Pillar 3 Disclosures

For the year ended 31 December 2012

Bank of Ireland Group

For small steps, for big steps, for life

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Bank of Ireland

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Forward-Looking Statement

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

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

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

Analyses of asset quality and impairment in addition to liquidity and funding is set out in the Risk Management Report of the Group's Annual Report 31 December 2012. Investors should also read the 'Principal Risks and Uncertainties' section in the Group's Annual Report beginning on page 43.

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

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This document and other information relating to Bank of Ireland is available at:

www.bankofireland.com

Introduction

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

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

Pillar 2 is intended to ensure that each financial institution has sound internal processes in place to assess the adequacy of its capital, based on a thorough evaluation of its risks. Supervisors are tasked with evaluating how well financial institutions are assessing their capital adequacy needs relative to their risks. The Internal Capital Adequacy Assessment Process (ICAAP) is carried out by Bank of Ireland Group (the Group) on an annual basis in line with Pillar 2 requirements. The ICAAP is a process to ensure that the Court of directors and the Group's senior management adequately identifies, measures and monitors the Group's risks and holds adequate capital in relation to the Group's risk profile. The ICAAP demonstrates the quality and quantity of financial resources the Group holds in respect of:

- Capital resources to meet its internal regulatory requirements on a current and projected basis under base and stress scenarios.
- Liquidity resources to meet its internal and regulatory requirements on a current and projected basis under a base scenario.

The ICAAP is followed by discussions between the Group and the Central Bank of Ireland (the Central Bank) on the appropriate capital levels. This second stage is called the Full Risk Assessment (FRA).

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

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

The Group's Pillar 3 document is a technical paper which should be read in conjunction with the Group's Annual Report for the year ended 31 December 2012 (hereafter referred to as the 'Group's Annual Report 31 December 2012'), which contains some Pillar 3 qualitative information.

The Group's qualitative disclosure requirements are largely met in the Operating and Financial Review and Risk Management sections of the Group's Annual Report 31 December 2012. This document contains the Group's Pillar 3 quantitative disclosure requirements and the remainder of the qualitative disclosure requirements. This document should therefore be read in conjunction with the Group's Annual Report 31 December 2012. Copies of the Group's Annual Report 31 December 2012 can be obtained from the Group's website at www.bankofireland.com or from the Group Secretary's Office, Bank of Ireland, 40 Mespil Road, Dublin 4, Ireland.

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

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

Areas Covered

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

The topics covered are also dealt with in the Group's Annual Report 31 December 2012 and cross-referencing to relevant sections is provided throughout this document. In some areas more detail is provided in these Pillar 3 disclosures. For instance, the section on capital requirements includes additional information on the amount of capital held against various risks and exposure classes, and the section on capital resources provide details on the composition of the Group's own funds as well as a reconciliation of accounting equity to regulatory capital.

It should be noted that while some quantitative information in this document is based on financial data contained in the Group's Annual Report 31 December 2012, other quantitative data is sourced from the Group's regulatory reporting platform and is calculated according to a different set of rules. The difference between the accounting data and information sourced from the Group's regulatory reporting platform is most evident for credit risk disclosures where credit exposure under Basel II (referred to as Exposure at Default (EAD)) is defined as the expected amount of exposure at default and is estimated under specified Basel II parameters and, unlike financial statement information, includes potential future drawings of committed credit lines as well as other technical differences. Pillar 3 quantitative data is thus not always directly comparable with the quantitative data contained in the Group's Annual Report 31 December 2012. Some details of the key differences between the Groups accounting and regulatory exposures are set out on page 7.

Supervision

The Bank of Ireland Group is subject to consolidated supervision by the Central Bank.

As at 31 December 2012, the Group held five separate banking licences. These are held by the Governor and Company of the Bank of Ireland, Bank of Ireland (UK) plc, ICS Building Society, Bank of Ireland Mortgage Bank and Bank of Ireland (IOM) Limited. All of these entities are regulated on an individual basis by the Central Bank with the exception of Bank of Ireland (UK) plc, which is regulated by the Financial Services Authority (FSA) and Bank of Ireland (IOM) Limited which is regulated by the Isle of Man Financial Supervision Commission. By operating a branch in the United States, Bank of Ireland and its subsidiaries are subject to certain regulation by the Board of Governors of the Federal Reserve System under various laws, including the International Banking Act of 1978 and the Bank Holding Company Act of 1956. Each individual licence holder and regulated entity is required to comply with its local regulatory requirements.

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

Preparation and Basis of Consolidation

The Group's Pillar 3 disclosures are published on a consolidated basis for the year ended 31 December 2012. The Group is availing of the discretion provided for in Article 70 of the CRD to report on a 'solo consolidation' basis which allows for the treatment of subsidiaries as if they were, in effect, branches of the parent in their own right. Not all legal entities are within the scope of Pillar 3. Table 1.1 below illustrates differences between the basis of consolidation for accounting purposes and the CRD regulatory treatment.

Table 1.1 – Basis of Consolidation

Entity	Statutory Accounting Treatment	CRD Regulatory Treatment
Bank of Ireland Life	Fully Consolidated	90% of investment taken as a deduction to Group capital. Balance of the investment added to RWA. With effect from 1 January 2013 the deduction element of the Group's participation in its Life and pension business will be deducted 50:50 from Core tier 1 and Tier 2 capital in accordance with the CRD.
Joint Ventures	Equity Accounting	For holdings >10% of a financial Joint Venture's capital, deduction to Group capital for investment in excess of 10% of the capital of the Joint Venture (50:50 from Core tier 1 and Tier 2 capital). Balance of investment added to RWA.
Associates	Equity Accounting	For holdings >10% of a financial associate's capital, deduction to Group capital for investment in excess of 10% of the Total capital of the associate (50:50 from Core tier 1 and Tier 2 capital). Balance of the investment added to RWA.
Securitisation Vehicles	Fully Consolidated	First Loss deduction taken 50% from Core tier 1 capital and 50% from Tier 2 capital for tranches retained in originated securitisations which have obtained Pillar 1 derecognition. The quantum of the deduction is set at the KIRB value of the securitised portfolios.

Key Capital Ratios

The following table outlines the components of the Group's Risk Weighted Assets (RWA) as well as key capital ratios as at 31 December 2012 and 31 December 2011.

Table 1.2 – Risk Weighted Assets (RWA) and Key Capital Ratios	**31 December 2012 €m**	31 December 2011 €m
Risk Weighted Assets		
Credit Risk	51,873	61,483
Market Risk	1,040	1,122
Operational Risk	3,608	4,530
Total Risk Weighted Assets	**56,521**	**67,135**
Key Capital Ratios		
Core tier 1 capital (PCAR / EBA)	14.4%	14.3%
Tier 1 capital	14.5%	14.4%
Total capital	15.3%	14.7%

RWA at 31 December 2012 of €56.5 billion are €10.6 billion lower than the RWA of €67.1 billion at 31 December 2011. This decrease is primarily due to a reduction in the quantum of loans and advances to customers due to deleveraging, the impact of a higher level of impaired loans at 31 December 2012 as compared to 31 December 2011 and lower levels of operational risk RWA partly offset by model updates to Internal Ratings Based (IRB) portfolios and the impact of foreign exchange movements.

Core tier 1 capital (PCAR / EBA) is calculated in line with the methodology used for the 2011 PCAR and EBA stress tests. As stated in the Financial Measures Programme 'The Central Bank applied capital requirement rules and a definition of Core tier 1 capital as prescribed by the Capital Requirements Directive, which is the prevailing regulatory standard in the EU. To increase conservatism, the Central Bank has included all supervisory deductions, including 50:50 deductions'. The Core tier 1 (PCAR / EBA) ratio at 31 December 2012 of 14.4% compares to 14.3% at 31 December 2011. The increase in the ratio is primarily due to lower RWA and supervisory deductions partly offset by underlying losses in the year ended 31 December 2012. The ratio of 14.4% exceeds the minimum Core tier 1 capital ratio of 10.5% as set by the Central Bank.

The Tier 1 ratio at 31 December 2012 of 14.5% compares to 14.4% at 31 December 2011. The increase is primarily due to the impact of lower RWA and supervisory deductions partly offset by underlying losses in the year ended 31 December 2012.

The Total capital ratio at 31 December 2012 of 15.3% compares to 14.7% at 31 December 2011. The increase is primarily due to lower RWA, lower regulatory deductions and the issuance of new subordinated debt (€250 million issued in December 2012) partly offset by underlying losses for the year ended 31 December 2012 and the amortisation of dated debt.

Additional commentary on the movement in capital resources is outlined on pages 12 and 13.

Meeting Capital Requirements

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

The Group met the 2011 PCAR requirement in the year ended 31 December 2011 by generating €4.2 billion of Core tier 1 capital primarily through a Rights Issue which generated €1.9 billion and the completion of Liability Management Exercises (LMEs) on certain subordinated liabilities and debt securities which generated a further €2.4 billion.

In addition, in July 2011, the Group issued a Contingent Capital Note to the Irish State (the State) with a nominal amount of €1 billion and a maturity of five years. This note is classified as a subordinated liability and it qualifies as Tier 2 capital.

During the year ended 31 December 2012 the Group successfully maintained the robust capital ratios created in 2011 and remained strongly capitalised. The Core tier 1 (PCAR / EBA) ratio increased marginally from 14.3% to 14.4% during the year. While losses attributable to shareholders for the year ended 31 December 2012 remain elevated at €1.8 billion, the impact on the Group's capital ratios was mitigated through the significant reduction in RWA during 2012, largely the result of the Group's ongoing deleveraging initiatives.

In December 2012, the Group successfully issued €250 million of subordinated debt with a maturity of ten years. The debt qualifies as Tier 2 capital.

In January 2013, the State sold 100% of its holding of the €1 billion Contingent Capital Note at a price of 101% of its par value plus accrued interest. A diverse group of international institutional investors purchased the notes.

Regulatory Capital Requirements & Basel III

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

- EC Directive 2009/111/EC (CRD II): CRD II was implemented on 31 December 2010. In particular it made changes to the criteria for assessing hybrid capital eligible to be included in Tier 1 capital and requires the Group to replace, over a staged grandfathering period, existing capital instruments that do not fall within these revised eligibility criteria. Following the LME exercises in 2011 there is €93 million of hybrid debt remaining in the Group as at 31 December 2012, all of which is expected to be grandfathered as Tier 1 capital under the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD), which are commonly referred to as the CRR / CRD IV proposals.
- The EU Capital Requirements Directive III (CRD III): CRD III, commonly known as Basel 2.5, was implemented on 1 January 2011. Key enhancements aim to:
  - increase the capital requirements for trading books to ensure that a firm's assessment of the risks connected with its trading book better reflects the potential losses from adverse market movements in stressed conditions;
  - limit investments in re-securitisations and impose higher capital requirements for re-securitisations to make sure that firms take proper account of the risks of investing in such complex financial products; and
  - increase the nature and extent of disclosure standards.

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

On July 20 2011, the European Commission issued its legislative proposals on a revision of the CRD, which seeks primarily to apply the Basel III framework in the EU. These proposals have recast the contents of the CRD into a revised CRD and a new CRR. When implemented, these regulations would have significant implications for the Group from both a capital and liquidity perspective. As the CRR / CRD IV proposals have not yet been finalised and the date for implementation is not yet known, clarification is awaited from regulatory authorities on a number of technical and other factors which could materially impact the Group. Consequently, there remains uncertainty over the final impact of these regulations on the Group.

The transitional arrangements currently proposed for implementiation are as follows:

- National implementation of increased capital requirements are assumed to begin on 1 January 2014;
- It is expected that there will be a five year phase-in period for new deductions and regulatory adjustments to Common equity tier 1 capital assumed to commence on 1 January 2014;
- The de-recognition of non-qualifying non-common Tier 1 and Tier 2 capital instruments is expected to be phased in over 10 years from 1 January 2014;
- State-aid instruments are expected to qualify 100% as Common equity tier 1 capital until 2017, subject to certain conditions; and
- Requirements for changes to minimum capital ratios, including capital conservation and countercyclical buffers, as well as additional requirements for globally systemically important banks, are expected to be phased in from 2014 to 2019.

The significant categories of new capital deductions and regulatory adjustments which are expected to be phased-in over the five year period from 1 January 2014 include:

- Pensions deficit add back;
- Significant investments in non-consolidated financial institutions;
- expected loss net of provisions;
- Deferred tax assets not relating to timing differences (Deferred tax asset phase-in period may be extended to ten years in final legislation); and
- Unrealised losses on available-for-sale securities.

