Pillar 3 Disclosures

For the year ended 31 December 2013

Bank of Ireland Group

For small steps, for big steps, for life

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 often 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, but their absence does not mean that a statement is not forward looking.

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, United Kingdom, 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 and sector specific economic conditions in Ireland, the United Kingdom and the other markets in which the Group operates;*
- *the ability of the Group to generate additional liquidity and capital as required;*
- *the effects of the 2011 PCAR, the 2011 PLAR and the deleveraging reviews conducted by the Central Bank of Ireland and any further capital assessments undertaken by regulators;*
- *property market conditions in Ireland and the United Kingdom;*
- *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 impact of any arrangements following the exit by the Irish Government from the EU / IMF programme;*
- *the availability of customer deposits at sustainable pricing levels to fund the Group's loan portfolio and the outcome of the Group's disengagement from the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009;*
- *deterioration in the credit quality of the Group's borrowers and counterparties, as well as increased difficulties in relation to the recoverability of loans and other amounts due from such borrowers and counterparties, have resulted in significant increases, and could result in further significant increases, in the Group's impaired loans and impairment provisions;*
- *implications of the Personal Insolvency Act 2012 and / or the measures introduced by the Central Bank of Ireland to address mortgage arrears on the Group's distressed debt recovery and impairment provisions;*
- *the performance and volatility of international capital markets;*
- *the effects of the Irish Government's stockholding in the Group (through the NPRFC) and possible changes in the level of such stockholding;*
- *the impact of further downgrades in the Group's or the Irish Government's credit ratings or outlook;*
- *the stability of the eurozone;*
- *changes in the Irish and United Kingdom banking systems;*
- *changes in applicable laws, regulations and taxes in jurisdictions in which the Group operates particularly banking regulation by the Irish and United Kingdom Governments together with implementation of the Single Supervisory Mechanism and establishment of the Single Resolution Mechanism and the conduct and outcome of asset quality reviews and stress tests;*
- *the exercise by regulators of powers of regulation and oversight in Ireland and the United Kingdom;*
- *the introduction of new government policies or the amendment of existing policies in Ireland or the United Kingdom;*
- *the outcome of any legal claims brought against the Group by third parties or legal or regulatory proceedings or any Irish banking inquiry more generally, that may have implications for the Group;*
- *the development and implementation of the Group's strategy, including the implementation of the Group's revised EU Commission restructuring plan and the Group's ability to achieve net interest margin increases and cost reductions;*
- *the responsibility of the Group for contributing to compensation schemes in respect of banks and other authorised financial services firms in Ireland, the United Kingdom and the Isle of Man that may be unable to meet their obligations to customers;*
- *the inherent risk within the Group's life assurance business involving claims, as well as market conditions generally;*
- *potential further contributions to the Group sponsored pension schemes if the value of pension fund assets is not sufficient to cover potential obligations;*
- *the exposure of the Group to NAMA losses in the event that NAMA has an underlying loss at the conclusion of its operations, which could adversely impact the Group's capital and results of operations;*
- *the impact of the implementation of significant regulatory developments such as Basel III, Capital Requirements Directive (CRD) IV, Solvency II and the Recovery and Resolution Directive;*
- *the impact on the Group of the Central Bank of Ireland's Balance Sheet Assessment / Asset Quality Review of the Group and the European Central Bank's Comprehensive Assessment of the Group; and*
- *the Group's ability to address weaknesses or failures in its internal processes and procedures including information technology issues and equipment failures and other operational risks.*

Analyses of asset quality and impairment in addition to liquidity and funding are set out in the Risk Management Report. Investors should also read 'Principal Risks and Uncertainties' in the Group's Annual Report 31 December 2013, beginning on page 59).

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 statement speaks only as at the date it is 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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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.

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 / risk weighted assets (RWA) 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 at 31 December 2013. 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 Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) were published in the Official Journal of the EU on 27 June 2013. While much of the focus of the Group's Pillar 3 document is on the Group's Basel II capital requirements and resources at 31 December 2013 detailed capital information and other qualitative information on Basel III is also provided. The references to 'Basel III' and 'CRD IV' are used interchangeably throughout this document.

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 2013 (hereafter referred to as the 'Group's Annual Report 31 December 2013'), which contains some Pillar 3 qualitative information. Copies of the Group's Annual Report 31 December 2013 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 qualitative disclosure requirements are largely met in the Operating and Financial Review and Risk Management sections of the Group's Annual Report 31 December 2013. 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 2013.

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 31 December 2013 may be subject to audit by the Group's external auditors and is subject to internal review and governance procedures. 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 Basel II capital requirements and resources, credit risk, market risk, operational risk, information on securitisation activity and the Group's remuneration disclosures. Information on the Group's Basel III capital ratios is also provided.

Certain of the areas covered are also dealt with in the Group's Annual Report 31 December 2013 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 2013, other quantitative data is sourced from the Group's regulatory reporting platform and is calculated according to regulatory requirements. 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 2013. Some details of the key differences between the Group's accounting and regulatory exposures are set out on page 8.

Supervision

At 31 December 2013 the Bank of Ireland Group is subject to direct consolidated supervision by the Central Bank of Ireland (the Central Bank or CBI).

As at 31 December 2013, 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 Prudential Regulatory Authority (PRA) 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.

The Single Supervisory Mechanism (SSM) is a system of financial supervision composed of the European Central Bank (ECB) and national competent authorities (NCAs). As part of the SSM the ECB will be responsible for the direct supervision of significant credit institutions, while the NCAs will be responsible for the direct supervision of less significant credit institutions. The Group is a significant credit institution in accordance with the SSM framework and as such will be directly supervised by the ECB when the framework comes into effect.

Preparation and Basis of Consolidation

The Group's Pillar 3 disclosures are published on a consolidated basis for the year ended 31 December 2013. 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 certain 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	At 31 December 2013 the deduction element of the Group's participation in its Life and pension business (primarily New Ireland Assurance Company plc) is deducted 50:50 from Core tier 1 and Tier 2 capital in accordance with the CRD.
Joint Ventures	Equity Accounting	At 31 December 2013 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	At 31 December 2013 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	At 31 December 2013 a deduction is 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.

Under CRD IV the Group's investments in financial sector entities, primarily New Ireland Assurance Company plc, will be subject to the 10% / 15% threshold deduction as significant investments.

Basel III / CRD IV

The Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) were published in the Official Journal of the EU on 27 June 2013. The CRR had direct effect in EU member states and CRD IV was required to be implemented through national legislation in EU member states by 31 December 2013. CRD IV also includes requirements for regulatory and technical standards to be published by the European Banking Authority (EBA). Many of these have not yet been published or their impact is uncertain. The CRD IV legislation is being implemented on a phased basis from 1 January 2014, with full implementation by 2019.

The Basel III / CRD IV transition rules results in a number of new deductions from CET1 capital being introduced on a phased basis typically with a 20% impact in 2014, 40% in 2015 and so on until 2018. The CBI published their 'Implementation of Competent Authority Discretions and Options in CRD IV and CRR' on 24 December 2013 which clarifies the application of transitional rules in Ireland under CRD IV.

The pro forma ratios as outlined in Table 1.4 represent estimates reflecting the Group's interpretation of the CRD IV rules as published on 27 June 2013 and subsequent clarifications, including the CBI paper 'Implementation of Competent Authority discretions and options in CRD IV and CRR'. The actual capital ratios under CRD IV may differ once the rules are assessed in their entirety, related technical standards are finalised and other guidance is issued by the relevant regulatory bodies. Table 1.2 summarises the phase in rates of CET1 deductions over the transition period.

The Group continues to expect to maintain a buffer above a CET1 ratio of 10% on a transitional basis.

Table 1.2 - Transitional table	**2014**	**2015**	**2016**	**2017**	**2018**
Retirement benefit obligations / Defined Benefit Pensions	20%	40%	60%	80%	100%
Available for sale reserves					
- Unrealised Losses (% to be included in CET 1 Capital)	20%	40%	60%	80%	100%
- Unrealised Gains (% to be excluded from CET 1 Capital)	100%	60%	40%	20%	0%
Expected loss deduction	20%	40%	60%	80%	100%
10/15% Threshold Deduction	20%	40%	60%	80%	100%
Deferred Tax Assets[1]	0%	10%	20%	30%	40%[2]
Other adjustments[3]	20%	40%	60%	80%	100%

[1] *Deferred tax assets that rely on future profitability but which do not relate to timing differences.*
[2] *Increasing by 10% per annum to 100% each year thereafter.*
[3] *Other adjustments primarily relate to the phase out of certain national filters.*

The main items which impact CET1 capital under the new rules from 1 January 2014 include:
- pensions deficit add back;
- significant investments in non-consolidated financial sector entities;
- expected loss net of provisions;
- deferred tax assets not relating to timing differences; and
- unrealised gains and losses on available-for-sale securities.

The main items which impact risk weighted asset calculations under CRD IV include the following:

Increase in RWA
- Credit Valuation Adjustment;
- financial institutions correlation factor; and
- RWA for threshold deductions (deferred tax asset relating to timing differences and significant investments in financial sector entities).

Decrease in RWA
- fixed maturity adjustment on IRB exposures; and
- risk weights for SME exposures.

Balance Sheet Assessment / Asset Quality Review (BSA / AQR)

Ahead of Ireland's exit from the EU / IMF programme of support, the Central Bank undertook a BSA / AQR. The BSA / AQR was a point in time capital assessment as at 30 June 2013 and included an assessment by the CBI of risk classifications and provisions and a review of the appropriateness of calculations of risk weighted assets. In December 2013, the CBI confirmed that Bank of Ireland had adequate capital as at 30 June 2013 to meet the requirements determined under the BSA. Consequently, the CBI did not require Bank of Ireland to raise additional capital as a result of the BSA.

As part of the BSA, the CBI also made a range of observations on the Group's treatment of expected loss on mortgage assets, the level of impairment provisions at 30 June 2013 and the Group's risk weighted asset calculations. The CBI requested that the Group consider these observations in preparing its financial results and Annual Report for the year ended 31 December 2013. The Group has done so by incorporating the updated treatment of expected loss and has taken the CBI's observations into consideration as part of its comprehensive process in setting the year end impairment provisioning stock and associated impairment charge for 2013. Further engagement in respect of risk weighted assets is envisaged with the Central Bank of Ireland during 2014 and, in the meantime, the Group has applied certain Central Bank of Ireland required BSA adjustments to the outputs of the Group's risk weighted asset calculations, which are also reflected in the Group's reported capital ratios as set out in Table 1.4.

The BSA also included a Data Integrity Verification (DIV) element to ensure key data, data fields and processes are robust. There were no findings or issues arising from the DIV that materially impact the BSA. The BSA represents a review under the CBI's Supervisory Review and Evaluation Process (SREP) and Full Risk Assessment (FRA) and, as such, the result may be considered by the Central Bank of Ireland in determining the Pillar II capital requirements of the Group.

The European Central Bank (ECB) under the forthcoming Single Supervisory Mechanism (SSM) will also conduct a Comprehensive Assessment (CA) during 2014. The CA will include a balance sheet and risk assessment and is expected to encompass the European Banking Authority (EBA) and ECB EU-wide stress test.

Key Capital Ratios

The following table outlines the components of the Group's Risk Weighted Assets under Basel II as at 31 December 2013 and 31 December 2012. Pro forma Basel III information is also provided on a transitional and fully loaded basis.

