Pillar 3 Disclosures

For the year ended 31 December 2014

Bank of Ireland Group

For small steps, for big steps, for life

Bank of Ireland

Pillar 3 Disclosures

for the year ended 31 December 2014

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:

- *geopolitical risks, such as those associated with crises in the Middle East and increasing political tensions in respect of Ukraine, which could potentially adversely impact the markets in which the Group operates;*
- *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 extensive asset quality review and stress tests conducted by the European Central Bank and any capital or other 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;*
- *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;*
- *the impact on lending and other activity arising from the emerging macro prudential policies;*
- *the performance and volatility of international capital markets;*
- *the effects of the Irish Government's stockholding in the Group (through the Ireland Strategic Investment Fund) and possible changes in the level of such stockholding;*
- *the impact of 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 the operation of the Single Supervisory Mechanism and the establishment of the Single Resolution Mechanism;*
- *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 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 and the United Kingdom 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 impact of the continuing implementation of significant regulatory developments such as Basel III, Capital Requirements Directive (CRD) IV, Solvency II and the Recovery and Resolution Directive; 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 in the Group's Annual Report. Investors should read 'Principal Risks and Uncertainties' in the Group's Annual Report on page 55.

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 Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) were published in the Official Journal of the EU on 27 June 2013. On 31 March 2014, the Minister for Finance signed into Irish law two regulations to give effect to CRD IV. The European Union (Capital Requirements) Regulations 2014 give effect to CRD IV and the European Union (Capital Requirements) (No.2) Regulations 2014 give effect to a number of technical requirements in order that the CRR can operate effectively in Irish law.
CRD IV also includes requirements for regulatory and technical standards to be published by the European Banking Authority (EBA).

CRD IV in the context of this document describes the package CRR, CRD and regulatory and technical standards.

CRD IV is divided into three sections commonly referred to as 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. Risks not considered under Pillar 1 are considered under this Pillar.

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 CRD IV requirements, particularly covering capital requirements / risk weighted assets (RWA) and resources, risk exposures and risk assessment processes.

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

The Group is required to comply with its disclosure requirements at 31 December 2014. For ease of reference, the requirements are referred to as 'Pillar 3' in this document. Pillar 3 contains both qualitative and quantitative disclosure requirements.

The Group's Pillar 3 document is a technical paper which should be read in conjunction with the Group's Annual Report for the year ended 31 December 2014 (hereafter referred to as the 'Group's Annual Report 31 December 2014'), which contains some Pillar 3 qualitative information. Copies of the Group's Annual Report 31 December 2014 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 Report sections of the Group's Annual Report 31 December 2014. 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 2014.

Information which is sourced from the Group's Annual Report 31 December 2014 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 CRD IV capital requirements and resources, credit risk, market risk, operational risk, information on securitisation activity, unencumbered assets and the Group's remuneration disclosures. Information on the Group's CRD IV capital ratios is also provided. Mortgage arrears resolution targets are also provided in line with CBI disclosure requirements.

Some of the areas covered are also dealt with in the Group's Annual Report 31 December 2014 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 provides 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 2014, 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 CRD IV (referred to as Exposure at Default (EAD)) is defined as the expected amount of exposure at default and is estimated under specified CRD IV 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 2014. Some details of the key differences between the Group's accounting and regulatory exposures are set out on page 12.

Supervision

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 is 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 has been directly supervised by the ECB since November 2014.

As at 31 December 2014, the Group held three separate banking licences. These are held by the Governor and Company of the Bank of Ireland, Bank of Ireland (UK) plc and Bank of Ireland Mortgage Bank. 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 authorised by the Prudential Regulation Authority (PRA). 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.

In 2014, Bank of Ireland (IOM) Limited and ICS Building Society were both de-authorised.

Preparation and Basis of Consolidation

The Group's Pillar 3 disclosures are published on a consolidated basis for the year ended 31 December 2014. The Group is availing of the discretion provided for in Article 9 of the CRR to report on an 'individual 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 IV regulatory treatment.

Table 1.1 – Basis of Consolidation

Entity	Statutory Accounting Treatment	CRD IV Regulatory Treatment
Bank of Ireland Life	Fully Consolidated	At 31 December 2014, the deduction element of the Group's participation in its Life and pension business (primarily New Ireland Assurance Company plc) is subject to the 10% / 15% threshold deduction for significant investments.
Joint Ventures	Equity Accounting	At 31 December 2014, holdings in joint ventures are included in RWA as they do not reach the threshold for deduction from capital.
Associates	Equity Accounting	At 31 December 2014, holdings in associates are included in RWA as they do not reach the threshold for deduction from capital.
Securitisation Vehicles	Fully Consolidated	At 31 December 2014, a deduction is taken from CET 1 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.

