 | 4 | 2 | 1 | 2 | 2 | 2 | 2 | — | — | — | — | 3 | 3 | — | — |
| John O'Donovan** | 13 | 13 | 26 | 26 | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Patrick O'Sullivan | 13 | 11 | 26 | 22 | 8 | 6 | 4 | 4 | 3 | 3 | 3 | 3 | — | — | — | — | 7 | 7 | 2 | 2 |
| Joe Walsh | 13 | 13 | 26 | 25 | — | — | — | — | 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.

* Retired on 15 June 2011.

** Retired on 31 December 2011.

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 page 142. 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.

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 nonexecutive 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.

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 128 to 133. 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 'Induction and Professional

Development' below). Directors bring their individual knowledge, skills and experience to bear in discussions on the major challenges facing the Group.

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 nonexecutive 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 140 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 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 of Directors and Officers, incorporating the responsibilities of the Group Remuneration Committee, is set out on pages 135 to 138.

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 F-149 to F-156.

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 Statement of Directors Responsibility and the going concern statements are set out on pages F-2 and F-13.

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 Factors on pages 12 to 21); 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 nonroutine transactions; and
- a Code of Conduct setting out the standards of behaviour expected of all Directors, officers and employees. This covers arrangements, should the need arise, for the independent investigation and follow up of any concerns raised by staff regarding matters of financial and non-financial reporting.

The Group operates a comprehensive internal control framework over financial reporting with documented procedures and guidelines to support the preparation of the consolidated financial statements.

The main features are as follows:

- a comprehensive set of accounting policies relating to the preparation of the annual and interim financial statements in line with International Financial Reporting Standards as adopted by the European Union;

- the 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 significant internal control matters that they have identified 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 128 to 133. 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 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 preapproved 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 128 to 133. 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 178 and 180, 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 pages 179 to 180.

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 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.

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 15), 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 nonexecutive 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 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.

Employees

For the year ended 31 December 2011 the Group employed 13,671 staff on an average full-time equivalent basis (see note 12 to the Consolidated Financial Statements). The decrease in staff over the previous year's figure (14,284) is due to deleveraging activities, the sales of Bank of Ireland Asset Management (BIAM), Bank of Ireland Securities Services (BoISS) and Foreign Currency Exchange Corporation (FCE

Corporation), and the impact of alignment of Group functions and normal staffing level fluctuations. The Group employed 14,755 staff on average in the nine months ended 31 December 2009.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

STOCK OPTIONS

Under the terms of the senior Executive Stock Option Scheme approved by the stockholders, options may be granted, at the discretion of the Directors, enabling senior executives to subscribe for specified numbers of units of Ordinary Stock.

As at 20 March 2012, options were outstanding over 3,113,513 units of stock representing 0.01% of the total ordinary stock then in issue.

Such options are exercisable as follows:

| <u>Exercise price (€)</u> | <u>Number Outstanding at 20 March 2012</u> | <u>Exercise Period</u> |
|---------------------------|--|-----------------------------|
| 12.50 | 417,000 | June 2005–June 2012 |
| 10.65 | 10,000 | December 2005–December 2012 |
| 10.77 | 746,499 | June 2006–June 2013 |
| 10.54 | 40,000 | December 2006–December 2013 |
| 10.76 | 1,025,000 | July 2007–July 2014 |
| 12.85 | 827,500 | June 2008–June 2015 |
| 13.68 | 47,514 | January 2009–January 2016 |

As at 20 March 2012, Executive Directors and Executive Officers as a group held options under the above scheme over a total of 514,500 units, representing 0.0017% of the total ordinary stock in issue.

Additional information on Employee Share Schemes, Long Term Incentive Plan and Executive Stock Option Schemes is shown on pages 169 to 170.

In addition to their interests in ordinary stock through their holding of stock options and the conditional awards of stock they have received under the LTPSP and LTIP, as set out in note 48 to the Consolidated Financial Statements, the interests of the Directors and Group Secretary in office at 20 March 2012, and of their spouses and minor children, in the stocks issued by the Group are set out below:

| | Units of €0.05 Ordinary Stock as at 20 March 2012 |
|------------------------------|--|
| DIRECTORS | |
| Patrick J Molloy | 2,794,170 |
| Richie Boucher | 380,957 |
| Andrew Keating | 56,014 |
| Jerome Kennedy | 92,713 |
| Tom Considine | 57,500 |
| Joe Walsh | 123,427 |
| Patrick O’Sullivan | 115,000 |
| Patrick Kennedy | 254,642 |
| Kent Atkinson | 2,000 |
| Pat Butler | 1,000 |
| Patrick Haren | 1,000 |
| Patrick Mulvihill | 5,000 |
| SECRETARY | |
| Helen Nolan | 80,043 |

As at 20 March 2012, Directors and Executive Officers of the Bank as a group beneficially held 0.027% (8,140,527 units) of the Group’s issued ordinary stock.

Limitations on Stock Issue and Stock Option Plans

All of the employee stock issue and stock option schemes are subject to a range of flow rate controls approved by the stockholders and which conform to institutional investor guidelines.

Item 7 MAJOR STOCKHOLDERS AND RELATED PARTY TRANSACTIONS

CONTROL OF REGISTRANT

Substantial interests in the Bank's issued ordinary stock to the latest practicable date for each of the three financial periods to 31 December 2011 is shown below:

As at 20 March 2012, the Bank had received notification of the following substantial interests in its issued ordinary stock:

| <u>Name</u> | <u>Units held</u> | <u>%</u> |
|--|-------------------|----------|
| National Pensions Reserve Fund Commission (NPRFC)/Minister for Finance of Ireland ⁽¹⁾ | 4,558,025,000 | 15.13 |
| Hamblin Watsa Investment Counsel Ltd. | 2,807,463,858 | 9.32 |
| Wilbur L. Ross, Jr. WLR Recovery Fund IV, L.P. | 2,807,463,858 | 9.32 |
| FMR LLC | 2,790,434,337 | 9.26 |
| Capital Research and Management Company | 1,798,436,208 | 5.97 |
| Harris Associates L.P. | 1,760,003,900 | 5.84 |
| Friedberg Global Macro Hedge Fund Limited Partnership | 912,346,577 | 3.03 |

As at 16 June 2011, the Bank had received notification of the following substantial interests in its issued ordinary stock:

| <u>Name</u> | <u>Units held</u> | <u>%</u> |
|---|-------------------|----------------------|
| Harris Associates L.P. ⁽²⁾ | 290,174,492 | 5.47 |
| NPRFC | 1,909,810,044 | 36.04 ⁽³⁾ |

As at 8 June 2010, the Bank had received notification of the following substantial interests in its issued ordinary stock:

| <u>Name</u> | <u>Units held</u> | <u>%</u> |
|--|-------------------|----------------------|
| Capital Research and Management Company ⁽²⁾ | 65,994,690 | 3.14 |
| NPRFC | 763,789,210 | 36.36 ⁽⁴⁾ |

- (1) The NPRFC has acquired 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.*
- (2) This stockholding was not beneficially owned but was held on behalf of a range of clients, none of whom held, so far as the Directors were notified, more than 3% of the issued ordinary stock. So far as the Directors were notified, there were no other holdings of 3% or more of the issued ordinary stock of the Bank.*
- (3) The NPRFC acquired voting rights equivalent to 36.04% of all votes capable of being cast by stockholders on a poll at a General Court of the Bank.*
- (4) The NPRFC acquired voting rights equivalent to 36.36% of all votes capable of being cast by stockholders on a poll at a General Court of the Bank.*

RELATED PARTY TRANSACTIONS

Refer to note 55 to the Consolidated Financial Statements. Also see "Interest of Management in Certain Transactions" and "Indebtedness of Directors and Executive Officers" and "Directors Loans" on pages 139 and 147.

DESCRIPTION OF US STOCKHOLDERS

At 31 December 2011, 1,232,425 units of Ordinary Stock were held by 487 stockholders with registered addresses in the United States and 23,102,368 ADSs were held by 243 registered holders with addresses in the United States. The combined shareholdings of these holders comprise approximately 3.1% of the total number of units of Ordinary Stock in issue at 31 December 2011 (being 30,132,505,842 units). These figures do not include either the number of units of ordinary stock held by stockholders with registered addresses outside the United States in which United States residents have an interest or the number of such US residents.

Item 8 FINANCIAL INFORMATION

See pages F-4 through F-182.

DIVIDEND POLICY

The table below provides a summary of dividends per unit of ordinary stock paid in respect of the past five financial periods.

| <u>Dividend Payment Date</u> | <u>Dividends per unit of Ordinary Stock (in euro cents)</u> | <u>Translated into US cents per Unit of Ordinary Stock⁽¹⁾</u> |
|--|---|--|
| Financial Year ended 31 December 2011 | Nil | Nil |
| Financial Year ended 31 December 2010 | Nil | Nil |
| Nine month Financial Period ended 31 December 2009 | Nil | Nil |
| Financial Year ended 31 March 2009 | Nil | Nil |
| Financial Year ended 31 March 2008 | | |
| —23 July 2008 | 39.4 | 61.85 |
| —15 January 2007 | 24.2 | 36.06 |

(1) Translated at the Spot Rate on the dates of payment.

On 13 November 2008, in light of the deteriorating economic conditions and the determination to preserve capital, the Group announced its decision to cancel dividend payments on Ordinary Stock for the financial year ending 31 March 2009 and stated that it did not expect to resume paying dividends on Ordinary Stock until more favourable economic and financial conditions returned. This remains the Group's policy and the Group stated in the 2011 Annual Report that it did not propose to issue any dividend in respect of the year ending 31 December 2011.

In addition, under the approved 2011 EU Restructuring Plan, the Group has committed not to pay dividends on Ordinary Stock until the earlier of (i) 31 December 2015; or (ii) such time as the 2009 Preference Stock is redeemed or no longer owned by the State, through the NPRFC or otherwise.

Dividends

Following the expiry on 31 January 2011 of the prohibition by the EU Commission on discretionary dividend and coupon payments on the Group's capital instruments, coupon payments on such instruments recommenced on 1 February 2011. On 21 February 2011, the Group paid dividends on its euro and sterling preference stock of €3.7 million and the dividend of €214.5 million with respect to the 2009 Preference Stock held by the NPRFC. On 22 August 2011, the Group paid dividends due of €3.4 million on its euro and sterling Preference Stock.

LEGAL PROCEEDINGS

Save as disclosed in the paragraphs below, there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) which may have, or have had in the recent past, significant effects on the financial position or profitability of the Group taken as a whole.

Procom litigation

In May 2007, the Bank, through Bank of Ireland Private Banking, entered into an agreement with Procom Desarrollos Urbanos, SA and Cecosa Hipermercados S.L.U (the “Plaintiff”) to purchase the entire issued share capital of Procom Desarrollo Comercial de Zaragoza, SA, which is a Spanish incorporated company involved in the development of a shopping centre and retail park in Zaragoza, Spain. The agreement contained a number of pre-conditions. The Bank contends that one of the pre-conditions was not satisfied and accordingly did not proceed to purchase Procom Desarrollo Comercial de Zaragoza, SA. In February 2009, the Plaintiff initiated legal proceedings against Bank of Ireland Private Banking and the Bank for specific performance or, failing this, damages in relation to the terminated agreement claiming €142 million in damages. On 10 February 2010, the Madrid Court of First Instance ruled in favour of Plaintiff and awarded damages of €90.87 million. This was appealed by both parties. The Court of Appeal awarded the Plaintiff additional damages in the amount of €12 million in December 2011. An appeal has been lodged by the Bank with the Supreme Court in Madrid. The Plaintiff has not appealed. The Supreme Court will initially, within twelve months, determine if the appeal merits consideration. If admitted, the final Supreme Court judgment is likely to take a further two to three years.

Investigation into the banking system

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

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

Both preliminary reports were published on 31 May 2010 and their findings formed the basis for the terms of reference of a formal statutory investigation (the “Statutory Commission of Investigation”) which was established by the Government on 21 September 2010 pursuant to the Commissions of Investigation Act, 2004. The Statutory Commission of Investigation examined the performance of individual banks and bank directors, the performance of regulatory authorities, the response of Government and Government agencies and the structure of the banking system in Ireland generally. The Statutory Commission of Investigation presented its report to the Minister for Finance on 22 March 2011 and it was forwarded to the Attorney General. The report was published on 19 April 2011. Further inquiry may result from the findings of the Statutory Commission of Investigation, including the possibility of public hearings. The Group may be exposed to criminal sanctions and/or fines in connection with a range of offences under the Commissions of Investigation Act 2004, which offences include the making of statements material in the investigation concerned knowing them to be false or not believing them to be true, the failure to comply with directions of the Statutory Commission of Investigation and intentionally obstructing its work (which

offences could result in the Group, or an officer of the Group, being subject to a fine of up to €300,000 on conviction on indictment).

Department of Finance remuneration review

The Department of Finance conducted a review of the bonus payments to staff made by the Group since the commencement of the State Guarantee Schemes in September 2008.

Certain of the Group's historic incentive arrangements and/or retention arrangements with certain individual employees or groups of employees have been reviewed by the Department of Finance and a report detailing the findings of this review was published on 3 March 2011.

The report concluded that the Group did not properly disclose to the Department of Finance details of its historic incentive arrangements for the purposes of a response to a question raised in the Dáil on the payment of performance bonuses by banks since the commencement of the State Guarantee Schemes. A specific misunderstanding arose in relation to the scope of the question raised and in response to the question, the Group responded stating that performance bonuses were no longer paid by the Group. The Group has now accepted that it provided incorrect information for the purposes of the answer to the Dáil question.

While there was no intention on the part of the Group to mislead in relation to the original Dáil question, the end result was that errors were made and the Group has acknowledged this in its response to the findings of the review.

The Group has given assurances that it has now provided the Department of Finance with accurate information in relation to bonus payments to employees. The Group has made a payment of €2 million to the State to recognise the difficulties caused by the way in which the Group dealt with the request for information and with the subsequent review. An internal Group investigation to identify the actions necessary to ensure there is no re-occurrence of these issues has taken place and the recommendations arising from this review are being implemented. Definitions of different types of non salary payments and the purposes of each have now been clarified with the Department of Finance.

If the Group decides not to, or is precluded from, making payments under historically contracted incentive arrangements, and/or recruitment arrangements and/or retention arrangements with certain individual employees or groups of employees, the Group could face legal actions from employees and/ or could lose the commitment from, or services of, key employees which could impact on the reputation of the Group and the Group's business, financial condition and prospects.

Litigation in relation to the Debt for Equity Offers and application of the Stabilisation Act.

As described below, two groups of holders of Eligible Debt Securities commenced legal proceedings against the Bank regarding the Debt for Equity Offers launched in June 2011.

In June 2011, a firm of solicitors acting for a holder of the 13.375% Unsecured Perpetual Subordinated Bonds (ISIN: GB 0000510312) (the "13.375% Bonds") brought proceedings on behalf of its client that the Proposed Resolution in relation to the 13.375% Bonds would be invalid and sought declarations to this effect and an injunction by way of final relief restraining the Bank from tabling the proposed resolution or exercising the call option in relation to the 13.375% Bonds. The matter was later resolved to the parties mutual satisfaction.

A group of parties claiming to hold approximately US\$750 million of Lower Tier 2 Eligible Debt Securities commenced legal proceedings in England on 17 June 2011 against the Bank and The Law Debenture Trust Corporation p.l.c. to obtain declarations including that the Proposed Resolutions in relation to these Eligible Debt Securities would be invalid and that a subordinated liabilities order under the Stabilisation Act in relation to these Eligible Debt Securities would not be enforceable under English law. The legal

proceedings also sought an injunction by way of final relief restraining the Bank from accepting offers to participate in the Debt for Equity Offers, taking any further steps in relation to the Debt for Equity Offers and acting on the outcome of the Debt for Equity Offers including tabling the Proposed Resolutions and exercising the call option. On 7 September 2011, the claimants in the proceedings (who by that date claimed to hold approximately US\$359 million of Lower Tier 2 Eligible Debt Securities) amended the proceedings so as to seek only declarations in relation to a subordinated liabilities order made under the Stabilisation Act in relation to these Eligible Debt Securities, including that such an order would not be enforceable under English law. On 2 December 2011, the Minister for Finance publicly announced that he was no longer considering the use of the powers available to him under the Stabilisation Act at that time. The Bank continues to vigorously defend these proceedings.

On 28 June 2011, the Bank terminated a Debt for Equity offer in respect of the 13.375% Bonds in light of the continued difficulties holders of the 13.375% bonds experienced in participating in the offer. On 24 August 2011, the Bank launched a new voluntary cash offer in respect of the 13.375% Bonds. On 22 September 2011, the Bank announced that £29,096,400 in aggregate nominal amount of the 13.275% Bonds were tendered pursuant to the offer.

SIGNIFICANT CHANGES

Since 31 December 2011, the below items have occurred:

- Sale of Burdale Financial Holdings Limited (Burdale)—On 1 February 2012, the Group completed the sale of Burdale, an asset based lending business forming part of the corporate and treasury division, to Wells Fargo International Banking Corporation making further progress on incremental deleveraging agreed as part of the PLAR process.
- Sale of 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, €0.4 billion of these sales had yet to be settled, €0.3 billion of which has been completed and derecognised since 31 December 2011 with the remaining €0.1 billion expected to settle in the coming months.
- Dividends—On 20 February 2012, the Group paid dividends on its euro and sterling preference stock of €3.4 million and a dividend of €188.3 million with respect to the 2009 Preference Stock held by the NPRFC.
- Term Funding—In March 2012, the Group participated in the second ECB three year LTRO when it converted c.€4.8 billion of mainly shorter term funding to three year funding with a maturity of February 2015.
- Proposed securities repurchase transaction with Irish Bank Resolution Corporation (IBRC)—The Group announced on 29 March 2012 that the Group, IBRC and the State have reached a conditional agreement to conduct a securities repurchase transaction (“Repo”) whereby the Group will purchase long term Irish Government Bonds from IBRC for a purchase price of approximately €3.06 billion in cash. The Repo will be governed by a Global Master Repurchase Agreement which will incorporate standard market terms including daily cash margining with respect to changes in the value of the Bonds. All IBRC’s payment obligations to the Group with respect to the Repo including the cash margining are covered by a guarantee from the Minister for Finance of IBRC’s exposures for transactions of this nature. The transaction can be financed by the Group through standard ECB money market operations using the bonds which are Eurosystem eligible. Under the terms of the Repo, IBRC will have an obligation to repurchase the bonds from the Group for approximately €3.06 billion in cash not later than 364 days after the effective date. The margin for the Group over ECB funding which would apply to this transaction is 135bps. As the transaction is considered to be a related party transaction under the Listing Rules, it will be subject to independent stockholder approval.

PROSPECTIVE ACCOUNTING CHANGES/IMPACT OF NEW ACCOUNTING POLICIES

Refer to pages F-38 to F-40 for details.

Item 9 THE OFFER AND LISTING

NATURE OF THE TRADING MARKET

As at 20 March 2012 the authorised capital stock of the Bank was made up of €6,967,000,000, US\$225,000,000 and Stg£125,000,000 divided as follows:

- (i) 90,000,000,000 units of ordinary stock of €0.05 each;
- (ii) 8,000,000 units of non-cumulative preference stock of US\$25 each;
- (iii) 100,000,000 units of non-cumulative preference stock of Stg£1 each;
- (iv) 100,000,000 units of non-cumulative preference stock of €1.27 each and 3,500,000,000 units of non-cumulative 2009 Preference Stock of €0.01 each;
- (v) 100,000,000 units of undesignated Dollar preference stock of US\$0.25 each, 100,000,000 units of undesignated sterling preference stock of £0.25 each and 100,000,000 units of undesignated euro preference stock of €0.25 each; and
- (vi) 228,000,000,000 units of deferred stock of €0.01 each.

As at 20 March 2012 there were 30,132,505,842 units of ordinary stock of €0.05 each issued and outstanding. As at 20 March 2012 1,837,041,304 units of non-cumulative 2009 Preference Stock of €0.01 each were in issue. 1,876,090 units of non-cumulative preference stock of Stg£1.00 each and 3,026,598 units of non-cumulative preference stock of €1.27 each were in issue and 90,682,081,918 units of deferred stock of €0.01 each were in issue. See note 49 to the Consolidated Financial Statements for details of the rights issue which concluded on 26 July 2011.

For further information on the renominialisation of the ordinary stock refer to note 48 to the Consolidated Financial Statements.

The principal trading markets for the ordinary stock are the Irish Stock Exchange and the London Stock Exchange.

The Group's American Depository Shares (ADSs) are listed on the New York Stock Exchange. The Group implemented a ratio change with respect to its American Depository Receipt (ADR) programme effective 14 October 2011, where the ratio changed from one (1) ADS representing four (4) units of ordinary stock (1:4), to one (1) ADS representing forty (40) units of ordinary stock (1:40). Following this change, each ADS represents the right to receive forty units of ordinary stock and evidenced by American Depository Receipts (ADRs). Depository Receipts 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 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 Mellon is the Depository Bank for the Bank of Ireland's ADR programme.

The following table sets forth, for the periods indicated, the reported highest and lowest closing price for one unit of Ordinary Stock on the Irish Stock Exchange, as derived from the Daily Official List of the Irish Stock Exchange quoted in euro and the highest and lowest sales prices for the ADSs as reported on the New York Stock Exchange Composite tape.

At 20 March 2012, 54 companies were quoted on the Irish Stock Exchange. These companies had a combined market capitalisation of more than €200.4 billion at that date. The 10 companies with the largest market capitalisations accounted for over 88.92% of the Exchange’s total market capitalisation.

| | Ordinary Stock | | ADSs* | |
|---|----------------|------|--------|--------|
| | High | Low | High | Low |
| | € | € | \$ | \$ |
| Financial Year Ended | | | | |
| 31 March 2008 | 16.85 | 8.61 | 910.00 | 545.10 |
| 31 March 2009 | 10.00 | 0.13 | 634.70 | 6.60 |
| Nine months ended 31 December 2009 | 3.42 | 0.58 | 201.80 | 27.80 |
| 31 December 2010 | 1.91 | 0.26 | 105.70 | 13.80 |
| 31 December 2011* | 0.40 | 0.07 | 6.88 | 0.80 |
| Nine months ended 31 December, 2009 | | | | |
| First quarter | 2.23 | 0.58 | 129.80 | 27.80 |
| Second quarter | 3.42 | 1.24 | 201.80 | 68.50 |
| Third quarter | 3.25 | 1.18 | 200.60 | 65.80 |
| Financial year ended 31 December, 2010 | | | | |
| First quarter | 1.71 | 0.98 | 100.30 | 52.30 |
| Second quarter | 1.91 | 0.67 | 105.70 | 32.90 |
| Third quarter | 0.87 | 0.54 | 48.60 | 29.50 |
| Fourth quarter | 0.68 | 0.26 | 39.00 | 13.80 |
| Financial year ended 31 December, 2011 | | | | |
| First quarter | 0.40 | 0.22 | 26.30 | 12.50 |
| Second quarter | 0.34 | 0.12 | 25.20 | 10.50 |
| Third quarter | 0.12 | 0.07 | 15.40 | 8.70 |
| Fourth quarter | 0.11 | 0.07 | 6.88 | 0.80 |
| Month ended | | | | |
| September 2011 | 0.09 | 0.07 | 1.21 | 0.97 |
| October 2011 | 0.11 | 0.07 | 6.88 | 0.80 |
| November 2011 | 0.09 | 0.08 | 5.36 | 4.00 |
| December 2011 | 0.09 | 0.08 | 5.02 | 4.00 |
| January 2012 | 0.12 | 0.08 | 6.27 | 4.34 |
| February 2012 | 0.14 | 0.12 | 7.88 | 6.73 |

* Restated to reflect the ratio change with respect to its American Depositary Receipt (ADR) programme, as implemented by the Group on 14 October 2011, where the ratio changed from one (1) ADS representing four (4) units of ordinary stock (1:4), to one (1) ADS representing forty (40) units of ordinary stock (1:40). Following this change, each ADS represents the right to receive forty units of ordinary stock and evidenced by American Depositary Receipts (ADRs).