The proposed significant risk weighted asset changes include:

- Credit valuation adjustment;
- Financial institutions correlation factor;
- Securitisations; and
- Risk weights for SME exposures.

The Group's current assumption is that the Common equity tier 1 (CET 1) regulatory requirement under Basel III will be 10% for Bank of Ireland and, on a phased basis, the Group would expect to maintain a buffer above this regulatory requirement. In addition, based on the Group's current interpretation of the draft Basel III regulations, the Group's CET 1 ratio, including the 2009 Preference stock (which we expect will continue to be considered as CET 1 until 31 December 2017), is estimated at 8.5% as at 31 December 2012 on a pro-forma 'fully loaded' basis as outlined in Table 1.3.

Table 1.3 - Basel III Capital Impact	**RWA €bn**	**CT1 / CET1 Capital €bn**	**CT1 / CET1 Ratio %**
31 December 2012	56.5	8.1	14.4%
Basel III adjustments:			
Deferred tax		(1.5)	
Pension deficit		(1.2)	
Significant investments[1]		(0.4)	
Expected loss		(0.2)[2]	
Removal of national filters		0.4	
Other items	2.2[3]	(0.2)	
Basel III fully loaded pro-forma at 31 December 2012 (including preference shares[4])	**58.7**	**5.0**	**8.5%**

[1] *Calculated through 10% / 15% threshold deduction.*
[2] *50% of expected loss adjustment already deducted in arriving at Core tier 1 ratio (PCAR / EBA) basis.*
[3] *RWA includes a number of credit risk and other items. Assumes EU corporates are exempt from CVA charge. No reductions assumed for potential changes in SME factor.*
[4] *Government preference shares of €1.8 billion are expected to be grandfathered as Common equity tier 1 until 31 December 2017.*

Given the phasing in of both capital requirements and adjustments, the actual impact may be mitigated through capital generated from earnings and management actions.

The fully loaded pro-forma adjustments are based on current interpretation of draft regulations. Uncertainty remains over the final impact of the Basel III regulations on the Group. Clarification is awaited from regulatory authorities on a number of technical and other factors which could materially impact the Group, for example, the final application of the Credit Valuation Adjustment (CVA) charge and the SME reduction factor.

Distinctions between Pillar 3 and IFRS Quantitative Disclosures

There are two different types of table included in this document, those compiled based on accounting standards (sourced from the Group's Annual Report 31 December 2012) and those compiled using CRD methodologies. Unless specified otherwise, both sets of data reflect the position as at 31 December 2012. The specific methodology used is indicated before each table.

It should be noted that there are fundamental technical differences in the basis of calculation between financial statement information based on IFRS accounting standards and regulatory information based on CRD capital adequacy concepts and rules. This is most evident for credit risk disclosures where credit exposure under the CRD, EAD, is defined as the expected amount of exposure at default and is estimated under specified regulatory rules. The principal differences between total accounting assets at 31 December 2012 of €148 billion per the Group's Annual Report 31 December 2012 and total regulatory EAD of €135 billion (refer to Table 2.2) are set out below.

The following items outline instances where EAD is lower than accounting assets:

- Assets held outside of the Group on behalf of Bank of Ireland Life policyholders of c.€12.3 billion are included in accounting assets in accordance with IFRS but are not reflected in EAD as the Group is not exposed to risk and the Life and pension business is also subject to separate supervision.
- The loan assets in certain securitisations originated by the Group, where the bonds issued by the vehicles have been sold to third party investors, qualify for derecognition under Pillar 1 rules. These assets are not included in EAD notwithstanding that they continue to be reflected in accounting assets from an IFRS perspective. Further information on these assets, which total c.€4 billion, is set out in the Securitisation section.
- The EAD on the Group's derivative exposures of €2.4 billion as set out in Table 5.1 is €3.4 billion lower that accounting derivative assets of €5.8 billion. This is attributable to the application of regulatory netting rules and the impact of cash collateral received from derivative counterparties partly offset by an allowance for potential future credit exposure in EAD which is not reflected in the accounting fair value.
- EAD is reduced by €1.8 billion arising from the impact of other forms of credit risk mitigation primarily the netting of on balance sheet assets and liabilities including the offset of net negative derivative mark-to-market positions with interbank counterparties against cash collateral placed with those counterparties under Credit Support Annex (CSA) agreements which is recorded in Loans and advances to banks on the accounting balance sheet. Further information on credit risk mitigation is outlined on pages 32 and 33.
- €0.5 billion of accounting assets which are not reflected in EAD and are instead deducted from regulatory capital. This includes €0.4 billion in relation to intangible assets and €0.1 billion in relation to investments in associates and joint ventures (refer to Table 2.3).
- Loans and advances to banks in the Group's Annual Report 31 December 2012 include €3.4 billion of reverse repurchase agreements. The EAD on these exposures (including the IBRC repo) is negligible as the fair value of the collateral received under the repurchase agreement is in excess of the loan value. The IBRC repo transaction was terminated by the Group on a no gain / no loss basis effective on 13 February 2013, reducing loans and advances to banks by €3.1 billion with a corresponding reduction in borrowings from Monetary Authorities.

The combined impact of the above items are partly offset by the combined impact of the following factors which outline instances where EAD is higher than accounting exposure:

- The inclusion in EAD of potential future drawings of committed credit facilities, contingent liabilities and other off balance sheet items. Regulatory credit conversion factors are used to convert the contractual amount of a commitment into a credit equivalent amount. EAD in relation to off balance sheet instruments at 31 December 2012 totalled €4.2 billion. This is not reflected in accounting assets.
- The treatment of specific provisions on IRB exposures of €3.8 billion (see Table 4.18). EAD on IRB portfolios is shown gross of impairment provisions whereas accounting assets will be net of all provisions.
- The treatment of IBNR provisions of €0.7 billion (see Table 4.17) which are not taken into consideration when arriving at EAD on either Standardised or IRB portfolios but which are included in accounting assets.
- Regulatory exposures at 31 December 2012 include €3.6 billion of EAD in relation to repurchase agreement borrowings. The resulting exposure to banks and central banks arises in cases where the fair value of collateral provided to secure the borrowings is in excess of the cash received.

The above list of items is not exhaustive, but does outline the principal technical differences.

While some of the Pillar 3 quantitative disclosures based on CRD methodologies overlap with quantitative disclosures in the Group's Annual Report 31 December 2012 in terms of disclosure topic covered, any comparison between these values should bear the differences outlined above in mind.

The disclosures contained in this document have been reviewed internally, and this review is consistent with reviews undertaken for unaudited information published in the Group's Annual Report 31 December 2012.

Capital

The Group's capital management policy ensures that the Group has sufficient capital to cover the risks of its business and support its strategy and at all times complies with regulatory capital requirements. 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. For additional information on the Group's capital management policies please refer to the Capital Management section of the Group's Annual Report 31 December 2012 on page 96.

The Group uses the Foundation IRB, Retail IRB and Standardised approaches for the calculation of its credit risk capital requirements.

The capital requirements for market risk are calculated using the Standardised approach applicable to market risk. The capital requirements for operational risk are calculated using the Standardised approach applicable to operational risk. There is a requirement to disclose any impediment to the prompt transfer of funds within the Group. In respect of the Group's licensed subsidiaries the Group is obliged to meet certain license conditions in respect of capital and / or liquidity. These requirements may include meeting or exceeding appropriate capital and liquidity ratios and obtaining appropriate regulatory approvals for the transfer of capital or, in certain circumstances, liquidity. The Group's licensed subsidiaries would be unable to remit funds to the parent when to do so would result in such ratios or other regulatory permissions being breached. Apart from this requirement there is no restriction on the prompt transfer of own funds or the repayment of liabilities between the subsidiary companies and the parent.

At 31 December 2012, own funds were not less than the required minimum in any of the Group's licenced subsidiaries or in any entities not included in the regulatory consolidation.

Capital Requirements

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

Table 2.1 - Capital Requirements		31 December 2012 €m	31 December 2012 €m	31 December 2011 €m	31 December 2011 €m
Credit Risk & Counterparty Risk			**3,922**		**4,704**
IRB			**2,978**		**3,465**
of which	Central government or central banks	-		-	
	Institutions	168		231	
	Corporates	2,014		2,405	
	Retail:				
	Exposures secured by real estate collateral	606		594	
	Qualifying revolving retail exposures	28		43	
	Other retail exposures	128		154	
	Securitisation positions	34		38	
Standardised			**944**		**1,239**
of which	Central government or central banks	-		-	
	Regional government or local authorities	2		-	
	Administrative bodies	1		1	
	Multilateral development banks	-		-	
	International organisations	-		-	
	Institutions	-		-	
	Corporates	496		743	
	Retail	124		122	
	Secured by real estate property	-		-	
	Past due items	311		351	
	Items belonging to regulatory high risk categories	4		4	
	Covered bonds	-		-	
	Short term claims on institutions and corporates	1		14	
	Collective investment undertakings	-		-	
	Other items	5		4	
	Securitisation positions	-		-	
Market Risk			**83**		**90**
of which	FX		15		16
Operational Risk			**289**		**362**
Other Assets			**228**		**215**
Total Capital Requirements (excluding transitional floor)			**4,522**		**5,371**

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

Since the Group began calculating its capital requirements under the CRD from 1 January 2008, there has been a Central Bank requirement to maintain a transitional floor. The transitional floor capital requirement, which is based on 100% of what the Group's capital requirement would have been prior to the CRD, was €352 million at 31 December 2012 and nil at 31 December 2011. The increase in the floor requirement during 2012 is primarily attributable to declines in the expected loss deduction, operational risk RWA and total IBNR provisions as well as credit risk mitigation measures that reduced CRD RWA relative to pre-CRD RWA.

Breakdown of the Group's Regulatory Capital Requirement

At 31 December 2012, the Group applied the Foundation IRB and Retail IRB approaches to 75% (74% at 31 December 2011) of its credit exposures which resulted in 76% of credit RWA being based on IRB approaches (74% at 31 December 2011). These metrics exclude 'Other Assets' as set out in the table below which primarily comprises of non-credit obligation assets. The decline in EAD in the year in both the Standardised and IRB approaches is primarily driven by ongoing deleveraging in the Group's customer loan portfolios, a decline in EAD attributable to derivative transactions and repurchase agreements as well as the application of credit risk mitigation measures.

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

	31 December 2012			31 December 2011		
Table 2.2 – Breakdown of the Group's Regulatory Capital Requirement	**Capital Requirement €m**	**Risk Weighted Assets €m**	**Exposure at Default €m**	Capital Requirement €m	Risk Weighted Assets €m	Exposure at Default €m
Credit Risk - Retail & Foundation IRB approach	2,978	37,224	99,532	3,465	43,300	112,098
Credit Risk - Standardised approach	944	11,797	32,493	1,239	15,490	38,930
Market Risk	83	1,040	-	90	1,122	-
Operational Risk	289	3,608	-	362	4,530	-
Other Assets	228	2,852	3,213	215	2,693	2,908
Total	**4,522**	**56,521**	**135,238**	**5,371**	**67,135**	**153,936**

EAD under the IRB approach at 31 December 2012 includes defaulted exposures of €12.3 billion (31 December 2011: €10.9 billion) which attract a 0% risk weighting. Standardised EAD includes €1.0 billion of exposure to central banks (31 December 2011: €4.4 billion) in relation to funding repurchase agreements which attract a 0% risk weighting.

Credit Risk RWA (Standardised approach and IRB approaches) at 31 December 2012 of €49 billion are €9.8 billion lower than Credit Risk RWA of €58.8 billion at 31 December 2011. 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 2012 as compared to 31 December 2011, partly offset by model updates on IRB portfolios and the impact of foreign exchange movements.

Market Risk RWA decreased during the year due to lower levels of trading positions at 31 December 2012 as compared to 31 December 2011.

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

Other Assets EAD comprises certain of the Group's accounting assets, primarily deferred tax assets, investment property, property, plant and equipment and sundry / other assets, which are risk weighted as 'other items' under the Standardised approach.

Capital Resources

Table 2.3 sets out the Group's capital position as at 31 December 2012 and 31 December 2011. This table shows the amount and type of regulatory capital the Group held at that date to meet its capital requirements.