CRD IV

On 31 March 2014, the Minister for Finance signed into Irish law two regulations to give effect to CRD IV. The European Union (Capital Requirements) Regulations 2014 give effect to CRD IV and the European Union (Capital Requirements) (No.2) Regulations 2014 give effect to a number of technical requirements in order that the CRR can operate effectively in Irish law.
CRD IV also includes requirements for regulatory and technical standards to be published by the European Banking Authority (EBA). Many of these have not 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 from 1 January 2019 (with the exception of grandfathering of capital instruments until 2021 and Deferred Tax Assets deduction which are phased to 2023). The CRD IV transition rules result in a number of new deductions from CET 1 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. This document was finalised in May 2014 to reflect the Member State discretions and options that have been allocated to the CBI.

Table 1.2 summarises the phase in rates of CET 1 deductions over the transition period.

Table 1.4 outlines the Group's capital ratios (including 2009 Preference Stock) at 31 December 2014, on both a transitional and fully loaded basis.

CRD IV transitional rules state that instruments such as the €1.3 billion 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 CET 1 capital after 31 July 2016 unless derecognition would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements.

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[1]					
- 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[2]	20%	40%	60%	80%	100%
10% / 15% Threshold deduction	20%	40%	60%	80%	100%
Deferred tax assets[3]	0%	10%	20%	30%	40%[4]
2009 Preference stock[5]	100%	100%	100%	100%	0%
Other adjustments[6]	20%	40%	60%	80%	100%

[1] The Group has opted to maintain its filter on both unrealised gains and losses on exposures to central governments classified in the 'Available for Sale' category.
[2] Under CRD IV rules, expected loss is phased in at 20% in 2014. However the CBI's 'Implementation of Competent Authority Discretions and Options in CRD IV and CRR' requires 50% of expected loss to be deducted from CET 1 overall.
[3] Deferred tax assets that rely on future profitability but which do not relate to timing differences. Transition period concludes 1 January 2024.
[4] Increasing by 10% per annum to 100% each year thereafter.
[5] 2009 Preference Stock is grandfathered until 31 December 2017.
[6] Other adjustments primarily relate to the phase out of certain national filters.

The main items which impacted CET 1 capital under the transition rules at 31 December 2014 included:
- 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.

ECB Comprehensive Assessment

The European Central Bank (ECB) under the Single Supervisory Mechanism (SSM) conducted a Comprehensive Assessment (CA) which consisted of:

- a supervisory risk assessment to assess key risks in the Group's balance sheet, including liquidity and funding;
- an asset quality review of all asset classes including non-performing loans, restructured loans and sovereign exposures as at 31 December 2013; and
- a stress test (comprising base and stress scenarios), building on and complementing the asset quality review by providing a forward-looking view of the Group's shock-absorbing capacity under stress.

The overall results were announced in October 2014 and they confirmed that the Group has passed the ECB CA, with substantial capital buffers over the threshold capital ratios in both the baseline and adverse stress test scenarios as follows:

	BOI[1]	Threshold	Buffer
Baseline scenario	12.43%	8.0%	4.43%
Adverse scenario	9.31%	5.5%	3.81%

[1] *The 'BOI' column in the table shows the Group's lowest CRD IV transitional CET 1 ratio in the three year period 2014 to 2016, in both the base and adverse scenarios, as projected under the ECB's comprehensive assessment process. The 'threshold' column shows the capital ratios required to pass the ECB's comprehensive assessment. The 'buffer' column shows the difference between the first two columns.*

Key Capital Ratios

The following tables outline the components of the Group's Risk Weighted Assets and Capital Ratios under CRD IV as at 31 December 2014 on a transitional and fully loaded basis, and the Group's Risk Weighted Assets and Capital Ratios under Basel II / CRD as at 31 December 2013. For comparative purposes, the 1 January 2014 CRD IV transitional position is also provided.