Table 1.3 - Risk Weighted Assets

Basel II / CRD			Pro forma Basel III/CRD IV transitional	Pro forma Basel III/CRD IV fully loaded
31 December 2012 €bn	31 December 2013 €bn		1 January 2014 €bn	31 December 2013 €bn
51.9	51.7	Credit risk[1]	50.1	50.1
1.0	1.2	Market risk	1.2	1.2
3.6	3.5	Operational risk	3.5	3.5
56.5	56.4	**Total RWA**	54.8	54.8

[1] *Includes risk weighted assets relating to non-credit obligation assets / other assets (refer to page 11). Basel III RWA numbers include RWA attributable to Credit Valuation Adjustment (CVA) risk and RWA arising from the 10% / 15% threshold deductions.*

Table 1.4 - Capital Ratios (including 2009 Preference Stock)

Basel II / CRD					Pro forma Basel III / CRD IV transitional		Pro forma Basel III / CRD IV fully loaded	
31 December 2012		**31 December 2013**			1 January 2014		31 December 2013	
€bn	% of RWA	**€bn**	**% of RWA**		€bn	% of RWA	€bn	% of RWA
7.8	13.8%[2]	6.9	12.2%	CET 1 / Core tier 1	6.8	12.3%	4.9	9.0%
7.9	13.9%	7.0	12.4%	Tier 1	6.8	12.3%	4.9	9.0%
8.7	15.3%	7.6	13.6%	Total capital	7.7	14.1%	6.0	11.0%

[2] *With effect from 1 January 2013, the deduction for the Group's participation in its Life and pension business is deducted 50:50 from Core tier 1 and Tier 2 capital in accordance with the Capital Requirements Directive (CRD). The comparative period has been restated to reflect this change. The previously reported Core tier 1 ratio under Basel II was 14.4%. Otherwise, the 31 December 2012 amounts remain as previously reported for regulatory purposes and in particular have not been restated for the impact of the adoption of new accounting standards in the year ended 31 December 2013.*

The observations from the Central Bank's Balance Sheet Assessment (BSA) / Asset Quality Review (AQR) at June 2013 have been addressed in the Basel II / CRD and pro forma Basel III / CRD IV reported capital ratios. The Group has incorporated the updated treatment of expected loss and it has considered the observations of the Central Bank in setting the year end impairment provisioning stock and associated impairment charge for 2013. Further engagement in respect of RWA's is envisaged with the Central Bank of Ireland during 2014 and in the meantime the Group has applied certain Central Bank of Ireland required BSA adjustments to the outputs of the Group's RWA calculations which are also reflected in the reported capital ratios.

Basel II / CRD

Risk Weighted Assets (RWA) at 31 December 2013 are in line with 31 December 2012 primarily due to declines in risk weighted assets arising from a reduction in the quantum of loans and advances, loan repayments in excess of new lending and the impact of foreign exchange movements, offset by the impact of incorporating the Central Bank's risk weighted asset adjustments made as part of the BSA / AQR.

On a Basel II / CRD basis, the **Core tier 1 ratio** at 31 December 2013 of 12.2% compares to an equivalent ratio of 13.8% at 31 December 2012. The decrease is primarily driven by the decline in Core tier 1 capital primarily due to attributable losses incurred during the year ended 31 December 2013 and dividends paid on preference stock.

The **Total capital ratio** at 31 December 2013 of 13.6% compares to 15.3% at 31 December 2012 driven by lower capital primarily as a result of attributable losses, dividends paid on preference stock and regulatory amortisation of subordinated debt.

Capital actions

In January 2013, the State sold 100% of its €1 billion holding of the CCN's originally issued in July 2011 at a price of 101% of its par value plus accrued interest to a diverse group of international institutional investors thereby fixing all future cash coupon payments on the notes at 10% per annum. This Tier 2 classified note would convert into Bank of Ireland ordinary stock on a breach of the Core tier 1 or transitional CET1 trigger ratio of 8.25% (ratio was 12.2% at 31 December 2013 and 12.3% on a pro forma basis at 1 January 2014) or on a 'non-viability event' as determined by the CBI.

Key Capital Ratios (continued)

In December 2013, the Group announced a capital package in relation to the 2009 Preference Stock, which had been agreed with the Irish State and the CBI comprising (i) the placing of new units of ordinary stock to generate proceeds of c.€537 million (net of expenses), to redeem c.€537 million of the 2009 Preference Stock and (ii) the sale by the NPRFC of €1.3 billion 2009 Preference Stock to private investors. As part of the capital package completed in December 2013 the Group stated its intention not to redeem the 2009 Preference Stock prior to January 2016, save in certain limited circumstances which would include changes in regulatory capital treatment, breach of waiver deed and taxation. The Group also advised the CBI that it is not the Group's intention to recognise the 2009 Preference Stock as regulatory CET1 capital after July 2016, unless de-recognition would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements.

Basel III Transitional Ratio at 1 January 2014

Risk weighted assets (RWA) at 1 January 2014 of €54.8 billion compares to Basel II RWA at 31 December 2013 of €56.4 billion. Reductions in RWA due to the SME reduction factor, application of fixed maturity adjustment and treatment of deferred tax assets during the transitional period are partially offset by increases due to Credit Valuation Adjustment (CVA), higher risk weighted assets for financial institutions and the RWA associated with the 10% / 15% threshold deduction.

The **Common equity tier 1 ratio** at 1 January 2014 of 12.3% on a pro forma basis compares to the Basel II Core tier 1 ratio of 12.2% at 31 December 2013. The increase relates primarily to lower RWA's partially offset by the impact of the phasing in and out of regulatory deductions and adjustments under the transitional arrangements of the CRR, including:

- retirement benefit obligations – add back of deficit under Basel II rules is phased out at 20% p.a., giving a 20% reduction in the add back from that as at 31 December 2013;
- expected loss – phased deduction at 1 January 2014 reflects the incorporation of the updated treatment post BSA / AQR;
- 10% / 15% threshold deduction – reflects threshold calculation for significant investments in financial sector entities and deferred tax assets relating to future profitability and temporary differences; and
- items in excess of Additional Tier 1 (AT1) capital – CRR rules require that any excess of deductions over available AT1 capital must be deducted from CET1 capital.

The **Total capital** ratio at 1 January 2014 of 14.1% on a pro forma basis compares to 13.6% at 31 December 2013 primarily driven by lower RWA's, higher Tier 2 capital as a result of the unconsolidated investments deduction (in the Life and pension business) being replaced by the 10% / 15% threshold deduction and securitisations being deducted fully from CET1.

Basel III Fully Loaded Ratio

The Group's pro forma CET1 ratio, including the 2009 Preference Stock is estimated at 9.0% as at 31 December 2013 on a fully loaded basis, which has increased from 8.5% as at 31 December 2012. The increase is primarily driven by lower RWAs and an improvement in the pension deficit and available for sale (AFS) reserve, partly offset by attributable losses incurred during the year.

Under Basel III transitional rules, state aid instruments, including the 2009 Preference Stock are grandfathered until 31 December 2017. However, as part of the capital package completed in December 2013 the Group advised the Central Bank of Ireland that it is not the Group's intention to recognise the 2009 Preference Stock as regulatory CET1 capital after July 2016, unless de-recognition would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements. The Group's pro forma ratio excluding the 2009 Preference Stock is estimated to be 6.3% at 31 December 2013.

Leverage ratio

The leverage ratio is 4.9% on a Basel III / CRD IV pro forma transitional basis and 3.7% on a pro forma full implementation basis including the 2009 Preference Stock. The Group expects to remain above the Basel Committee indicated minimum level leverage ratio of 3% on a fully loaded pro forma basis and on a transition basis, including the 2009 Preference Stock.

The Basel committee will monitor the proposed 3% minimum requirement for the leverage ratio and have proposed that final calibrations and any further adjustments to the definition of the leverage ratio will be completed by 2017, with a view to migrating to a Pillar I treatment on 1 January 2018.

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 2013) and those compiled using CRD methodologies. Unless specified otherwise, both sets of data reflect the position as at 31 December 2013. 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 2013 of €132 billion (31 December 2012: €148 billion) per the Group's Annual Report 31 December 2013 and total regulatory EAD of €122 billion (31 December 2012: €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.€13.2 billion (31 December 2012 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 assurance business is subject to separate supervision by the CBI.
- 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.€3.5 billion (31 December 2012: c.€4 billion), is set out in the Securitisation section.
- The EAD on the Group's derivative exposures of €1.6 billion (31 December 2012: €2.4 billion) as set out in Table 5.1 is €1.9 billion lower (31 December 2012: €3.4 billion lower) than accounting derivative assets of €3.5 billion (31 December 2012: €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 €1.5 billion (31 December 2012: €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 34 and 35.
- €0.4 billion (31 December 2012: €0.5 billion) of accounting assets which are not reflected in EAD and are instead deducted from regulatory capital. This includes €0.4 billion (31 December 2012: €0.4 billion) in relation to intangible assets and nil (31 December 2012: €0.1 billion) in relation to investments in financial associates and joint ventures.
- Loans and advances in the Group's Annual Report 31 December 2013 include €0.3 billion (31 December 2012: €3.4 billion) of reverse repurchase agreements. The EAD on these exposures is negligible as the fair value of the collateral received under the repurchase agreement is in excess of the loan value. The decline in accounting exposures during the year was a result of the termination of the IBRC repo transaction in 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 2013 totalled €4.0 billion (31 December 2012: €4.2 billion). These amounts are not reflected in accounting assets.
- The treatment of specific provisions on IRB exposures of €4.3 billion (31 December 2012: €3.8 billion), see Table 4.14. 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 €0.9 billion (31 December 2012: €0.7 billion), see Table 4.13, 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 2013 include €2.3 billion (31 December 2012: €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.

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 2013 on page 124.

The Internal Capital Adequacy Assessment Process (ICAAP) is carried out by 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 and 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 base and stress scenarios.

As part of its annual risk assessment process, known as the Full Risk Assessment, the Central Bank of Ireland considers and engages with the Group in relation to the Group's ICAAP and assessment of capital.

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 2013, 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 / RWA

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 / RWA		31 December 2013 Capital Requirement €m	31 December 2013 Risk Weighted Assets €m	31 December 2012 Capital Requirement €m	31 December 2012 Risk Weighted Assets €m
Credit Risk & Counterparty Risk		**3,896**	**48,702**	**3,922**	**49,021**
IRB		**3,081**	**38,512**	**2,978**	**37,224**
of which	Central government or central banks	-	-	-	-
	Corporates	1,828	22,850	2,014	25,175
	Institutions	122	1,531	168	2,099
	Retail:				
	Exposures secured by real estate collateral	932	11,644	606	7,570
	Qualifying revolving retail exposures	31	391	28	355
	Other retail exposures	140	1,744	128	1,596
	Securitisation positions	28	352	34	429
Standardised		**815**	**10,190**	**944**	**11,797**
of which	Central government or central banks	-	-	-	-
	Regional government or local authorities	2	25	2	25
	Administrative bodies	1	6	1	10
	Multilateral development banks	-	-	-	-
	International organisations	-	-	-	-
	Institutions	-	-	-	-
	Corporates	447	5,587	496	6,202
	Retail	124	1,548	124	1,553
	Secured by real estate property	-	-	-	-
	Past due items	233	2,920	311	3,886
	Items belonging to regulatory high risk categories	5	65	4	56
	Covered bonds	-	-	-	-
	Short term claims on institutions and corporates	1	14	1	13
	Collective investment undertakings	-	-	-	-
	Other items	2	25	5	52
	Securitisation positions	-	-	-	-
Market Risk		**97**	**1,217**	**83**	**1,040**
of which	FX	29	366	15	188
Operational Risk		**282**	**3,522**	**289**	**3,608**
Other Assets		**238**	**2,981**	**228**	**2,852**
Total Capital Requirements (excluding Basel I floor)		**4,513**	**56,422**	**4,522**	**56,521**

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 primarily 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 of Ireland 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 €nil at 31 December 2013 and €352 million of capital requirement at 31 December 2012. The Group's application of certain Central Bank of Ireland required BSA adjustments to the outputs of the Group's risk weighted asset calculations (refer to page 5) has contributed to the reduction in the 100% Basel I floor.