Table 2.3 - Regulatory capital and key capital ratios	31 December 2012 €m	31 December 2011 €m
Capital Base		
Total equity	8,604	10,252
Regulatory adjustments	**(120)**	**(146)**
- Retirement benefit obligations	*1,154*	*414*
- Intangible assets and goodwill	*(362)*	*(380)*
- Cash flow hedge reserve	*(227)*	*(79)*
- Dividend expected on 2009 Preference stock	*(162)*	*(162)*
- Available for sale reserve	*(150)*	*725*
- Capital contribution on Contingent Capital Note	*(116)*	*(116)*
- Own credit spread adjustment (net of tax)	*(112)*	*(372)*
- Pension supplementary contributions	*(54)*	*(117)*
- Other adjustments	*(91)*	*(59)*
Regulatory deductions	(364)	(498)
- Expected loss deduction	*(242)*	*(366)*
- Securitisation deduction	*(75)*	*(85)*
- Deduction for unconsolidated investments	*(47)*	*(47)*
Core tier 1 capital (PCAR / EBA)[1]	**8,120**	**9,608**
Tier 1 hybrid debt	93	92
Total Tier 1 capital	**8,213**	**9,700**
Tier 2		
Tier 2 dated debt	1,208	1,172
Tier 2 undated debt	96	94
Regulatory deductions	(364)	(498)
- Expected loss deduction	*(242)*	*(366)*
- Securitisation deduction	*(75)*	*(85)*
- Deduction for unconsolidated investments	*(47)*	*(47)*
Standardised IBNR provisions	78	111
Other adjustments	114	61
Total Tier 2 capital	**1,132**	**940**
Total Tier 1 and Tier 2 capital	**9,345**	**10,640**
Regulatory deductions		
- Life and pension business[2]	*(694)*	*(748)*
Total Capital	**8,651**	**9,892**

[1] Core tier 1 (PCAR / EBA) 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'.

[2] With effect from 1 January 2013 the deduction for the Group's participation in its Life and pension business will be deducted 50:50 from Core tier 1 (PCAR / EBA) and Tier 2 capital in accordance with the Capital Requirements Directive resulting in a 0.6% decrease in the Core tier 1 (PCAR / EBA) ratio.

Capital Resources

The following section provides commentary on the key movements in capital resources during the year ended 31 December 2012.

Total equity decreased by €1,648 million during 2012 from €10,252 million at 31 December 2011 to €8,604 million at 31 December 2012, primarily due to the loss for the year ending 31 December 2012, adverse movements in the retirement benefit obligations (pensions) reserve and the payment of preference stock dividends partly offset by positive movements on the available for sale (AFS) reserve, cash flow hedge reserve and foreign exchange reserve.

The loss attributable to stockholders was €1,824 million for the year ended 31 December 2012. Operating losses before impairment charges and deleveraging losses totalled €42 million. Impairment charges totalled €1,769 million for the year and deleveraging losses totalled €326 million. The taxation credit for the year was €337 million. Further information on the Group's performance for the year ended 31 December 2012 is outlined in the Operating and Financial Review section of the Group's Annual Report 31 December 2012 on pages 11 to 20.

The Group paid dividends on preference stock of €196 million during 2012, including a payment of €188 million on the Government 2009 Preference stock (€1.8 billion outstanding at 31 December 2012 and 31 December 2011).

The pensions reserve declined by €789 million during 2012 primarily driven by actuarial losses attributable to changes to financial and demographic assumptions (notably the discount rate used to determine the fair value of pension liabilities which declined from 5.3% to 3.9%) partly offset by actuarial gains recognised on scheme assets.

The available for sale (AFS) reserve and cash flow hedge reserve both moved positively by a combined total of €1,023 million primarily reflecting the tightening of bond credit spreads (and in particular on the Group's portfolio of Irish Government bonds) on the AFS reserve (positive total movement in reserve of €875 million) and the impact of changes in interest rates and foreign exchange rates on the mark to market value of cash flow hedge accounted derivatives on the cash flow hedge reserve (positive movement in reserve of €148 million).

Movements on the AFS reserve, cash flow hedge reserve and pension reserve as outlined above are largely neutral to regulatory capital given the prudential filters in place to remove them - see Appendix I for further details. Pension related movements can have an impact on capital depending on the impact of taxation and / or contributions.

There were positive movements in the foreign exchange reserve of €136 million during 2012 relating primarily to the translation of the Group's net investments in foreign operations arising from the 2% strengthening of sterling against the euro in the year ended 31 December 2012.

There were other net positive movements to Total equity totalling €2 million.

Regulatory adjustments totalled €120 million (negative) at 31 December 2012 versus €146 million (negative) at 31 December 2011. Movements in the AFS reserve, cash flow hedge reserve, retirement benefit obligation reserve and dividends payable on preference stock are outlined above.

The deduction for intangible assets and goodwill of €362 million at December 2012 is €18 million lower than the deduction of €380 million at December 2011, due primarily to the amortisation of intangible assets.

A capital contribution reserve was created in July 2011 following the issuance of the €1 billion Contingent Capital Note to the State. This reserve is recorded in Total equity from an accounting perspective. A national prudential filter is applied by the Central Bank to remove this reserve from regulatory capital. This filter is removed over the life of the note.

The own credit spread adjustment (net of tax) resulted in a deduction in arriving at Core tier 1 capital of €112 million at 31 December 2012 compared to €372 million at 31 December 2011. The decrease in the deduction of €260 million during the year is due to the tightening of the Bank's credit spread during 2012 as well as the impact of liabilities maturing.

The pension supplementary contributions deduction totalled €54 million at 31 December 2012. The decrease (in the deduction) of €63 million primarily reflects contributions made to the Group's schemes during 2012.
Other adjustments primarily reflect the transfer of certain capital items from Core tier 1 capital to Tier 2 capital.

Regulatory deductions (50:50 deductions) total €728 million at 31 December 2012 (€364 million deducted from Core tier 1 capital (PCAR / EBA) and €364 million from Tier 2 capital) compared to €996 million at 31 December 2011 (deducted €498 million from Core tier 1 capital (PCAR / EBA) and €498 million from Tier 2 capital). The decline of €268 million is due primarily to a decrease in the total expected loss deduction of €248 million which is largely attributable to an increase in impairment provisions against IRB portfolios exceeding the increase in the IRB measurement of expected losses.

Tier 1 hybrid debt (not treated as Core tier 1) at 31 December 2012 was €93 million compared to €92 million at 31 December 2011. These instruments are outlined in Table 2.4.

Tier 2 debt (dated and undated) totalled €1,304 million at 31 December 2012, an increase of €38 million from €1,266 million at 31 December 2011. The increase reflects the issuance by the Group of a €250 million Tier 2 instrument in December 2012 partly offset by the regulatory amortisation of other Tier 2 dated debt with remaining lives of less than five years. These instruments are outlined in Table 2.4.

Capital Resources (continued)

The decline in the Life and pension business deduction reflects a decline in the total equity of Bank of Ireland Life. With effect from 1 January 2013, the deduction element of the Group's participation in its life and pension business will be deducted 50:50 from Core tier 1 and Tier 2 capital in accordance with the CRD. Applying this regulatory change at 31 December 2012 would reduce the Core tier 1 (PCAR / EBA) capital ratio by c.0.6%

Capital Instruments

The following table provides information on the regulatory values of the Group's Tier 1 hybrid debt and Tier 2 debt.

The values in the below table will differ from the accounting values disclosed in the Group's Annual Report 31 December 2012 as the regulatory values exclude hedge accounting adjustments and include the impact of regulatory amortisation where the instrument has less than five years to maturity.

Table 2.4 - Capital Instruments	**Nominal outstanding at 31 December 2012 €m**	**31 December 2012 €m**	31 December 2011 €m
Bank of Ireland UK Holdings plc 7.40% Guaranteed Step Up Callable Perpetual Preferred securities	32	32	32
Non-cumulative preference stock (1.9 million units of Stg£1 each and 3 million units of €1.27 each)	7	61	60
Tier 1 hybrid debt	**39**	**93**	**92**
€1,000 million 10% Convertible Contingent Capital Note 2016	1,000	706	903
€250 million 10% Fixed Rate Subordinated Notes 2022	250	248	-
10% Fixed Rate Subordinated Notes 2020	206	206	206
CAD Fixed / Floating Rate Subordinated Notes 2015	75	45	60
Other	3	3	3
Tier 2 dated debt	**1,534**	**1,208**	**1,172**
Bank of Ireland 13.375% Perpetual Subordinated Bonds	93	56	55
Bristol & West plc 8.125% Non-cumulative preference shares	40	40	39
Tier 2 undated debt	**133**	**96**	**94**

Risk Management

The Group follows an integrated approach to risk management to ensure that all material classes of risk are taken into account and that its risk management and capital management strategies are aligned with its overall business strategy. The Group has identified the following key risks: credit risk, liquidity risk, market risk, operational risk, pension risk, business and strategic risk, life insurance risk, reputation risk, regulatory risk and model risk. An introduction to the Group's assessment of its capital requirements for credit risk, market risk and operational risk are outlined below while detail regarding how these, and other risks are identified, managed, measured and mitigated is provided in the Risk Management report from page 49 of the Group's Annual Report 31 December 2012.

The Group's risk objectives are set out in the Risk Identity, Appetite and Strategy section on page 49 of the Group's Annual Report 31 December 2012.

Credit Risk

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

At 31 December 2012, the Group applied the Foundation IRB and IRB Retail approaches to 75% (74% at 31 December 2011) of its group exposures by EAD which resulted in 76% of credit Risk Weighted Assets being based on IRB approaches (74% at 31 December 2011). The credit risk information disclosed in this document includes a breakdown of the Group's exposures by Basel exposure class, geography, sector, maturity and asset quality. Accounting information on past due and impaired financial assets and provisions is also provided.

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

Market Risk

The Group generates market risk in the normal course of its banking business and this risk is substantially mitigated with external counterparties. The Group engages to a limited extent in proprietary risk-taking, but does not seek to generate a material proportion of its earnings from this activity and has a low tolerance for earnings volatility arising from trading risk. The management of market risk in the Group is governed by the Group's Risk Appetite Statement and by the Group Policy on Market Risk, both of which are approved by the Court. Discretionary market risk is subject to strict controls which set out the markets and instruments in which risk can be assumed, the types of positions which can be taken and the limits which must be complied with. The Group employs a Value at Risk (VaR) approach to measure, and set limits for, proprietary market risk-taking in Bank of Ireland Global Markets (BoIGM). This is supplemented by a range of other measures including stress tests.

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

Operational Risk

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

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

Credit Risk

Credit risk is defined as the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. The core values and principles governing credit risk are contained in the Group Credit Policy which is approved by the Court. Further detail regarding the policy, strategies and processes by which credit risk is managed are included in the Risk Management section from page 55 of the Group's Annual Report 31 December 2012.

The Group seeks to ensure that adequate up to date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio. Detail on the schedule and content of credit risk reporting is provided under the heading 'Credit Reporting / Monitoring' on page 56 of the Group's Annual Report 31 December 2012. Disclosures relating to the active monitoring of credit risk are also included in this section. The processes by which credit risk is assessed and measured are set out in the Credit Risk Assessment section from page 57 of the Group's Annual Report 31 December 2012.

Exposure to Credit Risk

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

Table 4.1 - Exposure to Credit Risk	**31 December 2012**		31 December 2011	
IRB Approach - Exposure Class	**Total exposure (EAD) €m**	**Average exposures over the year (EAD) €m**	Total exposure (EAD) €m	Average exposures over the year (EAD) €m
Institutions	10,810	13,473	16,487	15,886
Corporates	31,978	34,244	35,616	40,729
Retail	55,876	57,731	58,738	60,368
Securitisation positions	868	1,017	1,257	1,258
Total	**99,532**	**106,465**	**112,098**	**118,241**

Table 4.2 - Exposure to Credit Risk	**31 December 2012**		31 December 2011	
Standardised Approach - Exposure Class	**Total exposure (EAD) €m**	**Average exposures over the year (EAD) €m**	Total exposure (EAD) €m	Average exposures over the year (EAD) €m
Central governments or central banks	20,762	24,889	23,835	23,081
Regional government or local authorities	124	10	-	-
Administrative bodies	10	12	14	15
Corporates	6,345	6,811	9,347	10,481
Retail	2,078	2,128	2,050	2,129
Past due items	3,072	3,479	3,431	3,418
Items belonging to regulatory high risk categories	37	35	32	30
Short term claims on institutions and corporates	13	157	170	220
Other items	52	56	51	47
Total	**32,493**	**37,577**	**38,930**	**39,421**

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

Balances at central governments or central banks at 31 December 2012 are €3.1 billion lower than 31 December 2011 due primarily to lower EAD on repurchase agreements with Monetary Authorities.