Fluctuations in the exchange rate between the euro and the dollar will affect the dollar equivalent of the price of the ordinary stock on the Irish Stock Exchange and as a result may affect the market price of the ADSs on the New York Stock Exchange. See “Exchange Rates” on page 5.

Item 10 ADDITIONAL INFORMATION

CHARTER AND BYE-LAWS

1. Objects and Registration Details

The Governor and Company of the Bank of Ireland (the “Bank”) is registered in Ireland with the Companies Office under No. C-1. The corporation was established pursuant to a Charter granted by King George III on foot of an Act of the Irish Parliament passed in 1781/82. The Charter was granted in 1783.

The corporation's objects and purposes were set out originally in the Charter and have been amended by legislation (in 1872 and 1929) and by resolutions passed by the stockholders meeting in General Court in 1972 and 1995. The principal objects of the corporation are to carry on the business of banking and to undertake all types of financial services.

2. Recapitalisation of the Bank

2009 Capital Raise

On 31 March 2009, the Bank raised €3.5 billion through the issue of non-cumulative Preference Stock of €0.01 each (the 2009 Preference Stock) in the capital of the Bank and warrants (the Warrants) to the National Pension Reserve Fund Commission (NPRFC). Details of the rights attaching to the 2009 Preference Stock are set out in point 5(d) below.

2010 Capital Raise

In 2010 the Bank completed a capital raise (the 2010 capital raise) which included a number of elements: (i) an institutional placing (ii) an NPRFC placing (iii) a rights issue and (iv) debt for equity offers following which the NPRFC increased its holding of Ordinary Stock, but had its Warrants cancelled and its holding of 2009 Preference Stock reduced. This resulted in the NPRFC holding 36% of the Bank's enlarged capital stock (with the NPRFC subscribing fully for its rights in relation to the NPRFC Coupon Ordinary Stock and the Ordinary Stock issued pursuant to the NPRFC Placing), and the full take up of its Rights in respect of the units of its other Existing Stock (i.e. the Ordinary Stock held pursuant to its other investment activities in addition to the NPRFC Coupon Ordinary Stock) with no right to purchase additional Ordinary Stock pursuant to the Warrants. The 2010 Capital Raise resulted in the NPRFC's holding of 2009 Preference Stock falling from the 3,500 million units held at 26 April 2010 to 1,837,041,304 units.

The 2010 Capital Raise resulted in Ordinary Stockholders' proportionate holding in the Bank being diluted. This was because the issue of the Placing Stock, the Ordinary Stock issued under the NPRFC Placing and the Ordinary Stock issued pursuant to the Debt for Equity Offers were not offered to Existing Stockholders. The degree of dilution increased depending on a number of variables, the main ones being whether or not Stockholders take up their Rights to subscribe for Ordinary Stock under the Rights Issue and the level of participation by noteholders in the Debt for Equity Offers.

2011 Capital Raise

The Group's 2011 Capital Raise 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 and 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 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—Reduction in Government stockholding

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 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.

Following the completion of the 2011 Capital Raise 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 was 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. A placing fee of €15 million was payable to the State.

3. Changes in Capital Stock

The members of the Bank in General Court may at any time and from time to time by resolution enlarge the capital stock of the Bank by such amount as they think proper. The requirement for the approval in writing by the Minister for Finance before any such resolution (a control resolution) can be tabled at an Annual General Court is set out in point 10 – Limitation on a Change of Control. 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. 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).

4. Directors

Any Director interested in a contract must declare his/her interest at a meeting of the Directors at which the question of entering into such contract first arises. The Bye-Laws also require that a Director may not vote in respect of any proposal in which he or any person connected with him has a material interest of making this determination. Interests in stock, shares, debentures or other securities of the Group are disregarded for the purpose. A Director cannot be counted in a quorum of the Court of Directors or of the meeting of a committee in relation to any resolution on which he is debarred from voting. The prohibition on voting in respect of contracts in which Directors are interested is disappplied in respect of proposals:

- (a) where a Director is given security or indemnified in respect of money lent or obligations incurred by him for the benefit of the Group;
- (b) giving security or indemnifying a third party in respect of a debt or obligation of the Group;
- (c) relating to an offer of debentures or securities of the Group in which a Director is interested as an underwriter;
- (d) regarding any proposal concerning any other company in which a Director is interested, directly or indirectly, provided that the director does not hold or is not beneficially interested in more than 1% of any class of share capital of that company;
- (e) regarding any pension or retirement fund or stock option scheme from which a Director might benefit and which has been approved by the Revenue Commissioners; and
- (f) regarding any proposal to purchase and maintain insurance against any liability incurred by Directors and Officers of the Group.

The remuneration of Directors is fixed from time to time by the stockholders in General Court. Such remuneration is divided among them as the Directors determine. Such remuneration shall be independent of any remuneration to which a Director may be entitled in respect of any other office or appointment within the Group. In the absence of an independent quorum, the Directors are not competent to vote compensation to themselves or any members of their body. The Governor and Deputy Governor, elected from time to time by the Directors, are office holders and are remunerated on terms established by the Directors.

Directors may exercise all the borrowing powers of the Group and may give security in connection therewith. These borrowing powers may be amended or restricted only by the stockholders in General Court.

There is no age limit requirement in the Bye-Laws that specifies when a Director must retire. However the Directors have adopted as a guideline that the normal retirement age for non-executive directors is age 68 unless the Court determines otherwise in exceptional circumstances.

All Directors (with the exception of Directors appointed by the Government (“Government Appointees”)) must hold at least 1,000 units of Ordinary Stock.

In accordance with Central Bank of Ireland’s Corporate Governance Code for Credit Institutions and Insurance Undertakings and the UK Corporate Governance Code (formerly the Combined Code published by the Financial Reporting Council in the UK adopted by the Irish Stock Exchange and the London Stock Exchange) all Directors retire by rotation every three years and, if eligible, may offer themselves for re-election subject to satisfactory performance evaluation. The appointment, removal and retirement of Government Appointees is subject to different arrangements that are set out in Bye-Law 100 of the Bye-Laws.

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.

5. Rights and Restrictions Attaching to stock

General

As part of the 2011 Capital Raise the Bank’s ordinary stock and deferred stock was renominialised 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 renominialisation was subdivided into 54 units of €0.01 each, and each existing unit of ordinary stock at the date of renominialisation 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 the 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 the Bank remained unchanged as a result of the renominialisation.

Aside from the change in nominal value, the rights attaching to €0.05 ordinary stock (including voting rights and dividend rights and rights on a return of capital) are substantively identical to those of the previous €0.10 ordinary stock.

The renominialised deferred stock has no voting or dividend rights and, on a return of capital on a winding up of the Bank, 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 transferrable 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 other lawful means as the Directors may determine

(a) Ordinary Stock

Dividend Rights

Under Irish law, and under the Bye-Laws of the Group, 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 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. Any dividend which has remained unclaimed for 12 years from the date of its declaration may be forfeited and cease to remain owing by the Bank. 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.

Under the revised 2011 EU Restructuring Plan, the Bank has committed not to pay dividends on its Ordinary Stock until the earlier of (i) 31 December 2015; or (ii) the date by which the 2009 Preference Stock is redeemed or is no longer owned by the State.

Voting Rights

Voting at any General Court is by a show of hands unless a poll is properly demanded. 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. 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 which are more restricted. A poll may be demanded by the chairman of the meeting or by at least nine members of the Group present in person or by proxy and entitled to vote on a poll. The necessary quorum for a General Court is 10 persons present in person or by proxy and entitled to vote.

All business is considered to be special business if it is transacted at an Extraordinary General Court as is all business transacted at an Annual General Court other than the declaration of a dividend, the consideration of the accounts, the balance sheet and reports of the Directors and Auditors, the election of Directors in the place of those retiring, the re-appointment 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 1963-2009 in so far as they apply to the Bank from time to time, in which case such special business shall be dealt with by way of special resolution. 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. A special resolution must be passed by not less than three fourths of the votes cast by such members as being entitled so to do, vote in person or, where proxies are allowed, by proxy at a General Court at which not less than 21 days' notice specifying the intention to propose a resolution as a special resolution has been duly given. Where an equal number of votes has been cast on any resolution the chairman of the meeting is entitled to a second or casting vote.

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

At 20 March 2012, 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 and no units of non-cumulative dollar 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 preference stock. Any dividend which has remained unclaimed for 12 years from the date of its declaration may be forfeited and cease to remain owing by the Bank.

The non-cumulative sterling preference stock and the non-cumulative euro preference stock rank *pari passu inter se* and the right to a fixed dividend is in priority to the dividend rights of ordinary stock in the capital of the Bank. On a winding up or other return of capital by the Bank, the non-cumulative sterling preference stockholders and the non-cumulative euro preference stockholders are entitled to receive, out of the surplus assets available for distribution to the Bank's members, an amount equal to the amount paid up on their preference stock including any preference dividend outstanding at the date of the commencement of the winding-up or other return of capital, otherwise the preference stockholders are not entitled to any further or other right of participation in the assets of the Bank.

(c) 2005 Preference Stock

Bye-Law 7 enables the Directors to issue and allot new preference stock (2005 Preference Stock) which can either be 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.

(d) 2009 Preference Stock

The 2009 Preference Stock, comprising units of non-cumulative preference stock of €0.01 each in the capital of the Bank, ranks *pari passu* with the Ordinary Stock of the Bank on a repayment of capital on a winding-up of the Bank, and ranks ahead of the Ordinary stock as regards the payment of dividends. The 2009 Preference Stock ranks *pari passu* as regards dividends with other stock or securities which constitute Core Tier 1 capital of the Bank (other than Ordinary Stock and other than dividends to Minority Interests). The 2009 Preference Stock entitles the holder to receive a non-cumulative dividend at a fixed rate of 10.25% (previously 8% per annum prior to 19 May 2010) *per annum*, payable annually at the discretion of the Bank. If the dividend on the 2009 Preference Stock is not paid in any year the Bank is precluded from paying a dividend on the Ordinary Stock until the payment of the dividend on the 2009 Preference Stock has resumed in cash. The Bank will also be precluded from paying any dividend on any ordinary stock where the payment of such dividend would reduce the distributable reserves of the Bank to such an extent that the Bank would be unable to pay the next dividend due for payment on the 2009 preference stock.

If a cash dividend is not paid by the Bank, the Bank shall issue units of Ordinary Stock to the NPRFC. The number of units of ordinary stock that the Bank would be required to issue to the NPRFC (in the event of non-payment of a dividend) will be calculated by dividing the amount of the unpaid dividend by the Thirty Day Average Price. If units of ordinary stock are issued in the event of non-payment of dividends, these units will be settled on a day determined by the Bank, in its sole discretion, provided that this must occur no later than the day on which the Bank subsequently redeems or repurchases or pays a dividend on the 2009 preference stock or any class of capital stock. The issue of units of ordinary stock in the event of non-payment of dividends will result in the dilution of existing ordinary stockholders' proportionate ownership and voting interests in the Bank.

The 2009 preference stock may be repurchased at the option of the Bank, in whole or in part, at a price per unit equal to the issue price of €1.00 per unit of the 2009 preference stock within the first five years from the date of issue and thereafter at a price per unit of €1.25, provided in either case that the consent of the Central Bank to the repurchase of the 2009 preference stock is obtained. The 2009 preference stock will not be capable of being repurchased if it would breach or cause a breach of Irish banking capital adequacy requirements from time to time applicable to the Bank. The 2009 preference stock may be repurchased from profits available for distribution or from the proceeds of any issue of stock or securities that constitute Core Tier 1 capital. The 2009 preference stock is transferable in minimum lots of 50,000 units. If transferred to a person who is not a Government Body, the 2009 preference stock will cease to carry any voting rights or the right to appoint Directors to the Court referred to below.

As the holder of the units of 2009 Preference Stock the NPRFC currently has the right to directly appoint 25 per cent. of the directors of the Bank (such 25 per cent. to include any directors nominated by the Minister for Finance pursuant to the Government Guarantee Scheme), 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 2009 Preference Stock held by the NPRFC carries the right to "top-up" the NPRFC's total voting rights of 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 control resolutions (whereby or in consequence of which control of the Group may be acquired) where the NPRFC's ordinary voting rights through its holding of ordinary stock falls below this level. This entitlement applies to the NPRFC for so long as it holds any units of 2009 Preference Stock. For as long as the NPRFC or an acceptable Government Entity holds the 2009 Preference Stock the tabling of any resolution at a General Court of the Bank to alter the capital structure of the Bank requires the prior approval in writing of the Minister for Finance.

In the event that the ordinary stock to be issued in the event of non-payment of cash dividends on the 2009 preference stock is not settled on the dividend payment date to which it relates, the NPRFC shall be entitled to exercise the voting rights of the as yet unissued ordinary stock from the dividend payment date (although such voting rights will have no effect on the Bank's unfettered discretion in respect of (i) the payment of dividends on the 2009 preference stock or any other securities of the Bank ranking *pari passu* with, or junior to, the 2009 preference stock or the issuance of ordinary stock in the event of non-payment of dividends on the 2009 preference stock; or (ii) the redemption or repurchase of the new preference stock or any other securities of the Bank ranking *pari passu* with, or junior to, the 2009 preference stock).

6. Variation of Class Rights

The rights attached to the ordinary stock of the Bank may be varied or abrogated, either while the Bank is a going concern or during or in contemplation of a winding-up, with the sanction of a resolution passed at a class meeting of the holders of the ordinary stock. Similarly, the rights, privileges, limitations or restrictions attached to the preference stock may be varied, altered or abrogated, either while the Bank is a going concern or during or in contemplation of a winding-up, with the written consent of the holders of not less than 75% of such class of stock or with the sanction of a resolution passed at a class meeting at which the holders of 75% in nominal value of those in attendance vote in favour of the resolution.

7. Convening of General Courts

Annual General Courts and a Court called for the passing of a special resolution must be called by 21 days notice in writing at the least. General Courts (other than General Courts called for the passing of a special resolution) can be called by 14 days notice in writing where the Bank offers the facility for Stockholders to vote by electronic means and where a special resolution reducing the period of notice to 14 days has been passed at the immediately preceding Annual General Court or at an Extraordinary General Court held since the immediately preceding Annual General Court. The notice must specify the place and date of the meeting and, in the case of special business, must give the general nature of that business. Attendance at General Courts is limited to members of the Bank and validly appointed proxies.

8. Limitation on the Rights to Own Securities

Neither the Charter nor the Bye-Laws impose restrictions on the right of non-resident or foreign shareholders to own securities in the Group. See, however, "Exchange Control and Other Limitations Affecting Security Holders" on page 170 for restrictions imposed in the context of EU and UN sanctions.

9. Further Capital Calls

Bye-Laws 17 to 22 deal with the mechanisms that enable the Directors to make calls upon members in respect of any moneys unpaid on their stock. All of the issued ordinary and preference stock is fully paid up.

10. Limitation on a Change of Control

The voting rights of the 2009 Preference Stockholder concerning a change in control of The Bank are referred to at point 5(d) above.

11. Disclosure of Stock Ownership

Under Irish company law where a person acquires an interest in shares in a public limited company (and the Bank is considered to be a public limited company for these purposes) or ceases to be interested in such shares, he has an obligation to notify the company of the interests he has, or had, in its shares. As recently modified by the Transparency Regulations of 2007 (implementing the EU Transparency Directive), shareholders must now notify both the Financial Regulator and the company if the percentage of voting rights held by the shareholder exceeds, or falls below, a threshold of 3% and each 1% thereafter up to 100% as a result of an acquisition or disposal of voting rights in shares.

Under the Bye-Laws of the Group any member may be requested to declare by statutory declaration whether he is beneficially entitled to ordinary stock of which he is the registered owner and, if not, to disclose the person or persons for whom he holds such ordinary stock in trust. Such a declaration must be made within 14 days after the date of service of the notice. Failure to respond to the notice in the prescribed period entitles the Directors to serve a disenfranchisement notice on such member with the consequence that the member may not attend or vote, either personally or by proxy, at any General Court of the Bank or exercise any other rights conferred by membership in respect of his holding ordinary stock (the “Default Stock”). In addition, where the default stock amounts to more than 5% of the ordinary stock then in issue of the Bank (or such other percentage as may be determined under the provisions of Section 70 of the Companies Acts 1990) then the disenfranchisement notice can state that any dividend (or part thereof) shall be retained by the Bank without liability to pay interest thereon when such money is finally paid to the member and that no transfer of the default stock will be registered by, or on behalf of, the Bank. A disenfranchisement notice may continue in effect for as long as the default in respect of which it was issued continues.

12. Employee Share Schemes, Long Term Incentive Plan and Executive Stock Option Schemes

Stockholders of the Bank have from time to time approved (and renewed) executive stock option schemes and more broadly based employee profit participation plans.

The Group Sharesave Scheme (1999), established under similar enabling legislation in both Ireland and the UK, enables participating employees, who enter into a savings related contract, to be granted an option to acquire units of ordinary stock on completion of that contract at a price related to the market price which prevailed at the time of the granting of the option. Eligible employees, whose remuneration is subject to Irish or UK income tax, may be awarded options over stock the exercise price of which may be set at a discount of up to 25% of the prevailing stock market price (20% in the UK). Participants must take out an approved savings contract and may contribute from €12 to €320 per month. The last offer under the Group’s Sharesave Scheme was in 2007. No new options have been created since this offer.

The Long Term Incentive Plan (2004) is restricted to senior executive officers and focuses on the Group’s Total Shareholder Return (TSR) relative to a group of leading European financial services businesses. The TSR takes into account both the Group’s stock price performance and dividend payments to stockholders. 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 Long Term Incentive Plan since 2008.

The Group Executive Stock Option Scheme (2004) focuses on underlying earnings per share (“underlying EPS”) growth. Under the scheme, executives may be granted options to purchase stock up to one time’s salary each year. 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 Executive Stock Option Scheme since 2008.

The Group Staff Stock Issue Scheme (2006) was established under profit sharing legislation and approved by the Revenue Commissioners in Ireland. All Irish resident employees (including executive directors of the Bank and of participating companies) are eligible to participate in the scheme. As presently

implemented the scheme allows the Group to make an award of free stock up to a maximum of 6% of the salary of eligible employees in any one year, up to a ceiling of €12,700. Subject to being held in trust for a period of three years, the stock is passed to the employee tax free and is thereby a very tax efficient mechanism for creating employee stock ownership. The amount of stock allocated by the directors reflects the Group's performance but cannot exceed 5% of the consolidated profits of the Group in any year. The Stock Incentive Plan (2003) approved by the Inland Revenue of the UK, makes similar provisions for employees of the Group or any participating company resident in the UK. There have been no awards under the Group Staff Stock Issue Scheme since 2008.

All of the above stock issue and stock option schemes are subject to a range of flow rate controls approved by the stockholders.

For further information on the stock option schemes refer to note 48 in the notes to the Consolidated Financial Statements.

13. Directors' and Officers' Liability Insurance

Irish company law permits companies to purchase and maintain insurance against directors' and officers' liability. The Bye-Laws of the Group enable the Group to purchase such liability insurance and make it clear that directors are entitled to vote and be counted in the quorum in respect of any resolution concerning the purchase of such insurance.

14. Material Contracts

See note 56 to the Consolidated Financial Statements for details of material transactions with the State.

SHARE CAPITAL

See note 48 to the Consolidated Financial Statements for details on Capital Stock.

EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

There are no restrictions under the Bye-Laws of the Group, presently in force, that limit the right of non-resident or foreign owners, as such, to hold securities of the Group freely or, when entitled, to vote such securities freely. There are currently no Irish foreign exchange controls or laws restricting the import or export of capital, although the Council of the European Union does have the power, under Articles 63 to 66 of the Treaty on the Functioning of the European Union, to impose restrictions on capital movements to and from third countries. There are currently no restrictions under Irish law affecting the remittance of dividends, interest or other payments to non-resident holders of securities of the Group, except in respect of entities and/or individuals detailed in relevant European Union and United Nations sanctions listings received from the Financial Regulator from time to time. The Group also complies with applicable requirements arising in respect of non-cooperative countries and territories ("NCCT"), pursuant to the NCCT initiative of the Financial Action Task Force.

TAXATION

The following summary of certain consequences to US holders (as defined below), or as in the case of Irish taxation, to eligible US holders (also as defined below) of the purchase, ownership and disposition of ADSs or ordinary stock deals only with US holders that hold ADSs or units of ordinary stock as capital assets for Irish and US Federal income tax purposes and does not deal with special classes of holders, such as dealers in securities, traders in securities that elect to use a mark to market method of accounting for their securities holdings, tax-exempt organisations, life insurance companies, persons liable for alternative minimum tax, persons that actually or constructively own 10% or more of the voting stock of the Bank, persons that hold units of ordinary stock or ADSs as part of a straddle or a hedging or conversion

transaction, persons that purchase or sell units of ordinary stock or ADSs as part of a wash sale for tax purposes or US holders or eligible US holders whose functional currency is not the US dollar. While the summary discussion relates to material matters relevant to the tax laws of the United States and Ireland, all holders should consult their own tax advisors as to the Irish, US or any other tax consequences of the purchase, ownership and disposition of ordinary stock or ADSs including the effect of any foreign, state or local tax laws as they apply to their particular circumstances. This summary is based (i) on the income tax treaty between Ireland and the United States (the “Tax Treaty”), tax laws, regulations, administrative rulings and court decisions of Ireland and the United States, all as currently in effect and all subject to change at any time, perhaps with retroactive effect, and (ii) in part, on representations of the Depository, and assumes that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

If a partnership holds the ordinary stock or ADSs, the US federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A partner in a partnership holding ordinary stock or ADSs should consult its tax advisor with regard to the US federal income tax treatment of an investment in the ordinary stock or ADSs.