Under CRD IV the transitional floor is set at 80% of Basel I requirements.

Breakdown of the Group's Regulatory Capital Requirement

At 31 December 2013, the Group applied the Foundation IRB and Retail IRB approaches to 75% (75% at 31 December 2012) of its credit exposures. In addition, 79% of credit RWA are based on IRB approaches (76% at 31 December 2012). These metrics exclude 'Other Assets' as set out in the table below which primarily comprises non-credit obligation assets. The decline in EAD in the year in both the Standardised and IRB approaches is driven by a decline in the Group's customer loan portfolios, a decrease in central bank placements and a decline in derivative and financial institution exposure.

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

Table 2.2 – Breakdown of the Group's Regulatory Capital Requirement	**31 December 2013** Capital Requirement €m	Risk Weighted Assets €m	Exposure at Default €m	31 December 2012 Capital Requirement €m	Risk Weighted Assets €m	Exposure at Default €m
Credit Risk - Retail & Foundation IRB approach	3,081	38,512	89,689	2,978	37,224	99,532
Credit Risk - Standardised approach	815	10,190	29,519	944	11,797	32,493
Market Risk	97	1,217	-	83	1,040	-
Operational Risk	282	3,522	-	289	3,608	-
Other Assets	238	2,981	3,227	228	2,852	3,213
Total	**4,513**	**56,422**	**122,435**	**4,522**	**56,521**	**135,238**

EAD under the Foundation IRB approach at 31 December 2013 includes defaulted exposures of €6.9 billion (31 December 2012: €7.4 billion) which attract a 0% risk weighting. Standardised EAD includes €0.7 billion of exposure to central banks (31 December 2012: €1.0 billion) in relation to funding repurchase agreements which attract a 0% risk weighting.

Credit Risk RWA (Standardised approach and IRB approaches) at 31 December 2013 of €48.7 billion are €0.3 billion lower than Credit Risk RWA of €49.0 billion at 31 December 2012. This decrease is mainly due to a reduction in the quantum of loans and advances to customers largely offset by risk weighted asset increases reflecting the Group's application of certain Central Bank of Ireland required BSA adjustments to the outputs of the Group's risk weighted asset calculations (refer to page 5). Market Risk RWA increased during the year due to higher FX exposure at 31 December 2013 as compared to 31 December 2012. Operational Risk RWA is down marginally based on average operating income, using the three year average approach under the Standardised method.

Other Assets EAD and related RWA includes 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 2013 and 31 December 2012. This table shows the amount and type of regulatory capital the Group held at those dates to meet its capital requirements. Basel III pro forma capital numbers are also provided on a transitional and fully loaded basis.

Table 2.3 - Regulatory capital and key capital ratios

Basel II / CRD 31 December 2012[13] €m	Basel II / CRD 31 December 2013 €m		Pro forma Basel III/CRD IV transitional 1 January 2014 €m	Pro forma Basel III/CRD IV fully loaded 31 December 2013 €m
		Capital Base		
8,604	7,869	Total equity	7,869	7,869
-	-	- Impact of amendments to defined benefit pension schemes[1]	81	81
349	(210)	**Regulatory adjustments being phased in / out under Basel III / CRD IV**	(465)	(1,966)
-	-	*- Deferred tax assets[5]*	-	*(1,526)*
-	-	*- 10% / 15% threshold deduction[6]*	*(47)*	*(235)*
1,154	*842*	*- Retirement benefit obligations[2]*	*609*	-
(150)	*(467)*	*- Available for sale reserve[3]*	*(486)*	-
(394)[13]	*(338)*	*- Deduction for unconsolidated investments[4,13]*	-	-
(54)	*(75)*	*- Pension supplementary contributions[2]*	*(60)*	-
(116)	*(59)*	*- Capital contribution on CCN[2]*	*(47)*	-
-	-	*- Tier 1 deductions in excess of Tier 1 capital[7]*	*(187)*	-
(91)	*(113)*	*- Other adjustments[8]*	*(247)*	*(205)*
(1,180)	(760)	**Other regulatory adjustments**	(730)	(1,064)
(242)	*(183)*	*- Expected loss deduction[9]*	*(83)*	*(417)*
(362)	*(368)*	*- Intangible assets and goodwill[10]*	*(368)*	*(368)*
(162)	*(115)*	*- Dividend expected on 2009 Preference Stock[10]*	*(115)*	*(115)*
(227)	*(46)*	*- Cash flow hedge reserve[10]*	*(46)*	*(46)*
(112)	*22*	*- Own credit spread adjustment (net of tax)[10]*	*22*	*22*
(75)	*(70)*	*- Securitisation deduction[11]*	*(140)*	*(140)*
7,773	6,899	**Core tier 1 / Common equity tier 1[14]**	6,755	4,920
		Additional Tier 1		
93	92	Tier 1 hybrid debt[7,12]	74	-
-	**-**	**Regulatory adjustments**	(261)	**-**
-	-	*- Expected loss deduction[9]*	*(167)*	-
-	-	*- 10% / 15% threshold[6]*	*(94)*	-
-	-	Tier 1 capital deficit deducted from CET1 capital[7]	187	-
7,866	6,991	**Total tier 1 capital**	6,755	4,920
		Tier 2		
1,208	993	Tier 2 dated debt	987	965
96	94	Tier 2 undated debt	106	155
(711)	(591)	**Regulatory adjustments**	(261)	-
(394)[13]	*(338)*	*- Deduction for unconsolidated investments[4,13]*	-	-
(242)	*(183)*	*- Expected loss deduction[9]*	*(167)*	-
-	-	*- 10% / 15% threshold[6]*	*(94)*	-
(75)	*(70)*	*- Securitisation deduction[11]*	-	-
78	60	Standardised incurred but not reported (IBNR) provisions	60	-
114	101	Other adjustments	83	-
785	657	**Total tier 2 capital**	975	1,120
8,651	7,648	**Total capital**	7,730	6,040
56.5	56.4	**Total risk weighted assets (€bn)**	54.8	54.8
		Capital ratios (including 2009 Preference Stock)		
13.8%	12.2%	Core tier 1 / Common equity tier 1	12.3%	9.0%
13.9%	12.4%	Tier 1	12.3%	9.0%
15.3%	13.6%	Total capital	14.1%	11.0%

Capital Resources (continued)

[1] Equity is increased in the Basel III pro forma transitional and fully loaded ratios to account for the €81 million arising from the impact of changes made to defined benefit pension schemes which is being realised in Q1 2014.
[2] Regulatory deductions applicable under Basel II and phased out under Basel III relate primarily to national filters. These will be phased out at 20% per annum until 2018 and are not applicable under fully loaded rules. The Basel III transitional adjustment for Retirement benefit obligations has been amended to reflect the €81 million of gains arising from the impacts of changes made to defined benefit pension schemes highlighted in footnote 1.
[3] Available for sale reserve removed from regulatory capital under Basel II. Basel III transitional rules in 2014 require phasing in 20% of unrealised losses and 0% of unrealised gains. Between 2015-2018 unrealised losses and gains will be phased in at the following rates 40%, 60%, 80%, 100%. Reserve is recognisable in capital under fully loaded Basel III rules.
[4] The deduction for unconsolidated investments is taken 50% from Core tier 1 and 50% from Tier 2 under Basel II. Under Basel III, investments in financial sector entities are incorporated into the 10%/15% threshold deduction. See footnote 6.
[5] Deduction for deferred tax assets (DTA) relates to DTA on losses carried forward, net of associated deferred tax liabilities. The deduction is phased at 0% in 2014 and 10% per annum thereafter.
[6] The 10%/15% threshold deduction is phased in at 20% in 2014 and deducted in full from CET1 under fully-loaded rules. The calculation of the 10% / 15% threshold amount includes the benefit of the 2009 Preference Stock on a transitional and fully loaded basis.
[7] Under Basel III Additional tier 1 deductions in excess of Additional tier 1 capital are deducted from CET1. Under Basel III transitional rules expected loss and significant investments not deducted from CET1 are deducted 50:50 from Tier 1 and Tier 2 capital. These deductions contribute to the excess of Additional tier 1 deductions over Additional tier 1 capital. Grandfathered Tier 1 hybrid debt has been offset against total Additional tier 1 deductions.
[8] Includes technical items such as other national filters and non-qualifying CET1 items.
[9] The expected loss deduction is taken 50% from Core tier 1 and 50% from Tier 2 under Basel II. Under Basel III transitional rules it is phased in at 20% in 2014. It is deducted in full from CET1 under fully loaded rules. See also footnote 7.
[10] Regulatory deductions fully applicable under Basel II and Basel III.
[11] The securitisation deduction is taken 50% from Core tier 1 and 50 % from Tier 2 under Basel II. Under Basel III transitional and fully loaded rules it is deducted in full from CET1.
[12] Non qualifying Tier 1 hybrid debt is phased out of Additional tier 1 at 20% in 2014 and 10% per annum thereafter. Certain debt instruments are phased into Tier 2 capital from Tier 1 capital.
[13] With effect from 1 January 2013, the deduction for the Group's participation in its Life and pension business is deducted 50:50 from Core tier 1 and Tier 2 capital in accordance with the Capital Requirements Directive (CRD). The comparative period has been restated to reflect this change. The previously reported Core tier 1 ratio under Basel II was 14.4%. Otherwise, the 31 December 2012 amounts remain as previously reported for regulatory purposes and in particular have not been restated for the impact of the adoption of new accounting standards in the year ended 31 December 2013.
[14] CET1 capital calculated under both the fully loaded and transitional rules includes the benefits of the 2009 Preference Stock (€1.3 billion outstanding at 31 December 2013). Under Basel III transitional rules state aid instruments are grandfathered until 31 December 2017. However, as part of the capital package completed in December 2013 the Group advised the Central Bank of Ireland that it is not the Group's intention to recognise the 2009 Preference Stock as regulatory CET1 capital after July 2016, unless de-recognition would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements.

The following section provides commentary on the key movements in Basel II capital resources during the year ended 31 December 2013. Table 2.4 also provides a capital flow statement outlining the movements in the Basel II regulatory capital tiers during 2013 and 2012. Appendix I provides qualitative information on, and a brief explanation of, the principle components of the Group's Basel II capital resources as outlined in Table 2.3.

Total equity decreased by €735 million during 2013 from €8,604 million at 31 December 2012 to €7,869 million at 31 December 2013, primarily due to the loss for the year ending 31 December 2013, adverse movements in the retirement benefit obligations (pensions) reserve, the payment of preference stock dividends and adverse movements in the cash flow hedging reserve and the foreign exchange reserve partly offset by positive movements on the available for sale (AFS) reserve and a positive impact on accounting equity arising from a restatement of 2012 equity due to a change in accounting policy following the adoption of accounting standards during 2013. The composition of accounting equity also changed as a result of the capital actions set out on page 6.

The loss attributable to stockholders was €487 million for the year ended 31 December 2013. Operating profit before impairment charges and deleveraging losses totalled €1,122 million. Impairment charges totalled €1,665 million for the year and deleveraging losses totalled €3 million. Other attributable profits totalled €24 million and the taxation credit for the year was €35 million. Further information on the Group's performance for the year ended 31 December 2013 is outlined in the Operating and Financial Review section of the Group's Annual Report 31 December 2013.