The decline in IRB Institutions exposures is primarily attributable to a decline in bank placements between 31 December 2011 and 31 December 2012, a decline in EAD on repurchase agreements and the application of credit risk mitigation on derivative exposures and related collateral placements during 2012 which resulted in a reduction in EAD.

Geographic Analysis of Exposures

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

Table 4.3 - Geographic Analysis of Exposure	**31 December 2012**			31 December 2011		
IRB Approach - Exposure Class	**Ireland (EAD) €m**	**UK and other (EAD) €m**	**Total (EAD) €m**	Ireland (EAD) €m	UK and other (EAD) €m	Total (EAD) €m
Institutions	10,464	346	10,810	16,264	223	16,487
Corporates	23,190	8,788	31,978	26,178	9,438	35,616
Retail	30,150	25,726	55,876	30,909	27,829	58,738
Securitisation positions	836	32	868	1,152	105	1,257
Total	**64,640**	**34,892**	**99,532**	**74,503**	**37,595**	**112,098**

Table 4.4 - Geographic Analysis of Exposure	**31 December 2012**			31 December 2011		
Standardised Approach - Exposure Class	**Ireland (EAD) €m**	**UK and other (EAD) €m**	**Total (EAD) €m**	Ireland (EAD) €m	UK and other (EAD) €m	Total (EAD) €m
Central governments or central banks	12,802	7,960	20,762	14,557	9,278	23,835
Regional government of local authorities	124	-	124	-	-	-
Administrative bodies	10	-	10	14	-	14
Corporates	4,419	1,926	6,345	6,599	2,748	9,347
Retail	562	1,516	2,078	654	1,396	2,050
Past due items	2,140	932	3,072	2,588	843	3,431
Items belonging to regulatory high risk categories	37	-	37	32	-	32
Short term claims on institutions and corporates	3	10	13	156	14	170
Other items	52	-	52	51	-	51
Total	**20,149**	**12,344**	**32,493**	**24,651**	**14,279**	**38,930**

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

Irish central governments or central banks exposure includes senior NAMA bonds obtained by the Group in return for the transfer of assets to NAMA. These bonds are guaranteed by the Irish Government.

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Industry Analysis of Exposures

Tables 4.5 and 4.6 are based on EAD. The industry classification below is based on the purpose of the loan. Similar industry headings to those in the industry analysis contained in the Group's Annual Report 31 December 2012 have been used, however, the values will differ as these tables are based on EAD.

31 December 2012

Table 4.5 - Industry Analysis of Exposure **IRB Approach - Exposure Class**	**Agriculture (EAD) €m**	**Business and other services (EAD) €m**	**Central and local government (EAD) €m**	**Construction and property (EAD) €m**	**Distribution (EAD) €m**	**Energy (EAD) €m**	**Financial (EAD) €m**	**Manufacturing (EAD) €m**	**Transport (EAD) €m**	**Other personal (EAD) €m**	**Personal residential mortgages (EAD) €m**	**Total (EAD) €m**
Institutions	-	-	-	-	-	-	10,810	-	-	-	-	10,810
Corporates	656	7,493	170	13,772	2,474	515	1,004	3,960	1,464	451	19	31,978
Retail	566	496	-	230	226	2	14	80	39	2,371	51,852	55,876
Securitisation positions	-	478	-	-	-	28	-	-	-	270	92	868
Total	**1,222**	**8,467**	**170**	**14,002**	**2,700**	**545**	**11,828**	**4,040**	**1,503**	**3,092**	**51,963**	**99,532**

31 December 2011

Table 4.5 - Industry Analysis of Exposure IRB Approach - Exposure Class	Agriculture (EAD) €m	Business and other services (EAD) €m	Central and local government (EAD) €m	Construction and property (EAD) €m	Distribution (EAD) €m	Energy (EAD) €m	Financial (EAD) €m	Manufacturing (EAD) €m	Transport (EAD) €m	Other personal (EAD) €m	Personal residential mortgages (EAD) €m	Total (EAD) €m
Institutions	-	-	-	-	-	-	16,487	-	-	-	-	16,487
Corporates	727	8,122	204	15,623	2,774	820	1,219	3,968	1,497	516	146	35,616
Retail	543	560	-	243	238	2	-	90	-	2,967	54,095	58,738
Securitisation positions	-	688	-	-	-	27	-	-	-	378	164	1,257
Total	1,270	9,370	204	15,866	3,012	849	17,706	4,058	1,497	3,861	54,405	112,098

Industry Analysis of Exposures (continued)

31 December 2012 **Table 4.6 - Industry Analysis of Exposure** **Standardised Approaoch - Exposure Class**	**Agriculture (EAD) €m**	**Business and other services (EAD) €m**	**Central and local government (EAD) €m**	**Construction and property (EAD) €m**	**Distribution (EAD) €m**	**Energy (EAD) €m**	**Financial (EAD) €m**	**Manufacturing (EAD) €m**	**Transport (EAD) €m**	**Other personal (EAD) €m**	**Personal residential mortgages (EAD) €m**	**Total (EAD) €m**
Central governments or central banks	-	-	20,762	-	-	-	-	-	-	-	-	20,762
Regional Government or local authorities	-	-	124	-	-	-	-	-	-	-	-	124
Administrative bodies	-	-	-	-	10	-	-	-	-	-	-	10
Corporates	432	1,788	-	1,476	521	14	494	182	652	690	96	6,345
Retail	127	166	-	37	139	3	6	36	33	1,530	1	2,078
Past due items	55	273	-	2,174	49	1	30	24	33	393	40	3,072
Items belonging to regulatory high risk categories	-	37	-	-	-	-	-	-	-	-	-	37
Short term claims on institutions and corporates	6	1	-	3	-	-	-	3	-	-	-	13
Other items	-	-	-	-	3	-	48	1	-	-	-	52
Total	**620**	**2,265**	**20,886**	**3,690**	**722**	**18**	**578**	**246**	**718**	**2,613**	**137**	**32,493**

31 December 2011 Table 4.6 - Industry Analysis of Exposure Standardised Approach - Exposure Class	Agriculture (EAD) €m	Business and other services (EAD) €m	Central and local government (EAD) €m	Construction and property (EAD) €m	Distribution (EAD) €m	Energy (EAD) €m	Financial (EAD) €m	Manufacturing (EAD) €m	Transport (EAD) €m	Other personal (EAD) €m	Personal residential mortgages (EAD) €m	Total (EAD) €m
Central governments or central banks	-	-	23,835	-	-	-	-	-	-	-	-	23,835
Administrative bodies	-	-	-	-	14	-	-	-	-	-	-	14
Corporates	435	1,922	-	2,488	648	9	327	1,074	1,122	1,144	178	9,347
Retail	116	144	-	38	198	3	8	54	42	1,446	1	2,050
Past due items	76	321	-	2,414	40	1	5	20	27	437	90	3,431
Items belonging to regulatory high risk categories	-	-	-	-	-	-	32	-	-	-	-	32
Short term claims on institutions and corporates	23	48	-	37	15	-	17	13	4	11	2	170
Other items	-	-	-	-	-	-	50	1	-	-	-	51
Total	650	2,435	23,835	4,977	915	13	439	1,162	1,195	3,038	271	38,930

Maturity Analysis of Exposures

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

31 December 2012

Table 4.7 - Maturity Analysis of Exposure **IRB Approach - Exposure Class**	**<1 year (EAD) €m**	**1-5 years (EAD) €m**	**>5 years (EAD) €m**	**Total (EAD) €m**
Institutions	1,060	6,710	3,040	10,810
Corporates	7,390	13,256	11,332	31,978
Retail	5,012	10,691	40,173	55,876
Securitisation positions	-	268	600	868
Total	**13,462**	**30,925**	**55,145**	**99,532**

31 December 2011

Table 4.7 - Maturity Analysis of Exposure IRB Approach - Exposure Class	<1 year (EAD) €m	1-5 years (EAD) €m	>5 years (EAD) €m	Total (EAD) €m
Institutions	7,455	5,149	3,883	16,487
Corporates	7,907	13,584	14,125	35,616
Retail	5,685	11,447	41,606	58,738
Securitisation positions	30	294	933	1,257
Total	21,077	30,474	60,547	112,098

Maturity Analysis of Exposures (continued)

31 December 2012

Table 4.8 - Maturity Analysis of Exposure **Standardised Approach - Exposure Class**	**<1 year (EAD) €m**	**1-5 years (EAD) €m**	**>5 years (EAD) €m**	**Total (EAD) €m**
Central governments or central banks	9,425	8,350	2,987	20,762
Regional government or local authorities	-	-	124	124
Administrative bodies	-	10	-	10
Corporates	1,820	2,425	2,100	6,345
Retail	647	1,414	17	2,078
Past due items	1,731	582	759	3,072
Items belonging to regulatory high risk categories	-	-	37	37
Short term claims on institutions and corporates	13	-	-	13
Other items	-	-	52	52
Total	**13,636**	**12,781**	**6,076**	**32,493**

31 December 2011

Table 4.8 - Maturity Analysis of Exposure Standardised Approach - Exposure Class	<1 year (EAD) €m	1-5 years (EAD) €m	>5 years (EAD) €m	Total (EAD) €m
Central governments or central banks	13,937	3,751	6,147	23,835
Regional government or local authorities	-	-	-	-
Administrative bodies	-	14	-	14
Corporates	3,026	3,819	2,502	9,347
Retail	565	1,453	32	2,050
Past due items	2,249	423	759	3,431
Items belonging to regulatory high risk categories	-	-	32	32
Short term claims on institutions and corporates	168	-	2	170
Other items	-	-	51	51
Total	19,945	9,460	9,525	38,930

IRB Approach – Asset Quality

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

Regulatory Approval of Approach

The Group has regulatory approval to use its internal credit models in the calculation of its capital requirements for 75% (31 December 2011: 74%) of its exposures which results in 76% (31 December 2011: 74%) of credit RWA being calculated using internal credit models. This approval covers the use of the Foundation IRB approach for non-retail exposures and the Retail IRB approach for retail exposures. Exposures for which capital requirements continue to be determined under the Standardised approach primarily include sovereign exposures (which have a permanent exemption from IRB), the Group's land and development exposures, certain asset finance and leasing portfolios, non-credit obligation assets and other corporate exposures for which regulatory approval to use the IRB approach is not held.

The Structure of Internal Rating Systems

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

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

PD Calculation

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

1. Through-the-Cycle (TtC) estimates are estimates of default over an entire economic cycle, averaged to a 12-month basis. These are in effect averaged expectations of PD for a borrower over the economic cycle.
2. Cyclical estimates are estimates of default applicable to the next immediate 12 months. These cyclical estimates partially capture the economic cycle in that they typically rise in an economic downturn and decline in an economic upturn but not necessarily to the same degree as default rates change in the economy.

Non-Retail Internal Rating Systems

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

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

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

IRB Approach – Asset Quality (continued)

Retail Internal Rating Systems

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

For retail exposures, the Group calculates PD on a single, cyclical basis. These estimates are used for both the calculation of risk-weighted exposure amounts and for internal credit management purposes. To calculate LGD and CCF, the Group assesses the nature of the transaction and underlying collateral. Both LGD and CCF estimates are calibrated to produce estimates of behavioural characteristics of an economic downturn or long term average, whichever is the most conservative.

Other uses of Internal Estimates

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

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

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

Association of PD Grades with External Ratings

Table 4.9 illustrates the relationship between PD grade, PD band and S&P type ratings. PD is used in the IRB RWA calculation. These PD grades differ from internal obligor grades which are used in arriving at IFRS 7 classifications, however there is a defined relationship between both sets of grades.

Table 4.9 - relationship of PD Grades with External ratings

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

Control Mechanisms for Rating Systems

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

A committee appointed by 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 as follows:

- *Model Development Standards:* The Group adopts centralised standards and methodologies over the operation and development of models. The Group has specific policies on documentation, data quality and management, conservatism and validation. This mitigates model risk at model inception.
- *Model Governance:* The Group adopts a uniform approach to the governance of all model related activities. This ensures the appropriate involvement of stakeholders ensuring responsibilities and accountabilities are clear. The Risk Measurement Team acts on behalf of the RMC as the governance body overseeing these activities.
- *Model Performance Monitoring:* All models are subject to testing on a quarterly basis. The findings are reported to the RMC and appropriate actions, when necessary are approved. The Group has a specific policy on model performance monitoring.
- *Independent Validation:* All models are subject to in-depth analysis at least annually. This analysis is carried out by a dedicated unit (the Independent Control Unit – ICU) which is part of Risk Strategy, Analysis and Reporting (RSAR). It is independent of credit origination and management functions. The ICU's report is considered by the RMC in approving models for use in the business and for capital requirements calculation purposes.