For purposes of this discussion, a “US holder” is a beneficial owner of ADSs or ordinary stock that is, for US federal income tax purposes, (i) a citizen or resident of the US, (ii) a US domestic corporation or an entity taxable as a corporation, (iii) an estate whose income is subject to US federal income tax regardless of its source, (iv) a trust if a US court can exercise primary supervision over the trust’s administration and one or more US persons are authorised to control all substantial decisions of the trust.

For purposes of this discussion, an “eligible US holder” is a US holder that is (i) not a resident of Ireland for purposes of Irish taxes, (ii) not engaged in a trade or business in Ireland through a permanent establishment and (iii) otherwise eligible for benefits under the Tax Treaty with respect to income and gain from ordinary stock or ADSs.

For purposes of the Tax Treaty and the US Internal Revenue Code of 1986, as amended (the “Code”), US holders will be treated as the beneficial owners of the ordinary stock underlying the ADSs represented by the ADRs.

Irish Taxation

Dividends: Dividends paid by an Irish resident company do not carry a tax credit and are generally subject to Dividend Withholding Tax (“DWT”) at the standard rate of income tax, currently 20%. This could include dividends paid by the Group with respect to ordinary stock or ADSs. There are a number of exemptions available from DWT including: (i) for ordinary stock, where the recipient is an eligible US holder who completes a relevant declaration and submits the same to the Bank’s Registration Department prior to the due date of payment of the relevant dividend; and (ii) in relation to dividends paid with respect to ADSs as evidenced by an ADR, where the beneficial holder’s address on the register of depository receipts is located in the US and is held by the Bank of New York or other ‘qualifying intermediary’ as defined in section 172E Irish Taxes Consolidation Act 1997 (or see list at <http://www.revenue.ie/en/tax/dwt/authorised-qualifying-intermediaries.html>) or by any intervening ‘specified intermediary’ as defined in section 172F Irish Taxes Consolidation Act 1997.

An eligible US holder that receives a dividend which has been subjected to DWT may, in certain circumstances, claim repayment of the DWT by making an application to the Irish Tax Authorities in accordance with provisions of Irish law. Under the provisions of Irish law an eligible US holder, who is not under the control (direct or indirect) of a person or persons who are Irish resident, is exempt from Irish tax on dividends paid by the Group. Where entitlement to a full repayment under these provisions cannot be established, the procedures outlined in the immediately following paragraphs will apply.

The Tax Treaty limits the Irish tax liability of an eligible US holder (that is unable to claim repayment of the full DWT under provisions of Irish law) in respect of a dividend paid by the Bank to 15% of the gross amount. Consequently such holders may claim repayment from the Irish Tax Authorities, in accordance with the Tax Treaty, of the amount of DWT in excess of 15% of the sum of the cash dividend and the related DWT.

Gain on Disposition: A gain realised on the disposition of ADSs or ordinary stock by a US holder who is not resident or ordinarily resident in Ireland for Irish tax purposes is not subject to Irish Capital Gains Tax unless such ADSs or units of ordinary stock are held in connection with a trade or business carried on by such holder in Ireland through a branch or agency.

Irish Stamp Duty: Section 90 of the Irish Stamp Duties Consolidation Act 1999 exempts from Irish stamp duty transfers of ADRs where the ADRs (or the underlying securities they represent) are dealt in and quoted on a recognised stock exchange in the US. The ordinary stock that is listed and traded on the New York Stock Exchange in the form of ADSs, evidenced by ADRs, falls within this exemption. Irish stamp duty will be charged at a rate of 1% rounded down to the nearest euro of the consideration on any conveyance or transfer on the sale of the ordinary stock or the value of that stock if higher. If less than one euro, stamp duty is rounded up to one euro.

Stamp duty (which would be applicable at the rate of 1% rounded down to the nearest euro of the price paid or, if higher, the value of the ordinary stock) may apply to conversions of ordinary stock into ADSs and of ADSs to ordinary stock. This would include a deposit of ordinary stock with the depository in exchange for ADSs and withdrawals of ordinary stock if the deposit withdrawal is done as a conveyance on sale or in contemplation of sale.

US Federal Income Taxation

Dividends: Under the Code and subject to the PFIC rules discussed below, the gross amount of any dividend (including any related applicable DWT) paid by the Bank to a US holder out of its current or accumulated earnings and profits (as determined for US Federal income tax purposes) is subject to US Federal income taxation. Distributions in excess of current and accumulated earnings and profits, as determined for US federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the ADSs or ordinary stock and thereafter as capital gain. However, because the Bank does not compute its current or accumulated earnings and profits in accordance with US federal income tax principles, the entire amount of any distribution may be treated as a taxable dividend.

Dividends paid to a non-corporate US holder in taxable years beginning before 1 January 2013 that constitute qualified dividend income will be taxable to the holder at a maximum federal tax rate of 15% provided that the ADSs or ordinary stock are held for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and the holder meets other holding period requirements. The Bank expects that dividends paid by it will generally be qualified dividend income; however, whether any particular payment represents qualified dividend income will depend on the facts and circumstances existing at the time the dividend is paid (including, for example, whether and how the Bank qualifies for benefits under the Tax Treaty). The dividend will not be eligible for the dividends-received deduction generally allowed to corporations. The amount of any dividend distribution that a US holder must include in income will be the US dollar value of the euro payment (determined at the spot US dollar/euro exchange rate) on the date of actual or constructive receipt by the US holder, in the case of ordinary stock, or by the Depository in the case of ADSs, regardless of whether the payment is converted into dollars. Gain or loss, if any resulting from currency exchange fluctuations during the periods from the date a US holder includes the dividend payment in income to the date such US holder converts the payment into US dollars, generally will be ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income, and generally will be income or loss from sources within the United States for foreign tax credit limitation purposes.

Subject to certain limitations, any Irish tax (including DWT) withheld and paid over to Ireland will be creditable or deductible against the US holder's US Federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% federal tax rate that is applicable to qualified dividend income. To the extent a refund of the tax withheld is available to a US holder under Irish law or the Tax Treaty, the amount of tax withheld that is refundable will not be eligible for credit against a US holder's US Federal income tax liability.

Dividends paid by the Bank with respect to ADSs or ordinary stock will be income from sources outside the United States and will, depending on a US holder's circumstances, generally be 'passive' income or 'general' income for purposes of computing the foreign tax credit available to a US holder. US holders should consult their own tax advisors concerning the implications of the US foreign tax credit rules in light of their particular circumstances.

Gain on Disposition: Subject to the PFIC rules discussed below, upon the sale, exchange or other disposition of ADSs or ordinary stock, a US holder will recognise gain or loss, if any, equal to the difference between the US dollar amount realised upon the sale, exchange, or other disposition and the US holder's tax basis in the ADSs or ordinary stock. Capital gain of a non-corporate US holder is generally taxed at preferential rates where the US holder has a holding period greater than one year. The deductibility of capital losses is subject to limitations. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

PFIC Rules: The Bank believes that ADSs and ordinary stock should not be treated as stock of a Passive Foreign Investment Company ("PFIC") for US federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If, contrary to the Bank's belief, the Bank were to be treated as a PFIC, gain realised on the sale or other disposition of a US holder's ADSs or ordinary stock would in general not be treated as a capital gain. Instead, a US holder would be treated as if it had realised such gain and certain "excess distributions" ratably over its holding period for the ADSs or ordinary stock and would be taxed at the highest tax rate in effect for each such year to which the gain or distribution was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, a US holder's ADSs or ordinary stock will be treated as stock in a PFIC if the Bank were a PFIC at any time during such US holder's holding period in its ADSs or ordinary stock. Dividends received by a US holder from the Bank will not be eligible for the special tax rates applicable to qualified dividend income if the Bank is treated as a PFIC with respect to such US holder either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

DOCUMENTS AVAILABLE THROUGH THE SEC

It is possible to read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room and its copy charges. Documents filed with the SEC on or after 4 November 2002 are available on the website maintained by the SEC (www.sec.gov).

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 Statement, the Form 20-F (which is filed annually with the US Securities and Exchange Commission) and copies of presentations to analysts and investors as they are made, so that information is available to all stockholders. Annual and interim results presentations are webcast live so that all stockholders can receive the same information at the same time.

Additionally, the Investor Relations section on the Group's website is updated with all Stock Exchange releases as they are made by the Group. The Group has an active and well developed Investor Relations programme, which involves regular meetings by the Group Chief Executive, the Chief Financial Officer and other members of his senior executive team and the Head of Group Investor Relations with the Group's principal institutional stockholders and with financial analysts and brokers. The Directors are kept informed on investor issues through regular reports from Group Investor Relations on the outcome of these meetings. All meetings with stockholders are conducted in such a way as to ensure that price sensitive information is not divulged. In addition, all Directors are encouraged and facilitated to hear the views of investors and analysts at first hand through their participation in conference calls following major announcements. The Court concluded that the objective of keeping Directors fully informed on stockholder views was achieved in the year ended 31 December 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. Separate resolutions are proposed on each substantially separate issue and voting is conducted by way of poll. The outcome of every general meeting of the Group, including details of votes cast for, against and abstaining, on each resolution, including proxies, are posted on the Group's website as soon as possible afterwards and released to the Irish, London and New York Stock Exchanges. It is usual for all Directors to attend all General Courts to meet stockholders and for the Chairs of the Group Audit, Nomination and Governance and Remuneration Committees to be available to answer relevant questions. In addition a 'Help Desk' facility is available at all General Courts to assist stockholders to resolve any specific queries that they may have.

Item 11 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

RISK MANAGEMENT REPORT

1 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.

1.1 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 achieved 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

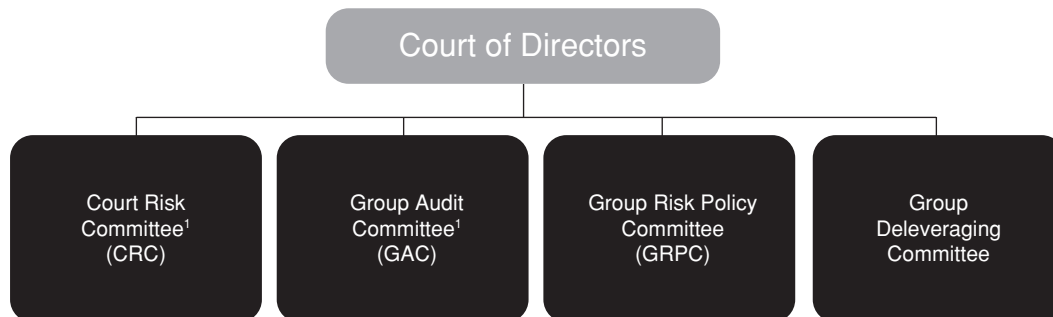
The Group's risk strategy is shaped by Risk Appetite as approved by the Court and its objective is to reduce overall risk profile.

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.

1.2 RISK GOVERNANCE

Governance Structure



(1) Membership comprises only non-executive Directors

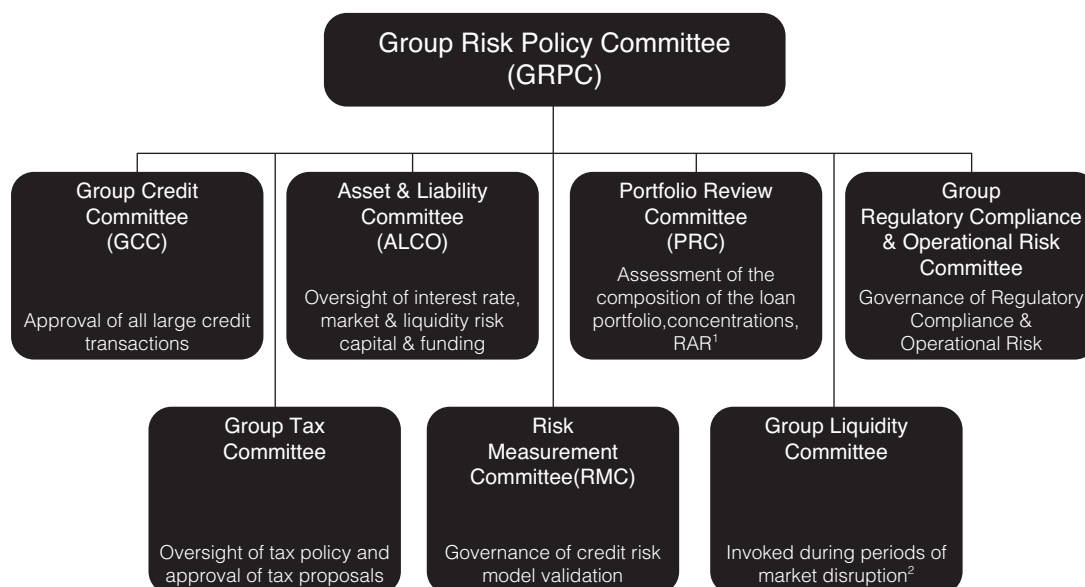
The responsibility for risk management extends throughout the organisation:

- **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 its effectiveness. It regularly reviews reports on the size and composition of key risks facing the Group as well as the minutes of key committees.
- **The 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 139 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 managed 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.



(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.

1.3 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.

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 178. 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.

2 MANAGEMENT OF KEY GROUP RISKS

2.1 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 adversely 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 F-13.

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 to the Consolidated Financial Statements.

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 201.

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.

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 252.

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 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 (MARF) for defined owner occupied mortgages. The MARF 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 4 Credit Risk Methodologies on page 247.

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 4 Credit Risk Methodologies on page 247.

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 to the Consolidated Financial Statements.

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 4 Credit Risk Methodologies on page 247.

2.1.2 BOOK PROFILE—Loans and advances to customers

Loans and advances to customers in the tables on pages 187 to 195 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 | | | Loans and advances to customers 31 December 2010 | | |
|---------------------------------------|---|---------------------|----------------|---|---------------------|----------------|
| | Ireland €m | UK & Other €m | Total €m | 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.

2.1.3 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-, 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.

| Loans and advances to customers Book composition (before impairment provisions) | 31 December 2011 | | 31 December 2010 | |
|--|---------------------|-------------|---------------------|-------------|
| | €m | % | €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.

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 F-13.

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 nor 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.

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page F-13.

‘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 F-13.

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.

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page F-13.

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 |

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 F-13.

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.

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.

(1) 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

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 F-13.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 ⁽¹⁾ €m | 9 months ended 31 December 2009 ⁽¹⁾ €m |
|--|---|--|---|
| Impairment charges on loans and advances to customers | | | |
| Residential mortgages | 469 | 404 | 231 |
| —Retail Ireland | 444 | 341 | 159 |
| —Retail UK | 25 | 63 | 72 |
| Non-property SME and corporate | 497 | 609 | 655 |
| —Republic of Ireland SME | 281 | 291 | 339 |
| —UK SME | 74 | 126 | 46 |
| —Corporate | 142 | 192 | 270 |
| Property and construction | 893 | 719 | 1,281 |
| —Investment | 593 | 448 | 305 |
| —Land and development | 300 | 271 | 976 |
| Consumer | 80 | 127 | 166 |
| Total impairment charges on loans and advances to customers . | 1,939 | 1,859 | 2,333 |

(1) The analysis of the impairment charge for the year ended 31 December 2010 and the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been re-presented on 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.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 ⁽¹⁾ €m |
|--|---|--|
| Impairment Charge by nature of impairment provision | | |
| 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.

The impairment charge for the nine month period ended 31 December 2009 of €2,333 million comprises a charge for specific provisions (including collective provisions) of €2,010 million and a charge for IBNR provisions of €323 million.

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 F-13.

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.

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.

(1) Per 'The Daft.ie rental report—An analysis of recent trends in the Irish rental market 2011, Quarter 4'.

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 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.

2.1.4 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 F-13.

| 31 December 2011 | Retail Ireland €m | Retail UK €m | Corporate and Treasury €m | Total Group €m |
|--|----------------------------------|-----------------------------|--|-------------------------------|
| Risk profile of loans and advances to customers including held for sale | | | | |
| Total before impairment provisions | | | | |
| 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 | <u>38,076</u> | <u>37,862</u> | <u>12,536</u> | <u>88,474</u> |
| 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 | <u>11,193</u> | <u>6,434</u> | <u>2,001</u> | <u>19,628</u> |
| Total | <u>49,269</u> | <u>44,296</u> | <u>14,537</u> | <u>108,102</u> |

| 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 |

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.

2.1.5 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.

| <u>31 December 2011 Held for sale—composition by division⁽¹⁾</u> | <u>Assets €m</u> | <u>Impairment provisions €m</u> | <u>Carrying value €m</u> |
|---|----------------------|---|----------------------------------|
| Retail Ireland | — | — | — |
| Retail UK | 802 | — | 802 |
| Corporate and Treasury | 1,642 | 21 | 1,621 |
| Total held for sale | <u>2,444</u> | <u>21</u> | <u>2,423</u> |

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

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

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

Held for sale—composition by risk profile

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

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

(1) These loans are included within the loans and advances to customers disclosed on the previous pages.

‘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’:

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 % | Total provisions €m | Provisions as a % of impaired loans % |
|--|----------------|-------------------------|--|---------------------------|---|
| 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.

2.1.6 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: <u>Other financial instruments with ratings equivalent to:</u> | 31 December 2011 | | 31 December 2010 | |
|--|---------------------|-------------|---------------------|-------------|
| | €m | % | €m | % |
| 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% |

2.1.7 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 204 to 207.

Cash and balances at central banks

| <u>Cash and balances at central banks</u> | 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 203 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 204.

Loans and advances to banks

See table on page 203 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 203 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).

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.

| Type of exposure | Available for sale financial assets | | | | | Loans and advances to banks €m |
|------------------|-------------------------------------|------------------------|---------------------|-------------------------|-------------------------------|-----------------------------------|
| | Government bonds €m | Senior bank debt €m | Covered bonds €m | Subordinated debt €m | Asset backed securities €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 204.

(2) NAMA subordinated debt of €113 million, is classified as an available for sale debt instrument.

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 |
|---|------------------|-------------------|-----------------|-----------------|------------------|---------------------|---------------|
| | 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 |
| As at 31 December 2011 | | | | | | | |
| Cash and balances at Central banks | 316 | — | — | — | — | — | 316 |
| Other financial assets at fair value through profit or loss | 1 | — | 102 | 289 | 78 | 58 | 528 |
| —Government bonds | 1 | — | 102 | 240 | 78 | 41 | 462 |
| —Other | — | — | — | 49 | — | 17 | 66 |
| Loans and advances to banks | 746 | 61 | — | — | — | — | 807 |
| Available for sale financial assets | 517 | 27 | 1,066 | 1,739 | 1,100 | 4 | 4,453 |
| —Government bonds | 437 | — | 1,066 | 1,732 | 987 | — | 4,222 |
| —Other | 80 | 27 | — | 7 | 113 | 4 | 231 |
| NAMA senior bonds | — | — | — | — | 5,016 | — | 5,016 |
| 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 F-13 to F-40, 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.

| 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.

In the period since 31 December 2011, the Group has increased its holding in Irish Sovereign Debt accounted as available for sale, by nominal value of €1.3 billion. The main increase is in balances classified as 1-2 years. This increase in holdings is net of redemptions since 31 December 2011.

| 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 |

In the period since 31 December 2011, the Group has decreased its holding in Irish Sovereign Debt accounted at fair value through profit or loss, by €0.1 billion by way of asset sales.

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:

| As at 31 December 2011 | Carrying Value | | | | | | Total €m | Nominal value Total €m |
|-------------------------------------|---------------------|----------------------|--------------------|--------------------|---------------------|------------------------|-------------|---------------------------------|
| | 0-3 months €m | 3-12 months €m | 1-2 years €m | 2-5 years €m | 5-10 years €m | Over 10 years €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 |

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 | | | | | | Nominal |
|-------------------------------------|---------------------|----------------------|--------------------|--------------------|---------------------|------------------------|--------------|
| | 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 |
| Available for sale financial assets | | | | | | | |
| —Government bonds | — | — | — | — | — | — | — |
| —Other | — | 104 | 284 | 491 | 429 | 11 | 1,319 |
| Total | — | 104 | 284 | 491 | 429 | 11 | 1,319 |

| 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.

SUPPLEMENTARY SECTION—Retail Ireland Mortgages

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 F-13.

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) | 31 December 2011 €m | 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.

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.

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.

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 | | | 31 December 2010 | | |
|--|----------------------|------------------|--------------|----------------------|------------------|--------------|
| | Owner occupied €m | Buy to let €m | Total €m | Owner occupied €m | Buy to let €m | 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 | <u>2,474</u> | <u>1,241</u> | <u>3,715</u> | <u>100%</u> |

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’.

Table 3d:

| 31 December 2011 Loan to value of total Retail Ireland mortgage loan book | Owner occupied | | Buy to let | | Total | |
|--|----------------------|--------------------|---------------------|--------------------|----------------------|--------------------|
| | €m | % | €m | % | €m | % |
| 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 | <u>10,296</u> | <u>50%</u> | <u>2,174</u> | <u>31%</u> | <u>12,470</u> | <u>45%</u> |
| 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 | <u>10,567</u> | <u>50%</u> | <u>4,817</u> | <u>69%</u> | <u>15,384</u> | <u>55%</u> |
| Total | <u>20,863</u> | <u>100%</u> | <u>6,991</u> | <u>100%</u> | <u>27,854</u> | <u>100%</u> |

Weighted average LTV⁽¹⁾:

| | | | |
|--|------|------|------|
| Stock of Residential mortgages at year end | 100% | 118% | 105% |
| New Residential mortgages during the year | 79% | 60% | 79% |

(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 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 | | Buy to let | | Total Residential mortgage portfolio | |
|--|----------------|-------------|--------------|-------------|--------------------------------------|-------------|
| | €m | % | €m | % | €m | % |
| 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⁾: | | | | | | |
| > 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.

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 | <u>7,263</u> | <u>679</u> | <u>9.3%</u> | <u>268</u> | <u>39.5%</u> |
| Total Retail Ireland mortgages | <u>28,067</u> | <u>1,681</u> | <u>6.0%</u> | <u>575</u> | <u>34.2%</u> |

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'.

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⁾ | | Loans > 90 days past due and/or impaired | | All loans | |
|---|--|--------------------------------------|--|--------------------------------------|---------------|--------------------------------------|
| | Balance €m | Number of accounts ⁽²⁾ | Balance €m | Number of accounts ⁽²⁾ | Balance €m | 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.