The Group paid dividends on preference stock of €240 million during 2013, including a payment of €188 million on the 2009 Preference stock in February 2013 and €44 million in December 2013 when €537 million of preference stock was redeemed.

Pension liability related reserves in retained earnings moved adversely by €117 million during 2013. Actuarial losses and other negative movements totalling €218 million were partially offset by positive movements of €101 million arising from the impact of amendments to the Bank of Ireland Staff Pension Fund (BSPF). In addition, the Group recognised a pre-tax gain of €274 million reflecting the impact of changes to the BSPF scheme. This gain was included in the overall attributable loss of €487 million for the year ended 31 December 2013.

The AFS reserve increased by €317 million during 2013 primarily reflecting the tightening of bond credit spreads (and in particular on the Group's portfolio of Irish Government bonds). The cash flow hedge reserve recorded an adverse movement of €181 million reflecting the impact of changes in interest rates and foreign exchange rates on the mark to market value of cash flow hedge accounted derivatives.

Due to the application of prudential filters the movements on the AFS reserve and cash flow hedge reserve as outlined above are neutral to Basel II regulatory capital (see Appendix I for further details). Pension related movements can have an impact on capital, notwithstanding the prudential filter, depending on the impact of taxation and / or contributions.

Capital Resources (continued)

The Group's foreign exchange reserve reduced by €81 million during 2013 relating primarily to the translation of the Group's net investments in foreign operations primarily arising from the 2% weakening of sterling against the euro in the year ended 31 December 2013. Other net positive movements to Total equity totalling €54 million including €52 million attributable to an increase in equity as a result of changes in accounting policy following the adoption of new accounting standards.

Net Regulatory deductions totalled €970 million at 31 December 2013 versus €831 million at 31 December 2012. 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 is €368 million at 31 December 2013 (31 December 2012: €362 million).

A capital contribution reserve was created in July 2011 following the issuance of the €1 billion Contingent Capital Notes 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. The impact of this regulatory filter unwinds over the remaining life of the instrument.

The adjustment required for movements in the Group's credit spread ('own credit spread adjustment') on liabilities accounted for at fair value through the profit and loss account resulted in an addition to Core tier 1 capital of €22 million at 31 December 2013 (31 December 2012: €112 million deduction). The decrease in the deduction of €134 million during the year is primarily due to the tightening of the Bank's credit spread during 2013.

Deductions for pension supplementary contributions totalled €75 million at 31 December 2013. The increase of €21 million primarily reflects the triennial update to certain of the Group's schemes.

The expected loss deduction of €366 million (split 50:50 between Core tier 1 capital and Tier 2 capital) declined by €118 million during 2013. Higher expected losses on defaulted mortgages arising from the Group's updated treatment of expected loss (refer to page 5) were offset by a decline in expected loss on IRB Corporates exposures, primarily as a result of a reduction in the quantum of defaulted exposures, together with an overall increase in the level of IRB provisions.

The securitisation deduction of €140 million (split 50:50 between Core tier 1 capital and Tier 2 capital) declined by €10 million during 2013 from €150 million at 31 December 2012. The decrease is primarily attributable to the redemption and maturity of asset backed securities investments.

The deduction for unconsolidated investments of €676 million (split 50:50 between Core tier 1 capital and Tier 2 capital) declined by €112 million during 2013. The decline is attributable to dividends paid by the Life assurance business during 2013 and the de-designation of certain joint ventures and associates as financial institutions as they did not meet the criteria in the CRD.

Other Basel II adjustments primarily reflect the transfer of certain capital items from Core tier 1 capital to Tier 2 capital.

Tier 1 hybrid debt (not treated as Core tier 1) at 31 December 2013 was €92 million compared to €93 million at 31 December 2012. These instruments are outlined in Table 2.5.

Tier 2 debt (dated and undated) totalled €1,087 million at 31 December 2013, a decrease of €217 million from €1,304 million at 31 December 2012. The decrease is primarily attributable to the regulatory amortisation of Tier 2 dated debt with remaining lives of less than five years. These instruments are outlined in Table 2.5.

Capital Resources (continued)

Table 2.4 - Capital Flow Table	Basel II / CRD 31 December 2013 €m	Basel II / CRD 31 December 2012 €m
Core tier 1 capital		
Opening amount	**7,773**	**9,608**
Attributable loss for the year[1]	(590)	(1,564)
Redemption and transfer of 2009 Preference Stock (net of transaction costs)	(564)	-
Issue of ordinary stock (net of transaction costs)	568	-
Dividends on preference stock (including regulatory accrual)	(193)	(196)
Foreign exchange reserve movements	(81)	136
Decrease in expected loss deduction	59	124
Decrease in securitisation deduction	5	10
Decrease / (increase) in unconsolidated investments deduction	56	(347)[3]
(Increase) / decrease in intangible assets	(6)	18
Defined benefit pension fund movements[2]	(147)	14
Movement in non-controlling interests	(18)	2
Other movements	37	(32)
Closing amount	**6,899**	**7,773**
Other Tier 1 capital		
Opening amount	**93**	**92**
Movements	(1)	1
Closing amount	**92**	**93**
Tier 2 capital		
Opening amount	**785**	**940**
New subordinated debt issued	-	248
Decrease in expected loss deduction	59	124
Decrease in securitisation deduction	5	10
Decrease / (increase) in unconsolidated investments deduction	56	(347)[3]
Decrease in subordinated debt[4]	(217)	(210)
Decrease in standardised IBNR provisions	(18)	(33)
Movement in other regulatory adjustments and other movements	(13)	53
Closing amount	**657**	**785**
Total capital	**7,648**	**8,651**

[1] Attributable loss for the year is shown net of movements in own credit spreads and gains arising on the impact of amendments to defined benefit pension schemes.
[2] Defined benefit pension fund movements are shown net of the Basel II prudential filter and the supplementary contributions deduction and includes the impact of amendments to defined benefit pension schemes and the impact of changes in accounting policy.
[3] With effect from 1 January 2013, the deduction for the Group's participation in its Life and pension business is deducted 50:50 from Core tier 1 and Tier 2 capital in accordance with the CRD. The comparative period has been restated to reflect this change. Otherwise the 31 December 2012 amounts remain as previously reported for regulatory purposes and in particular have not been restated for the impact of the adoption of new accounting standards in the year ended 31 December 2013.
[4] The decrease in subordinated debt is due mainly to the regulatory amortisation of debt instruments which have less than five years to maturity.

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 2013 which are also outlined below 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 2.5 - Capital Instruments	**Nominal outstanding at 31 December 2013 €m**	**Accounting Value 31 December 2013 €m**	**Regulatory Value 31 December 2013 €m**	Regulatory Value 31 December 2012 €m
Bank of Ireland UK Holdings plc				
€600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities[1]	32	32	32	32
Non-cumulative preference stock (1.9 million units of Stg£1 each and 3 million units of €1.27 each)[2]	7	60	60	61
Tier 1 hybrid debt	**39**	**92**	**92**	**93**
€1,000 million 10% Convertible Contingent Capital Note 2016[3]	1,000	977	509	706
€250 million 10% Fixed Rate Subordinated Notes 2022[4]	250	240	248	248
€1,002 million 10% Fixed Rate Subordinated Notes 2020[5]	206	230	206	206
CAD$400 million Fixed / Floating Rate Subordinated Notes 2015[6]	67	63	27	45
Other	3	3	3	3
Tier 2 dated debt	**1,526**	**1,513**	**993**	**1,208**
Bank of Ireland				
Stg£75 million 13⅜% Perpetual Subordinated Bonds[7]	91	91	55	56
Bristol & West plc				
Stg£32.6 million 8⅛% Non-Cumulative Preference Shares[7]	39	39	39	40
Tier 2 undated debt	**130**	**130**	**94**	**96**

CRD IV treatment

[1] *These preferred securities do not qualify as Tier 1 or Tier 2 under CRD IV. They will be phased out beginning 2014.*
[2] *The non-cumulative preference stock does not qualify as Tier 1 capital under CRD IV but does qualify as Tier 2 capital. These instruments will be phased into Tier 2 from Tier 1 at 20% in 2014 and 10% per annum thereafter.*
[3] *The contingent capital note qualifies as Tier 2 under CRD IV. As these notes have less than 5 years to maturity they are subject to regulatory amortisation.*
[4] *The subordinated notes due 2022 qualify as Tier 2 under CRD IV. They will be subject to regulatory amortisation from 2017.*
[5] *The subordinated notes due 2020 qualify as Tier 2 under CRD IV. They will be subject to regulatory amortisation from 2015.*
[6] *The subordinated notes due 2015 do not qualify as Tier 2 under CRD IV. They will be fully amortised by 2015.*
[7] *These instruments qualify as Tier 2 under CRD IV. As they are undated they will not be subject to regulatory amortisation.*

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 58 of the Group's Annual Report 31 December 2013.

The Group's risk objectives are set out in the Risk Identity, Appetite and Strategy section on page 69 of the Group's Annual Report 31 December 2013.

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 2013, the Group applied the Foundation IRB and IRB Retail approaches to 75% (75% at 31 December 2012) of its group exposures by EAD which resulted in 79% of credit Risk Weighted Assets being based on IRB approaches (76% at 31 December 2012). 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. For further details see the Management of Challenged Assets section on page 79 of the Group's Annual Report 31 December 2013.

Market Risk

Market risk arises naturally through customer lending and deposit-taking, 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. 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 across the Group and is 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 Court 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 75 of the Group's Annual Report 31 December 2013.

The Group ensures 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 Risk Reporting / Monitoring' on page 78 of the Group's Annual Report 31 December 2013. 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 Measurement section on page 77 of the Group's Annual Report 31 December 2013.

Exposure to Credit Risk

Table 4.1 is 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 2013**		31 December 2012	
Exposure Class	**Total exposure (EAD) €m**	**Average exposures over the year (EAD) €m**	Total exposure (EAD) €m	Average exposures over the year (EAD) €m
IRB Approach				
Corporates	28,643	30,174	31,978	34,244
Institutions	7,675	8,520	10,810	13,473
Retail	52,777	53,535	55,876	57,731
Securitisation positions	594	690	868	1,017
Total IRB	**89,689**	**92,919**	**99,532**	**106,465**
Standardised Approach				
Central governments or central banks	18,314	18,549	20,762	24,889
Regional government or local authorities	126	144	124	10
Administrative bodies	6	8	10	12
Multilateral development banks[1]	583	504	-	-
International organisations[1]	286	147	-	-
Corporates	5,674	5,857	6,345	6,811
Retail	2,070	2,066	2,078	2,128
Past due items	2,378	2,694	3,072	3,479
Items belonging to regulatory high risk categories	43	41	37	35
Short term claims on institutions and corporates	14	14	13	157
Other items	25	39	52	56
Total Standardised	**29,519**	**30,063**	**32,493**	**37,577**
Total	**119,208**	**122,982**	**132,025**	**144,042**

[1] *The Group's exposures to Multilateral development banks, totalling €237 million, were classified as IRB Institutions at 31 December 2012. Exposures to International organisations were €nil at 31 December 2012.*

Exposure to Credit Risk (continued)

The decrease in Retail and Corporates exposures under both the IRB and Standardised approaches reflects the reduction in the quantum of loans and advances to customers.

Exposures to central governments or central banks at 31 December 2013 are €2.4 billion lower than 31 December 2012 due primarily to reduced placements with the Bank of England by the Group's UK subsidiary, Bank of Ireland (UK) plc.

The decline in IRB Institutions exposure is primarily attributable to a decline in EAD on funding repurchase agreements, derivative EAD and placements with banks.