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

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

The Internal Ratings Process by Exposure Class

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

Corporates

Corporate entities, including certain SME and specialised lending exposures are rated using a number of models. This suite of models typically incorporates scorecard-based calibrated PD outputs (both TtC and cyclical PD estimates). The Group does not rate purchased corporate receivables under the IRB approach. Information on the Corporates Foundation IRB exposure class is provided in Table 4.10.

Institutions

Institutions are rated by a single dedicated model. This is an internally-built scorecard and the output from this model is a single PD estimate that is fully TtC. Information on the Institutions Foundation IRB exposure class is provided in Table 4.10.

Retail

Retail exposures including Mortgages, Qualifying Revolving Retail Exposures (credit cards) and certain Retail SME loans are rated on a number of models based on application and behavioural data which is calibrated to a PD. This PD estimate typically varies with the economic cycle. The Group also generates LGD and CCF estimates for its retail exposures. These estimates are calibrated to produce estimates of behaviour characteristic of an economic downturn or long term average, whichever is the most conservative. These estimates do not vary with the economic cycle. Information on the Retail IRB exposure classes is provided in Table 4.11.

Securitisations

Capital requirements for securitisation exposures (retained and purchased) are also determined under the IRB approach. These are dealt with in the Securitisation section.

Analysis of Credit Quality – Foundation IRB

Table 4.10 is based on EAD and shows the breakdown of the Foundation IRB exposure classes by PD grade.

31 December 2012 **Table 4.10 - Analysis of Credit Quality Foundation IRB - Exposure Class PD Grade**	**Total exposures (EAD) €m**	**Exposure weighted average risk weight %**	**Exposure weighted average LGD %**	**Expected loss €m**	**Off-Balance sheet EAD €m**
Corporates					
1 – 4	2,629	35%	41%	1	767
5 – 7	8,350	89%	42%	26	1,014
8 – 9	7,255	109%	41%	65	334
10 – 11	6,404	138%	41%	214	161
Default	7,340	0%	42%	3,044	48
Total	**31,978**	**79%**	**42%**	**3,350**	**2,324**
Institutions					
1 – 4	8,686	17%	38%	2	12
5 – 7	2,016	25%	38%	1	19
8 – 9	69	81%	45%	-	5
10 – 11	15	240%	43%	2	-
Default	24	0%	44%	11	-
Total	**10,810**	**19%**	**38%**	**16**	**36**

31 December 2011 Table 4.10 - Analysis of Credit Quality Foundation IRB - Exposure Class PD Grade	Total exposures (EAD) €m	Exposure weighted average risk weight %	Exposure weighted average LGD %	Expected loss €m	Off-Balance sheet EAD €m
Corporates					
1 – 4	2,671	35%	41%	1	825
5 – 7	10,852	89%	43%	38	1,418
8 – 9	8,331	113%	42%	77	368
10 – 11	7,130	141%	41%	216	158
Default	6,632	0%	43%	2,818	74
Total	35,616	84%	42%	3,150	2,843
Institutions					
1 – 4	15,693	15%	36%	3	13
5 – 7	686	45%	38%	1	45
8 – 9	25	152%	44%	-	2
10 – 11	62	200%	45%	4	-
Default	21	0%	43%	9	-
Total	16,487	18%	36%	17	60

The EAD under the Foundation IRB approach at 31 December 2012 includes defaulted exposures of €7.4 billion (31 December 2011: €6.7 billion) which attracts a 0% risk weighting.

The exposure weighted average LGD for the Corporates exposure class is less than the supervisory LGD of 45% due to the impact of collateral held. Refer to Table 4.20 for additional information. The exposure weighted average LGD for the Institutions exposure class is less than the supervisory LGD of 45% due to the inclusion of certain covered bonds in the exposure class which attract a regulatory prescribed LGD of 11.25% given the secured nature of these transactions.

The decline in the total exposure weighted average risk weight for the Corporates exposure class during the year is primarily attributable to an increase in the level of defaulted loans during the year ended 31 December 2012. This movement has also resulted in an increase in the calculation of expected loss.

Analysis of Credit Quality – Retail IRB

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

31 December 2012 Table 4.11 - Analysis of Credit Quality Retail IRB - Exposure Class PD Grade	Total exposures (EAD) €m	Exposure weighted average risk weight %	Exposure weighted average LGD %	Amount of undrawn commitments €m	Weighted average CCF %	Expected loss €m
Mortgages						
1 – 4	18,943	3%	11%	569	38%	3
5 – 7	20,571	14%	15%	527	43%	19
8 – 9	3,857	32%	15%	15	70%	12
10 – 11	4,149	69%	15%	10	67%	180
Default	4,332	0%	22%	-	-	940
Total	**51,852**	**15%**	**14%**	**1,121**	**41%**	**1,154**
Qualifying Revolving Exposures						
1 – 4	200	4%	34%	469	29%	-
5 – 7	877	13%	49%	1,446	41%	3
8 – 9	221	33%	46%	191	44%	2
10 – 11	229	70%	40%	161	32%	13
Default	84	0%	43%	16	50%	36
Total	**1,611**	**22%**	**45%**	**2,283**	**38%**	**54**
SME & Other Retail						
1 – 4	145	23%	54%	293	45%	-
5 – 7	329	56%	58%	206	52%	2
8 – 9	765	84%	59%	62	61%	11
10 – 11	663	111%	63%	30	63%	40
Default	511	0%	65%	6	59%	331
Total	**2,413**	**66%**	**61%**	**597**	**50%**	**384**

Analysis of Credit Quality – Retail IRB (continued)

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

31 December 2011 Table 4.11 - Analysis of Credit Quality Retail IRB - Exposure Class PD Grade	Total exposures (EAD) €m	Exposure weighted average risk weight %	Exposure weighted average LGD %	Amount of undrawn commitments €m	Weighted average CCF %	Expected loss €m
Mortgages						
1 – 4	18,739	4%	11%	387	45%	3
5 – 7	22,791	13%	14%	508	49%	22
8 – 9	4,389	27%	13%	14	64%	13
10 – 11	4,611	57%	13%	12	74%	202
Default	3,565	0%	14%	-	-	589
Total	54,095	14%	13%	921	48%	829
Qualifying Revolving Exposures						
1 – 4	256	5%	43%	562	34%	-
5 – 7	882	13%	46%	1,525	37%	3
8 – 9	282	35%	48%	247	45%	3
10 – 11	356	88%	45%	237	38%	25
Default	185	0%	45%	16	47%	84
Total	1,961	27%	45%	2,587	37%	115
SME & Other Retail						
1 – 4	65	14%	42%	144	40%	-
5 – 7	371	55%	60%	344	51%	2
8 – 9	884	87%	61%	64	62%	14
10 – 11	833	114%	64%	37	64%	54
Default	529	0%	65%	6	59%	346
Total	2,682	72%	62%	595	50%	416

A new Retail Ireland Mortgage LGD model was implemented in 2011. This model was updated in 2012 to incorporate more recent data resulting in an increase in the weighted average mortgage LGD and average risk weights.

Analysis of Credit Quality – Standardised Approach

The Standardised approach applies where exposures do not qualify for use of an IRB approach and / or where an exemption from IRB has been granted. It is less sophisticated than the IRB approach for regulatory capital calculations. Under this approach credit risk is measured by applying risk weights outlined in the CRD based on the exposure class to which the exposure is allocated. The following tables outline the standardised exposure classes by CRD prescribed risk weight. The total weighted average risk weight on Standardised exposures, excluding sovereign exposures at 31 December 2012 is 101% (31 December 2011: 103%)

31 December 2012

Table 4.12 - Analysis of Credit Quality Standardised Approach - Exposure Class EAD €m	**Risk Weight**							
	0%	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Total**
Central governments or central banks	20,762	-	-	-	-	-	-	20,762
Regional government or local authorities	-	124	-	-	-	-	-	124
Administrative bodies	-	-	-	-	-	10	-	10
Corporates	-	178	-	-	1	6,166	-	6,345
Retail	-	10	-	-	2,068	-	-	2,078
Past due Items	-	-	-	-	-	1,444	1,628	3,072
Items belonging to regulatory high risk categories	-	-	-	-	-	-	37	37
Short term claims on institutions and corporates	-	-	-	-	-	13	-	13
Other items	-	-	-	-	-	52	-	52
Total	**20,762**	**312**	**-**	**-**	**2,069**	**7,685**	**1,665**	**32,493**

31 December 2011

Table 4.12 - Analysis of Credit Quality Standardised Approach - Exposure Class EAD €m	Risk Weight							
	0%	20%	35%	50%	75%	100%	150%	Total
Central governments or central Banks	23,835	-	-	-	-	-	-	23,835
Administrative bodies	-	-	-	-	-	14	-	14
Corporates	-	220	-	1		8,896	230	9,347
Retail	-	13	-	-	2,037	-	-	2,050
Past due Items	-	-	-	-	-	1,511	1,920	3,431
Items belonging to regulatory high risk categories	-	-	-	-	-	-	32	32
Short term claims on institutions and corporates	-	-	-	-	-	168	2	170
Regional / local authorities	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	51	-	51
Total	23,835	233	-	1	2,037	10,640	2,184	38,930

Loan Loss Experience in the year ended 31 December 2012

A discussion on the factors which impacted the loan loss experience in the year ended 31 December 2012 is included in the Risk Management Report of the Group's Annual Report 31 December 2012 (under the Credit Risk section from page 55).

Past Due and Impaired Exposures

Accounting past due exposures are loans where repayment and / or principle are overdue by at least one day but which are not impaired. Impaired loans are loans with a specific impairment provision attaching to them together with loans (excluding Residential mortgages) which are more than 90 days in arrears.

For additional information on past due and impaired exposures please refer to page 66 of the Group's Annual Report 31 December 2012.

Past Due and Impaired Exposures by Industry

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

	31 December 2012			31 December 2011		
Table 4.13 - Past due and Impaired Exposures by Industry Class	**Past due exposures €m**	**Impaired exposures €m**	**Total €m**	Past due exposures €m	Impaired exposures €m	Total €m
Residential mortgages	3,723	2,846	6,569	4,520	1,474	5,994
Consumer	133	281	414	158	338	496
Property & construction	556	8,809	9,365	1,042	7,623	8,665
Business & other services	125	2,489	2,614	223	2,343	2,566
Manufacturing	22	576	598	31	580	611
Distribution	87	838	925	111	694	805
Transport	26	182	208	19	140	159
Financial	2	53	55	2	65	67
Agriculture	29	201	230	44	170	214
Energy	-	19	19	-	51	51
Total	**4,703**	**16,294**	**20,997**	**6,150**	**13,478**	**19,628**

Past Due and Impaired Exposures by Geography

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

Table 4.14 - Past due and Impaired Exposure by Geography	**31 December 2012**			31 December 2011		
	Past due exposures €m	**Impaired exposures €m**	**Total €m**	Past due exposures €m	Impaired exposures €m	Total €m
Ireland	2,629	11,412	14,041	3,697	9,274	12,971
United Kingdom & other	2,074	4,882	6,956	2,453	4,204	6,657
Total	**4,703**	**16,294**	**20,997**	**6,150**	**13,478**	**19,628**

Provisioning

The loan loss provisioning methodology used by the Group is set out on page 59 of the Group's Annual Report 31 December 2012.

This includes:

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

Provisions by Industry and Geography

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

Table 4.15 - Provisions by Industry Industry Class	**31 December 2012**			31 December 2011		
	Total specific provisions €m	**Specific provision charges €m**	**Amounts written off €m**	Total specific provisions €m	Specific provision charges €m	Amounts written off €m
Residential mortgages	1,224	590	50	663	260	49
Consumer	202	58	115	235	95	147
Property & construction	3,717	885	164	2,936	921	166
Business & other services	1,051	359	187	859	270	138
Manufacturing	225	27	64	235	88	52
Distribution	355	99	113	354	114	57
Agriculture	61	9	8	61	21	5
Energy	6	-	4	23	15	1
Total	**6,841**	**2,027**	**705**	**5,366**	**1,784**	**615**

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

Table 4.16 - Provision by Geography	31 December 2012		31 December 2011	
Geographic Breakdown	Specific provisions €m	IBNR provisions €m	Specific provisions €m	IBNR provisions €m
Ireland	5,183	512	3,963	752
United Kingdom & other	1,658	191	1,403	247
Total	**6,841**	**703**	**5,366**	**999**

Provisions by Provision Type

Table 4.17 shows the Group's provisions against loans and advances to customers split between specific and IBNR provisions.