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:

| | 31 December 2011 | | 31 December 2010 | |
|--|---|---|---|---|
| | Number of repossessions at balance sheet date | Balance outstanding before impairment provisions €m | Number of repossessions at balance sheet date | Balance outstanding before impairment provisions €m |
| Repossessions | | | | |
| Retail Ireland mortgages | | | | |
| 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^(*) (31 December 2010: 18 repossessed properties disposed of). The total contracted disposal proceeds was adequate to cover the balance outstanding after provisions.

SUPPLEMENTARY SECTION—UK Mortgages

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 F-13.

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) | 31 December 2011⁽¹⁾ €m | 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.

(*) 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.

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 | <i>10,861</i> | 6 | <i>188</i> |
| 1997 | 74 | <i>1,742</i> | 1 | <i>18</i> |
| 1998 | 120 | <i>2,510</i> | 1 | <i>19</i> |
| 1999 | 132 | <i>2,811</i> | 1 | <i>27</i> |
| 2000 | 159 | <i>3,033</i> | 2 | <i>27</i> |
| 2001 | 342 | <i>4,686</i> | 4 | <i>37</i> |
| 2002 | 438 | <i>5,759</i> | 9 | <i>79</i> |
| 2003 | 961 | <i>10,758</i> | 23 | <i>161</i> |
| 2004 | 995 | <i>10,468</i> | 22 | <i>165</i> |
| 2005 | 2,289 | <i>20,430</i> | 66 | <i>441</i> |
| 2006 | 3,296 | <i>28,337</i> | 75 | <i>474</i> |
| 2007 | 5,462 | <i>43,672</i> | 141 | <i>908</i> |
| 2008 | 6,756 | <i>53,687</i> | 247 | <i>1,545</i> |
| 2009 | 1,321 | <i>9,964</i> | 10 | <i>94</i> |
| 2010 | 1,175 | <i>7,677</i> | 1 | <i>5</i> |
| 2011 | 849 | <i>5,381</i> | — | <i>1</i> |
| Total | 24,755 | 221,776 | 609 | 4,189 |

(1) The number of accounts does not equate to either the number of 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.

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.

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:

| Arrears profile of Retail UK mortgages past due but not impaired (before impairment provisions) | 31 December 2011 | | | | 31 December 2010 | | | |
|---|------------------|---------------------|-------------------------|--------------|------------------|---------------------|-------------------------|--------------|
| | 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’.

Table 3d:

| 31 December 2011 Loan to value ratio of total Retail UK mortgage loan book including held for sale | Standard | | Buy to let | | Self certified | | Total | |
|--|---------------|-------------|--------------|-------------|----------------|-------------|---------------|-------------|
| | £m | % | £m | % | £m | % | £m | % |
| 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 | | Buy to let | | Self certified | | Total residential mortgage portfolio | |
|--|------------|-------------|------------|-------------|-------------------|-------------|---|-------------|
| | £m | % | £m | % | £m | % | £m | % |
| 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 | <u>27,715</u> | <u>747</u> | <u>2.7%</u> | <u>129</u> | <u>17.3%</u> |

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 | | 31 December 2010 | |
|--|--|--|---|--|
| | Number of repossessions at balance sheet date | Balance outstanding before impairment provisions £m | Number of repossessions as at balance sheet date | 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 | <u>273</u> | <u>39</u> | <u>317</u> | <u>50</u> |

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 | <u>780</u> | <u>77</u> | <u>85</u> |

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

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.

2.2 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 also participated in the second ECB three year LTRO in March 2012 converting c.€4.8 billion of mainly shorter term funding to three year funding with a maturity of February 2015.
- 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.

(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.

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page F-13.

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.

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 F-6. 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 | Up to | 3-12 | 1-5 | Over | Total |
| | €m | 3 months | months | years | 5 years | €m |
| | | €m | €m | €m | €m | €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.

| 31 December 2010 | | | | | | |
|---|---------------|-----------------|---------------|---------------|----------------|----------------|
| Maturities of financial assets and liabilities | Demand | Up to | 3-12 | 1-5 | Over | Total |
| | €m | 3 months | months | years | 5 years | €m |
| | | €m | €m | €m | €m | €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 | <u>9,900</u> | <u>15,501</u> | <u>12,723</u> | <u>44,052</u> | <u>76,550</u> | <u>158,726</u> |
| 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 | <u>49,387</u> | <u>57,608</u> | <u>5,224</u> | <u>20,036</u> | <u>11,176</u> | <u>143,431</u> |

(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 F-13.

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 F-159, 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.

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page F-13.

| 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 F-6, 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 224. 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 F-13.

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 to the Consolidated Financial Statements.

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page F-13.

| | 31 December 2011 €bn | 31 December 2010 €bn |
|--|----------------------------|----------------------------|
| Customer deposits | | |
| 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 F-13.

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.

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page F-13.

| | 31 December 2011 | | 31 December 2010 | |
|--|------------------|-------------|------------------|-------------|
| | €bn | % | €bn | % |
| Wholesale funding sources | | | | |
| 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 F-13.

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.

In March 2012, the Group participated in the second ECB three year LTRO when it converted c.€4.8 billion of mainly shorter term funding to three year funding with a maturity of February 2015.

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 further reductions in wholesale funding in line with PLAR targets.

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page F-13.

| <u>Wholesale funding maturity analysis</u> | 31 December 2011 | | 31 December 2010 | |
|--|-------------------------|--------------------|-------------------------|--------------------|
| | €bn | % | €bn | % |
| 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 | <u>51</u> | <u>100%</u> | <u>70</u> | <u>100%</u> |

2.3 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 F-13.

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 F-13.

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 requirement of policy that, as far as practicable, market risk is removed from customer-facing units by way of internal hedging arrangements. This is the effect of substantially eliminating fixed rate risk in these units and materially reducing variable rate (basis) risk. This means that the major part of 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:

| <u>Value at risk</u> | <u>31 December 2011 €m</u> | <u>31 December 2010 €m</u> |
|---------------------------------------|------------------------------------|------------------------------------|
| 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 |

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 one, three 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:

| <u>Structural FX position</u> | <u>31 December 2011 €m</u> | <u>31 December 2010 €m</u> |
|---|------------------------------------|------------------------------------|
| Sterling—net asset position | 3,992 | 3,413 |
| US dollar—net asset position | 877 | 619 |
| Total structural FX position | <u>4,869</u> | <u>4,032</u> |

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:

| <u>Non-linked portfolio sensitivity</u> | <u>31 December 2011 €m</u> | <u>31 December 2010 €m</u> |
|---|------------------------------------|------------------------------------|
| 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 to the Consolidated Financial Statements and the accounting policy is set out on page F-26.

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.

2.4 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 F-13.

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 F-13.

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 insurers 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.

2.5 REGULATORY, COMPLIANCE AND OPERATIONAL RISK

The information below is additional disclosure and it does not form an integral part of the audited financial statements as described in the Basis of preparation on page F-13.

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:

- 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.

2.6 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.

2.7 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.

2.8 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.

3 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 F-13.

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 F-13.

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.

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page F-13.

Capital resources

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

| <u>Group capital resources</u> | <u>31 December 2011 €m</u> | <u>31 December 2010 €m</u> |
|--|------------------------------------|------------------------------------|
| 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 | <u>11,678</u> | <u>10,182</u> |

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 F-13.

In the year ended 31 December 2011 the Group's total capital resources increased by €1.5 billion to €11.7 billion due primarily to:

- net new equity capital raised of €2.5 billion following the 2011 recapitalisation of the Bank
- profit for the year of €0.04 billion (including the gain on liability management exercises as part of the 2011 recapitalisation of the Bank of €1.8 billion)
- the issue of €1.0 billion Contingent Capital note to the State; partly offset by
- reduction in subordinated debt of €2.3 billion due to various liability management exercises.

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.

4 CREDIT RISK METHODOLOGIES

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page F-13.

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 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.

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 bankruptcy 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 bankruptcy/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 bankruptcy/insolvency proceedings.

Consumer

- debt service capacity;
- repayment arrears;
- adverse movements in net worth; and
- initiation of bankruptcy 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:

- 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.

- **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.

Item 12 DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

American Depositary Shares

The Bank of New York Mellon as Depositary, collects fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal, or from intermediaries acting for them. The Depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) (A fee equivalent to the fee that would be payable if securities distributed had been shares and the shares had been deposited for issuance in ADSs)

Applicable Registration or transfer fee

Applicable Expenses of the Depositary

Applicable Taxes and other governmental charges the Depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

For:

- Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
- Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
- Distribution of deposited securities by the Depositary to registered ADS holders
- Transfer and registration of shares on our share register to or from the name of the Depositary or its agent when the holder deposits or withdraws shares
- Cable, telex and facsimile transmissions
- As necessary

Fees and direct and indirect payments made by the Depositary to the Group

The Depositary has agreed to reimburse certain Group expenses related to the Group's ADS programme and incurred by the Group in connection with the ADS programme. For the year ended 31 December 2011, the Depositary reimbursed to the Group, or paid amounts on its behalf to third parties, a total sum of €202,481.

The table below sets forth the categories of expense that the Depositary has agreed to reimburse the Group and the amounts reimbursed for the year ended 31 December 2011.

| <u>Category of expense reimbursed to the Group</u> | <u>Amount reimbursed for the Year ended 31 December 2011 \$</u> |
|--|---|
| NYSE listing fees | — |
| Investor Relations programme support* | <u>Nil</u> |
| Total | <u><u>Nil</u></u> |

* For 2011, a reimbursement of \$850,000 has been agreed but not yet paid which includes \$348,087 NYSE annual fee for listing ADS which Bank of Ireland paid directly to NYSE.

| <u>Category of expense waived or paid directly to third parties</u> | <u>Amount reimbursed for the Year ended 31 December 2011 \$</u> |
|---|---|
| NYSE listing fees | |
| Printing, distribution and administration costs paid directly to third parties in connection with US shareholder communications and AGC related expenses in connection with the ADS program | <u>202,481</u> |
| Total | <u><u>202,481</u></u> |

The Depositary has also agreed to waive fees for standard costs associated with the administration of the ADS program.

APPENDIX TO PART I
DEFINITIONS AND ABBREVIATIONS

| | |
|------------------------------------|--|
| €0.05 Ordinary Stock | the units of Ordinary Stock following the Renominalisation in July 2011; |
| €0.10 Ordinary Stock | the units of Ordinary Stock following the Renominalisation in May 2010; |
| 2010 EU Restructuring Plan | The EU restructuring plan for the Group approved by the European Commission on 15 July 2010; |
| 2010 Proposals | The Proposals for the recapitalisation of the Bank in the year ended 31 December 2010; |
| 2011 EU Restructuring Plan | The revised restructuring plan for the Group, approved by the European Commission on 20 December 2011, prepared under EU State aid rules for the purpose of establishing the bank's long term viability without State support, adequate burden sharing and measures to minimise any distortion of competition arising from State aid provided to the bank; |
| AFS | available for sale; |
| Annual General Court or AGC | an annual general meeting of stockholders of the Bank; |
| CCN | Contingent Capital Note; |
| Central Bank | the Central Bank of Ireland; |
| CIFS Scheme | the Credit Institutions (Financial Support) Scheme 2008 (S.I. No 411 of 2008); |
| CIWUD | Credit Institution Winding Up Directive; |
| Closing Price | the closing middle market quotation of a unit of Ordinary Stock as derived from the Daily Official List; |
| 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 Group, or substantially all of the Group'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 Group (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 the European Communities (Mergers and Divisions of Companies) Regulations, 1987 (Statutory Instrument 137 of |

| | |
|---|---|
| | 1987) or a merger of The Bank pursuant to the European Communities (Cross Border Mergers) Regulations 2008 (Statutory Instrument 157 of 2008); |
| CSO | Central Statistics Office; |
| Dáil | Dáil Eireann (the House of Representatives) which forms one branch of The Houses of the Oireachtas (Ireland's National Parliament), the other two being Seanad Eireann (the Senate) and the President of Ireland; |
| Debt for Equity Offers | each of the US Debt for Equity Offers and the Non-US Debt for Equity Offers which formed part of the recapitalisation of the Bank in the year ended 31 December 2011 and the year ended 31 December 2010; |
| Deferred Stock | units of deferred stock in the capital of the Bank created pursuant to the Renominalisation in May 2010 and July 2011; |
| Department of Finance | Department of Finance of Ireland; |
| DWT | dividend withholding tax; |
| EBA | European Banking Authority; |
| ECB | European Central Bank; |
| ELG | Eligible Liabilities Guarantee Scheme; |
| Eligible Bank Assets | those classes of assets prescribed as eligible bank assets by the Minister for Finance, in accordance with section 69 of the NAMA Act; |
| ESOS | the executive stock option scheme as described in the Remuneration of Directors and Officers; |
| Existing Stock | the units of Ordinary Stock in issue as at 26 April 2010; |
| Extraordinary General Court or EGC | an extraordinary general meeting of stockholders of the Bank; |
| Financial Regulator | the Irish Financial Services Regulatory Authority; |
| FSA | Financial Services Authority; |
| FVTPL | Fair value through profit or loss; |
| Government Appointee | a director appointed by a Government Preference Stockholder or the Minister for Finance pursuant to the CIFS scheme (being a provision that survives the expiry of the CIFS scheme as continued under the terms of the ELG scheme); |
| GRPC | Group Risk Policy Committee; |
| Hybrid/Preferred Securities | Bank of Ireland Capital Funding (No. 1) LP, €600,000,000 Fixed Rate/Variable Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities, the LP2 Securities, the LP3 Securities and Bank of Ireland Capital Funding (No. 4) LP £500,000,000 Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities; |
| IBNR | Incurred but not reported; |

| | |
|---|--|
| IMF | International Monetary Fund; |
| Institutional Placing | the placing of Ordinary Stock with institutional investors (but excluding the NPRFC) as part of the recapitalisation of the Bank in the year ended 31 December 2010; |
| IRBA | Internal Ratings Based Approach; |
| Irish Code | the Central Bank of Ireland's Corporate Governance Code for Credit Institutions and Insurance Undertakings; |
| Joint Bookrunners or joint bookrunners | Citi, Credit Suisse, Davy, Deutsche Bank and UBS; |
| LTRO | Long Term Refinancing Operation (by the European Central Bank); |
| Minister for Finance or Minister | the Minister for Finance of Ireland; |
| NAMA | the National Asset Management Agency and, where the context permits, other members of NAMA's group including subsidiaries and associated companies. For further information refer to www.nama.ie ; |
| National Pensions Reserve Fund | the fund established by the National Pensions Reserve Fund Act, 2000 to meet (insofar as possible) the costs of Ireland's social welfare and public service pensions from 2025 onwards; |
| NPRFC | the National Pensions Reserve Fund Commission, established by the National Pensions Reserve Fund Act 2000 to, inter alia, control, manage and invest the assets of the National Pensions Reserve Fund. References herein to the NPRFC mean the NPRFC acting in its capacity as controller and manager of the National Pensions Reserve Fund; |
| NPRFC Coupon Ordinary Stock | 184,394,378 units of Ordinary Stock issued to the NPRFC on Monday 22 February 2010 in lieu of the cash dividend otherwise due on the 2009 Preference Stock; |
| NPRFC Placing | the conversion by the NPRFC of units of 2009 Preference Stock to units of Ordinary Stock as part of the recapitalisation of the Bank in the year ended 31 December 2010; |
| Participating Institution | a credit institution designated by the Minister for Finance as a participating institution in accordance with the provisions of section 67 of the NAMA Act; |
| PCAR | Prudential Capital Assessment Review; |
| Placees | persons with whom Placing Stock was placed, including, in the case of the NPRFC Placing and where the context so permits, the NPRFC; |
| Placing Stock | the 326,797,386 units of Ordinary Stock issued by the Bank pursuant to the Institutional Placing as part of the recapitalisation of the Bank in the year ended 31 December 2010; |
| PLAR | Prudential Liquidity Assessment Review; |

| | |
|---------------------------------|---|
| Preference Stock | means the 2009 Preference Stock and the 1992 Preference Stock; |
| Qualifying Stockholders | holders of Ordinary Stock on the register of members of the Bank at the Record Date and Placees (excluding the NPRFC in respect of the NPRFC Coupon Ordinary Stock); |
| Record Date | 5.00 p.m. on 17 May 2010; |
| Renominalisation | The reduction in the nominal value of each unit of ordinary stock (from €0.10 per unit to €0.05 per unit in July 2011 and from €0.64 per unit to €0.10 per unit in May 2010) and the creation of Deferred Stock. The July 2011 renominalisation also included a reduction in the nominal value of each unit of Deferred Stock from €0.54 per unit to €0.01 per unit; |
| Rights Issue | the offer by way of rights to Qualifying Stockholders to acquire Rights Issue Stock; |
| RWA | Risk Weighted Assets; |
| State | The Republic of Ireland, its Government and, where and if relevant, Government departments, agencies and local Government bodies; |
| State Placing | the placing of up to 794,912,043 units of new Ordinary Stock with the NPRFC in the year ended 31 December 2010; |
| 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). |
| UK Code | the UK Corporate Governance Code (formerly the Combined Code published by the Financial Reporting Council in the UK); |

PART II

Item 13 DEFAULTS, DIVIDEND ARREARAGES & DELINQUENCIES

None.

Item 14 MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS & USE OF PROCEEDS

See Item 8 and note 49 of the consolidated financial statements for a discussion of changes to preferential shares relevant to holders of ordinary shares.

Item 15 CONTROLS AND PROCEDURES

(a) Evaluation Disclosure Controls and Procedures

An evaluation has been completed under the supervision and with the participation of the Group's management, including the Group Chief Executive and the Group Chief Financial Officer, of the effectiveness of the design and operation of the Group's disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures are defined in Exchange Act Rules 13a-15(e) and generally refer to those controls and procedures designed to ensure that information required to be disclosed in reports filed under the US Securities Exchange Act of 1934 is recorded, processed, summarised and reported within specific time periods. As of the date of the evaluation, the Group's management, including the Group Chief Executive and Group Chief Financial Officer, concluded that the design and operation of these disclosure controls and procedures were effective.

(b) Management's Annual Report on Internal Control over Financial Reporting

The management of the Group is responsible for establishing and maintaining adequate internal control over financial reporting. The Group's internal control over financial reporting is a process designed under the supervision of the Group Chief Executive and the Group Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS as adopted by the European Union and the IASB. Management assessed the effectiveness of the Group's internal control over financial reporting as of 31 December 2011 based on the criteria set forth by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO") in Internal Control Integrated Framework. Based on this assessment, management has concluded that, as of 31 December 2011 the Group's internal control over financial reporting was effective.

Internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. See section 'Corporate Governance Statement: Internal Controls' for additional information.

PricewaterhouseCoopers, an independent registered public accounting firm, audited the consolidated financial statements of the Group for the year ended 31 December 2011, and has issued an audit report on the effectiveness of Group's internal controls over financial reporting as of 31 December 2011.

(c) Attestation Report of registered public accounting firm

Please see Report of independent registered public accounting firm on internal control over financial reporting on page F-3.

(d) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16**Item 16A Audit Committee Financial Expert**

The Group Audit Committee comprises only independent non-executive Directors as described in the NYSE guidelines. The Court has determined that the Committee members' collective skills together with their recent and relevant financial experience enable the Committee to discharge its responsibilities.

Item 16B Code of Ethics

A written code of ethics has been adopted applicable to all staff including the Group Chief Executive, Group Chief Financial Officer and persons performing the functions of the principal accounting officer or controller. The code is available to any person without charge upon request to the Group Secretary. Requests should be submitted in writing to Bank of Ireland, 40 Mespil Road, Dublin 4, Ireland, Attention: Group Secretary.

Item 16C Principal Accountant Fees and Services

During the year, the audit committee operated a comprehensive policy on the provision of non-audit services by the principal accountant to the Group. This policy provides for the pre-approval of all non-audit services as well as the prohibition on the provision of certain other named services by the Group's auditor, PricewaterhouseCoopers. Management seeks annual pre-approval for certain categories of services which may be rendered by PricewaterhouseCoopers, along with budgets attaching to each category, which cannot be exceeded without the prior approval of the Committee. Any assignment outside of the approved categories or which would cause fees to exceed the agreed budget must be pre-approved by any one member of the Audit Committee and notified to the Audit Committee for ratification at its next meeting. Management periodically reports to the Audit Committee the amount of fees committed in respect of each category of service. For further details see note 13 to the Consolidated Financial Statements.

Item 16D Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E Purchases of Equity Securities by the Issuer and Affiliated Purchasers

As at 31 December 2010, 5,694,172 units of ordinary stock held by the Group's life assurance company were categorised as 'own shares'. There was a net acquisition of 17,430,456 units of ordinary stock by the life assurance company during the year ended 31 December 2011. At 31 December 2011 the Group's life assurance company held 23,124,628 units of ordinary stock as 'own shares'.

Item 16F Changes in Registrant's Certifying Accountants

Not applicable.

Item 16G Corporate Governance

Significant differences between the Group's corporate governance practices and the requirements of the NYSE applicable to US companies are shown on page 152.

Item 16H Mine Safety Disclosures

Not applicable.

PART III

Item 17 FINANCIAL STATEMENTS

Not applicable

Item 18 FINANCIAL STATEMENTS

Financial Statements on F-4 to F-182

Item 19 EXHIBITS

- 1.1 Charter & Acts (incorporated by reference to Exhibit 1.1 of the annual report on Form 20-F of The Governor and Company of the Bank of Ireland for the financial year ended 31 March, 2001, File No. 1-14452).
- 1.2 Bye-Laws.
- 4.1 Rules of the Bank of Ireland Group Stock Options Scheme—2004 (incorporated by reference to Exhibit 4 of the annual report on Form 20-F of The Governor and Company of the Bank of Ireland for the financial year ended 31 March, 2001, File No. 1-14452).
- 4.2 Rules of the Bank of Ireland Group Long Term Performance Stock Plan (incorporated by reference to Exhibit 4 of the annual report on Form 20-F of The Governor and Company of the Bank of Ireland for the financial year ended 31 March, 2001, File No. 1-14452).
- 4.3 Rules of the Bank of Ireland Group Long Term Incentive Plan 2004 and Executive Stock Option Scheme 2004 (incorporated by reference to Exhibit 4 of the annual report on Form 20-F of The Governor and Company of the Bank of Ireland for the financial year ended 31 March, 2006, File No. 1-14452).
- 4.4 Rules of the Bank of Ireland Group Staff Stock Issue 2006 (incorporated by reference to Exhibit 4 of the annual report on Form 20-F of The Governor and Company of the Bank of Ireland for the financial year ended 31 March, 2006, File No. 1-14452).
- 4.5 Transaction Agreement between The Minister for Finance, The National Pensions Reserve Fund Commission and The Governor and Company of the Bank of Ireland, dated 26 April 2010 (incorporated by reference to Exhibit 4 of the annual report on Form 20-F of The Governor and Company of the Bank of Ireland for the financial year ended 31 December, 2009, File No. 1-14452).
- 4.6 Placing and Rights Issue Underwriting and Sponsors' Agreement, dated 26 April 2010 (incorporated by reference to Exhibit 4 of the annual report on Form 20-F of The Governor and Company of the Bank of Ireland for the financial year ended 31 December, 2009, File No. 1-14452).
- 4.7 Transaction Agreement between The Minister for Finance, The National Pensions Reserve Fund Commission, The National Treasury Management Agency, The Governor and Company of the Bank of Ireland, The Sponsors and the Joint Bookrunners dated 18 June 2011 (incorporated by reference to Exhibit 4 of the annual report on Form 20-F of The Governor and Company of the Bank of Ireland for the financial year ended 31 December, 2010, File No. 1-14452).
- 8 List of significant subsidiaries—incorporated by reference to page 26 of this Form 20-F.
- 12.1 Certification by the Chief Executive Officer as required by Section 302 of Sarbanes Oxley Act of 2002.