Geographic Analysis of Exposures

The Group's primary markets are Ireland and the UK. Table 4.2 below is based on EAD, and the geographic locations shown are based on the location of the business unit where the exposure is booked rather than where the borrower is located.

Table 4.2 - Geographic Analysis of Exposure	31 December 2013			31 December 2012		
Exposure Class	**Ireland (EAD) €m**	**UK and other (EAD) €m**	**Total (EAD) €m**	Ireland (EAD) €m	UK and other (EAD) €m	Total (EAD) €m
IRB Approach						
Corporates	21,177	7,466	28,643	23,190	8,788	31,978
Institutions	7,675	-	7,675	10,464	346	10,810
Retail	29,274	23,503	52,777	30,150	25,726	55,876
Securitisation positions	547	47	594	836	32	868
Total IRB	**58,673**	**31,016**	**89,689**	**64,640**	**34,892**	**99,532**
Standardised Approach						
Central governments or central banks	13,235	5,079	18,314	12,802	7,960	20,762
Regional government of local authorities	126	-	126	124	-	124
Administrative bodies	6	-	6	10	-	10
Multilateral development banks	173	410	583	-	-	-
International organisations	286	-	286	-	-	-
Corporates	3,952	1,722	5,674	4,419	1,926	6,345
Retail	525	1,545	2,070	562	1,516	2,078
Past due items	1,756	622	2,378	2,140	932	3,072
Items belonging to regulatory high risk categories	43	-	43	37	-	37
Short term claims on institutions and corporates	6	8	14	3	10	13
Other items	25	-	25	52	-	52
Total Standardised	**20,133**	**9,386**	**29,519**	**20,149**	**12,344**	**32,493**
Total	**78,806**	**40,402**	**119,208**	**84,789**	**47,236**	**132,025**

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.

Central governments or central banks exposure under Ireland 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.

Industry Analysis of Exposures

Table 4.3 is 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 2013 have been used, however, the values will differ as these tables are based on EAD.

31 December 2013

Table 4.3 - Industry Analysis of Exposure

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
IRB Approach												
Corporates	694	6,607	156	12,359	2,159	376	1,049	3,556	1,342	331	14	28,643
Institutions	-	-	-	-	-	-	7,675	-	-	-	-	7,675
Retail	597	482	-	209	221	2	14	80	39	2,158	48,975	52,777
Securitisation positions	-	292	-	-	-	-	-	-	-	209	93	594
Total IRB	**1,291**	**7,381**	**156**	**12,568**	**2,380**	**378**	**8,738**	**3,636**	**1,381**	**2,698**	**49,082**	**89,689**
Standardised Approach												
Central governments or central banks	-	-	18,314	-	-	-	-	-	-	-	-	18,314
Regional Government or local authorities	-	-	126	-	-	-	-	-	-	-	-	126
Administrative bodies					6							6
Multilateral development banks	-	-	-	-	-	-	583	-	-	-	-	583
International organisations	-	-	-	-	-	-	286	-	-	-	-	286
Corporates	440	1,743	-	1,141	472	12	363	174	600	623	106	5,674
Retail	139	188	-	36	103	2	6	37	34	1,524	1	2,070
Past due items	47	133	-	1,753	38	1	13	20	66	285	22	2,378
Items belonging to regulatory high risk categories	-	43	-	-	-	-	-	-	-	-	-	43
Short term claims on institutions and corporates	6	3	-	2	-	-	-	3	-	-	-	14
Other items	-	-	-	-	-	-	25	-	-	-		25
Total Standardised	**632**	**2,110**	**18,440**	**2,932**	**619**	**15**	**1,276**	**234**	**700**	**2,432**	**129**	**29,519**
Total	**1,923**	**9,491**	**18,596**	**15,500**	**2,999**	**393**	**10,014**	**3,870**	**2,081**	**5,130**	**49,211**	**119,208**

Industry Analysis of Exposures (continued)

31 December 2012

Table 4.3 - Industry Analysis of Exposure 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
IRB Approach												
Corporates	656	7,493	170	13,772	2,474	515	1,004	3,960	1,464	451	19	31,978
Institutions	-	-	-	-	-	-	10,810	-	-	-	-	10,810
Retail	566	496	-	230	226	2	14	80	39	2,371	51,852	55,876
Securitisation positions	-	478	-	-	-	28	-	-	-	270	92	868
Total IRB	1,222	8,467	170	14,002	2,700	545	11,828	4,040	1,503	3,092	51,963	99,532
Standardised Approach												
Central governments or central banks	-	-	20,762	-	-	-	-	-	-	-	-	20,762
Regional Government or local authorities	-	-	124	-	-	-	-	-	-	-	-	124
Administrative bodies	-	-	-	-	10	-	-	-	-	-	-	10
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-	-	-
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 Standardised	620	2,265	20,886	3,690	722	18	578	246	718	2,613	137	32,493
Total	1,842	10,732	21,056	17,692	3,422	563	12,406	4,286	2,221	5,705	52,100	132,025

Maturity Analysis of Exposures

The maturity analysis below discloses the Group's credit exposure by residual contractual maturity date. Table 4.4 is based on EAD.

31 December 2013

Table 4.4 - Maturity Analysis of Exposure **Exposure Class**	**<1 year (EAD) €m**	**1-5 years (EAD) €m**	**>5 years (EAD) €m**	**Total (EAD) €m**
IRB Approach				
Corporates	6,401	12,032	10,210	28,643
Institutions	2,705	3,084	1,886	7,675
Retail	4,317	10,186	38,274	52,777
Securitisation positions	27	107	460	594
Total IRB	**13,450**	**25,409**	**50,830**	**89,689**
Standardised Approach				
Central governments or central banks	10,885	5,196	2,233	18,314
Regional government or local authorities	-	-	126	126
Administrative bodies	-	6	-	6
Multilateral development banks	-	410	173	583
International organisations	-	-	286	286
Corporates	2,211	1,710	1,753	5,674
Retail	663	1,393	14	2,070
Past due items	1,497	319	562	2,378
Items belonging to regulatory high risk categories	-	-	43	43
Short term claims on institutions and corporates	14	-	-	14
Other items	-	-	25	25
Total Standardised	**15,270**	**9,034**	**5,215**	**29,519**
Total	**28,720**	**34,443**	**56,045**	**119,208**

31 December 2012

Table 4.4 - Maturity Analysis of Exposure Exposure Class	<1 year (EAD) €m	1-5 years (EAD) €m	>5 years (EAD) €m	Total (EAD) €m
IRB Approach				
Corporates	7,390	13,256	11,332	31,978
Institutions	1,060	6,710	3,040	10,810
Retail	5,012	10,691	40,173	55,876
Securitisation positions	-	268	600	868
Total IRB	13,462	30,925	55,145	99,532
Standardised Approach				
Central governments or central banks	9,425	8,350	2,987	20,762
Regional government or local authorities	-	-	124	124
Administrative bodies	-	10	-	10
Multilateral development banks	-	-	-	-
International organisations	-	-	-	-
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 Standardised	13,636	12,781	6,076	32,493
Total	27,098	43,706	61,221	132,025

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IRB Approach

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 2012: 75%) of its exposures. 79% (31 December 2012: 76%) of credit RWA are 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), multilateral development bank exposure, 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 Group is committed to further rollout of the IRB approach.

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 long run average 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 inform an override of 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 (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 (although for most rating systems, limited cyclicality is observed). These estimates are used for both the calculation of risk-weighted exposure amounts and for internal credit management purposes. To calculate LGD and CCF, the Group assesses the nature of the transaction and underlying collateral. Both LGD and CCF estimates are calibrated to produce estimates of behaviour characteristic of an economic downturn or long term average, whichever is the most conservative.

Other uses of Internal Estimates

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

- Internal Reporting
- Credit Management
- Economic Capital
- Calculation of Risk Adjusted Return on 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 4.5 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 4.5 - 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

IRB Approach (continued)

Control Mechanisms for Rating Systems

The control mechanisms for rating systems are set out in the Group's Credit IRB Model Policy and Standards. More generally, 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 and the Group Model Risk Policy.

A committee appointed by the Group Risk Policy Committee (GRPC), the Risk Measurement Committee (RMC), approves all credit risk rating models, model developments, model implementations and all associated policies. The Group mitigates model risk as follows:

- *IRB 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.
- *IRB 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.
- *IRB Model Performance Monitoring:* All models are subject to back-testing on a quarterly basis. The findings are reported to the RMC and appropriate actions, when necessary are approved. The Group has defined standards on IRB model performance monitoring.
- *Independent Validation:* All models are subject to in-depth review 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 internally 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 4.6.

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 4.6.

Retail

Retail exposures including Mortgages, Qualifying Revolving Retail Exposures (credit cards) and certain Retail SME and Consumer 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 4.7.

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 4.6 is based on EAD and shows the breakdown of the Foundation IRB exposure classes by PD grade. Counterparty credit risk exposures and related risk weighted assets are included in the numbers below.

31 December 2013 **Table 4.6 - Analysis of Credit Quality Foundation IRB - Exposure Class PD Grade**	**Total exposures (EAD) €m**	**Total risk weighted assets (RWA) €m**	**Exposure weighted average risk weight %**	**Exposure weighted average LGD %**	**Off-Balance sheet EAD €m**	**Expected loss €m**
Corporates						
1-4	2,426	964	40%	44%	729	1
5-7	8,066	7,615	94%	42%	997	29
8-9	6,610	7,931	120%	41%	243	65
10-11	4,625	6,340	137%	40%	89	157
Default	6,916	-	0%	42%	45	2,921
Total	**28,643**	**22,850**	**80%**	**42%**	**2,103**	**3,173**
Institutions						
1-4	5,419	1,028	19%	36%	12	1
5-7	1,968	401	20%	36%	13	1
8-9	288	102	35%	13%	4	1
10-11	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total	**7,675**	**1,531**	**20%**	**35%**	**29**	**3**

31 December 2012 Table 4.6 - Analysis of Credit Quality Foundation IRB - Exposure Class PD Grade	Total exposures (EAD) €m	Total risk weighted assets (RWA) €m	Exposure weighted average risk weight %	Exposure weighted average LGD %	Off-Balance sheet EAD €m	Expected loss €m
Corporates						
1 – 4	2,629	926	35%	41%	767	1
5 – 7	8,350	7,462	89%	42%	1,014	26
8 – 9	7,255	7,939	109%	41%	334	65
10 – 11	6,404	8,848	138%	41%	161	214
Default	7,340	-	0%	42%	48	3,044
Total	31,978	25,175	79%	42%	2,324	3,350
Institutions						
1 – 4	8,686	1,511	17%	38%	12	2
5 – 7	2,016	496	25%	38%	19	1
8 – 9	69	56	81%	45%	5	-
10 – 11	15	36	240%	43%	-	2
Default	24	-	0%	44%	-	11
Total	10,810	2,099	19%	38%	36	16

Analysis of Credit Quality – Foundation IRB (continued)

The EAD under the Foundation IRB approach at 31 December 2013 includes defaulted exposures of €6.9 billion (31 December 2012: €7.4 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 4.16 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 covered bonds in the exposure class which attract a regulatory prescribed LGD of 11.25% given the secured nature of these transactions.

Increases in the exposure weighted average risk weight percentages for the performing grades (Grades 1 to 11) across the Corporates exposure class include the impact of the Group's application of certain Central Bank of Ireland required BSA adjustments to the outputs of the Group's risk weighted asset calculations (refer to page 5).

Analysis of Credit Quality – Retail IRB

Table 4.7 is based on EAD and shows the breakdown of the Retail sub-exposure classes by PD grade.