Table 1.3 - Risk Weighted Assets (RWA)

Basel II / CRD	CRD IV transitional		**CRD IV transitional**	**CRD IV fully loaded**
31 December 2013 €bn	1 January 2014 €bn		**31 December 2014 €bn**	**31 December 2014 €bn**
51.7	50.1	Credit risk[1]	47.1	47.1
1.2	1.2	Market risk	0.5	0.5
3.5	3.5	Operational risk	4.0	4.0
56.4	**54.8**	**Total RWA**	**51.6**	**51.6**

[1] *Includes Risk Weighted Assets (RWA) relating to non-credit obligation assets / other assets, RWA attributable to Credit Valuation Adjustment (CVA) risk and RWA arising from the 10% / 15% threshold deductions.*

Table 1.4 - Capital & Capital Ratios (including 2009 Preference Stock)

Basel II / CRD		CRD IV transitional			**CRD IV transitional**		**CRD IV fully loaded**	
31 December 2013		1 January 2014			**31 December 2014**		**31 December 2014**	
€bn	% of RWA	€bn	% of RWA		**€bn**	**% of RWA**	**€bn**	**% of RWA**
6.9	12.2%	6.8	12.3%	CET 1	7.6	14.8%	6.1	11.9%
7.0	12.4%	6.8	12.3%	Tier 1	7.7	14.9%	6.1	11.9%
7.6	13.6%	7.7	14.1%	Total capital	9.4	18.3%	7.7	15.0%

Risk Weighted Assets

Risk Weighted Assets (RWA) at 31 December 2014 of €51.6 billion compares to RWA of €54.8 billon at 1 January 2014. Reductions in RWA are due to a reduction in the quantum of loans and advances and a reduction in market risk RWA, primarily due to a change in calculation approach from a maturity-based calculation of general risk to a duration-based calculation. This is partially offset by the impact of foreign exchange movements and an increase in operational risk RWA arising from increased income.

CRD IV Transitional Ratio

The CET 1 ratio at 31 December 2014 of 14.8% compares to the ratio of 12.3% at 1 January 2014. The increase is primarily due to the impact of attributable profits for the period, a decrease in the expected loss deduction, a decrease in the 10% / 15% threshold deduction and lower RWAs.

The CET 1 ratio 1 January 2015 is estimated at 14.3%.

The Group continues to expect to maintain a buffer above a CET 1 ratio of 10% taking account of the transitional rules and the intention to derecognise the 2009 Preference Stock from regulatory CET 1 capital between January and July 2016. This provides for a meaningful buffer against regulatory requirements.

The total capital ratio at 31 December 2014 of 18.3% compares to 14.1% at 1 January 2014 and reflects the impact of increased CET 1, the issuance of €750 million Tier 2 subordinated debt in June 2014 and lower RWAs.

CRD IV Fully Loaded Ratio

The Group's CET 1 ratio, including the 2009 Preference Stock is estimated at 11.9% as at 31 December 2014 on a fully loaded basis, which has increased from 9.0% as at 31 December 2013. The increase is primarily due to the impact of attributable profits for the period, a decrease in the expected loss deduction, a decrease in the 10% / 15% threshold deduction and lower RWAs.

Under CRD IV 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 announced that, save in certain circumstances (including changes in the regulatory capital treatment of the 2009 Preference Stock or taxation events), it does not

Key Capital Ratios (continued)

intend to redeem the 2009 Preference Stock prior to 1 January 2016. The Group advised the Central Bank of Ireland that it is not the Group's intention to recognise the 2009 Preference Stock as regulatory CET 1 capital after July 2016, unless derecognition would mean that a capital buffer cannot be maintained above applicable regulatory requirements.

The Group's fully loaded CET 1 ratio, excluding the 2009 Preference Stock, is estimated to be 9.3% at 31 December 2014 (6.3% at 31 December 2013).

Leverage Ratio[1]

The leverage ratio is 6.4% on a CRD IV transitional basis, 5.1% on a full implementation basis including the 2009 Preference Stock and 4.0% excluding the 2009 Preference Stock. The Group expects to remain above the Basel Committee indicated minimum level leverage ratio of 3%.

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 1 treatment on 1 January 2018.

Capital Actions

In June 2014, the Group issued €750 million of Tier 2 capital at 4.25% with a maturity of 10 years. The issuance order book was five times oversubscribed.

In July 2014, a NIAC capital efficiency transaction was completed. This comprised a €80 million Tier 2 subordinated debt issued by NIAC to the Group and a contingent loan of €120 million with an external third party investor which referenced the value in force of certain unit linked policies. Both of these actions facilitated the release of equity capital from NIAC to the Group.