- 12.2 Certification by the Chief Financial Officer as required by Section 302 of Sarbanes Oxley Act of 2002.
- 13.1 Certification by the Chief Executive Officer as required by Section 906 of Sarbanes Oxley Act of 2002.
- 13.2 Certification by the Chief Financial Officer as required by Section 906 of Sarbanes Oxley Act of 2002.

BANK OF IRELAND GROUP
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BANK OF IRELAND GROUP
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.

BANK OF IRELAND GROUP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Court of Directors and members of The Governor and Company of the Bank of Ireland

In our opinion, the accompanying consolidated balance sheets and the related consolidated income statements, consolidated statements of other comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity present fairly, in all material respects, the financial position of The Governor and Company of the Bank of Ireland (the ‘Group’) and its subsidiaries at 31 December 2011 and 31 December 2010 and the results of their operations and cash flows for the year ended 31 December 2011, the year ended 31 December 2010 and the nine month period ended 31 December 2009, in conformity with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European Union. Also, in our opinion the Group maintained, in all material respects, effective internal control over financial reporting as of 31 December 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). The Group’s management are responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in “Management’s Report on Internal Control over Financial Reporting” appearing under item 15(b) of this Form 20-F. Our responsibility is to express opinions on these financial statements and on the Group’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin
Ireland

29 March 2012

BANK OF IRELAND GROUP
CONSOLIDATED INCOME STATEMENT

| | Note | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|--|------|---|---|---|
| Interest income | 3 | 4,618 | 5,179 | 4,188 |
| Interest expense | 4 | (3,084) | (2,960) | (2,009) |
| Net interest income | | 1,534 | 2,219 | 2,179 |
| Net insurance premium income | 5 | 929 | 969 | 665 |
| Fee and commission income | 6 | 612 | 633 | 474 |
| Fee and commission expense | 6 | (192) | (257) | (255) |
| Net trading income / (expense) | 7 | 19 | 225 | (28) |
| Life assurance investment income, gains and losses | 8 | (38) | 474 | 958 |
| Gain on liability management exercises | 9 | 1,789 | 1,402 | 1,037 |
| Other operating income | 10 | 12 | 199 | 31 |
| Total operating income | | 4,665 | 5,864 | 5,061 |
| Insurance contract liabilities and claims paid | 11 | (750) | (1,268) | (1,462) |
| Total operating income, net of insurance claims | | 3,915 | 4,596 | 3,599 |
| Other operating expenses | 12 | (1,644) | (1,803) | (1,387) |
| 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 | 2,212 |
| Impairment charges on financial assets (excluding assets sold to NAMA) | 14 | (1,960) | (2,027) | (2,335) |
| Impairment charges on assets sold to NAMA | 15 | (44) | (257) | (1,722) |
| 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) | (1,845) |
| Share of results of associates and joint ventures (after tax) | 18 | 39 | 49 | 35 |
| Profit / (loss) on disposal of business activities | 19 | 34 | — | (3) |
| Loss before taxation | | (190) | (950) | (1,813) |
| Taxation credit | 20 | 230 | 341 | 344 |
| Profit / (loss) for the period | | 40 | (609) | (1,469) |
| Attributable to non-controlling interests | | (5) | 5 | (9) |
| Attributable to stockholders | | 45 | (614) | (1,460) |
| Profit / (loss) for the period | | 40 | (609) | (1,469) |
| Loss per unit of €0.05 ordinary stock (2010: €0.10; 2009: €0.64) | 21 | (0.7c) | *(21.5c) | *(105.5c) |
| Diluted loss per unit of €0.05 ordinary stock (2010: €0.10; 2009: €0.64) | 21 | (0.7c) | *(21.5c) | *(105.5c) |

* Restated to reflect the bonus element of the Rights issue which took place in July 2011 (see note 21)

*The notes on pages F-47 to F-182
form an integral part of these consolidated financial statements*

BANK OF IRELAND GROUP
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|---|---|---|--|
| Profit / (loss) for the period | 40 | (609) | (1,469) |
| Other comprehensive income, net of tax: | | | |
| Revaluation of property, net of tax | (6) | (15) | (53) |
| Cash flow hedge reserve | | | |
| Changes in fair value | (800) | (105) | (419) |
| Transfer to income statement | 1,114 | 380 | 501 |
| Net change in cash flow hedge reserve | 314 | 275 | 82 |
| Available for sale reserve | | | |
| Changes in fair value | 60 | (354) | 973 |
| Transfer to income statement | | | |
| —On asset disposal | 24 | (13) | (49) |
| —Impairment | 19 | 147 | — |
| Net change in available for sale reserve | 103 | (220) | 924 |
| Net actuarial (loss) / gain on defined benefit pension funds | (117) | 391 | (74) |
| Foreign exchange translation gains | 180 | 157 | 117 |
| Other comprehensive income for the period net of tax | 474 | 588 | 996 |
| Total comprehensive income for the period net of tax | 514 | (21) | (473) |
| Total comprehensive income attributable to equity stockholders . | 520 | (26) | (464) |
| Total comprehensive income attributable to non-controlling interests | (6) | 5 | (9) |
| Total comprehensive income for the period net of tax | 514 | (21) | (473) |

The effect of tax on these items is shown in note 20.

*The notes on pages F-47 to F-182
form an integral part of these consolidated financial statements*

BANK OF IRELAND GROUP
CONSOLIDATED BALANCE SHEET

| | Note | At 31 December 2011 €m | At 31 December 2010 €m |
|--|------|---------------------------------|---------------------------------|
| ASSETS | | | |
| Cash and balances at central banks | 53 | 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 |

*The notes on pages F-47 to F-182
form an integral part of these consolidated financial statements*

BANK OF IRELAND GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | 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 | <u>2,452</u> | <u>1,210</u> |
| 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 | <u>5,127</u> | <u>3,926</u> |
| Retained earnings | | |
| Balance at the beginning of the year | 3,740 | 3,263 |
| <i>Profit / (loss) for the year attributable to stockholders</i> | 45 | (614) |
| <i>Dividends on 2009 Preference Stock and other equity interests paid in cash</i> | (222) | — |
| <i>Transfer to capital reserve</i> | (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 | <u>3,507</u> | <u>3,740</u> |
| 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 | <u>(725)</u> | <u>(828)</u> |

*The notes on pages F-47 to F-182
form an integral part of these consolidated financial statements*

BANK OF IRELAND GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m |
|---|---|---|
| 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) |
| 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 | — |

*The notes on pages F-47 to F-182
form an integral part of these consolidated financial statements*

BANK OF IRELAND GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m |
|---|---|---|
| Core and secondary tranche warrants | | |
| Balance at the beginning of the year | — | 110 |
| Cancellation of warrants | — | (110) |
| Balance at the end of the year | <u>—</u> | <u>—</u> |
| Total other reserves | <u>(869)</u> | <u>(1,510)</u> |
| 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 | <u>(15)</u> | <u>(15)</u> |
| Total stockholders' equity excluding non-controlling interests | <u>10,202</u> | <u>7,351</u> |
| 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 | <u>50</u> | <u>56</u> |
| Total equity | <u>10,252</u> | <u>7,407</u> |
| 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 | <u>514</u> | <u>(21)</u> |

*The notes on pages F-47 to F-182
form an integral part of these consolidated financial statements*

BANK OF IRELAND GROUP
CONSOLIDATED CASH FLOW STATEMENT

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|---|---|---|--|
| Cash flows from operating activities | | | |
| Loss before taxation | (190) | (950) | (1,813) |
| Share of results of associates and joint ventures | (39) | (49) | (35) |
| (Profit) / loss on disposal of business activities | (34) | (15) | 3 |
| Depreciation and amortisation | 136 | 147 | 107 |
| Impairment charges on financial assets (excluding assets sold to NAMA) | 1,960 | 2,027 | 2,335 |
| Impairment charges assets sold to NAMA | 44 | 257 | 1,722 |
| (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 | 6 |
| Revaluation of investment property | 10 | (49) | 98 |
| Interest expense on subordinated liabilities and other capital instruments | 171 | 312 | 163 |
| Charge for retirement benefit obligation | 88 | 174 | 149 |
| Impact of amendments to defined benefit pension schemes | (2) | (733) | — |
| Gain on subordinated liability management exercises | (1,789) | (1,402) | (1,037) |
| (Gains) / Charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss' | (56) | (360) | 6 |
| Other non-cash items | 45 | 144 | (86) |
| Cash flows from operating activities before changes in operating assets and liabilities | 891 | 1,754 | 1,618 |
| Net change in items in the course of collection from other banks | 30 | 8 | 78 |
| Net change in trading securities | 145 | 252 | (278) |
| Net change in derivative financial instruments | 1,021 | (768) | 1,106 |
| Net change in other financial assets at fair value through profit or loss | 1,124 | (273) | (2,062) |
| Net change in loans and advances to banks | 148 | (258) | 3,901 |
| Net change in loans and advances to customers | 4,938 | 6,288 | 3,474 |
| Net change in other assets | 252 | (20) | 81 |
| Net change in deposits from banks | (9,556) | 23,143 | (10,813) |
| Net change in customer accounts | 4,272 | (20,355) | 566 |
| Net change in debt securities in issue | (8,478) | (15,721) | (1,521) |
| Net change in liabilities to customers under investment contracts | (317) | 226 | 966 |
| Net change in insurance contract liabilities | (151) | 589 | 1,024 |
| Net change in other liabilities | (105) | (275) | (192) |
| Effect of exchange translation and other adjustments | (757) | (616) | (1,823) |
| Net cash flow from operating assets and liabilities | (7,434) | (7,780) | (5,493) |

*The notes on pages F-47 to F-182
form an integral part of these consolidated financial statements*

BANK OF IRELAND GROUP
CONSOLIDATED CASH FLOW STATEMENT (Continued)

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|---|---|---|--|
| Net cash flow from operating activities before taxation | (6,543) | (6,026) | (3,875) |
| Taxation refunded | 22 | 2 | 45 |
| Net cash flow from operating activities | (6,521) | (6,024) | (3,830) |
| Investing activities (section a) | 12,750 | 5,230 | 6,778 |
| Financing activities (section b) | 1,334 | (558) | (838) |
| Net change in cash and cash equivalents | 7,563 | (1,352) | 2,110 |
| Opening cash and cash equivalents | 8,135 | 9,187 | 7,259 |
| Effect of exchange translation adjustments | 74 | 300 | (182) |
| Closing cash and cash equivalents (note 53) | 15,772 | 8,135 | 9,187 |
| (a) Investing activities | | | |
| Additions to available for sale financial assets | (21,532) | (8,106) | (8,587) |
| Disposal of available for sale financial assets | 27,160 | 13,375 | 15,389 |
| Additions to property, plant and equipment | (31) | (41) | (11) |
| Disposal of property, plant and equipment | 5 | 8 | 4 |
| Additions to intangible assets | (72) | (50) | (47) |
| Disposal of investment property | 30 | 7 | 33 |
| Dividends received from joint ventures | 52 | 35 | — |
| Net change in interest in associates | (6) | 2 | (3) |
| 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 | 6,778 |
| (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) | — | (4) |
| Interest paid on subordinated liabilities | (240) | (218) | (144) |
| Consideration paid in respect of liability management exercises | (983) | — | — |
| Redemption of subordinated liabilities | — | (750) | (683) |
| Cancellation of warrants | — | (491) | — |
| Buyback of treasury stock | — | (7) | (7) |
| Cash flows from financing activities | 1,334 | (558) | (838) |

(1) The institutional placing took place during the year ended 31 December 2010.

*The notes on pages F-47 to F-182
form an integral part of these consolidated financial statements*

BANK OF IRELAND GROUP
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BANK OF IRELAND GROUP

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 balance sheet, the Consolidated statement of changes in equity, the Consolidated cash flow statement, the Group accounting policies and the notes to the Consolidated financial statements. The notes include the information contained in those parts of the Risk Management Report in Item 11 'Quantitative and Qualitative Disclosures about Market Risk' 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 F-41 to F-44.

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 balance sheet date (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 focused 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.

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

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.

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

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. €0.9 billion of the remaining €1 billion in assets announced has been completed and derecognised since 31 December 2011 with the remaining €0.1 billion expected to settle in the coming months.

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

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 percentage points 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. In March 2012, the Group participated in the second ECB three year LTRO when it converted c. €4.8 billion of mainly shorter term funding to three year funding with a maturity of February 2015.

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.

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

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 F-38 to F-40.

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 and the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been re-presented on 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.

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

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.

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

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.

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

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 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:

| | <u>31 December 2011</u> | | <u>31 December 2010</u> | |
|--------------------|-------------------------|----------------|-------------------------|----------------|
| | <u>Average</u> | <u>Closing</u> | <u>Average</u> | <u>Closing</u> |
| € / 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

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

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 estimate 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.

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

(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 F-30).

(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.

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

(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.

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

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 51 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 52 together with a description of the valuation technique used for each asset or liability category. For assets or liabilities recognised at fair value on the balance sheet, a description is given of any inputs into valuation models that have the potential to significantly impact the fair value, together with an estimate of the impact of using reasonably possible alternative assumptions.

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

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.

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

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.

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

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;
- (v) 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

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

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 recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the charge for loan impairment in the income statement.

The Risk Management Report on pages 247 to 253 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 year in which they are incurred.

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ACCOUNTING POLICIES (Continued)

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

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ACCOUNTING POLICIES (Continued)

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 F-22 and F-23. 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 F-27 and F-28. 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

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ACCOUNTING POLICIES (Continued)

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 F-22 and F-23.

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.

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ACCOUNTING POLICIES (Continued)

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.

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ACCOUNTING POLICIES (Continued)

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.

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ACCOUNTING POLICIES (Continued)

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.

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

(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

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

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 year 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.

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

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 amortization 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.

BANK OF IRELAND GROUP
ACCOUNTING POLICIES (Continued)

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. |

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ACCOUNTING POLICIES (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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ACCOUNTING POLICIES (Continued)

| <u>Pronouncement</u> | <u>Nature of change</u> | <u>Effective date</u> | <u>Impact</u> |
|---------------------------------|---|--|---|
| IFRS 9, 'Financial instruments' | <p>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:</p> <ul style="list-style-type: none"> • 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. <p>The new standard is still subject to EU endorsement.</p> | 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. |

BANK OF IRELAND GROUP
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 loan 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

BANK OF IRELAND GROUP
CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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 on pages 247 to 253.

(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

BANK OF IRELAND GROUP
CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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 52.

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.

BANK OF IRELAND GROUP
CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(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 59 on the life assurance business.

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BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 COMPARATIVES

On 17 February 2010 the Group changed its fiscal year end from 31 March, to 31 December to align its financial calendar with that of its peer banks. Accordingly, these financial statements cover the twelve month period from 1 January 2011 to 31 December 2011, with comparatives for prior periods covering the twelve month period from 1 January 2010 to 31 December 2010 and the nine month period from 1 April 2009 to 31 December 2009. As a result, the amounts presented in the financial statements are not entirely comparable.

The analysis of the impairment charge for the year ended 31 December 2010 and the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been re-presented on 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. The Retail UK results are reviewed by the Chief Operating Decision Maker (CODM) in sterling.

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 OPERATING SEGMENTS (Continued)

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.

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 Investments 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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 OPERATING SEGMENTS (Continued)

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 F-13 to F-40. 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 or charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss';
- impact of 'coupon stopper' on certain subordinated debt⁽¹⁾;
- gross-up for policyholder tax in the Life Business
- investment return on treasury stock held for policyholders in the Life business
- the cost of restructuring programmes; and
- gain / (loss) on disposal of business activities

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

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.

(1) *Interest expense for the year ended 31 December 2010 included a charge of €35 million (nine month period ended 31 December 2009: gain of €58 million) and net trading expense included a charge of €1 million (nine month period ended 31 December 2009: gain of €9 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 nine month period 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.*

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 OPERATING SEGMENTS (Continued)

| <u>Year ended 31 December 2011</u> | <u>Retail Ireland €m</u> | <u>Bank of Ireland Life €m</u> | <u>Retail UK €m</u> | <u>Corporate and Treasury €m</u> | <u>Group Centre €m</u> | <u>Other reconciling items €m</u> | <u>Group €m</u> |
|--|----------------------------------|--|-----------------------------|--|--------------------------------|---|---------------------|
| 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 | | | | | | | <u>(190)</u> |

(1) This relates to certain inter-segment transactions which are eliminated at a Group level. However, at a divisional 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 nine month period ended 31 December 2009, due to an increase in the expected cash flows. Consistent with the Group's definition of underlying profit, this item has been classified as non-core and excluded from underlying profit.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 OPERATING SEGMENTS (Continued)

| <u>9 months ended 31 December 2009</u> | 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 | 3,304 | 14 | 2,339 | 3,438 | (513) | (4,394) | 4,188 |
| Interest expense | (2,425) | (16) | (1,874) | (2,733) | 578 | 4,394 | (2,076) |
| Net interest income | 879 | (2) | 465 | 705 | 65 | — | 2,112 |
| Other income, net of insurance claims | 129 | 153 | 70 | 83 | (96) | — | 339 |
| Total operating income, net of insurance claims | 1,008 | 151 | 535 | 788 | (31) | — | 2,451 |
| Other operating expenses | (646) | (78) | (277) | (222) | (59) | — | (1,282) |
| Depreciation and amortisation | (48) | (4) | (27) | (8) | (26) | — | (113) |
| Total operating expenses | (694) | (82) | (304) | (230) | (85) | — | (1,395) |
| Operating profit / (loss) before impairment charges on financial assets and loss on NAMA | 314 | 69 | 231 | 558 | (116) | — | 1,056 |
| Impairment charges on financial assets (excluding held for sale to NAMA) ⁽⁴⁾ | (1,245) | — | (699) | (391) | — | — | (2,335) |
| Impairment charges on assets sold or held for sale to NAMA ⁽⁴⁾ | (591) | — | (363) | (768) | — | — | (1,722) |
| Share of results of associates and joint ventures | 8 | — | 26 | 1 | — | — | 35 |
| Underlying (loss) / profit before tax | (1,514) | 69 | (805) | (600) | (116) | — | (2,966) |
| Reconciliation of underlying loss before tax to loss before taxation | | | | | | | Group €m |
| Underlying loss before tax | | | | | | | (2,966) |
| Gain on liability management exercises | | | | | | | 1,037 |
| Charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss' | | | | | | | (6) |
| Impact of 'coupon stopper' on subordinated debt | | | | | | | 67 |
| Gross-up for policyholder tax in the Life business | | | | | | | 64 |
| Investment return on treasury stock held for policyholders in the Life business | | | | | | | (6) |
| Loss on disposal of business activities | | | | | | | (3) |
| Loss before taxation | | | | | | | (1,813) |

(4) The impairment charges on financial assets and assets sold or held for sale to NAMA have been adjusted for the nine month period ended 31 December 2009 to reflect 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).

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 |
| | | | | | | | |
| 9 months ended 31 December 2009 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 | — | 2 | 32 | 6 | 20 | — | 60 |
| Investment in associates and joint ventures | 134 | — | 74 | 9 | — | — | 217 |
| External assets | 52,999 | 11,744 | 53,804 | 60,101 | 2,458 | — | 181,106 |
| Inter segment assets | 68,946 | 1,714 | 22,202 | 135,270 | 47,020 | (275,152) | — |
| Total assets | 121,945 | 13,458 | 76,006 | 195,371 | 49,478 | (275,152) | 181,106 |
| External liabilities | 49,109 | 12,081 | 18,400 | 78,562 | 16,517 | — | 174,669 |
| Inter segment liabilities | 72,401 | 515 | 58,298 | 117,743 | 26,195 | (275,152) | — |
| Total liabilities | 121,510 | 12,596 | 76,698 | 196,305 | 42,712 | (275,152) | 174,669 |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 OPERATING SEGMENTS (Continued)

| | Retail Ireland €m | Bank of Ireland Life €m | Retail UK €m | Corporate and Treasury €m | Group Centre €m | Other reconciling items €m | Group €m |
|--|-------------------------|----------------------------------|--------------------|------------------------------------|-----------------------|-------------------------------------|--------------|
| Year ended 31 December 2011 | | | | | | | |
| Gross revenue by operating segments | | | | | | | |
| 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 | | | | | | | |
| Gross revenue by operating segments | | | | | | | |
| 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 |
| 9 months ended 31 December 2009 | | | | | | | |
| Gross revenue by operating segments | | | | | | | |
| External customers | 1,458 | 247 | 1,814 | 1,107 | 1,264 | — | 5,890 |
| Inter segment revenue | 1,996 | 15 | 693 | 2,474 | (734) | (4,444) | — |
| Total gross revenue | 3,454 | 262 | 2,507 | 3,581 | 530 | (4,444) | 5,890 |

The analysis below is on a geographical basis—based on the location of the business unit by where revenues are generated.

| | Republic of Ireland €m | United Kingdom €m | Rest of World €m | Other reconciling items €m | Total €m |
|--------------------------------------|------------------------------|-------------------------|------------------------|-------------------------------------|----------------|
| Year ended 31 December 2011 | | | | | |
| Geographical analysis | | | | | |
| 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 |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 OPERATING SEGMENTS (Continued)

| 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 |
| | | | | | |
| 9 months ended 31 December 2009 Geographical analysis | Republic of Ireland €m | United Kingdom €m | Rest of World €m | Other reconciling items €m | Total €m |
| External revenues | 3,795 | 2,022 | 73 | — | 5,890 |
| Inter segment revenue | 1,003 | 509 | 226 | (1,738) | — |
| Gross revenue | 4,798 | 2,531 | 299 | (1,738) | 5,890 |
| Capital expenditure | 27 | 32 | 1 | — | 60 |
| External assets | 116,259 | 59,089 | 5,758 | — | 181,106 |
| Inter segment assets | 57,873 | 26,684 | 10,731 | (95,288) | — |
| Total assets | 174,132 | 85,773 | 16,489 | (95,288) | 181,106 |
| External liabilities | 138,292 | 26,627 | 9,750 | — | 174,669 |
| Inter segment liabilities | 29,722 | 59,478 | 6,089 | (95,289) | — |
| Total liabilities | 168,014 | 86,105 | 15,839 | (95,289) | 174,669 |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3 INTEREST INCOME

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|--|--|--|--|
| Loans and advances to customers (including loans sold to NAMA) | 3,836 | 4,387 | 3,503 |
| Available for sale financial assets | 609 | 584 | 498 |
| Finance leases and hire purchase receivables | 109 | 141 | 139 |
| Loans and advances to banks | 64 | 67 | 48 |
| Interest income | <u>4,618</u> | <u>5,179</u> | <u>4,188</u> |

Included within interest income is €217 million (year ended 31 December 2010: €210 million; nine month period ended 31 December 2009: €161 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; nine month period ended 31 December 2009: charge of €351 million) transferred from the cash flow hedge reserve (see page F-8).