	31 December 2012		31 December 2011	
Table 4.17 - Provision Type	Total balance sheet provisions €m	Provisions charges €m	Total balance sheet provisions €m	Provisions charges €m
Total Specific provisions	6,841	2,027	5,366	1,784
Total IBNR provisions	703	(303)	999	199
Total Group provisions	**7,544**	**1,724**	**6,365**	**1,983**

Provisions by Regulatory Approach

Table 4.18 shows the Group's provisions against loans and advances to customers split between specific and IBNR provisions and between regulatory approach, Standardised or IRB. It is based on financial statement information.

	31 December 2012			31 December 2011		
Table 4.18 - Provisions by Approach	IRB provisions €m	Standardised provisions €m	Total provisions €m	IRB provisions €m	Standardised provisions €m	Total provisions €m
Total Specific provisions	3,846	2,995	6,841	2,906	2,460	5,366
Total IBNR provisions	625	78	703	888	111	999
Total Group provisions	**4,471**	**3,073**	**7,544**	**3,794**	**2,571**	**6,365**

Provisioning Charges during the Year

Table 4.19 below shows the movement in the provision on loans and advances to customers during the year ended 31 December 2012. It is based on financial statement information.

Table 4.19 – Provisioning charges during the Year

Provisions	**31 December 2012 €m**	31 December 2011 €m
Opening balance	6,365	5,050
Amount charged during the year	1,724	1,983
Amounts written off, reversed and other movements	(545)	(668)
- Of which recoveries recorded directly to income statement	*11*	*7*
Closing balance	**7,544**	**6,365**

Credit Risk Mitigation

The Credit Risk section on page 57 of the Group's Annual Report 31 December 2012 contains information relating to:

- the policies and processes for collateral valuation and management; and
- a description of the main types of collateral taken by the Group.

Collateral used to mitigate risk, both for mortgage and other lending is diversified. The main types of guarantors are corporates, individuals, financial institutions and sovereigns. Their creditworthiness is assessed on a case-by-case basis.

Credit Risk Mitigation for Regulatory Capital Requirements Calculation

For Retail IRB exposures the effect of credit risk mitigation, principally due to the collateral taken to secure loans, is taken into account in the development of the Group's LGD models, which in turn are used in the calculation of the Group's regulatory capital requirements. As a result Table 4.20 below does not include Retail IRB exposures.

For non-retail Foundation IRB exposures supervisory LGDs are used for minimum regulatory capital requirements calculation purposes as is required under the CRD. These LGDs are either applied directly to obligors, or are reduced through the recognition of the risk-mitigating impact of qualifying collateral held.

Under the IRB approach, depending on the type of credit risk mitigation applied, PD or LGD may be impacted. Under the Standardised approach, credit risk mitigation impacts on the risk weight which is then subsequently applied to the exposure amount to derive the capital requirement. Therefore, the EAD amounts shown in Table 4.21 do not alter following the application of credit risk mitigation.

Tables 4.20 and 4.21 show the volume of exposures against which collateral and guarantees, which have been used in the calculation of the Group's capital requirements, are held. The focus of these tables is narrow, being limited to certain specific types of collateral and guarantees which meet CRD definitions. These tables are not reflective of the volume of exposures against which collateral and guarantees are actually held across the Group, nor do they reflect the range of credit risk mitigation taken. The information in Tables 4.20 and 4.21 is based on EAD (after the application of netting and volatility adjustments) against which credit risk mitigation benefit is recognised.

31 December 2012 **Table 4.20 - Credit Risk Mitigation IRB Approach - Exposure Class**	**Covered by eligible financial collateral (EAD) €m**	**Covered by other eligible collateral (EAD) €m**	**Covered by guarantees / credit derivatives (EAD) €m**	**Total (EAD) €m**
Institutions	738	21	721	1,480
Corporates	45	9,743	-	9,788
Total	**783**	**9,764**	**721**	**11,268**

31 December 2011 Table 4.20 - Credit Risk Mitigation IRB Approach - Exposure Class	Covered by eligible financial collateral (EAD) €m	Covered by other eligible collateral (EAD) €m	Covered by guarantees / credit derivatives (EAD) €m	Total (EAD) €m
Institutions	81	20	-	101
Corporates	42	10,257	-	10,299
Total	123	10,277	-	10,400

Other eligible collateral against the Corporates exposure class relates predominantly to real estate collateral held. Amounts covered by eligible financial collateral includes cash collateral held against derivative exposure (refer to Table 5.1). Amounts covered by Guarantees / credit derivatives primarily relates to the Group's investment in the senior bank bonds of certain Irish banks which are guaranteed by the State under the Eligible Liabilities Guarantee Scheme (ELG).

Credit risk mitigation realised through the netting of on-balance sheet assets and liabilities is not reflected in the above table. The Group nets negative derivative mark-to-market positions with certain interbank counterparties against cash collateral placed with those counterparties under CSA agreements. In addition certain customer loan overdrafts are netted against current account deposits as permitted by the CRD in the presence of certain criteria including a legal right of offset.

Table 4.21 - Credit Risk Mitigation **Standardised Approach - Exposure Class**	**31 December 2012 Total Exposure covered by Guarantees / Credit Derivatives (EAD) €m**	31 December 2011 Total Exposure covered by Guarantees / Credit Derivatives (EAD) €m
Corporates	4,483	5,109
Retail	-	-
Past due items	-	-
Total	**4,483**	**5,109**

Corporates in Table 4.21 mainly comprises NAMA bonds obtained by the Group in return for the transfer of assets to NAMA. Senior NAMA bonds are guaranteed by the Irish government. These exposures are categorised as Central governments in the credit risk tables in this document.

Comparison of Expected versus Actual Loss

Table 4.22 is based on a comparison of regulatory expected loss of the performing IRB loan portfolios as at 31 December 2011 with actual loss (specific provision charge incurred) on these portfolios in the year ended 31 December 2012.

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

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

Table 4.22 - Expected versus Actual Loss

IRB Exposure Class	**Expected loss calculated on 31 December 2011 €m**	**Specific provision charge for the year ended 31 December 2012 €m**	Expected loss calculated on 31 December 2010 €m	Specific provision charge for the year ended 31 December 2011 €m
Institutions	8	6	10	20
Corporates	332	725	370	884
Retail exposures secured by real estate collateral	240	590	150	260
Qualifying revolving and other retail	101	88	124	126
Total	**681**	**1,409**	**654**	**1,290**

Counterparty Credit Risk

Details on how counterparty credit risk is managed are outlined on page 55 of the Group's Annual Report 31 December 2012.

Limits, policies and collateral

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

Policies are in place for securing collateral and establishing credit reserves. Legal agreements giving effect to collateral arrangements (ISDA, GMRA and CSA) are negotiated and put in place with interbank and other wholesale financial counterparties. Based on these agreements, collateral calls are agreed with the counterparty. In the vast majority of cases collateral is cash and the agreed amount is either transferred by the counterparty to the Group or paid by the Group to the counterparty. At 31 December 2012 in excess of 98% of the Group's derivative interbank counterparty credit risk is collateralised.

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

In determining the EAD for derivative credit exposure the Group recognises the credit risk mitigating impact of cash collateral received under CSAs. EAD for particular netting sets is reduced by the amount of cash collateral held. Separately where the Group posts collateral under a CSA the net negative mark-to-market on the related netting set is used to reduce the EAD on the collateral exposure.

The Group recognises the potential for 'wrong-way' exposure in derivatives re-writing risk. This occurs where the potential market-driven exposure on the contract is likely to be positively correlated with the counterparty because both are linked to a common factor such as a commodity price or an exchange rate. Some corporate interest rate hedging is potentially wrong-way exposure because, in a cyclical downturn, swap rates tend to decline while defaults go up. This risk is to some degree inherent in providing risk management services to corporate clients. At a specific level, the risk is assessed according to the creditworthiness of the individual client. The Group allows for the potential impact of wrong-way exposure qualitatively in assessing individual credits. In addition a Credit Valuation Adjustment (CVA) is applied to the Group's non-collateralised derivatives based primarily on the creditworthiness of the client and the fair value of the underlying transaction.

As at 31 December 2012, the maximum impact of a two notch downgrade by either S&P or Moody's on the Group's CSAs covering its interbank derivative positions, is that legally the Group could not be asked to post additional collateral in respect of its existing trades as in virtually all relevant cases the threshold is already zero (nil at 31 December 2011). However it is possible that the Group could be asked to post additional amounts in order to obtain credit limits to enter into new trades.

The Group determines exposure value for counterparty credit risk using the Mark-to-Market method. This primarily covers derivative exposures. The Group determines exposure values for repurchase transactions using the Financial Collateral Comprehensive Method (FCCM) and as such no disclosures for repurchase agreements are made in this section.

Counterparty Credit Exposure

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

Table 5.1 - Contract Values	**Balance as at 31 December 2012 €m**	Balance as at 31 December 2011 €m
Gross positive fair value of contracts	5,901	6,375
Potential future credit exposure	2,060	2,435
Total current credit exposure	**7,961**	**8,810**
Netting benefits	(4,768)	(5,246)
Netted current credit exposures	**3,193**	**3,564**
Collateral held	(738)	-
Net derivative credit exposure	**2,455**	**3,564**

The Gross Positive Fair Value of Contracts per Table 5.1 differs from derivative financial instrument assets in the Group's Annual Report 31 December 2012 primarily due to derivative contracts in securitisation vehicles that are derecognised for Pillar 1 purposes (refer to the Securitisation section) offset by the impact of incurred CVA which are reflected in the accounting numbers but not in the regulatory numbers outlined above.

Table 5.2 - Current Credit Exposure by Product	**Balance as at 31 December 2012 €m**	Balance as at 31 December 2011 €m
Interest rate	996	1,380
FX	125	55
Equity	58	98
Netted agreements credit exposure	1,269	2,021
Credit derivatives	2	-
Commodity contracts	5	10
Total	**2,455**	**3,564**

Capital requirements for counterparty credit risk reflect exposures to both Institutions and Corporates. The total capital requirement for counterparty credit risk based on 8% of total RWA at 31 December 2012 is €144 million (31 December 2011: €186 million).

Equity Holdings not in the Trading Book

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

The Group's total exposure to non-trading book available for sale (AFS) equities had a balance sheet value at 31 December 2012 of €54 million (€53 million at 31 December 2011). The Group considers its exposure to non-trading book AFS equities not to be material within the context of the CRD's definition of materiality and the Group will not be disclosing further quantitative information required to be disclosed with respect to non-trading book equity holdings.

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

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

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

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

Accounting Treatment and Valuation

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

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

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

CRD Treatment

The Group's non-trading book equities are treated under the Standardised approach for credit risk exposures. In addition certain investments in joint ventures and associates which qualify as significant investments in financial institutions are deducted 50:50 from Core tier 1 capital and Tier 2 capital.

Securitisation

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

The Group has also purchased positions in securitisation transactions. These positions have been purchased in transactions where the individual notes were originally highly rated and benefited from strong credit enhancement provided by lower ranking notes. The purchased positions cover a broad range of asset classes including Commercial Mortgage-Backed Securities (CMBS), Residential Mortgage-Backed Securities (RMBS), consumer loans and loans to Corporate / SMEs.

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

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

Calculation of Risk Weighted Exposure Amounts

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

The risk weighted exposure amounts for the Group's purchased positions are calculated using the IRB Ratings Based approach. The Group's purchased positions are all held in the banking book.

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

Accounting Policies for Securitisation Activities

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

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

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

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

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

Use of External Credit Assessment Institutions

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

Total Outstanding Amount of Exposures Securitised

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

Table 7.1 - Outstanding Amount of Exposures Securitised

Exposure Type	31 December 2012 €m	31 December 2011 €m
Residential mortgages	3,841	4,123
Corporate loans	153	201
Total	**3,994**	**4,324**

Losses Recognised, Past Due and Impaired Securitised Exposures

Table 7.2 below is based on financial statement information and relates to securitisations originated by the Group.

Table 7.2 – Specific provisions, Past Due and Impaired Securitisation Exposures

Exposure Type	Past due exposures 31 December 2012 €m	Impaired exposures 31 December 2012 €m	Specific provisions 31 December 2012 €m	Past due exposures 31 December 2011 €m	Impaired exposures 31 December 2011 €m	Specific provisions 31 December 2011 €m
Residential mortgages	211	89	34	192	36	16
Corporate loans	-	21	6	-	25	7
Total	**211**	**110**	**40**	**192**	**61**	**23**

Summary of Securitisation Activity

There have been no new securitisations originated by the Group which qualify for derecognition under Pillar 1 in the year ended 31 December 2012.