31 December 2013 **Table 4.7 - Analysis of Credit Quality Retail IRB - Exposure Class PD Grade**	**Total exposures (EAD) €m**	**Total risk weighted assets (RWA) €m**	**Exposure weighted average risk weight %**	**Exposure weighted average LGD %**	**Amount of undrawn commitments €m**	**Weighted average CCF %**	**Expected loss €m**
ROI Mortgages							
1-4	5,612	346	6%	15%	418	35%	1
5-7	12,634	2,211	18%	17%	460	37%	15
8-9	1,483	717	48%	20%	7	55%	6
10-11	2,071	2,290	111%	21%	-	-	125
Default	3,672	2,132	58%	26%	-	0%	1,540
Total	**25,472**	**7,696**	**30%**	**18%**	**885**	**36%**	**1,687**
UK Mortgages							
1-4	12,687	474	4%	10%	262	67%	1
5-7	6,517	999	15%	10%	196	76%	7
8-9	1,797	652	36%	10%	17	82%	8
10-11	1,751	1,147	66%	10%	14	71%	79
Default	751	676	90%	10%	1	0%	99
Total	**23,503**	**3,948**	**17%**	**10%**	**490**	**72%**	**194**
Total Mortgages	**48,975**	**11,644**	**24%**	**14%**	**1,375**	**45%**	**1,881**
Qualifying Revolving Exposures							
1-4	206	8	4%	33%	479	29%	-
5-7	848	123	14%	48%	1,394	41%	3
8-9	204	73	36%	44%	179	43%	2
10-11	197	146	74%	36%	135	32%	12
Default	74	41	55%	46%	8	60%	50
Total	**1,529**	**391**	**26%**	**44%**	**2,195**	**38%**	**67**
SME & Other Retail							
1-4	146	34	23%	54%	289	45%	-
5-7	327	194	59%	57%	202	52%	2
8-9	709	633	89%	58%	64	60%	11
10-11	584	670	115%	61%	35	60%	36
Default	507	213	42%	64%	7	58%	327
Total	**2,273**	**1,744**	**77%**	**60%**	**597**	**50%**	**376**
Total Retail	**52,777**	**13,779**	**26%**	**17%**	**4,167**	**42%**	**2,324**

Analysis of Credit Quality – Retail IRB (continued)

Table 4.7 is based on EAD and shows the breakdown of the Retail sub-exposure classes by PD grade.

31 December 2012 Table 4.7 - Analysis of Credit Quality Retail IRB - Exposure Class PD Grade	Total exposures (EAD) €m	Total risk weighted assets (RWA) €m	Exposure weighted average risk weight %	Exposure weighted average LGD %	Amount of undrawn commitments €m	Weighted average CCF %	Expected loss €m
ROI Mortgages							
1-4	5,159	280	5%	14%	362	33%	1
5-7	13,603	2,168	16%	17%	415	40%	14
8-9	1,796	773	43%	20%	6	72%	8
10-11	2,080	2,016	97%	20%	2	76%	120
Default	3,491	-	0%	25%	-	0%	856
Total	26,129	5,237	20%	18%	785	37%	999
UK Mortgages							
1-4	13,784	377	3%	10%	207	66%	2
5-7	6,968	672	10%	10%	112	64%	5
8-9	2,061	446	22%	10%	9	68%	4
10-11	2,069	838	41%	10%	8	63%	60
Default	841	-	0%	10%	-	0%	84
Total	25,723	2,333	9%	10%	336	65%	155
Total Mortgages	51,852	7,570	15%	14%	1,121	41%	1,154
Qualifying Revolving Exposures							
1 – 4	200	7	4%	34%	469	29%	-
5 – 7	877	115	13%	49%	1,446	41%	3
8 – 9	221	73	33%	46%	191	44%	2
10 – 11	229	160	70%	40%	161	32%	13
Default	84	-	0%	43%	16	50%	36
Total	1,611	355	22%	45%	2,283	38%	54
SME & Other Retail							
1 – 4	145	34	23%	54%	293	45%	-
5 – 7	329	185	56%	58%	206	52%	2
8 – 9	765	642	84%	59%	62	61%	11
10 – 11	663	735	111%	63%	30	63%	40
Default	511	-	0%	65%	6	59%	331
Total	2,413	1,596	66%	61%	597	50%	384
Total Retail	55,876	9,521	17%	17%	4,001	41%	1,592

The increase in expected loss on total defaulted mortgages from €940 million at 31 December 2012 to €1,639 million at 31 December 2013 includes the impact of the Group's updated treatment of expected loss (see page 5). The increase in the risk weighted assets of total defaulted mortgages of €2,808 million during 2013 and increases in the exposure weighted average risk weight percentages across mortgages and other retail portfolios includes the impact of the Group's application of certain Central Bank of Ireland required BSA adjustments to the outputs of the Group's risk weighted asset calculations (refer to page 5).

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, multilateral development bank and international organisation exposures at 31 December 2013 is 99% (31 December 2012: 101%)

31 December 2013
Table 4.8 - Analysis of Credit Quality Standardised Approach - Exposure Class

EAD €m	**Risk Weight 0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Total EAD**	**Total RWA**
Central governments or central banks	18,314	-	-	-	-	-	-	18,314	-
Regional government or local authorities	-	126	-	-	-	-	-	126	25
Administrative bodies	-	-	-	-	-	6	-	6	6
Multilateral development banks	583	-	-	-	-	-	-	583	-
International organisations	286	-	-	-	-	-	-	286	-
Corporates	-	108	-	-	1	5,565	-	5,674	5,587
Retail	-	8	-	-	2,062	-	-	2,070	1,548
Past due Items	-	-	-	-	-	1,292	1,086	2,378	2,920
Items belonging to regulatory high risk categories	-	-	-	-	-	-	43	43	65
Short term claims on institutions and corporates	-	-	-	-	-	14	-	14	14
Other items	-	-	-	-	-	25	-	25	25
Total EAD	19,183	242	-	-	2,063	6,902	1,129	29,519	-
Total RWA	-	48	-	-	1,547	6,902	1,693	-	10,190

31 December 2012
Table 4.8 - Analysis of Credit Quality Standardised Approach - Exposure Class

EAD €m	Risk Weight 0%	20%	35%	50%	75%	100%	150%	Total EAD	Total RWA
Central governments or central banks	20,762	-	-	-	-	-	-	20,762	-
Regional government or local authorities	-	124	-	-	-	-	-	124	25
Administrative bodies	-	-	-	-	-	10	-	10	10
Multilateral development banks	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-
Corporates	-	178	-	-	1	6,166	-	6,345	6,202
Retail	-	10	-	-	2,068	-	-	2,078	1,553
Past due Items	-	-	-	-	-	1,444	1,628	3,072	3,886
Items belonging to regulatory high risk categories	-	-	-	-	-	-	37	37	56
Short term claims on institutions and corporates	-	-	-	-	-	13	-	13	13
Other items	-	-	-	-	-	52	-	52	52
Total EAD	20,762	312	-	-	2,069	7,685	1,665	32,493	-
Total RWA	-	62	-	-	1,552	7,685	2,498	-	11,797

Loan Loss Experience in the year ended 31 December 2013

A discussion on the factors which impacted the loan loss experience in the year ended 31 December 2013 is included in the Risk Management Report of the Group's Annual Report 31 December 2013 (under the Credit Risk section from page 75).

Past Due and Impaired Exposures

Past due exposures are loans where repayment of principal and / or interest 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 pages 87 to 98 of the Group's Annual Report 31 December 2013.

Past Due and Impaired Exposures by Industry

Table 4.9 is based on financial statement information and discloses 'past due but not impaired' and 'impaired' balances by industry class.

	31 December 2013			31 December 2012		
Table 4.9 - 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	3,288	3,047	6,335	3,722	2,847	6,569
Consumer	106	236	342	133	281	414
Property & construction	413	8,591	9,004	556	8,809	9,365
Business & other services	147	2,152	2,299	125	2,489	2,614
Manufacturing	20	521	541	22	576	598
Distribution	43	737	780	87	838	925
Transport	4	214	218	26	182	208
Financial	1	41	42	2	53	55
Agriculture	28	229	257	29	201	230
Energy	-	17	17	-	19	19
Total	**4,050**	**15,785**	**19,835**	**4,702**	**16,295**	**20,997**

Past Due and Impaired Exposures (continued)

Past Due and Impaired Exposures by Geography

Table 4.10 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 4.10 - Past due and Impaired Exposure by Geography	31 December 2013 Past due exposures €m	31 December 2013 Impaired exposures €m	31 December 2013 Total €m	31 December 2012 Past due exposures €m	31 December 2012 Impaired exposures €m	31 December 2012 Total €m
Ireland	2,332	11,135	13,467	2,628	11,413	14,041
United Kingdom & other	1,718	4,650	6,368	2,074	4,882	6,956
Total	**4,050**	**15,785**	**19,835**	**4,702**	**16,295**	**20,997**

Provisioning

The loan loss provisioning methodology used by the Group is set out on page 77 of the Group's Annual Report 31 December 2013.

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 4.11 shows the balance sheet specific provision, specific provision charges and amounts of specific provisions utilised by industry classification. It is based on financial statement information.

Table 4.11 - Provisions by Industry Industry Class	31 December 2013 Total specific provisions €m	31 December 2013 Specific provision charges €m	31 December 2013 Provisions utilised €m	31 December 2012 Total specific provisions €m	31 December 2012 Specific provision charges €m	31 December 2012 Provisions utilised €m
Residential mortgages	1,389	328	187	1,224	590	51
Consumer	181	46	89	202	58	115
Property & construction	3,993	617	233	3,717	885	164
Business & other services	1,184	359	418	1,051	359	187
Manufacturing	217	51	60	225	27	64
Distribution	317	58	82	355	99	113
Agriculture	66	6	7	61	9	8
Energy	3	9	12	6	-	4
Total	**7,350**	**1,474**	**1,088**	**6,841**	**2,027**	**706**

Provisioning (continued)

Table 4.12 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 4.12 - Provision by Geography	**31 December 2013**		31 December 2012	
Geographic Breakdown	**Specific provisions €m**	**IBNR provisions €m**	Specific provisions €m	IBNR provisions €m
Ireland	5,538	702	5,183	512
United Kingdom & other	1,812	189	1,658	191
Total	**7,350**	**891**	**6,841**	**703**

Provisions by Provision Type

Table 4.13 shows the Group's provisions against loans and advances to customers split between specific and IBNR provisions.

	31 December 2013		31 December 2012	
Table 4.13 - Provision Type	**Total balance sheet provisions €m**	**Provisions charges €m**	Total balance sheet provisions €m	Provisions charges €m
Total Specific provisions	7,350	1,474	6,841	2,027
Total IBNR provisions	891	191	703	(303)
Total Group provisions	**8,241**	**1,665**	**7,544**	**1,724**

Provisions by Regulatory Approach

Table 4.14 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 2013			31 December 2012		
Table 4.14 - Provisions by Approach	**IRB provisions €m**	**Standardised provisions €m**	**Total provisions €m**	IRB provisions €m	Standardised provisions €m	Total provisions €m
Total Specific provisions	4,258	3,092	7,350	3,846	2,995	6,841
Total IBNR provisions	831	60	891	625	78	703
Total Group provisions	**5,089**	**3,152**	**8,241**	**4,471**	**3,073**	**7,544**

Provisioning (continued)

Provisioning Charges during the Year

Table 4.15 below shows the movement in the provision on loans and advances to customers during the year ended 31 December 2013. It is based on financial statement information.