Countercyclical Buffers

CRD IV provides for a countercyclical buffer that could require banks to hold additional CET 1 capital of up to 2.5%. This requirement is expected to be imposed by the competent authority where credit growth is deemed to be excessive and leading to the build-up of system-wide risk. The countercyclical buffer will be phased in from 1 January 2016 to 1 January 2019. As at 31 December 2014, there was no increased capital requirements as a result of declared countercyclical buffers relating to major jurisdictions in which the Group operates.

Other Buffers

CRD IV also provides for a capital conservation buffer of 2.5% of CET 1 capital which all banks must hold. This requirement will be phased in from 1 January 2016 to 1 January 2019.

Furthermore, additional buffers may be required under CRD IV, including the Globally Systemically Important Institution buffer (G-SII), Other Systemically Important Institution buffer (O-SII) and systemic risk buffers. The Group has not been identified as a G-SII, and no O-SII or systemic risk buffers have been declared or are applicable to the Group as at 31 December 2014.

Individual Consolidation

The Common equity tier 1 ratio of The Governor and Company of the Bank of Ireland calculated on an individual consolidated basis as referred to in Article 9 of the CRR is 17.6% as at 31 December 2014.

[1] *The leverage ratio reflects the delegated Act implemented on 18 January 2015, which primarily removes Bank of Ireland Life assets from the calculation.*

Distinctions between Pillar 3 and IFRS Quantitative Disclosures

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 IV capital adequacy concepts and rules. This is most evident for credit risk disclosures where credit exposure under the CRD IV, 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 2014 of €130 billion per the Group's Annual Report (31 December 2013: €132 billion) and total regulatory EAD of €118 billion (31 December 2013: €122 billion), are set out below in Table 2.3.

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 2014) and those compiled using CRD IV methodologies. Unless specified otherwise, both sets of data reflect the position as at 31 December 2014. The specific methodology used is indicated before each table.

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.€14.7 billion (31 December 2013 c.€13.2 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.€1.9 billion (31 December 2013: c.€3.5 billion), is set out in the Securitisation section.
- The EAD on the Group's derivative exposures of €1.6 billion (€1.6 billion 31 December 2013) as set out in Table 5.1 is €2.1 billion lower (€1.9 billion lower December 2013) than accounting derivative assets of €3.7 billion (€3.5 billion 31 December 2013). 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 €1.6 billion (31 December 2013: €1.5 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 37 and 38.
- €0.4 billion (31 December 2013: €0.4 billion) of accounting assets in relation to intangible assets are not reflected in EAD and are instead deducted from regulatory capital.
- Loans and advances in the Group's Annual Report 31 December 2014 include €0.1 billion (31 December 2013: €0.3 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 combined impact of the above items is 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 2014 totalled €4.4 billion (31 December 2013: €4.0 billion). These amounts are not reflected in accounting assets.
- The treatment of specific provisions on IRB exposures of €3.9 billion (31 December 2013: €4.3 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 €0.7 billion (31 December 2013: €0.9 billion), see Table 4.13, are not taken into consideration when arriving at EAD on IRB portfolios but are netted in accounting assets.
- Regulatory exposures at 31 December 2014 include €0.8 billion (31 December 2013: €2.3 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

Table 2.1 outlines regulatory ratios and Risk Weighted Assets under both CRD IV transitional and fully loaded positions.

Table 2.1 - Key Capital Ratios

Basel II / CRD 31 December 2013 €m	CRD IV transitional 1 January 2014 €m		**CRD IV transitional 31 December 2014 €m**	**CRD IV fully loaded 31 December 2014 €m**
		Capital ratios (including 2009 Preference Stock)		
12.2%	12.3%	Common equity tier 1	14.8%	11.9%
12.4%	12.3%	Tier 1	14.9%	11.9%
13.6%	14.1%	Total capital	18.3%	15.0%
-	4.9%	Leverage ratio	6.4%	5.1%
		Risk weighted assets		
51.7	50.1	Credit risk[1]	47.1	47.1
1.2	1.2	Market risk	0.5	0.5
3.5	3.5	Operational risk	4.0	4.0
56.4	**54.8**	**Total RWA**	**51.6**	**51.6**

[1] *Risk weighted assets reflect the application of certain Central Bank of Ireland Balance Sheet Assessment (2013) required adjustments and the updated treatments of expected loss.*

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 ECB (the SSM, introduced on 4 November 2014, is the mechanism through which the ECB will carry out key supervisory tasks for banks in the EU member states particularly in the European banking union), peer analysis and economic capital, based on internal models, 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 2014.