Securitisation Positions Retained and Purchased

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

Securitisation Positions Retained and Purchased by Exposure Type

Table 7.3 – Retained and Purchased Securitisation Positions by Exposure Type **Exposure Type**	**Retained or Purchased 31 December 2012 (EAD) €m**	Retained or Purchased 31 December 2011 (EAD) €m
Residential mortgages	234	373
Commercial mortgages	374	546
Loans to Corporates or SMEs	181	223
Consumer loans	63	83
Other assets	16	32
Total	**868**	**1,257**

Retained positions total €93 million at 31 December 2012 (31 December 2011: €81 million) and are reflected under Residential mortgages at €79 million (31 December 2011: €67 million) and under Loans to Corporates or SME's at €14 million (31 December 2011: €14 million). The remaining amounts in Table 7.3 reflect purchased positions.

Securitisation Positions Retained and Purchased by Risk Weight

Table 7.4 – Retained and Purchased Securitisation Positions by Risk Weight **Risk Weight Band**	**Retained or Purchased 31 December 2012 (EAD) €m**	Retained or Purchased 31 December 2011 (EAD) €m
10%	166	361
18%	48	24
35%	324	475
75%	92	137
100%	33	29
250%	26	36
425%	29	25
650%	-	-
1250%	-	-
Deducted	150	170
Total	**868**	**1,257**

Retained positions total €93 million at 31 December 2012 (31 December 2011: €81 million) and are included within Deducted amounts in Table 7.4. The remaining amounts reflect purchased positions.

Market Risk

Market Risk

Market risk is the risk of loss arising from movements in interest rates, foreign exchange rates or other market prices. Market risk arises naturally through customer lending and deposit-taking activity, the servicing of customer fx and other customer risk management needs, wholesale funding and investment in securities for liquid asset purposes.

The management of market risk in the Group is governed by the Group's Risk Appetite Statement and by the Group Policy on Market Risk, both of which are approved by the Court. It is Group policy to eliminate market risk as far as practicable, subject to a relatively conservative permission to take discretionary risk. Market risk limits and other controls are set by the Asset and Liability Committee (ALCO) which has primary responsibility for the oversight of market risk. The Group's participation in derivatives markets is subject to policy approved by the Group Risk Policy Committee (GRPC). 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.

The Group's approach to the measurement, management and control of market risk is set out in pages 86 to 89 of the Group's Annual Report 31 December 2012. This section also outlines the extent to which the Group assumes market risk to generate earnings. From a regulatory capital perspective the Group's Pillar 1 capital charge is calculated under the Standardised approach for market risk, using the prescribed regulatory calculation methodology. It primarily applies to interest rate risk in the Trading Book.

Discretionary Risk

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

Discretionary risk is taken in both the Trading and Banking Books in BoIGM.

Positions are allocated to the trading book in line with CRD criteria including the 'intent to trade' and are marked to market for financial reporting purposes.

The Group employs a VaR approach to measure, and set limits on, discretionary market risk in BoIGM. This applies to both the trading and banking books. The Group measures VaR for a 1 day horizon at the 99% level of statistical confidence. VaR reporting is conducted daily.

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

Customer Risk

Market risk arises in customer facing business units mainly on the asset side of the balance sheet through fixed rate lending and through certain fixed rate deposit products. Interest rate risk arising on customer lending and term deposit-taking is centralised by way of internal hedging transactions with BoIGM. This exposure is, in turn, substantially eliminated by BoIGM through external hedges. In the case of business lines that are subject to prepayment – which is largely confined to UK mortgage lending – these books are hedged net of expected prepayment and assumptions with respect to prepayment are reviewed regularly.

Structural Risks

Notwithstanding the overriding objective of running low levels of market risk, certain structural market risks arise where variable rate assets and liabilities re-price at different frequencies (monthly, quarterly, semi annually) and where lending re-prices with changes in central bank rates but is funded at other market rates. In addition, certain economic risks are inherent in the Group's balance sheet and the requirement to fund a material part of the Group's sterling balance sheet from euro creates a structural exposure. These factors are collectively termed balance sheet basis risk and this is managed centrally as a structural treasury risk.

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

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

Operational Risk

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

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

Further detail on the management of operational risk within the Group is provided in the Regulatory Compliance and Operational Risk section of the Risk Management Report of the Group's Annual Report 31 December 2012 page 92. Operational risk loss tolerance is set at Group level by the Group Regulatory, Compliance and Operational Risk Committee (GRCORC). Loss events are reported monthly by all business units, GRCOR provides summary information on overall losses and details on significant loss events to GRCORC. Further detail on risk mitigation and risk reporting is provided in the Operational Risk section on page 92 of the Group's Annual Report 31 December 2012.

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

The strategies and processes by which Operational Risk is managed are set out in the Operational Risk section on page 92 of the Group's Annual Report 31 December 2012.

Appendix I: Capital Resources

Core tier 1 capital (PCAR / EBA)

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

Total equity

Total equity represents accounting equity and comprises capital stock (including related share premium), retained earnings, foreign exchange reserve, available for sale reserve, cash flow hedging reserve, capital contribution reserve and other reserves. A consolidated statement of changes in these reserves is outlined on pages 143 to 145 of the Group's Annual Report 31 December 2012. Total equity includes preference stock, primarily the balance on the 2009 Government Preference Stock of which there is €1.8 billion outstanding at 31 December 2012.

Retirement benefit obligations

A prudential filter is applied in relation to the Group's defined benefit pension schemes resulting in a reversal of the accounting deficit and an add-back to total equity. The prudential filter requires that any surpluses arising under IFRS in a defined benefit pension scheme should be reversed for capital adequacy purposes. Similarly any deficits, reflecting actuarial losses, are to be reversed from accounting equity.

Intangible assets and goodwill

Intangible assets and goodwill are deducted in accordance with CRD requirements. The deduction is made at the level of Core tier 1. The deduction excludes intangible assets in the Group's Life and pension business.

Cashflow hedge reserve and available for sale reserve

While the available for sale (AFS) and cash flow hedge reserves are included in accounting equity they are removed from the regulatory capital base through the application of a prudential filter as unrealised fair value gains and losses are required to be eliminated. The AFS and cash flow reserves are both positive at 31 December 2012 hence the application of the filter results in a deduction from total equity.

Dividend expected on 2009 Preference stock

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

Capital contribution on Contingent Capital Note

A capital contribution reserve was created in July 2011 following the issuance of the €1 billion Contingent Capital Note to the State. A national prudential filter is applied by the Central Bank to remove this reserve from regulatory capital. This filter is removed over the life of the note.

Own credit spread adjustment (net of tax)

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

Pension supplementary contributions

Under local supervisory rules credit institutions are required to deduct from capital certain pension supplementary contributions. As a result, the accounting deficit, which is reversed from capital as outlined above, is replaced with a deduction reflecting the amount required over a specified period (three years for Irish schemes, five years for UK schemes) towards the elimination of a pension deficit under minimum funding standard rules.

Regulatory deductions

The regulatory (50:50) deductions for the Group at 31 December 2012 are as follows;

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

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

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

(c) Deduction for unconsolidated investments
Holdings in certain financial institutions amounting to more than 10% of their capital is deducted from own funds. This deduction primarily applies to investments in Group entities that are not consolidated for regulatory purposes.

Total tier 1 capital

Total tier 1 capital is Core tier 1 capital as outlined above plus the inclusion of certain hybrid instruments that do not qualify as Core tier 1 capital.

Tier 1 hybrid debt

Hybrid instruments are subordinated securities with some equity like features but that can not be included as Core tier 1 capital. Such securities do not generally carry voting rights and rank higher than ordinary shares for coupon payments in the event of a winding-up. These include securities that may be called and redeemed by the issuer, subject to the prior approval of the Central Bank. Refer to Table 2.4 for further information.

Tier 2 capital

Tier 2 capital comprises certain qualifying subordinated liabilities, IBNR provisions against standardised portfolios, (50:50) regulatory deductions (as outlined above) and other regulatory adjustments.

Tier 2 undated debt

Undated subordinated loan capital that does not have a stated maturity date but may be called and redeemed by the issuer, subject to the prior approval of the Central Bank. Refer to Table 2.4 for further information.

Tier 2 dated debt

Dated subordinated loan capital is repayable at par on maturity and has an original maturity of at least five years. Some subordinated loan capital may be called and redeemed by the issuer, subject to the prior approval of the Central Bank. For regulatory purposes, it is a requirement that Lower tier 2 securities be amortised on a straight-line basis in their final five years of maturity thus reducing the amount of capital that is recognised for regulatory purposes. Refer to Table 2.4 for further information.

Total capital

Total capital comprises Total tier 1 and Tier 2 capital as outlined above as adjusted for a regulatory deduction in relation to participations that the Group has in insurance undertakings. The Group's deduction primarily represents 90% of the equity of Bank of Ireland Life. With effect from 1 January 2013 the deduction of the Group's participation in its life and pension business will be deducted 50:50 from Core tier 1 and Tier 2 capital in accordance with the CRD.

Appendix II: Significant Subsidiaries

Tables 1 and 2 show the capital resources and Risk Weighted Assets of the Group's subsidiary, Bank of Ireland (UK) plc, which is fully consolidated in the Group capital numbers. For local capital adequacy reporting RWA in Bank of Ireland (UK) plc are calculated under the Standardised approach in accordance with FSA requirements.

Table 1 – Capital Resources and Risk Weighted Assets **Capital base**	**Bank of Ireland (UK) plc 31 December 2012 €m**	Bank of Ireland (UK) plc 31 December 2011 €m
Ordinary share capital, capital contribution and reserves	1,231	1,257
Available for sale reserve	-	1
Core tier 1 capital	**1,231**	**1,258**
Non-cumulative callable preference shares	368	359
Total Tier 1 capital	**1,599**	**1,617**
Dated loan capital	806	626
IBNR provisions	51	102
Total Tier 2	**857**	**728**
Total Tier 1 and Tier 2 capital before deductions	**2,456**	**2,345**
Regulatory deductions	(146)	(123)
Total Capital	**2,310**	**2,222**
Credit risk	13,205	11,493
Operational risk and market risk	658	734
Total Risk Weighted Assets	**13,863**	**12,227**
Total capital ratio	**16.7%**	**18.2%**

Table 2 – Breakdown of Credit Risk Weighted Assets **Capital base**	**Bank of Ireland (UK) plc 31 December 2012 €m**	Bank of Ireland (UK) plc 31 December 2011 €m
Institutions	-	2
Corporates	4,099	4,723
Retail - secured by real estate property	5,623	4,082
Retail - other	1,137	342
Past due items	1,987	2,137
Short term claims on institutions and corporates	138	197
Other items	221	10
Total	**13,205**	**11,493**

Appendix III: Remuneration

Remuneration at Bank of Ireland

This section of the Group's Pillar 3 document should be read in conjunction with the Group's Annual Report 31 December 2012 and in particular the Group Remuneration Report on pages 123 to 134.

This section summarises remuneration for Code Staff in respect of 2012 and provides brief information on the decision-making policies for remuneration and the links between pay and performance. These disclosures reflect the requirements set out in the European Banking Authority Remuneration Guidelines which came into effect from 1 January 2011.

Decision-making process for remuneration policy

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

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

Code staff

The Group completed a rigorous process through which, over the course of 2012, an aggregate of 138 employees (31 December 2011: 121) were identified as Code Staff on the basis that their professional activities were deemed to have a material impact on the Group's risk profile. As at 31 December 2012 there were 115 Code Staff (31 December 2011: 116).

Remuneration restrictions

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

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

Attraction, Motivation and Retention

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.

If the Group fails to attract and appropriately train, motivate and retain highly skilled and qualified people, its businesses may 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 adversely impact on the Group's ability to attract and retain such staff.

Link between pay and performance

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

Group Remuneration Strategy

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

In addition the strategy seeks to ensure that:

- our efforts are aligned with and contribute to the long term sustainability, value creation and success of the Group;
- as far as possible, we have the necessary platform to attract, retain and motivate high calibre employees;
- as far as possible, we offer a competitive remuneration package across all markets, in a cost effective manner;
- remuneration practices are simple, transparent, easy to understand and implement;
- sound and effective risk management is reflected in performance management and remuneration structures and their alignment to performance targets and governance structures;
- remuneration is applied in consideration of and in alignment with the Group's Risk Strategy and Appetite Statement and overall risk governance framework;
- risk adjusted financial performance is an important measure when evaluating performance;
- business and individual performance measures and targets are aligned with business objectives at either a Group or local business level, ensuring alignment with business strategy, risk measures and priorities and are based on a balanced scorecard approach;
- all remuneration practices are subject to appropriate governance;
- we are compliant with all applicable regulatory remuneration requirements as they relate to the Group; and
- remuneration policies, processes, procedures, systems and controls support the fair treatment of customers and mitigate the potential for conflict between commercial and customer interests.