Table 4.15 – Provisioning charges during the Year

Provisions	**31 December 2013 €m**	31 December 2012 €m
Opening balance	7,544	6,365
Amount charged during the year	1,665	1,724
Provisions utilised, reversed and other movements	(968)	(545)
- Of which recoveries	*12*	*11*
Closing balance	**8,241**	**7,544**

Credit Risk Mitigation

The Credit Risk section on page 77 and 78 of the Group's Annual Report 31 December 2013 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 4.16 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 4.17 do not alter following the application of credit risk mitigation.

Tables 4.16 and 4.17 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 4.16 and 4.17 is based on EAD (after the application of netting and volatility adjustments) against which credit risk mitigation benefit is recognised.

Credit Risk Mitigation (continued)

31 December 2013 **Table 4.16 - 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**
Corporates	86	9,166	-	9,252
Institutions	587	-	745	1,332
Total	**673**	**9,166**	**745**	**10,584**

31 December 2012 Table 4.16 - 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
Corporates	45	9,743	-	9,788
Institutions	738	21	721	1,480
Total	783	9,764	721	11,268

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 Irish government under the Eligible Liabilities Guarantee (ELG) Scheme.

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 4.17 - Credit Risk Mitigation **Standardised Approach - Exposure Class**	**31 December 2013 Total Exposure covered by Guarantees (EAD) €m**	31 December 2012 Total Exposure covered by Guarantees (EAD) €m
Corporates	3,991	4,483
Retail	-	-
Past due items	-	-
Total	**3,991**	**4,483**

Corporates in Table 4.17 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 4.18 is based on a comparison of regulatory expected loss of the performing IRB loan portfolios as at 31 December 2012 with actual loss (specific provision charge incurred) on these portfolios in the year ended 31 December 2013.

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 4.18 - Expected versus Actual Loss

IRB Exposure Class	**Expected loss calculated on 31 December 2012 €m**	**Specific provision charge for the year ended 31 December 2013 €m**	Expected loss calculated on 31 December 2011 €m	Specific provision charge for the year ended 31 December 2012 €m
Corporates	306	686	332	725
Institutions	5	-	8	6
Retail exposures secured by real estate collateral	214	328	240	590
Qualifying revolving and other retail	71	66	101	88
Total	**596**	**1,080**	**681**	**1,409**

Counterparty Credit Risk

Details on how counterparty credit risk is managed are outlined on page 76 of the Group's Annual Report 31 December 2013.

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 2013 in excess of 99% of the Group's derivative interbank counterparty credit risk was 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. 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.

At 31 December 2013 incurred CVA of €41 million is included as a value adjustment in arriving at the Group's expected loss deduction for IRB exposures. Under CRD IV this treatment will change and incurred CVA is instead used to reduce EAD.

As at 31 December 2013, the maximum impact of a two notch downgrade of the Group 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 (the situation is unchanged from 2012). 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.

The Group is fully prepared for the advent of mandatory clearing of derivative contracts.

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 2013 €m**	Balance as at 31 December 2012 €m
Gross positive fair value of contracts	3,415	5,901
Potential future credit exposure	1,605	2,060
Total current credit exposure	**5,020**	**7,961**
Netting benefits	(2,861)	(4,768)
Netted current credit exposures	**2,159**	**3,193**
Collateral held	(587)	(738)
Net derivative credit exposure	**1,572**	**2,455**

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 2013 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 is 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 2013 €m**	Balance as at 31 December 2012 €m
Interest rate	624	996
FX	64	125
Equity	6	58
Netted agreements credit exposure	860	1,269
Credit derivatives	15	2
Commodity contracts	3	5
Total	**1,572**	**2,455**

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 2013 is €79 million (31 December 2012: €144 million).

Securitisation

The Group has acted as originator under a number of securitisation structures. 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 efficiencies. Information on the exposures securitised under these transactions are 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 Corporates / 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 under the current CRD).

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. Under CRD IV the Group will continue to deduct these positions. They are deducted in full from Common equity tier 1 from 1 January 2014. The same treatment is applied to the KIRB value of retained positions.

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 (ECAIs)

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 6.1 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 6.1 - Outstanding Amount of Exposures Securitised

Exposure Type	31 December 2013 €m	31 December 2012 €m
Residential mortgages	3,442	3,841
Corporate loans	81	153
Total	**3,523**	**3,994**

Specific Provisions, Past Due and Impaired Securitised Exposures

Table 6.2 below is based on financial statement information and relates to securitisations originated by the Group.

Table 6.2 – Specific provisions, Past Due and Impaired Securitisation Exposures

Exposure Type	Past due exposures 31 December 2013 €m	Impaired exposures 31 December 2013 €m	Specific provisions 31 December 2013 €m	Past due exposures 31 December 2012 €m	Impaired exposures 31 December 2012 €m	Specific provisions 31 December 2012 €m
Residential mortgages	181	99	34	211	89	34
Corporate loans	-	5	3	-	21	6
Total	**181**	**104**	**37**	**211**	**110**	**40**

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 2013.

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 6.3 – Retained and Purchased Securitisation Positions by Exposure Type

Exposure Type	31 December 2013 (EAD) €m	31 December 2012 (EAD) €m
Residential mortgages	204	234
Commercial mortgages	201	374
Loans to Corporates or SMEs	134	181
Consumer loans	50	63
Other assets	5	16
Total	**594**	**868**

Retained positions total €93 million at 31 December 2013 (31 December 2012: €93 million) and are reflected under Residential mortgages at €79 million (31 December 2012: €79 million) and under Loans to Corporates or SME's at €14 million (31 December 2012: €14 million). The remaining amounts in Table 6.3 reflect purchased positions.

Securitisation Positions Retained and Purchased by Risk Weight

Table 6.4 – Retained and Purchased Securitisation Positions by Risk Weight

	31 December 2013		31 December 2012	
Risk Weight Band	(EAD) €m	(RWA) €m	(EAD) €m	(RWA) €m
10%	117	12	166	17
18%	32	6	48	9
35%	177	62	324	113
75%	50	38	92	69
100%	11	11	33	33
250%	33	81	26	65
425%	34	142	29	123
650%	-	-	-	-
1250%	-	-	-	-
Deducted	140	-	150	-
Total	**594**	**352**	**868**	**429**

Retained positions total €93 million at 31 December 2013 (31 December 2012: €93 million) and are included within Deducted amounts in Table 6.4. The remaining amounts reflect purchased positions.

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 2013 of €36 million (€54 million at 31 December 2012). 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.

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 minimise market risk, 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) within defined risk appetite limits approved by the Court. ALCO 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 114 to 117 of the Group's Annual Report 31 December 2013. 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. Risk weighted assets for market risk (predominantly interest rate risk on the trading book and foreign exchange risk) at 31 December 2013 are €1,217 million (31 December 2012: €1,040 million).

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.

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 one-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

Overview

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

Operational risks may materialise as a result of a broad range of factors, including inadequate or failed internal processes (including transaction processing and financial reporting), information technology or equipment failures, the malfunction of external systems and controls (including those of the Group's suppliers or counterparties), or from people-related or external events, such as cyber-crime and fraud or from natural disasters and social or political events. In the case of legal and contractual related operational risks, the Group is exposed to the risk of loss due to litigation arising from errors, omissions, and acts by the Group and its officers in the conduct of its business.

Operational Risk Management Objective

The primary objectives of operational risk management within Bank of Ireland Group is to ensure the sustainability of the Group's operations and the protection of its reputation by preventing, controlling, mitigating or transferring the actual or potential consequences of operational risk events, including financial losses, business disruption and reputational damage.

Operational Risk Management Framework

To achieve its operational risk management objectives, the Group has established a formal approach to the management of operational risk in the form of an "Operational Risk Management Framework" which defines the Group's approach for the proactive identification of material operational risks, the formal assessment of exposures to those risks, on-going monitoring of material risks and associated controls, and the implementation of a wide range of measures to avoid, mitigate or transfer material financial or other negative impacts were these risks to materialise; including setting aside capital and maintaining a suite of insurance policies. The foregoing processes and activities that comprise the Operational Risk Framework consist of inter alia:

- formulation and dissemination of a Group Operational Risk policy specifying the risk management obligations of management within the Group;
- establishment of organisational structures for the oversight, monitoring and management of operational risk throughout the Group;
- embedding formal operational risk management processes and standards within business and support units throughout the Group; and
- maintaining competencies of relevant staff in the operational risk management process and awareness of potential exposures.

In what follows, some of the key elements of the Group's Operational Risk Framework are briefly described.

Operational Risk Policy and Governance

In 2013, the Group has continued to maintain on-going oversight and control of its exposures to operational risk. A critical component of the Operational Risk Management Framework is a Court Risk Committee-approved Operational Risk Policy which sets out the Group's objectives and the obligations of management in respect of operational risk. Governance and oversight of operational risk matters forms part of the Group's Risk Framework which aims to ensure that risk management activities are adequate and commensurate with the Court's risk appetite. The Group Regulatory Compliance and Operational Risk Committee (GRCORC) is appointed by the Group Risk Policy Committee (GRPC) and is responsible for the oversight and monitoring of operational risk.

Business units hold primary responsibility for the management of operational risk and compliance with internal control requirements. A dedicated Operational Risk unit is responsible for developing and setting a comprehensive vision and approach for operational risk management within the Group. As part of the Group Regulatory Compliance and Operational Risk (GRCOR) function, the Operational Risk unit is accountable for the development and maintenance of an Operational Risk Management Framework to ensure a robust, consistent and systematic approach is applied to managing operational risk exposures across the Group.

Following changes to the GRCOR function's operating model in 2013 a review of the operational risk management framework is currently underway as part of a continuous improvement initiative. This will involve further development of the framework tools and of the first and second line of defence roles and responsibilities. In addition, various targeted enhancements to current processes and practices within the

Operational Risk Management Framework (continued)

Operational Risk Framework are planned in areas such as risk reporting, appetite monitoring and policy standards.

Operational Risk Appetite
The Court has set out its appetite for operational risk in terms of both qualitative factors and quantitative measures reflecting the nature of non-financial risks. As such, the monitoring of operational risk indicators is supplemented with qualitative review and discussion at senior management executive committees to ensure appropriate actions are taken to enhance controls and thereby maintain exposures within an acceptable level.

Operational Risk Capital
The Group holds Pillar I regulatory capital to cover the potential financial impact of operational risk events, and has adopted the Standardised Approach (TSA) to determine its capital requirement.

Scenario Analysis
As part of its scenario analysis program, the Group assessed the potential impacts of a broad range of extreme, yet plausible operational risk events. Scenario analysis assists the Group in determining the possible frequency and severity of operational risk losses for events associated with each risk type. The process also takes into account the potential for correlations between scenarios. The outputs of the scenario analysis program forms part of the operational risk element of the Group's ICAAP.

Insurance
The Group mitigates the risk of financial losses from selected operational risk events through the Group Insurance Programme, which is reviewed annually to ensure that the risk coverage remains appropriate to the Group's risk management objectives.

Operational Risk Events and Operational Risk Loss Tolerance
The Group actively tracks internal and external operational risk events as part of its on-going assessment of the assessment of the effectiveness of its operational risk control environment. An operational risk event is any circumstance where as a result of an operational risk materialising, the Group has, or could have made a gross, financial loss. A standard threshold is used across the Group for recording such events and as part of our analysis we seek to identify where improvements are needed to processes or controls, to reduce the recurrence and/or magnitude of risk events. The Group also benchmarks its losses by reference to a database of external risk events provided by the Operational Risk Data eXchange (ORX), a not-for-profit association of international banks formed to anonymously share loss data.