Interest income in the twelve month period ended 31 December 2010 includes a gain of €15 million arising on the re-measurement of a loan note received as consideration for the disposal of a business activity in the nine month period ended 31 December 2009, due to an increase in the expected cash flows.

4 INTEREST EXPENSE

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|------------------------------------|--|--|--|
| Customer accounts | 1,392 | 1,467 | 995 |
| Debt securities in issue | 755 | 895 | 653 |
| Deposits from banks | 766 | 286 | 198 |
| Subordinated liabilities | 171 | 312 | 163 |
| Interest expense | <u>3,084</u> | <u>2,960</u> | <u>2,009</u> |

Included within interest expense for the year ended 31 December 2011 is an amount of €449 million (year ended 31 December 2010: €275 million; nine month period ended 31 December 2009: nil) relating to the cost of the Credit Institutions (Eligible Liabilities Guarantee) Scheme (ELG). The cost of this scheme is classified as interest expense as it is directly attributable and incremental to the issue of specific financial liabilities. Further information on this scheme is outlined in note 56. The cost of the Credit Institutions (Financial Support) Scheme (CIFS) for the year ended 31 December 2010 of €68 million (nine month period ended 31 December 2009: €105 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 (nine month period ended 31 December 2009: gain of €58 million) in relation to a change in the expected cash flows on certain subordinated liabilities (note 2).

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5 NET INSURANCE PREMIUM INCOME

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|---|--|--|--|
| Gross premiums written | 1,026 | 1,069 | 751 |
| Ceded reinsurance premiums | (104) | (112) | (91) |
| Net premiums written | 922 | 957 | 660 |
| Change in provision for unearned premiums | 7 | 12 | 5 |
| Net insurance premium income | <u>929</u> | <u>969</u> | <u>665</u> |

6 FEE AND COMMISSION INCOME AND EXPENSE

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|--|--|--|--|
| Income | | | |
| Retail banking customer fees | 386 | 362 | 268 |
| Insurance commissions | 76 | 81 | 60 |
| Credit related fees | 66 | 52 | 41 |
| Asset management fees | 28 | 83 | 66 |
| Brokerage fees | 11 | 8 | 8 |
| Other | 45 | 47 | 31 |
| Fee and commission income | <u>612</u> | <u>633</u> | <u>474</u> |

Included in other fees is an amount of €2 million (year ended 31 December 2010: €3 million; nine month period ended 31 December 2009: €3 million) related to trust and other fiduciary fees.

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|--|--|--|--|
| Expense | | | |
| Government Guarantee fee (note 56) | — | 68 | 105 |
| Other | 192 | 189 | 150 |
| Fee and commission expense | <u>192</u> | <u>257</u> | <u>255</u> |

The Government Guarantee fee for the year ended 31 December 2010 and the nine month period ended 31 December 2009 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; nine month period ended 31 December 2009: €nil) is recognised in interest expense (note 4).

Other fee and commission expense of €192 million (year ended 31 December 2010: €189 million; nine month period ended 31 December 2009: €150 million) primarily comprises brokerage fees, sales commissions and other fees to third parties.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 NET TRADING INCOME / (EXPENSE)

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|--|--|--|--|
| Financial assets designated at fair value | (1) | 19 | 31 |
| Financial liabilities designated at fair value | 56 | 189 | (137) |
| Related derivatives held for trading | (82) | 67 | 86 |
| | (27) | 275 | (20) |
| Other financial instruments held for trading | 44 | (76) | (13) |
| Net fair value hedge ineffectiveness | 1 | 26 | 7 |
| Cash flow hedge ineffectiveness | 1 | — | (2) |
| Net trading income / (expense) | <u>19</u> | <u>225</u> | <u>(28)</u> |

Net trading income / (expense) of €19 million (year ended 31 December 2010: net trading income of €225 million; nine month period ended 31 December 2009; net trading expense of €28 million) includes the gains and losses on financial instruments held for trading and those designated at fair value through profit or loss (other than unit linked life assurance assets and investment contract liabilities). It includes the gains and losses arising on the purchase and sale of these instruments, the interest income receivable and expense payable and the fair value movement on these instruments, together with the funding cost of the trading instruments. It also includes €54 million (year ended 31 December 2010: €124 million; nine month period ended 31 December 2009: €20 million) in relation to net gains arising from foreign exchange.

Net trading income / (expense) includes the total fair value movement (including interest receivable and payable) on liabilities that have been designated at fair value through profit or loss. The interest receivable on amortised cost assets which are funded by those liabilities is reported in net interest income. Net trading income 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; nine month period ended 31 December 2009: €71 million).

Net fair value hedge ineffectiveness comprises a net gain from hedging instruments of €56 million (year ended 31 December 2010: net gain of €280 million; nine month period ended 31 December 2009: net loss of €97 million) offsetting a net loss from hedged items of €55 million (year ended 31 December 2010: net loss of €254 million; nine month period ended 31 December 2009: net gain of €104 million).

The net gain from the change in credit spreads relating to the Group's liabilities designated at fair value through profit or loss was €56 million (year ended 31 December 2010: €360 million; nine month period ended 31 December 2009: net loss of €6 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. In prior periods, this was all included in net trading 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 (nine month period ended 31 December 2009: €nil) were repurchased at fair value as part of the Group's liability management

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 NET TRADING INCOME / (EXPENSE) (Continued)

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 (year ended 31 December 2010: €425 million; nine month period ended 31 December 2009: €90 million).

Included within net trading income in the year ended 31 December 2010 is a charge of €1 million (nine month period ended 31 December 2009: gain of €9 million) in relation to the revised estimates of future cash flows on certain subordinated liabilities (note 2).

8 LIFE ASSURANCE INVESTMENT INCOME, GAINS AND LOSSES

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|--|--|--|--|
| Gross life assurance investment income, gains and losses | (39) | 464 | 961 |
| Elimination of investment return on treasury stock held for the benefit of policyholders in the Life businesses | <u>1</u> | <u>10</u> | <u>(3)</u> |
| Life assurance investment income, gains and losses | <u>(38)</u> | <u>474</u> | <u>958</u> |

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 GAIN ON LIABILITY MANAGEMENT EXERCISES

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|---|--|--|--|
| Gain on liability management exercises | 1,789 | 1,402 | 1,037 |

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:

| | Subordinated liabilities €m | Mortgage- backed securities €m | Total €m |
|---|-----------------------------------|---|--------------|
| Gain on liability management exercises pursuant to 2011 PCAR | | | |
| 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 |

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 F-7).

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 | | | Residual nominal amount | Average price (% of nominal amount exchanged) |
|--|--|---|------------|-----------------|-------------------------------|---|
| | | Debt for equity offer | Cash offer | Call option* | | |
| €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 10¾% 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 GAIN ON LIABILITY MANAGEMENT EXERCISES (Continued)

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.

| Dated debt exchanges Description | Nominal amount prior to debt exchange | Nominal amount exchanged / repurchased | | | Residual nominal amount | Average price (% of nominal amount exchanged) |
|---|--|---|---------------|-----------------|-------------------------------|---|
| | | Debt for equity offer | Cash offer | Call option* | | |
| €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 F-7).

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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;

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 GAIN ON LIABILITY MANAGEMENT EXERCISES (Continued)

- 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:

| | <u>Year ended 31 December 2010 €m</u> |
|---|---|
| Debt for debt exchanges (Dated) | 1,126 |
| Debt for equity offer (Undated) | <u>276</u> |
| Gain on liability management exercises | <u>1,402</u> |

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.

| <u>Dated securities Description</u> | <u>Total nominal amount exchanged during year</u> | <u>Average price (% of nominal amount exchanged)</u> |
|---|---|--|
| €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 10¾% 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% |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 F-7).

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 GAIN ON LIABILITY MANAGEMENT EXERCISES (Continued)

Nine month period ended 31 December 2009

During the nine month period ended 31 December 2009, the Group repurchased certain subordinated liabilities for cash. The gains arising on these transactions are summarised below:

| | 9 months ended 31 December 2009 €m |
|---|---|
| Repurchase of subordinated notes | <u>1,037</u> |
| Gain on liability management exercises | <u>1,037</u> |

The following table summarises the results of the repurchase of these subordinated liabilities in the nine month period ended 31 December 2009.

| Undated securities Description | Total nominal amount repurchased during the period | Price (% of nominal amount repurchased) |
|--|---|--|
| €600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities | €124m | 50% |
| Stg£350 million 6.25% Guaranteed Callable Perpetual Preferred Securities | Stg£304m | 42% |
| €600 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities | €250m | 38% |
| US\$800 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities | US\$400m | 40% |
| US\$400 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities | US\$200m | 40% |
| Stg£500 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities | Stg£463m | 40% |

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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 OTHER OPERATING INCOME

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|---|--------------------------------------|--------------------------------------|---|
| Other insurance income | 49 | 70 | 54 |
| Other income | 7 | 55 | (104) |
| Movement in value of in force asset (note 59) | (19) | 41 | 29 |
| Transfer from available for sale reserve on asset disposal | (28) | 15 | 55 |
| Elimination of investment return on treasury stock held for the benefit of policyholders in the Life business (note 8) | 1 | 10 | (3) |
| Dividend Income | 2 | 8 | — |
| Other operating income | 12 | 199 | 31 |

Included within other income is a net charge of €12 million (year ended 31 December 2010: gain of €26 million; nine month period ended 31 December 2009: charge of €62 million) arising on fair value movements on international investment properties and related activities. In addition, other income for the nine month period ended 31 December 2009 included a charge of €74 million arising from an unfavourable court ruling in connection with a European property investment.

11 INSURANCE CONTRACT LIABILITIES AND CLAIMS PAID

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|---|---|---|---|
| Surrenders | (795) | (597) | (480) |
| Death and critical illness | (148) | (108) | (105) |
| Annuities | (41) | (65) | (34) |
| Maturities | (1) | (3) | (3) |
| Other | (39) | (35) | (34) |
| Gross claims | (1,024) | (808) | (656) |
| Reinsurance | 53 | 47 | 38 |
| Net claims paid | (971) | (761) | (618) |
| Change in contract liabilities: | | | |
| Gross | 151 | (530) | (1,023) |
| Reinsurance | 70 | 23 | 179 |
| Net change in insurance contract liabilities | 221 | (507) | (844) |
| Net insurance contract liabilities and claims paid | (750) | (1,268) | (1,462) |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 OTHER OPERATING EXPENSES

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|--|---|---|---|
| Administrative expenses | | | |
| —Staff costs (see analysis below) | 862 | 1,003 | 789 |
| —Other administrative expenses | 635 | 645 | 479 |
| Depreciation | | | |
| —Intangible assets (note 34) | 99 | 107 | 75 |
| —Property, plant and equipment (note 36) | 37 | 40 | 32 |
| (Reversal) / impairment of intangible assets | (4) | (2) | 6 |
| Revaluation of property | 15 | 10 | 6 |
| Total other operating expenses | <u>1,644</u> | <u>1,803</u> | <u>1,387</u> |
| Staff costs are analysed as follows: | | | |
| Wages and salaries | 692 | 748 | 569 |
| Social security costs | 72 | 76 | 61 |
| Retirement benefit costs (defined benefit plans) (note 46) . . . | 88 | 174 | 147 |
| Retirement benefit costs (defined contribution plans) | 2 | — | 2 |
| Share based payment schemes | — | (6) | — |
| Other | 8 | 11 | 10 |
| Staff costs | <u>862</u> | <u>1,003</u> | <u>789</u> |

Retirement benefit costs (defined benefit plans) exclude a gain of €2 million (year ended 31 December 2010: a gain of €733 million; nine month period ended 31 December 2009: €nil) 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; nine month period ended 31 December 2009: €49 million) in relation to operating lease payments.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 OTHER OPERATING EXPENSES (Continued)

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; nine month period ended 31 December 2009: 14,755) categorised as follows in line with the operating segments as stated in note 2.

| | Year ended 31 December 2011 | Year ended 31 December 2010 | 9 months ended 31 December 2009 |
|----------------------------------|-----------------------------------|-----------------------------------|---------------------------------------|
| Retail Ireland | 5,374 | 5,594 | 5,698 |
| Bank of Ireland Life | 1,073 | 1,016 | 1,071 |
| Retail UK | 2,236 | 2,505 | 2,865 |
| Corporate and Treasury | 925 | 1,342 | 1,557 |
| Group Centre | 4,063 | 3,827 | 3,564 |
| Total | <u>13,671</u> | <u>14,284</u> | <u>14,755</u> |

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) at 31 December 2011 was 13,234 (year ended 31 December 2010: 14,235; nine month period ended 31 December 2009: 14,647).

13 AUDITORS' REMUNERATION (excluding VAT)

| | Note | RoI (i) €m | Overseas (ii) €m | Year ended 31 December 2011 Total €m | Year ended 31 December 2010 Total €m | 9 months ended 31 December 2009 Total €m |
|---|-------|-------------------|---------------------|--|--|--|
| Audit and assurance services | | | | | | |
| Statutory audit | | 2.3 | 0.9 | 3.2 | 4.1 | 3.8 |
| Assurance services | | | | | | |
| —Assurance services relating to | | | | | | |
| Capital Raising | | 1.8 | — | 1.8 | 0.8 | — |
| —Other assurance services | (iii) | <u>2.3</u> | <u>0.5</u> | <u>2.8</u> | <u>3.4</u> | <u>4.3</u> |
| | | 6.4 | 1.4 | 7.8 | 8.3 | 8.1 |
| Other services | | | | | | |
| Taxation services | | 0.1 | 0.1 | 0.2 | 0.4 | 0.3 |
| Other non-audit services | (iv) | <u>—</u> | <u>0.3</u> | <u>0.3</u> | <u>—</u> | <u>—</u> |
| Auditors' remuneration | | <u>6.5</u> | <u>1.8</u> | <u>8.3</u> | <u>8.7</u> | <u>8.4</u> |

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;

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13 AUDITORS' REMUNERATION (excluding VAT) (Continued)

- (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 | 9 months ended 31 December 2009 €m |
|---|---|---|---|
| Loans and advances to customers (note 31) | 1,939 | 1,859 | 2,333 |
| Available for sale financial assets (AFS) (note 26) | 21 | 168 | 2 |
| Impairment charges on financial assets (excluding assets sold to NAMA) | <u>1,960</u> | <u>2,027</u> | <u>2,335</u> |

The analysis of the impairment charge for the year ended 31 December 2010 and the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been re-presented on 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 (nine month period ended 31 December 2009: €2,373 million).

15 IMPAIRMENT CHARGES ON ASSETS SOLD TO NAMA

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|--|---|---|---|
| Impairment charges on assets sold to NAMA (note 29) | <u>44</u> | <u>257</u> | <u>1,722</u> |

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; nine month period ended 31 December 2009: €9,581 million, after impairment provisions of €2,778 million).

The analysis of the impairment charge for the year ended 31 December 2010 and the nine month period ended 31 December 2009 between loans and advances to customers and assets held for sale to NAMA has been re-presented on 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 (nine month period ended 31 December 2009: €1,684 million).

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. There were no assets sold to NAMA during the nine month period ended 31 December 2009.

| | Year ended 31 December 2011 | | Year ended 31 December 2010 | |
|--|-----------------------------------|-------------|--------------------------------|----------------|
| | €m | €m | €m | €m |
| Gain / (loss) on sale of assets to NAMA | | | | |
| 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) (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 of which €7.6 billion had been completed and derecognised by 31 December 2011. €0.9 billion of the remaining €1 billion in assets announced has been completed and derecognised since 31 December 2011 with the remaining €0.1 billion expected to settle in the coming months.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOSS ON DELEVERAGING OF FINANCIAL ASSETS (Continued)

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:

| <u>Year ended 31 December 2011</u> | <u>Consideration received (net of costs) €m</u> | <u>Carrying value of assets derecognised €m</u> | <u>Loss €m</u> |
|---|---|---|---------------------|
| Retail UK division | | | |
| 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 | <u>2,916</u> | <u>2,949</u> | <u>(33)</u> |
| Total | <u>6,996</u> | <u>7,561</u> | <u>(565)</u> |

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 LOSS ON DELEVERAGING OF FINANCIAL ASSETS (Continued)

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 and nine month period ended 31 December 2009

The Group 2011 PCAR / PLAR requirements were set down during 2011, therefore there is no comparative information for the year ended 31 December 2010 or the nine month period ended 31 December 2009.

18 SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES (after tax)

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|--|---|---|--|
| First Rate Exchange Services (note 33) | 37 | 37 | 27 |
| Property unit trust (note 33) | 3 | 7 | 10 |
| Paul Capital Investments LLC | — | — | 1 |
| Other joint ventures | — | — | (1) |
| Associates | (1) | 5 | (2) |
| Share of results of associates and joint ventures (after tax) | <u>39</u> | <u>49</u> | <u>35</u> |

Summarised aggregated financial information for Bank of Ireland's associates and joint ventures is as follows:

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|-----------------------------------|---|---|--|
| Income statement amounts: | | | |
| Income | 191 | 195 | 154 |
| Gross Profit | 164 | 164 | 119 |
| Profit before tax | 116 | 127 | 84 |
| Profit after tax | 90 | 98 | 63 |
| Balance sheet amounts: | | | |
| Current Assets | 305 | 375 | 357 |
| Non-current assets | 341 | 329 | 291 |
| Current liabilities | (159) | (218) | (210) |
| Non-current liabilities | — | (1) | — |
| Net assets | <u>487</u> | <u>485</u> | <u>438</u> |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 PROFIT / (LOSS) ON DISPOSAL OF BUSINESS ACTIVITIES

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|---|---|---|--|
| Corporate and Treasury division | | | |
| Bank of Ireland Asset Management (BIAM) | 39 | — | — |
| Bank of Ireland Security Services (BoISS) | 32 | — | — |
| Paul Capital Investments LLC | — | — | — |
| Impairment of goodwill in Burdale | (45) | — | — |
| Iridian Asset Management LLC | — | — | (10) |
| Guggenheim Alternative Asset Management LLC | — | — | 7 |
| Retail Ireland division | | | |
| Foreign Currency Exchange Corporation (FCE) Corporation . . . | 8 | — | — |
| Profit / (loss) on disposal of business activities | 34 | — | (3) |

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 Investments 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 Investments 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 Corporation (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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 PROFIT / (LOSS) ON DISPOSAL OF BUSINESS ACTIVITIES (Continued)

31 December 2010

Interest income in the twelve month period ended 31 December 2010 includes a gain of €15 million arising on the re-measurement of a loan note received as consideration for the disposal of a business activity in the nine month period ended 31 December 2009, due to an increase in the expected cash flows.

20 TAXATION

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|---|---|---|--|
| | <u> </u> | <u> </u> | <u> </u> |
| Current tax | | | |
| Irish Corporation Tax | | | |
| —Current year | (25) | (21) | (19) |
| —Prior year | 32 | 11 | 5 |
| Double taxation relief | 2 | 2 | 1 |
| Foreign tax | | | |
| —Current year | (49) | (29) | 2 |
| —Prior year | 7 | (2) | (1) |
| | <u>(33)</u> | <u>(39)</u> | <u>(12)</u> |
| Deferred tax credit | | | |
| Origination and reversal of temporary differences (note 45) | 263 | 380 | 356 |
| Taxation credit | <u>230</u> | <u>341</u> | <u>344</u> |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 TAXATION (Continued)

The reconciliation of tax on the loss before taxation at the standard Irish corporation tax rate to the Group's actual tax credit for the year ended 31 December 2011, the year ended 31 December 2010 and the nine month period ended 31 December 2009 is as follows:

| | Year ended 31 December 2011 €m | Year ended 31 December 2010 €m | 9 months ended 31 December 2009 €m |
|---|---|---|--|
| Loss before tax multiplied by the standard rate of corporation tax in Ireland of 12.5% (2010: 12.5%; 2009: 12.5%) | 24 | 119 | 227 |
| Effects of: | | | |
| Gains arising on repurchase of subordinated liabilities | 185 | 156 | 121 |
| Foreign earnings subject to different rates of tax | 84 | 51 | 70 |
| Other adjustments for tax purposes | (4) | 49 | (12) |
| 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 | 3 |
| Elimination of investment return on treasury stock held for the benefit of policyholders | — | 2 | (1) |
| Impact of corporation tax rate change on deferred tax | (18) | (10) | — |
| Non-deductible expenses | (32) | (15) | (9) |
| Prior year adjustments | 10 | — | — |
| Bank of Ireland Life companies—different basis of accounting . . | (23) | (32) | (55) |
| Tax exempt profits on disposal of business activities | 12 | — | — |
| Taxation credit | <u>230</u> | <u>341</u> | <u>344</u> |

The effective taxation rate for the year ended 31 December 2011 is a credit of 121% (year ended 31 December 2010: credit of 36%; nine month period ended 31 December 2009: credit of 19%). 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 and a rate of 16% for the nine month period ended 31 December 2009.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 TAXATION (Continued)

Tax effects relating to each component of other comprehensive income

| | Year ended 31 December 2011 | | | Year ended 31 December 2010 | | | 9 months ended 31 December 2009 | | |
|---|--------------------------------|-----------------------------------|-------------------------------|--------------------------------|-----------------------------------|-------------------------------|------------------------------------|-----------------------------------|-------------------------------|
| | Pre tax amount €m | Tax (charge) / credit €m | Net of tax amount €m | Pre tax amount €m | Tax (charge) / credit €m | Net of tax amount €m | Pre tax amount €m | Tax (charge) / credit €m | Net of tax amount €m |
| Net change in revaluation reserve | (8) | 2 | (6) | (18) | 3 | (15) | (60) | 7 | (53) |
| Cash flow hedge | | | | | | | | | |
| Changes in fair value | (1,034) | 234 | (800) | (205) | 100 | (105) | (555) | 136 | (419) |
| Transfer to income statement . . | 1,380 | (266) | 1,114 | 520 | (140) | 380 | 676 | (175) | 501 |
| Net change in cash flow hedge reserve | 346 | (32) | 314 | 315 | (40) | 275 | 121 | (39) | 82 |
| Available for sale | | | | | | | | | |
| Changes in fair value | 68 | (8) | 60 | (402) | 48 | (354) | 1,110 | (137) | 973 |
| Transfer to income statement | | | | | | | | | |
| —On asset disposal | 28 | (4) | 24 | (15) | 2 | (13) | (55) | 6 | (49) |
| —Impairment | 21 | (2) | 19 | 168 | (21) | 147 | — | — | — |
| Net change in reserve | 117 | (14) | 103 | (249) | 29 | (220) | 1,055 | (131) | 924 |
| Net actuarial (loss) / gain on defined benefit pension funds . | (137) | 20 | (117) | 465 | (74) | 391 | (99) | 25 | (74) |
| Foreign exchange transaction gains | 180 | — | 180 | 157 | — | 157 | 117 | — | 117 |
| Other comprehensive income for the period | 498 | (24) | 474 | 670 | (82) | 588 | 1,134 | (138) | 996 |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 LOSS PER SHARE

The calculation of basic loss per unit of €0.05 (2010: €0.10; 2009: €0.64) 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 | 9 months ended 31 December 2009 €m |
|--|---|---|--|
| Basic | | | |
| Profit / (loss) attributable to stockholders | 45 | (614) | (1,460) |
| Dividends on other equity interests | (7) | — | (4) |
| Dividend on 2009 Preference Stock | (188) | (231) | (210) |
| Repurchase of capital note (note 49) | 41 | 24 | — |
| Loss attributable to ordinary stockholders | <u>(109)</u> | <u>(821)</u> | <u>(1,674)</u> |
| 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 | 1,587 |
| Basic loss per share (cent) | <u>(0.7)</u> | <u>*(21.5)</u> | <u>*(105.5)</u> |

* Restated to reflect the bonus element of the Rights issue which took place in July 2011.