Remuneration Expenditure

The following tables show the remuneration awards made by the Group to Code Staff in 2012 and 2011.

Table 1 – Aggregate 2012
Remuneration Expenditure by Business Area

	Corporate and Treasury	Governor and NEDs	Group Credit and Market Risk	Group Governance Risk	Group Manufacturing	Group support functions - CEO, Finance, HR	Retail Ireland	Retail UK	Grand Total
Number of Code Staff	21	19	17	8	7	16	34	16	138
2012 Remuneration Expenditure €m	6.92	1.86	3.53	1.95	1.88	3.99	7.06	3.65	30.84

Includes Fees, Salaries and variable payments (including any deferred elements) made in 2012 and other cash benefits payable e.g. car allowance.

Table 1 – Aggregate 2011
Remuneration Expenditure by Business Area

	Corporate and Treasury	Governor and NEDs	Group Credit and Market risk	Group Governance Risk	Group Manufacturing	Group support functions - CEO, Finance, HR	Retail Ireland and Retail UK	Group non-core	Grand Total
Number of Code Staff	20	15	12	5	8	13	44	4	121
2011 Remuneration Expenditure €m	6.76	1.56	2.70	1.28	1.97	4.00	9.20	1.59	29.06

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

Business areas may change from year to year to take account of changes in the structure of the Group. Corporate & Treasury in 2012 includes individuals that would have previously been included in Group Non-Core. Retail Ireland and Retail UK are reported separately at 31 December 2012 but at 31 December 2011 they were reported under a single business area.

Table 2 – Analysis of 2012 Remuneration between Fixed and Variable Amounts (actually paid in 2012)	**Governor and NEDS**	**Group Executive Committee**	**Key control function roles**	**Key front line roles**	**Other key roles with impact on risk**	**Grand total**
Number of Code Staff	19	10	30	67	12	138
Fixed (cash based)	- Fixed payments 2012 include fees, salaries, car allowances and other payments					
Fixed (cash based) €m	1.86	4.78	5.99	15.37	2.84	30.84
Total Fixed €m	**1.86**	**4.78**	**5.99**	**15.37**	**2.84**	**30.84**
Variable	- Variable payments 2012 include guaranteed bonus / contractual guarantees, cash LTIPs / deferred bonuses, retention payments and commissions.					
Non-Deferred Cash €m	-	-	-	-	-	-
Deferred Cash €m	-	-	-	-	-	-
Total Variable €m	-	-	-	-	-	-
Variable Recipients	-	-	-	-	-	-
Fixed & Variable €m	**1.86**	**4.78**	**5.99**	**15.37**	**2.84**	**30.84**

Non Deferred cash payments referenced in Table 2 above refers to cash awards made and paid in 2012.

Deferred cash payments referenced in Table 2 above refer to those payments awarded prior to 2012 and paid in 2012.

Table 2 – Analysis of 2011 Remuneration between Fixed and Variable Amounts (actually paid in 2011)	Governor and NEDS	Group Executive Committee	Key control function roles	Key front line roles	Other key roles with impact on risk	Grand total
Number of Code Staff	15	8	27	63	8	121
Fixed (cash based)	- Fixed payments 2011 include fees, salaries, car allowances and other payments					
Fixed (cash based) €m	1.56	4.44	5.26	14.21	1.81	27.28
Total Fixed €m	1.56	4.44	5.26	14.21	1.81	27.28
Variable	- Variable payments 2011 include guaranteed bonus / contractual guarantees, cash LTIPs / deferred bonuses, retention payments and commissions.					
Non-Deferred Cash €m	-	-	-	0.07	-	0.07
Deferred Cash €m	-	-	0.30	1.41	-	1.71
Total Variable €m	-	-	0.30	1.48	-	1.78
Variable Recipients	-	-	3	10	-	13
Fixed & Variable €m	1.56	4.44	5.56	15.69	1.81	29.06

New sign-on and severance payments

- No new hire (Code Staff) received a sign-on payment during 2012, relating to their commencement of employment.
- Five members of the Code Staff population availed of the Voluntary Parting Scheme currently in operation in the Group and one individual received a severance payment.
- The value of payments made to this population, comprising Statutory Redundancy, Voluntary Parting Payments, pay in lieu of notice, and Annual Leave payment totalled €1.24 million.
- The largest combined statutory redundancy and voluntary parting payment was €225,000.
- The above payments are not included in the previous tables.

Glossary

Advanced IRB	Advanced Internal Ratings Based approach. The approach which allows banks to calculate their capital requirement for credit risk for their retail and non-retail portfolios using their own internally generated estimates of PD, LGD and CCF. These variables are then fed into a standard formula to calculate the capital requirement for the asset. Referred to as retail IRB in this document.
Banking Book	The Banking Book consists of all banking assets, liabilities and derivatives other than those held with trading intent and booked on this basis in the Trading Book.
Basel II	The Capital Adequacy Framework issued in June 2004 by the Basel Committee, and implemented into EU law by Directive 2006/48/EC and Directive 2006/49/EC.
Capital Requirements Directive (CRD)	Directive 2006/48/EC of the European Parliament and the Council of 14 June 2006, relating to the taking up and pursuit of the business of credit institutions together with Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions.
Central Bank	The Central Bank of Ireland.
Collateral	Property or assets made available by a borrower as security against a loan. Under a collateralisation arrangement, a party who has an obligation to another party posts collateral (typically consisting of cash or securities) to secure the obligation. In the event that the counterparty defaults on the obligation, the secured party may seize the collateral.
Credit Conversion Factor (CCF)	An estimate of the proportion of undrawn commitments expected to be drawn down at the point of default. The CCF is expressed as a percentage and is used in the calculation of Exposure at Default (EAD).
Credit Risk Standardised Approach	A method for calculating risk capital requirements using ECAI ratings (where available) and supervisory risk weights.
Credit Risk Mitigation	A technique to reduce the credit risk associated with an exposure by the application of credit risk mitigants such as collateral, guarantees and credit protection.
CSA	Credit Support Annex. This is an annex to an ISDA agreement which allows the exchange of collateral (usually cash) based on Mark to Market movements on derivative contracts between counterparties.
Derecognition	The removal of a previously recognised financial asset or financial liability from an entity's balance sheet.
EBA	The European Banking Authority, formerly CEBS (the Committee of European Banking Supervisors).
Expected Loss	A regulatory calculation of the amount expected to be lost on an exposure using a twelve month time horizon and downturn loss estimates. Expected loss is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).
Export Credit Agency (ECA)	An Export Credit Agency is an agency in a creditor country that provides insurance, guarantees, or loans for the export of goods and services. The CRD limits the use of ECA credit assessments to exposures to central governments and central banks. Therefore, credit institutions are allowed to use ECA credit assessments to calculate the risk weight of their exposures to central governments and central banks, in addition to ECAIs' credit assessments for other types of exposures.
External Credit Assessment Institution (ECAI)	An eligible External Credit Assessment Institution (ECAI) is an entity, other than an Export Credit Agency, that issues external credit assessments, and that has been determined by the competent authorities to meet the eligibility requirements set out in the Capital Requirements Directive. The credit assessment provided by the ECAI is used to provide a basis for capital requirement calculations in the Standardised approach for securitisation positions as well as an input into the IRB Institutions model.

Exposure at Default (EAD)	The estimated value of the bank's exposure at the moment of the borrower's default determined under regulatory rules.
Exposure Weighted Average Risk Weight	Average risk weighting of exposures. Calculating the exposure weighted average risk weight involves multiplying the exposure values by the relevant risk weight, summing the answers and dividing by the total exposure values.
Exposure Weighted Average LGD	Calculating the exposure weighted average LGD involves multiplying the exposure values by the relevant LGD, summing the answers and dividing by the total exposure values.
Foundation IRB	The approach where institutions use their own estimates of PD to calculate risk weights for each exposure. Supervisory estimates of LGDs and EADs are used.
GMRA	Global Master Repurchase Agreements, are standard industry agreements that permit the netting and the collateralisation of repo type transactions.
IBNR	Incurred but not reported provisions.
IFRS	International Financial Reporting Standards.
IRB Exposure Classes	• *Institutions:* Exposures to Financial Institutions authorised and supervised by the competent authorities and subject to prudential requirements. Includes exposure to Covered Bonds. • *Corporates:* The CRD does not provide a definition of the corporate exposure class; it simply provides that any exposure not falling into any of the other exposure classes will be allocated to the corporate exposure class. • *Exposures secured by real estate collateral:* Residential mortgages. • *Qualifying revolving*: The exposures (to individuals) are revolving and unsecured. Primaraily comprises credit cards. • *Securitisation positions:* Exposures belonging to a pool - as defined below under securitisation.
ISDA	ISDA is the International Swaps and Derivatives Association. ISDA Agreements are standard industry agreements issued by ISDA which permit the netting of derivative transactions.
Internal Ratings Based Approach (IRB)	Approach to credit risk under which a bank may use internal estimates to generate risk components for use in the calculation of their credit risk regulatory capital requirements. There are two approaches: Foundation and Advanced (including Retail).
KIRB	8% of the risk-weighted exposure amounts that would be calculated under Articles 84 to 89 of the CRD in respect of the securitised exposures, had they not been securitised, plus the amount of expected loss associated with those exposures as calculated under those articles.
Loss Given Default (LGD)	The likely financial loss associated with default, net of collections / recovery costs and realised security.
Mark to Market (MTM)	The act of recording the price or value of a security, portfolio or account to reflect its current market value rather than its book value.

Market Risk Standardised Approach	The Standardised approach to the determination of Pillar 1 capital for market risk in the Trading Book involves estimating a minimum required capital charge based on the difference in the re-pricing periods for assets, liabilities and derivatives (treated as equivalent on-balance sheet assets and liabilities). In addition, depending on the nature of the positions, it also provides for a specific risk charge. The total minimum capital charge is converted to a risk weighted asset equivalent for the Trading Book which is summed with other Risk Weighted Assets in determining overall regulatory capital ratios.
Monetary Authorities	The European Central Bank, the Central Bank of Ireland, the Bank of England and the US Federal Reserve.
NAMA	The National Asset Management Agency and, where the context permits, other members of NAMA's group including subsidiaries and associated companies.
National Pensions Reserve Fund Commission (NPRFC)	The NPRFC controls and manages the National Pensions Reserve Fund ('the Fund'). The Fund was established in April 2001 with the stated objective of meeting as much as possible of the costs of Ireland's social welfare and public service pensions from 2025 onwards when these costs are projected to increase dramatically due to the ageing of the population. In February 2009 the Minister for Finance announced that the Fund would finance a €7 billion bank recapitalisation programme. On 31 March 2009, the NPRFC completed the recapitalisation of the Group through their investment of €3.5 billion in new preference stock and warrants to subscribe for up to 25% of the enlarged ordinary stock in the Group.
Operational Risk Standardised Approach	The Pillar 1 approach which allows banks to calculate their capital requirement in respect of operational risk by multiplying the gross income from each business line by the relevant factor specified in respect of that business line (as set out in the CRD).
Originator	An entity which, either itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure being securitised; or an entity which purchases a third party's exposures onto its balance sheet and then securitises them.
PCAR	Prudential Capital Assessment Review. These are local stress tests performed by the Irish Central Bank to assess the Bank's capital adequacy over a future horizon.
Probability of Default (PD)	The likelihood that a debt instrument will default within a stated timeframe (For Basel this is a twelve month time horizon). For example, the probability of default of a certain loan is 2%; this means that there are 2 chances out of 100 that the borrower will default in the next 12 months.
Risk Weighted Assets (RWA)	Used in the calculation of risk-based capital ratios. Total assets are calculated by applying predetermined risk-weight factors (set by the regulators) to the nominal outstanding amount of each on-balance sheet asset and the notional principal amount of each off-balance sheet item.
Securitisation	Converting an asset such as a loan into a marketable commodity by turning it into securities. Assets are pooled and sold, often in unitised form, enabling the lender to reliquify the asset. Any asset that generates an income stream can be securitised – i.e. mortgages, car loans, credit-card receivables.

Standardised Exposure Classes

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

Trading Book

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

Through-the-Cycle PD (TtC PD)

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

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