An Operational risk loss tolerance is set at Group level by the Court Risk Committee. Where operational risks materialise as loss events these are reported by all business units. The GRCOR function collates this information and provides summary reports on overall events and details on significant risk events to the GRCOR Committee. The collated loss data is closely tracked relative to the approved loss tolerance to determine whether loss trends are indicative of any systemic weaknesses in the Group's control environment.

Operational Risk Reporting
Regular and comprehensive reporting of Operational risk is a key component of the Group's Operational risk Framework. Operational risk related information is reported from a variety of sources including business units, material projects and licensed entities. Reports are collated, assessed and used by the Operational Risk unit and by business management to understand, monitor, manage and control operational risks and losses. In addition, specified operational risk information is collated for the purposes of reporting to regulatory supervisors in the jurisdictions in which the Group operates. The Court receives quarterly operational risk update via the Court Risk Report. In addition, there is an annual review and challenge and review process in place to enable the Court to consider the adequacy of Group-wide operational risk management processes and whether residual risk remain within the Group's Risk Appetite. The Head of the GRCOR function reports to the GRCORC on the status of operational risk in the Group, including the status of the top operational risks across the Group and the progress of associated risk mitigation initiatives, significant loss events and the nature, scale and frequency of overall losses.

Appendix I: Basel II Capital Resources

Appendix I provides qualitative information on, and a brief explanation of, the principle components of the Group's Basel II capital resources as outlined in Table 2.3.

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 178 to 180 of the Group's Annual Report 31 December 2013. Total equity includes preference stock, primarily the balance on the 2009 Preference Stock of which there is €1.3 billion outstanding at 31 December 2013 (31 December 2012: €1.8 billion outstanding).

Retirement benefit obligations

A prudential filter is applied in relation to the Group's defined benefit pension schemes resulting in a reversal of the IAS 19 accounting deficit and is 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.

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 regulatory capital 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 2013 hence the application of the filter results in a deduction from total equity in both cases.

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 and primarily relates to the Group's participation in its life assurance undertaking New Ireland Assurance Company plc. This is deducted 50:50 from Core tier 1 and Tier 2 capital.

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.

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. The impact of this regulatory filter unwinds over the remaining life of the instrument.

Expected loss deduction

The difference between accounting provisions recognised on the Group's IRB portfolios under IFRS on an incurred loss basis and the regulatory expected loss (EAD x PD x LGD) calculated for these portfolios is taken as a supervisory deduction. This is deducted 50:50 from Core tier 1 and Tier 2 capital.

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 capital. The deduction excludes intangible assets in the Group's Life and pension business.

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.

Own credit spread adjustment (net of tax)

Under CRD rules credit institutions shall not include in own funds gains or losses 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 and losses recognised in revenue reserves are reversed for regulatory capital purposes.

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. This is deducted 50:50 from Core tier 1 and Tier 2 capital.

Tier 1 hybrid debt

Hybrid instruments are subordinated securities with some equity like features but that cannot 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 2.5 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 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 2.5 for further information.

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 2.5 for further information.

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 PRA requirements.

Table 1 – Capital Resources and Risk Weighted Assets **Capital base**	**Bank of Ireland (UK) plc 31 December 2013 €m**	Bank of Ireland (UK) plc 31 December 2012 €m
Ordinary share capital, capital contribution and reserves	1,397	1,231
Available for sale reserve	-	-
Core tier 1 capital	**1,397**	**1,231**
Non-cumulative callable preference shares	360	368
Total Tier 1 capital	**1,757**	**1,599**
Dated loan capital	789	806
IBNR provisions	97	51
Total Tier 2	**886**	**857**
Total Tier 1 and Tier 2 capital before deductions	**2,643**	**2,456**
Regulatory deductions	(56)	(146)
Total Capital	**2,587**	**2,310**
Credit risk	11,978	13,205
Operational risk and market risk	758	658
Total Risk Weighted Assets	**12,736**	**13,863**
Total capital ratio	**20.3%**	**16.7%**

Table 2 – Breakdown of Credit Risk Weighted Assets **Capital base**	**Bank of Ireland (UK) plc 31 December 2013 €m**	Bank of Ireland (UK) plc 31 December 2012 €m
Institutions	-	-
Corporates	3,465	4,099
Retail - secured by real estate property	5,653	5,623
Retail - other	1,156	1,137
Past due items	1,335	1,987
Short term claims on institutions and corporates	78	138
Other items	291	221
Total	**11,978**	**13,205**

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 2013, and in particular the Remuneration Report (pages 154 to 164). Copies of the Group's Annual Report 31 December 2013 can be obtained from our website www.bankofireland.com.

This section summarises remuneration for Code Staff in respect of 2013 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

There is a rigorous and continuous process in operation to determine which roles are coded within the Group. Over the course of 2013, an aggregate of 126 employees were identified as Code Staff on the basis that their professional activities were deemed to have a material impact on the Group's risk profile. As at 31 December 2013 there were 115 Code Staff. (31 December 2012: 115).

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. In addition, variable incentive payments over a certain level which may be made to employees based in Ireland are currently subject to an additional tax charge. The remuneration 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 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 as 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 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
- where possible we have the necessary platform to attract, retain and motivate high calibre employees
- where possible we offer a competitive remuneration package across all markets, in a cost effective manner
- remuneration practices are simple, transparent, easy to understand and implement
- sound and effective risk management is reflected in performance management and remuneration structures and their alignment to performance targets and governance structures
- remuneration is applied in consideration of and in alignment with the Group's Risk Strategy and Appetite Statement and overall risk governance framework
- risk adjusted financial performance is an important measure when evaluating performance
- business and individual performance measures and targets are aligned with business objectives at either a Group or local business level, ensuring alignment with business strategy, risk measures and priorities and is based on a balanced scorecard approach
- all remuneration practices are subject to appropriate governance
- we are compliant with all applicable regulatory remuneration requirements as they relate to the Group
- remuneration policies, process, procedures, systems and controls support the fair treatment of customers and mitigate the potential for conflict between commercial and customer interests.

These design features support all remuneration practices across the Group, being applied proportionately depending on the nature, scale and complexity of the particular business area.

Remuneration Expenditure

The following tables show the remuneration awards made by the Group to Code Staff in 2013 and 2012.

Table 1 **Aggregate 2013 Remuneration Expenditure by Business Area** **Business Area**	**No. of Coded Roles as at 31 December 2013**	**No. of Employees who held a coded role in 2013**	**2013 Remuneration Expenditure €m**
Corporate & Treasury	16	17	5.35
Group Credit & Market Risk	17	18	3.61
Group Governance Risk	9	10	2.24
Group Manufacturing	5	7	1.63
Group Support Functions (CEO, Group Finance, Group HR, Non-Core)	16	16	4.73
Retail Ireland	25	28	5.81
Retail UK	9	10	2.77
Governor and NEDs	18 *	20 *	1.98
Grand Total	115	126	28.12

Includes Fees, Salaries and variable payments (including any deferred elements) made in 2013 and other cash benefits payable e.g. car allowance.

* *The Governor and NEDs figures include NEDs from Bank of Ireland Group, Bank of Ireland (UK) plc. and a number of NEDs who hold coded roles in Bank of Ireland sub-sidiaries.*

Table 1 Aggregate 2012 Remuneration Expenditure by Business Area Business Area	No. of Employees who held a coded role in 2012	2012 Remuneration Expenditure €m
Corporate & Treasury	21	6.92
Group Credit & Market Risk	17	3.53
Group Governance Risk	8	1.95
Group Manufacturing	7	1.88
Group Support Functions (CEO, Group Finance, Group HR, Non-Core)	16	3.99
Retail Ireland	34	7.06
Retail UK	16	3.65
Governor and NEDs	19	1.86
Grand Total	138	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 2 – Analysis of 2013 Remuneration between Fixed and Variable Amounts (actually paid in 2013)	**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 Coded Roles as at 31 December 2013	18	10	28	49	10	115
Number of Employees who held a coded role in 2013	20	10	30	53	13	126
Fixed (cash based)	- Fixed payments 2013 include fees, salaries, car allowances and other payments					
Fixed (cash based) €m	1.98	4.81	6.15	12.43	2.75	28.12
Total Fixed €m	**1.98**	**4.81**	**6.15**	**12.43**	**2.75**	**28.12**
Variable	- Variable payments 2013 encompasses guaranteed bonus / contractual guarantees, cash LTIPs / deferred bonuses, retention payments and commission payments.					
Non-Deferred Cash €m	-	-	-	-	-	-
Deferred Cash €m	-	-	-	-	-	-
Total Variable €m	-	-	-	-	-	-
Variable Recipients	-	-	-	-	-	-
Fixed & Variable €m	**1.98**	**4.81**	**6.15**	**12.43**	**2.75**	**28.12**

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 Employees who held a coded role in 2012	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

New sign-on and severance payments

- No payments were made to any code staff hired during 2013 relating to the commencement of their employment.
- During the course of the year, 5 individuals designated as code staff received severance payments.
  - The total value of payments made to this population, comprising Statutory Redundancy, Voluntary Parting Payments, pay in lieu of notice, and Annual Leave payment is €1.47 million.
- The above payments are not included in the previous tables.

Appendix IV: Mortgage Arrears Resolution Targets

The Central Bank of Ireland (CBI) Mortgage Arrears Resolution Targets (MART) framework, published on 13 March 2013, outlines public targets for resolution of mortgage cases in arrears greater than 90 days, against which Specified Credit Institutions (including the Bank of Ireland) must measure themselves.

Within this MART framework document, the CBI noted that in order for the Specified Credit Institutions to convey their risk profile comprehensively to market participants, Specified Credit Institutions shall publicly disclose the level of compliance with these targets. The mechanism for disclosure identified is the 2013 Pillar 3 disclosures.

The CBI describe the initiative, within the MART framework document, as ensuring Specified Credit Institutions offer and conclude sustainable solutions for their customers in arrears by setting specific performance targets.

The public targets have the following elements:

1. Quarterly targets for the number of sustainable solutions **proposed** to customers, which were reported to the CBI from the quarter ended 30 June 2013 onwards;
2. Quarterly targets for the number of sustainable solutions **concluded** with customers, which will be reported to the CBI from the quarter ended 31 December 2013 onwards.

At 31 December 2013, the targets set by the CBI are as follows:

1. **Proposed sustainable solutions** in respect of 50% of the loans in arrears greater than 90 days at previous quarter end;
2. **Concluded sustainable solutions** in respect of 15% of the loans in arrears greater than 90 days at previous quarter end.

In the context of the aforementioned public targets, at 31 December 2013, the Bank of Ireland has:

1. **Proposed sustainable solutions** in respect of 62% of the loans in arrears greater than 90 days at previous quarter end;
2. **Concluded sustainable solutions** in respect of 39% of the loans in arrears greater than 90 days at previous quarter end.

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.
Basel III	Basel III is a global regulatory standard on bank capital adequacy and liquidity risk. It was agreed upon by the members of the Basel Committee on Banking Supervision. Basel III is implemented in Europe through the CRD IV legislation (see below).
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.
CRD IV	The CRD IV package transposes, via a Regulation and a Directive, the new global standards on bank capital (commonly known as the Basel III agreement) into the EU legal framework. The Capital Requirements Directive and the Capital Requirements Regulation were published in the Official Journal of the EU on 27 June 2013 and the legislation is being implemented on a phased basis from 1 January 2014 with full implementation by 2019.
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. Primarily 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 bank recapitalisation programme.
Off Balance Sheet	Off balance sheet items include undrawn commitments to lend, guarantees, letters of credit, acceptances and other items as listed in Annex II of the CRD.
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.