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 and the nine month period ended 31 December 2009 in order to adjust for the bonus element of the Rights Issue.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 LOSS PER SHARE (Continued)

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 | 9 months ended 31 December 2009 €m |
|--|---|---|--|
| Diluted | | | |
| Earnings / (loss) attributable to stockholders | 45 | (614) | (1,460) |
| Dividends on other equity interests | (7) | — | (4) |
| Dividend on 2009 Preference Stock | (188) | (231) | (210) |
| Repurchase of capital note (note 9) | 41 | 24 | — |
| Loss attributable to ordinary stockholders | <u>(109)</u> | <u>(821)</u> | <u>(1,674)</u> |
| 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 | 1,587 |
| Effect of all dilutive potential ordinary stock | — | — | — |
| | <u>15,704</u> | <u>3,811</u> | <u>1,587</u> |
| Diluted loss per share (cent) | <u>(0.7)</u> | <u>*(21.5)</u> | <u>*(105.5)</u> |

* 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 years ended 31 December 2011 and 31 December 2010 and for the nine month period ended 31 December 2009 there was no difference in the weighted average number of units of stock used for basic and diluted net loss per share as the effect of all potentially dilutive ordinary units of stock outstanding was anti-dilutive.

As at 31 December 2011 there were stock options over 3 million units of ordinary units of stock (31 December 2010: 9 million units of potential ordinary stock; 31 December 2009: 12 million units of potential ordinary stock and warrants issued to NPRFC over 335 million units of stock) which could potentially have a dilutive impact in the future, but which were anti-dilutive in the year ended 31 December 2011, the year ended 31 December 2010 and the nine month period ended 31 December 2009 respectively.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 232 to 236. 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The notional amounts and fair values of derivative instruments held by the Group are set out in the following tables:

| <u>31 December 2011</u> | <u>Contract / notional amount €m</u> | <u>Fair Values</u> | |
|---|--|----------------------|---------------------------|
| | | <u>Assets €m</u> | <u>Liabilities €m</u> |
| <i>Derivatives held for trading</i> | | | |
| 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 |
| <i>Derivatives held for hedging</i> | | | |
| 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 |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The fair values and notional amounts of derivative instruments held are set out in the following tables:

| <u>31 December 2010</u> | <u>Contract / notional amount €m</u> | <u>Fair Values</u> | |
|---|--|----------------------|---------------------------|
| | | <u>Assets €m</u> | <u>Liabilities €m</u> |
| <i>Derivatives held for trading</i> | | | |
| 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 | <u>27,825</u> | <u>442</u> | <u>307</u> |
| 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 | <u>267,365</u> | <u>3,175</u> | <u>3,043</u> |
| Equity contracts and credit derivatives | | | |
| Equity index linked contracts held | 5,334 | 134 | 107 |
| Credit derivatives | 420 | — | — |
| Total derivative assets / liabilities held for trading | <u>300,944</u> | <u>3,751</u> | <u>3,457</u> |
| <i>Derivatives held for hedging</i> | | | |
| 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 | <u>23,965</u> | <u>924</u> | <u>557</u> |
| 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 | <u>78,000</u> | <u>1,700</u> | <u>1,431</u> |
| Total derivative assets / liabilities held for hedging | <u>101,965</u> | <u>2,624</u> | <u>1,988</u> |
| Total derivative assets / liabilities | <u>402,909</u> | <u>6,375</u> | <u>5,445</u> |

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 Report on page 236, 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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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).

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 F-8).

The years in which the hedged cash flows are expected to occur are shown in the table below.

| <u>31 December 2011</u> | <u>1 year €m</u> | <u>1 to 2 years €m</u> | <u>2 to 5 years €m</u> | <u>5 years €m</u> | <u>Total €m</u> |
|--|----------------------|----------------------------|----------------------------|-----------------------|---------------------|
| Forecast receivable cash flows | 12,479 | 3,698 | 876 | 611 | 17,664 |
| Forecast payable cash flows | (220) | (199) | (412) | (712) | (1,543) |
| | | | | | |
| <u>31 December 2010</u> | <u>1 year €m</u> | <u>1 to 2 years €m</u> | <u>2 to 5 years €m</u> | <u>5 years €m</u> | <u>Total €m</u> |
| Forecast receivable cash flows | 214 | 285 | 1,038 | 460 | 1,997 |
| Forecast payable cash flows | (1,217) | (1,663) | (919) | (772) | (4,571) |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The hedged cash flows are expected to impact the income statement in the following years, excluding any hedge accounting adjustments that may be applied:

| <u>31 December 2011</u> | <u>1 year €m</u> | <u>1 to 2 years €m</u> | <u>2 to 5 years €m</u> | <u>5 years €m</u> | <u>Total €m</u> |
|--|----------------------|----------------------------|----------------------------|-----------------------|---------------------|
| Forecast receivable cash flows | 16,252 | 285 | 567 | 560 | 17,664 |
| Forecast payable cash flows | (278) | (176) | (398) | (691) | (1,543) |
| | | | | | |
| <u>31 December 2010</u> | <u>1 year €m</u> | <u>1 to 2 years €m</u> | <u>2 to 5 years €m</u> | <u>5 years €m</u> | <u>Total €m</u> |
| 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

| | <u>31 December 2011 €m</u> | <u>31 December 2010 €m</u> |
|--|------------------------------------|------------------------------------|
| 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 | <u>8,914</u> | <u>10,045</u> |

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).

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 201.

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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26 AVAILABLE FOR SALE FINANCIAL ASSETS (Continued)

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 | <u>10,262</u> | <u>15,576</u> |

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).

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 58.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 | Assets Gross €m | Impairment Provision €m | Carrying Value €m |
|---|--------------------------------|--|----------------------------------|
| Movements in assets held for sale to NAMA | | | |
| 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 |
| | <u>879</u> | <u>(75)</u> | <u>804</u> |
| 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 | <u>—</u> | <u>—</u> | <u>—</u> |
| 31 December 2010 | | | |
| Movements in assets held for sale to NAMA | | | |
| 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 |
| | <u>12,359</u> | <u>(2,778)</u> | <u>9,581</u> |
| 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 | <u>879</u> | <u>(75)</u> | <u>804</u> |
| 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 | <u>879</u> | <u>(75)</u> | <u>804</u> |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 ASSETS HELD FOR SALE TO NAMA (Continued)

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)).

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 ASSETS HELD FOR SALE TO NAMA (Continued)

As at 31 December 2010, the Group had €804 million of assets held for sale to NAMA as set out below:

| <u>Assets held for sale to NAMA</u> | 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

| <u>Assets classified as held for sale</u> | 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 Investments LLC | — | 10 |
| Total | 2,446 | 119 |
| <u>Liabilities classified as held for sale</u> | | |
| 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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 OTHER ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE (Continued)

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. Of the €0.4 billion contracted in 2011, €0.3 billion in assets has been completed and derecognised since 31 December 2011 with the remaining €0.1 billion expected to settle in the coming months.
- 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 64).

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 IMPAIRMENT PROVISIONS

The Group's loan portfolios and related impairment provisions at 31 December 2011 are classified as follows:

| <u>31 December 2011</u> | <u>Assets Gross €m</u> | <u>Impairment provision €m</u> | <u>Carrying value €m</u> |
|---|--------------------------------|--|----------------------------------|
| 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 | <u>108,102</u> | <u>(6,365)</u> | <u>101,737</u> |

The following tables show the movement in the impairment provisions during the year ended 31 December 2011 and 31 December 2010.

| <u>31 December 2011</u> | <u>Residential mortgages €m</u> | <u>Non- Property SME and corporate €m</u> | <u>Property and construction €m</u> | <u>Consumer €m</u> | <u>Total impairment provisions €m</u> |
|---|---|---|---|------------------------|---|
| 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 | <u>1,159</u> | <u>1,723</u> | <u>3,205</u> | <u>278</u> | <u>6,365</u> |

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 | <u>1,159</u> | <u>1,723</u> | <u>3,205</u> | <u>278</u> | <u>6,365</u> |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 | <u>725</u> | <u>1,475</u> | <u>2,529</u> | <u>321</u> | <u>5,050</u> |
| 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 | <u>725</u> | <u>1,475</u> | <u>2,529</u> | <u>321</u> | <u>5,050</u> |

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 | <u>31</u> | <u>26</u> |

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 Investments LLC | — | (10) |
| Reclassification | 52 | — |
| —From investment properties | 44 | — |
| —From other financial assets at fair value through profit or loss | 8 | — |
| At end of year | <u>245</u> | <u>199</u> |

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 | <u>—</u> | <u>171</u> | <u>905</u> | <u>160</u> | <u>1,236</u> |
| 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 | <u>—</u> | <u>(147)</u> | <u>(625)</u> | <u>(71)</u> | <u>(843)</u> |
| Net Book Value at 31 December 2011 | <u>—</u> | <u>24</u> | <u>280</u> | <u>89</u> | <u>393</u> |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 INTANGIBLE ASSETS (Continued)

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 classified as held for sale, on page F-31. 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 performance.

The values assigned to key assumptions reflect past experience, performance of the business to date and management judgement. The recoverable amount calculations performed for the significant amounts of other intangibles are sensitive to changes in cash flow forecasts, which are based on internal management

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 INTANGIBLE ASSETS (Continued)

information for a period of up to five years, after which a growth factor appropriate for the business is applied.

| | 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 | <u>44</u> | <u>182</u> | <u>833</u> | <u>150</u> | <u>1,165</u> |
| 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 | <u>—</u> | <u>(148)</u> | <u>(545)</u> | <u>(64)</u> | <u>(757)</u> |
| Net Book Value at 31 December 2010 | <u>44</u> | <u>34</u> | <u>288</u> | <u>86</u> | <u>408</u> |

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 | <u>1,204</u> | <u>1,304</u> |

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 INVESTMENT PROPERTIES (Continued)

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 | <u>151</u> | <u>164</u> | <u>522</u> | <u>5</u> | <u>16</u> | <u>858</u> |
| 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 | <u>—</u> | <u>(95)</u> | <u>(424)</u> | <u>(3)</u> | <u>—</u> | <u>(522)</u> |
| Net book value at 31 December | | | | | | |
| 2011 | <u>151</u> | <u>69</u> | <u>98</u> | <u>2</u> | <u>16</u> | <u>336</u> |

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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 PROPERTY, PLANT AND EQUIPMENT (Continued)

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 | <u>177</u> | <u>151</u> | <u>543</u> | <u>7</u> | <u>18</u> | <u>896</u> |
| 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 | <u>—</u> | <u>(83)</u> | <u>(434)</u> | <u>(7)</u> | <u>—</u> | <u>(524)</u> |
| Net book value at 31 December | | | | | | |
| 2010 | <u>177</u> | <u>68</u> | <u>109</u> | <u>—</u> | <u>18</u> | <u>372</u> |

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 PROPERTY, PLANT AND EQUIPMENT (Continued)

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).

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 59) | 519 | 538 |
| Interest receivable | 525 | 541 |
| Sundry and other debtors | 352 | 396 |
| Accounts receivable and prepayments | 166 | 178 |
| Other assets | <u>2,270</u> | <u>2,291</u> |
| Other assets are analysed as follows: | | |
| Within 1 year | 974 | 1,115 |
| After 1 year | 1,296 | 1,176 |
| | <u>2,270</u> | <u>2,291</u> |

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 | <u>708</u> | <u>638</u> |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 | <u>31,534</u> | <u>41,075</u> |

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 | <u>70,506</u> | <u>65,443</u> |
| Amounts include | | |
| Due to associates and joint ventures | <u>26</u> | <u>57</u> |

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 63.

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 pages 224 and 225 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 63.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 DEBT SECURITIES IN ISSUE

| | <u>31 December 2011 €m</u> | <u>31 December 2010 €m</u> |
|---|------------------------------------|------------------------------------|
| Bonds and medium term notes | 16,676 | 21,081 |
| Other debt securities in issue | <u>2,448</u> | <u>7,612</u> |
| Debt securities in issue | <u>19,124</u> | <u>28,693</u> |

41 LIABILITIES TO CUSTOMERS UNDER INVESTMENT AND INSURANCE CONTRACTS

| <u>Investment contract liabilities</u> | <u>31 December 2011 €m</u> | <u>31 December 2010 €m</u> |
|--|------------------------------------|------------------------------------|
| Liabilities to customers under investment contracts, at fair value | <u>4,954</u> | <u>5,271</u> |

The movement in gross life insurance contract liabilities can be analysed as follows:

| <u>Insurance contract liabilities</u> | <u>31 December 2011 €m</u> | <u>31 December 2010 €m</u> |
|--|------------------------------------|------------------------------------|
| At beginning of year | 7,188 | 6,658 |
| New business | 894 | 996 |
| Changes in existing business | <u>(1,045)</u> | <u>(466)</u> |
| At end of year | <u>7,037</u> | <u>7,188</u> |

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 LIABILITIES TO CUSTOMERS UNDER INVESTMENT AND INSURANCE CONTRACTS
(Continued)

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.

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 | <u>358</u> | <u>351</u> |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 13¾% Perpetual Subordinated Bonds | c | 91 | 144 |
| Bristol & West plc | | | |
| Stg£32.6 million 8¾% 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 |
| | | <u>162</u> | <u>769</u> |
| 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 | — |
| | | <u>1,264</u> | <u>2,006</u> |
| | | <u>1,426</u> | <u>2,775</u> |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 13³/₈% 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 SUBORDINATED LIABILITIES (Continued)

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 F-105 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.

(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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 SUBORDINATED LIABILITIES (Continued)

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.
- (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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 SUBORDINATED LIABILITIES (Continued)

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 | <u>3,111</u> | <u>3,102</u> |

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 | <u>3</u> | <u>15</u> | <u>16</u> | <u>4</u> | <u>38</u> |

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 PROVISIONS (Continued)

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.

Other

It is expected that this provision will be used within the next twelve months.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 DEFERRED TAX

| | 31 December 2011 €m | 31 December 2010 €m |
|--|------------------------------------|------------------------------------|
| | <u> </u> | <u> </u> |
| 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 | <u>1,293</u> | <u>1,037</u> |
| 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 | <u>1,388</u> | <u>1,144</u> |
| 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 | <u>(95)</u> | <u>(107)</u> |
| Represented on the balance sheet as follows: | | |
| Deferred tax assets | 1,381 | 1,128 |
| Deferred tax liabilities | (88) | (91) |
| | <u>1,293</u> | <u>1,037</u> |

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 DEFERRED TAX (Continued)

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.

Deferred tax liabilities have not been recognised for tax that may be payable if earnings of certain overseas subsidiaries were remitted to Ireland as the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Unremitted earnings for overseas subsidiaries totalled €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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 DEFERRED TAX (Continued)

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 | <u>263</u> | <u>380</u> |

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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 RETIREMENT BENEFIT OBLIGATIONS (Continued)

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

| <u>Financial assumptions</u> | <u>31 December 2011 % p.a.</u> | <u>31 December 2010 % p.a.</u> |
|--|--|--|
| 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.

| <u>Post retirement mortality assumptions (Main Scheme)</u> | <u>At 31 December 2011 years</u> | <u>At 31 December 2010 years</u> |
|---|--|--|
| 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 |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 | | | | 31 December 2010 | | | |
|---|------------------------------------|---------|-----------|-----------------------|------------------------------------|---------|-----------|-----------------------|
| | Expected long term rates of return | | | | Expected long term rates of return | | | |
| | RoI % | UK % | Fund % | Market Value €m | 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).

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 RETIREMENT BENEFIT OBLIGATIONS (Continued)

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.

| <u>Components of pension expenses</u> | <u>Year ended 31 December 2011 €m</u> | <u>Year ended 31 December 2010 €m</u> |
|--|---|---|
| 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 | <u>84</u> | <u>(563)</u> |
| | | |
| <u>Actual return on scheme assets</u> | <u>Year ended 31 December 2011 €m</u> | <u>Year ended 31 December 2010 €m</u> |
| Expected return on scheme assets | 253 | 233 |
| Actuarial (loss) / gain on scheme assets | (37) ⁽¹⁾ | 86 |
| Actual return on scheme assets | <u>216</u> | <u>319</u> |

(1) Includes a charge of €20 million in respect of the Irish pension levy (year ended 31 December 2010: €nil).

| <u>Movement in defined benefit obligations during the year</u> | <u>Year ended 31 December 2011 €m</u> | <u>Year ended 31 December 2010 €m</u> |
|--|---|---|
| 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 | <u>4,876</u> | <u>4,549</u> |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 RETIREMENT BENEFIT OBLIGATIONS (Continued)

| <u>Movement in the fair value of scheme assets during the year</u> | <u>Year ended 31 December 2011 €m</u> | <u>Year ended 31 December 2010 €m</u> |
|--|---|---|
| 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 | <u>4,463</u> | <u>4,126</u> |

(1) Includes €116 million (year ended 31 December 2010: €68 million) of additional contributions related to the Group pensions review set out on page F-115

| <u>Statement of Other Comprehensive Income (SOI)</u> | <u>Year ended 31 December 2011 €m</u> | <u>Year ended 31 December 2010 €m</u> |
|---|---|---|
| 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 SOI during the year before adjustment of tax | <u>(137)</u> | <u>465</u> |
| Cumulative amount of losses recognised in SOI to end of year | <u>(758)</u> | <u>(621)</u> |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 RETIREMENT BENEFIT OBLIGATIONS (Continued)

| | 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 |
|---|---|---|--|--------------------------------------|--------------------------------------|
| History of experience gains and losses | | | | | |
| 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

| | 31 December 2011 €m | 31 December 2010 €m | 31 December 2009 €m | 31 March 2009 €m | 31 March 2008 €m |
|---|---------------------------|---------------------------|---------------------------|------------------------|------------------------|
| Defined benefit pension schemes | | | | | |
| 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 F-115. 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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 CAPITAL STOCK

| <u>Authorised</u> | <u>31 December 2011</u> | <u>31 December 2010</u> |
|--|-----------------------------|-----------------------------|
| | <u>€m</u> | <u>€m</u> |
| Eur€ | | |
| 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 |
| | <u>£m</u> | <u>£m</u> |
| Stg£ | | |
| 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 |
| | <u>\$m</u> | <u>\$m</u> |
| US\$ | | |
| 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 |
| | <u>31 December 2011</u> | <u>31 December 2010</u> |
| <u>Allotted and fully paid</u> | <u>€m</u> | <u>€m</u> |
| 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 |
| | <u>2,452</u> | <u>1,210</u> |

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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 CAPITAL STOCK (Continued)

legally rank for dividend, in line with accounting standards this dividend does not accrue in the Group financial statements.

| <u>Movements in ordinary and treasury stock (units)</u> | Ordinary Stock | | Treasury Stock | |
|--|------------------------------|-----------------------------|--------------------------|--------------------------|
| | 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 | <u>30,109,381,214</u> | <u>5,293,719,448</u> | <u>45,133,318</u> | <u>27,702,862</u> |

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 subdivided 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 CAPITAL STOCK (Continued)

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.

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:

| <u>2009 Preference Stock</u> | <u>31 December 2011 units</u> | <u>31 December 2010 units</u> |
|---|---------------------------------------|---------------------------------------|
| 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 | <u>1,837,041,304</u> | <u>1,837,041,304</u> |

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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 CAPITAL STOCK (Continued)

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.

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

(1) Defined on page F-164.

BANK OF IRELAND GROUP
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48 CAPITAL STOCK (Continued)

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.

(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

(1) Defined on page F-163.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 CAPITAL STOCK (Continued)

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.

| <u>Grant Dates</u> | | <u>SAYE 2006</u> | <u>SAYE 2007</u> |
|---------------------------|-----|------------------|------------------|
| 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.

| <u>2011</u> | <u>RoI</u> <u>2006 3yr</u> | <u>UK</u> <u>2006 3yr</u> | <u>RoI</u> <u>2007 3yr</u> | <u>UK</u> <u>2007 3yr</u> | <u>Total</u> |
|--|-------------------------------|------------------------------|-------------------------------|------------------------------|--------------|
| 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.

(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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 CAPITAL STOCK (Continued)

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 | <u>3,113,513</u> |

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.

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 |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 CAPITAL STOCK (Continued)

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.

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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 CAPITAL STRESS TEST AND ASSOCIATED RECAPITALISATION (Continued)

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 | <u>1,844</u> | <u>288</u> | <u>377</u> | <u>(58)</u> | <u>2,451</u> |
| Rights issue | — | 954 | 954 | — | 1,908 |
| | <u>1,844</u> | <u>1,242</u> | <u>1,331</u> | <u>(58)</u> | <u>4,359</u> |
| 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 | <u>(45)</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>(45)</u> |
| 2011 recapitalisation of the Bank, net of transaction costs and taxation | <u>1,783</u> | <u>1,242</u> | <u>1,201</u> | <u>(58)</u> | <u>4,168</u> |

(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.

(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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 CAPITAL STRESS TEST AND ASSOCIATED RECAPITALISATION (Continued)

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 56), 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 F-7 and F-9).

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50 2010 RECAPITALISATION OF THE BANK (Continued)

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 | — | — | — |
| | <u>4,295,184,741</u> | <u>(126)</u> | <u>1,210,621,289</u> | <u>654</u> | <u>(1,662,958,696)</u> | <u>(17)</u> | <u>634</u> |

(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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 MEASUREMENT BASIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below analyses the carrying amounts of the financial assets and financial liabilities by accounting treatment and by balance sheet heading.

| | At fair value through profit or loss | | | At fair value through Other Comprehensive income (OCI) | | Loans and advances / held at amortised cost €m | Insurance contracts €m | Total €m |
|---|--|------------------------|---|--|-----------------------------------|---|---------------------------|----------------|
| | Derivatives designated as fair value hedging instruments €m | Held for trading €m | Designated upon initial recognition €m | Available for sale €m | Cash flow hedge derivatives €m | | | |
| 31 December 2011 | | | | | | | | |
| 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 |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 MEASUREMENT BASIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

| | At fair value through profit or loss | | | At fair value through other comprehensive income | | Loans and advances / Held at amortised cost €m | Insurance contracts €m | Total €m |
|---|--|------------------------|---|--|-----------------------------------|---|---------------------------|----------------|
| | Derivatives designated as fair value hedging instruments €m | Held for trading €m | Designated upon initial recognition €m | Available for sale €m | Cash flow hedge derivatives €m | | | |
| 31 December 2010 | | | | | | | | |
| 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 Available for sale financial assets | — | — | — | 15,576 | — | 7,458 | — | 7,458 |
| 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 |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 MEASUREMENT BASIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

The fair value and contractual amount due on maturity of financial liabilities designated at fair value upon initial recognition are shown on 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 | <u>7,355</u> | <u>7,820</u> | <u>7,782</u> | <u>8,392</u> |

For financial assets and financial liabilities which are recognised and subsequently measured at fair value through profit or loss or through other comprehensive income, a description of the methods and assumptions used to calculate those fair values is set out in note 52.

52 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group's accounting policy on valuation of financial instruments is set out on page F-24, while pages F-42 and F-43 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

(a) Financial assets and financial liabilities recognised and subsequently measured at fair value

All financial instruments are initially recognised at fair value. The Group subsequently measures trading securities, other financial assets and financial liabilities designated at fair value through profit or loss, derivatives and available for sale financial assets at fair value in the balance sheet. These instruments are shown as either at fair value through profit or loss (FVTPL) or at fair value through Other Comprehensive Income (OCI) in note 51 on the measurement basis of financial assets and financial liabilities. A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below.

Financial assets held for trading

These instruments are valued using observable market prices, directly from a recognised pricing source or an independent broker or investment bank.

Other financial assets at fair value through profit or loss

These consist of assets designated at fair value through profit or loss, which are predominantly held for the benefit of unit linked policyholders, with any changes in valuation accruing to the policyholders. These assets consist principally of bonds, equities and unit trusts, which are traded on listed exchanges, are actively traded and have readily available prices. Substantially all of these assets are valued using valuation techniques which use observable market data.

Derivative financial instruments

The Group's derivative financial instruments are valued using valuation techniques commonly used by market participants. These consist of discounted cash flow and options pricing models, which typically incorporate observable market data, principally interest rates, basis spreads, foreign exchange rates, equity prices and counterparty credit.

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52 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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

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 F-35. 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.

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 F-30.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

| <u>31 December 2011</u> | <u>Level 1</u> <u>€m</u> | <u>Level 2</u> <u>€m</u> | <u>Level 3</u> <u>€m</u> | <u>Total</u> <u>€m</u> |
|---|-----------------------------|-----------------------------|-----------------------------|---------------------------|
| 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 |
| | <u>17,718</u> | <u>7,104</u> | <u>753</u> | <u>25,575</u> |
| As a % of fair value assets | <u>69.3%</u> | <u>27.8%</u> | <u>2.9%</u> | <u>100%</u> |
| 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 |
| | <u>4</u> | <u>19,865</u> | <u>545</u> | <u>20,414</u> |
| As a % of fair value liabilities | <u>—</u> | <u>97.3%</u> | <u>2.7%</u> | <u>100%</u> |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

| <u>31 December 2010</u> | <u>Level 1 €m</u> | <u>Level 2 €m</u> | <u>Level 3 €m</u> | <u>Total €m</u> |
|---|-----------------------|-----------------------|-----------------------|---------------------|
| 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 |
| | <u>23,746</u> | <u>8,152</u> | <u>282</u> | <u>32,180</u> |
| As a % of fair value assets | <u>73.8%</u> | <u>25.3%</u> | <u>0.9%</u> | <u>100%</u> |
| 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 |
| | <u>—</u> | <u>19,718</u> | <u>697</u> | <u>20,415</u> |
| As a % of fair value liabilities | <u>—</u> | <u>96.6%</u> | <u>3.4%</u> | <u>100%</u> |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Movements in level 3 assets

| <u>31 December 2011</u> | <u>Other financial assets at FVTPL €m</u> | <u>Derivative financial instruments €m</u> | <u>Derivatives held for sale to NAMA €m</u> | <u>Available for sale financial assets €m</u> | <u>Interest in associates €m</u> | <u>Total €m</u> |
|--|---|--|---|---|--|---------------------|
| 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 | <u>17</u> | <u>531</u> | <u>—</u> | <u>174</u> | <u>31</u> | <u>753</u> |
| Total gains / (losses) for the year included in profit or loss for assets held in level 3 at the end of the reporting year . | <u>—</u> | <u>280</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>280</u> |
| 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Movements in level 3 assets

| <u>31 December 2010</u> | <u>Trading securities €m</u> | <u>Derivative financial instruments €m</u> | <u>Derivatives held for sale to NAMA €m</u> | <u>Available for sale financial assets €m</u> | <u>Interest in associates €m</u> | <u>Total €m</u> |
|--|----------------------------------|--|---|---|--------------------------------------|---------------------|
| 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 | <u>17</u> | <u>32</u> | <u>7</u> | <u>200</u> | <u>26</u> | <u>282</u> |
| 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Movements in level 3 liabilities

| <u>31 December 2011</u> | <u>Customer accounts €m</u> | <u>Derivative financial instruments €m</u> | <u>Derivatives held for sale to NAMA €m</u> | <u>Debt securities in issue €m</u> | <u>Subordinated liabilities €m</u> | <u>Total €m</u> |
|---|-------------------------------------|--|---|--|--|---------------------|
| 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 | <u>4</u> | <u>21</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>25</u> |
| Closing balance | <u>11</u> | <u>50</u> | <u>—</u> | <u>457</u> | <u>27</u> | <u>545</u> |
| Total gains / (losses) for the year included in profit or loss for liabilities held at the end of the reporting year | <u>5</u> | <u>(31)</u> | <u>—</u> | <u>(40)</u> | <u>—</u> | <u>(66)</u> |

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Movements in level 3 liabilities

| <u>31 December 2010</u> | <u>Customer accounts €m</u> | <u>Derivative financial instruments €m</u> | <u>Derivatives held for sale to NAMA €m</u> | <u>Debt securities in issue €m</u> | <u>Subordinated liabilities €m</u> | <u>Total €m</u> |
|---|-------------------------------------|--|---|--|--|---------------------|
| 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 | <u>34</u> | <u>4</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>38</u> |
| Closing balance | <u>42</u> | <u>27</u> | <u>—</u> | <u>545</u> | <u>83</u> | <u>697</u> |
| Total gains / (losses) for the year included in profit or loss for liabilities held at the end of the reporting year | <u>39</u> | <u>12</u> | <u>—</u> | <u>(124)</u> | <u>(53)</u> | <u>(126)</u> |

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

52 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

The carrying amount and the fair value of the Group's financial assets and financial liabilities as at 31 December 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

53 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 | 31 December 2009 €m |
|---|---------------------------|---------------------------|---------------------------|
| Cash and balances at central banks | 8,181 | 1,014 | 4,241 |
| Loans and advances to banks (with an original maturity of less than 3 months) | <u>7,591</u> | <u>7,121</u> | <u>4,946</u> |
| Cash and cash equivalents | <u>15,772</u> | <u>8,135</u> | <u>9,187</u> |

Cash and balances at central banks is made up as follows:

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

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.

54 PROFIT OR LOSS OF THE PARENT COMPANY

The parent company of the Group is the Governor and Company of the Bank of Ireland (the Bank). In accordance with Section 148(8) of the Companies Act, 1963 and Section 7(1A) of the Companies (Amendment) Act, 1986, the Bank is availing of the exemption of presenting its individual income statement to the Annual General Court and from filing it with the Registrar of Companies. The Bank's profit after tax for the 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).

55 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55 RELATED PARTY TRANSACTIONS (Continued)

(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.

(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 Investments LLC. As set out in note 19, Paul Capital Investments 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 56.

(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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55 RELATED PARTY TRANSACTIONS (Continued)

Directors' emoluments are set out in the Directors' Information in note 61.

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.

| <u>Companies Acts disclosure Loans</u> | 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55 RELATED PARTY TRANSACTIONS (Continued)

| <u>Companies Acts disclosure Loans</u> | 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 | <u>1</u> | <u>10</u> | <u>14</u> |
| 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 | <u>1</u> | <u>3</u> | <u>33</u> |
| 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 | <u>521</u> | <u>558</u> | <u>606</u> |
| P Haran (retired 15 June 2011) | | | |
| Mortgage total | 105 | 89 | 105 |
| Credit card total | — | 1 | 6 |
| Total | <u>105</u> | <u>90</u> | <u>111</u> |
| H A McSharry (retired 15 June 2011) | | | |
| Mortgages total | 92 | — | 92 |
| Credit card total | 1 | 6 | 6 |
| Total | <u>93</u> | <u>6</u> | <u>98</u> |

(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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55 RELATED PARTY TRANSACTIONS (Continued)

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 F-157.

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55 RELATED PARTY TRANSACTIONS (Continued)

| <u>Companies Acts disclosure Loans</u> | <u>Balance as at 1 January 2010⁽¹⁾ €'000</u> | <u>Balance as at 31 December 2010⁽¹⁾ €'000</u> | <u>Aggregate maximum amount outstanding during the Year ended 31 December 2010⁽²⁾ €'000</u> |
|---|---|---|--|
| 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 | <u>946</u> | <u>894</u> | <u>982</u> |
| T Considine | | | |
| Credit card total | 1 | 1 | 3 |
| Total | <u>1</u> | <u>1</u> | <u>3</u> |
| 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 | <u>646</u> | <u>521</u> | <u>660</u> |
| D Donovan | | | |
| Credit card total | — | — | 2 |
| Total | <u>—</u> | <u>—</u> | <u>2</u> |
| P Haran | | | |
| Mortgage total | 120 | 105 | 120 |
| Credit card total | 2 | — | 2 |
| Total | <u>122</u> | <u>105</u> | <u>122</u> |
| J Kennedy | | | |
| Mortgages total | 1,301 | 776 | 1,301 |
| Other loan total | 98 | — | 98 |
| Credit card total | — | — | 2 |
| Current account total | — | — | 4 |
| Total | <u>1,399</u> | <u>776</u> | <u>1,405</u> |

(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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55 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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55 RELATED PARTY TRANSACTIONS (Continued)

D Holt, R Hynes and P O’Sullivan had no loans with the Group during the year ended 31 December 2010.

(ii) Loans to connected persons on favourable terms

| <u>2011</u> | 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.

| <u>2010</u> | 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55 RELATED PARTY TRANSACTIONS (Continued)

The following information is presented in accordance with this licence condition.

| <u>2011</u> | 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 |
| | | | | |
| <u>2010</u> | 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 at 31 December 2011, 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 F-150 and F-151, 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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55 RELATED PARTY TRANSACTIONS (Continued)

made on terms similar to those available to staff generally and / or in the ordinary course of business on normal commercial terms.

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

| 2011 Key Management Personnel | 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 |
| 2010 | | | | | |
| Key Management Personnel | 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55 RELATED PARTY TRANSACTIONS (Continued)

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.

(v) Compensation of key management personnel

Details of compensation paid to key management personnel are provided below:

| <u>Remuneration</u> | <u>Year ended 31 December 2011 €'000</u> | <u>Year ended 31 December 2010 €'000</u> |
|---|--|--|
| 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) |
| | <u>6,061</u> | <u>5,123</u> |

(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.*

56 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%).

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

56 SUMMARY OF RELATIONS WITH THE STATE (Continued)

(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).

(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⁽¹⁾ 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).

(1) Defined on page F-164.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

56 SUMMARY OF RELATIONS WITH THE STATE (Continued)

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 |
|--|--------------------------------|--------------------------------|
| | €bn | €bn |
| Liabilities covered at year end | | |
| ELG | | |
| —Customer deposits | 26 | 29 |
| —Debt securities in issue | 6 | 7 |
| —Deposits by banks* | 10 | 3 |
| Total | <u>42</u> | <u>39</u> |
| Fees for the year | €m | €m |
| ELG | 449 | 275 |
| CIFS | — | 68 |
| Total | <u>449</u> | <u>343</u> |

* The charge under the guarantee relates to Government guaranteed debt issued and retained by the Group which are used as collateral for these deposits.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

56 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 pages 203 and 204 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 | <u>5,129</u> | <u>5,173</u> |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

56 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.

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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

56 SUMMARY OF RELATIONS WITH THE STATE (Continued)

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.

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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

56 SUMMARY OF RELATIONS WITH THE STATE (Continued)

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

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; and

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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

56 SUMMARY OF RELATIONS WITH THE STATE (Continued)

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).

57 PRINCIPAL UNDERTAKINGS

The principal Group undertakings at 31 December 2011 were:

| <u>Name</u> | <u>Principal activity</u> | <u>Country of incorporation</u> | <u>Statutory year end</u> |
|---|--|---------------------------------|---------------------------|
| 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 Registration Office.

Bank of Ireland Mortgage Bank (BoIMB)

BoIMB's principal activities are the issuance of Irish Residential mortgages and mortgage covered securities in accordance with the Asset Covered Securities Act 2001 and the Asset Covered Securities (Amendment) Act 2007. Such loans may be made directly by the Bank or may be purchased from Bank of Ireland and other members of the Group or third parties.

At 31 December 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).

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

57 PRINCIPAL UNDERTAKINGS (Continued)

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.

58 OTHER SUBSIDIARIES

The Group has a number of subsidiaries where it does not own more than half of the voting power in the company but which are consolidated. Details of these subsidiaries are listed below.

| Activity | Company | 31 December 2011 | | 31 December 2010 | |
|---|--|--------------------------|-------------------------------|--------------------------|-------------------------------|
| | | 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 |

(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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

58 OTHER SUBSIDIARIES (Continued)

- (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.*

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.

| Activity | Company | 31 December 2011 | | 31 December 2010 | |
|--|--------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | | 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.*

59 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% |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

59 LIFE ASSURANCE BUSINESS (Continued)

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.

Sensitivities

The table below indicates the standalone impact of changes in the key assumptions on profit.

| | <u>31 December 2011</u> | <u>31 December 2010</u> |
|--|-------------------------|-------------------------|
| 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

60 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 of 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

61 DIRECTORS' INFORMATION

Directors' remuneration for the year ended 31 December 2011 (all figures in €000s)

| | 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

61 DIRECTORS' INFORMATION (Continued)

** 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

61 DIRECTORS' INFORMATION (Continued)

Directors' remuneration for the year ended 31 December 2010 (all figures in €000s)

| | 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 | | ** 37 | | | | 37 | | 37 |
| (retired 19 May 2010) | | | | | | | | |
| HA McSharry | | 89 | | | | 89 | | 89 |
| T Neill | | ** 36 | | | | 36 | | 36 |
| (retired 19 May 2010) | | | | | | | | |
| P O'Sullivan | | 79 | | | | 79 | | 79 |
| J Walsh | | 79 | | | | 79 | | 79 |
| P Kennedy | | ** 31 | | | | 31 | | 31 |
| (appointed 6 July 2010) | | | | | | | | |
| 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

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

61 DIRECTORS' INFORMATION (Continued)

** 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 F-115, 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 F-122.

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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

61 DIRECTORS' INFORMATION (Continued)

| | 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 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 | |
| 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.

(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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

61 DIRECTORS' INFORMATION (Continued)

The following table summarises the Sharesave Schemes operating in the Group:

| <u>Sharesave Scheme</u> | <u>ROI Price</u> | <u>UK Price</u> | <u>Saving Period</u> | <u>Maturity Date</u> |
|-------------------------|------------------|-----------------|----------------------|----------------------|
| 2007 | **€4.39 | **€4.68 | 3 years | February 2011 |

| <u>Name</u> | <u>Sharesave Scheme Date of Grant</u> | <u>Sharesave Options Granted</u> | <u>Market Value per unit of ordinary stock at Date of Grant</u> | <u>Sharesave Options held at 31 December 2011</u> |
|-------------------|---------------------------------------|----------------------------------|---|---|
| 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 F-128 to F-129). 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

61 DIRECTORS' INFORMATION (Continued)

The conditional awards of units of ordinary stock previously made to date to the Executive Directors and the Group Secretary are as follows:

| | Date of award | No. of units conditionally held at 1 January 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.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

61 DIRECTORS' INFORMATION (Continued)

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.

| | (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).

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

61 DIRECTORS' INFORMATION (Continued)

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:

| | 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 acquired 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. Other than the change in P Butler's stockholding outlined above, there have been no changes in the stockholdings of the above Directors and Secretary between 31 December 2011 and 20 March 2012.

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

62 RISK MANAGEMENT

The disclosures required under IFRS relating to financial risks and capital resources have been included within the Risk Management Report in Item 11 ‘Quantitative and Qualitative Disclosures about Market Risk.’ The relevant disclosures related to Credit Risk, Liquidity Risk, Market Risk, Life Insurance Risk and Capital Management have been described as those which form an integral part of the audited financial statements.

This move has been to improve transparency and ease of reference, by concentrating related information in one place, and to reduce duplication.

63 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 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

| <u>Contractual maturity</u> | <u>Demand €m</u> | <u>Up to 3 months €m</u> | <u>3-12 months €m</u> | <u>1-5 years €m</u> | <u>Over 5 years €m</u> | <u>Total €m</u> |
|------------------------------------|----------------------|----------------------------------|-------------------------------|-----------------------------|--------------------------------|-----------------------|
| 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 | <u>64,450</u> | <u>39,366</u> | <u>4,588</u> | <u>33,242</u> | <u>6,198</u> | <u>147,844</u> |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

63 LIQUIDITY RISK (Continued)

As at 31 December 2010

| <u>Contractual maturity</u> | <u>Demand €m</u> | <u>Up to 3 months €m</u> | <u>3–12 months €m</u> | <u>1–5 years €m</u> | <u>Over 5 years €m</u> | <u>Total €m</u> |
|------------------------------------|----------------------|----------------------------------|-------------------------------|-----------------------------|--------------------------------|-----------------------|
| 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 | <u>67,628</u> | <u>57,957</u> | <u>5,807</u> | <u>27,118</u> | <u>11,968</u> | <u>170,478</u> |

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

| <u>Derivative financial instruments</u> | <u>Demand €m</u> | <u>Up to 3 months €m</u> | <u>3–12 months €m</u> | <u>1–5 years €m</u> | <u>Over 5 years €m</u> | <u>Total €m</u> |
|---|----------------------|----------------------------------|-------------------------------|-----------------------------|--------------------------------|---------------------|
| 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 | <u>1,970</u> | <u>236</u> | <u>1,089</u> | <u>2,417</u> | <u>615</u> | <u>6,327</u> |

BANK OF IRELAND GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

63 LIQUIDITY RISK (Continued)

As at 31 December 2010

| <u>Derivative financial instruments</u> | <u>Demand €m</u> | <u>Up to 3 months €m</u> | <u>3–12 months €m</u> | <u>1–5 years €m</u> | <u>Over 5 years €m</u> | <u>Total €m</u> |
|---|----------------------|----------------------------------|-------------------------------|-----------------------------|--------------------------------|---------------------|
| 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 |

64 POST BALANCE SHEET EVENTS

Sale of Burdale

On 1 February 2012, the sale of Burdale completed. For further information see note 30.

Sale of Project Finance loan portfolios

During January and February 2012, the sale of €0.3 billion of Project Finance loans was completed and the assets derecognised. The Group agreed the sale of these assets during 2011. For further information, see note 30 to the Consolidated Financial Statements.

Dividends

On 20 February 2012, the Group paid dividends on its euro and sterling preference stock of €3.4 million and a dividend of €188.3 million in respect of the 2009 Preference Stock held by the NPRFC.

Term Funding

In March 2012, the Group participated in the second ECB three year LTRO when it converted c. €4.8 billion of mainly shorter term funding to three year funding with a maturity of February 2015.

Proposed securities repurchase transaction with Irish Bank Resolution Corporation (IBRC)

The Group announced on 29 March 2012 that the Group, IBRC and the State have reached a conditional agreement to conduct a securities repurchase transaction (“Repo”) whereby the Group will purchase long term Irish Government Bonds from IBRC for a purchase price of approximately €3.06 billion in cash. The Repo will be governed by a Global Master Repurchase Agreement which will incorporate standard market terms including daily cash margining with respect to changes in the value of the Bonds. All IBRC’s payment obligations to the Group with respect to the Repo including the cash margining are covered by a guarantee from the Minister for Finance of IBRC’s exposures for transactions of this nature. The transaction can be financed by the Group through standard ECB money market operations using the bonds which are Eurosystem eligible. Under the terms of the Repo, IBRC will have an obligation to

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64 POST BALANCE SHEET EVENTS (Continued)

repurchase the bonds from the Group for approximately €3.06 billion in cash not later than 364 days after the effective date. The margin for the Group over ECB funding which would apply to this transaction is 135bps. As the transaction is considered to be a related party transaction under the Listing Rules, it will be subject to independent stockholder approval.

65 APPROVAL OF 20-F

The Court of Directors approved the financial statements for inclusion in Form 20-F on 29 March 2012.

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorised the undersigned to sign this annual report on its behalf.

THE GOVERNOR AND COMPANY OF THE
BANK OF IRELAND (REGISTRANT)

Date: 29 March 2012

By: /s/ RICHIE BOUCHER

Name: Richie Boucher
Title: *Group Chief Executive*

By: /s/ ANDREW KEATING

Name: Andrew Keating
Title: *Group Chief Financial Officer*