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.

On an ongoing basis, 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 2014, own funds were in excess of the required minimum in all of the Group's licensed subsidiaries and any entities not included in the regulatory consolidation.

Capital Requirements / RWA

Table 2.2 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 CRD IV.

Table 2.2 - Capital Requirements / RWA

		CRD IV transitional 31 December 2014		Basel II / CRD 31 December 2013	
		Capital requirement €m	**Risk weighted assets €m**	Capital requirement €m	Risk weighted assets €m
Credit Risk & Counterparty Risk		**3,490**	**43,619**	**3,896**	**48,702**
IRB		**2,790**	**34,869**	**3,081**	**38,512**
of which	Central government or central banks	-	-	-	-
	Institutions	93	1,158	122	1,531
	Corporates	1,619	20,238	1,828	22,850
	Retail:				
	- Secured by immovable property collateral	*914*	*11,420*	*932*	*11,644*
	- Qualifying revolving retail exposures	*27*	*333*	*31*	*391*
	- Other retail exposures	*115*	*1,448*	*140*	*1,744*
	Securitisation positions	22	272	28	352
Standardised		**700**	**8,750**	**815**	**10,190**
of which	Central government & central banks	-	-	-	-
	Regional governments or local authorities	2	19	2	25
	Public sector entities	-	2	1	6
	Multilateral development banks	-	-	-	-
	International organisations	-	-	-	-
	Corporates	389	4,865	447	5,587
	Retail	132	1,649	124	1,548
	Secured by mortgages on immovable property	-	-	-	-
	Exposures in default	166	2,075	233	2,920
	Exposures associated with particularly high risk	7	85	5	65
	Covered bonds	-	-	-	-
	Securitisation positions	-	-	-	-
	Institutions and corporates with a short-term credit assessment	2	31	1	14
	Collective investment undertakings	-	-	-	-
	Equity	-	-	-	-
	Other items	2	24	2	25
Market Risk		**41**	**511**	**97**	**1,217**
	Of which FX risk	23	284	29	366
Operational risk		**323**	**4,032**	**282**	**3,522**
Other assets		**250**	**3,122**	**238**	**2,981**
Credit valuation adjustment		**24**	**297**	**-**	**-**
Total capital requirements		**4,128**	**51,581**	**4,513**	**56,422**

The Standardised categories included in this table are the Exposure Classes outlined in the CRD IV. The Group has no exposures under the Standardised Exposure Class 'Secured by mortgages on immovable 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.

Under CRD IV, the Group is required to maintain a transitional floor set at 80% of Basel I requirements. The transitional floor capital requirement was nil at 31 December 2014 and nil at 31 December 2013.

Breakdown of the Group's Regulatory Capital Requirement

At 31 December 2014, the Group applied the Foundation IRB and Retail IRB approaches to 76% (75% at 31 December 2013) of its credit exposures. In addition, 80% of credit RWA are based on IRB approaches (79% at 31 December 2013).

These RWA metrics exclude 'Other Assets' as set out in the table below (which primarily comprises non-credit obligation assets) and Credit Value Adjustment (CVA).

The decline in EAD in the year in both the Standardised and IRB approaches is driven by a small decline in the Group's customer loan portfolios, a decrease in central bank placements and a decline in the exposures to financial institutions.

Table 2.3 shows the Group's minimum capital requirements (based on 8% of RWA), RWA and EAD by risk type.

Table 2.3 – Breakdown of the Group's Regulatory Capital Requirement

	CRD IV transitional 31 December 2014			Basel II / CRD 31 December 2013		
	Capital requirement €m	**Risk weighted assets €m**	**Exposure at default €m**	Capital requirement €m	Risk weighted assets €m	Exposure at default €m
Retail & foundation IRB approach	2,790	34,869	87,516	3,081	38,512	89,689
Standardised approach	700	8,750	28,285	815	10,190	29,519
Market risk	41	511	-	97	1,217	-
Operational risk	323	4,032	-	282	3,522	-
Other assets	250	3,122	2,285	238	2,981	3,227
Credit valuation adjustment	24	297	-	-	-	-
Total	**4,128**	**51,581**	**118,086**	**4,513**	**56,422**	**122,435**

EAD under the Foundation IRB approach at 31 December 2014 includes defaulted exposures of €5.8 billion (31 December 2013: €6.9 billion) which attract a 0% risk weighting. Standardised EAD includes €0.3 billion of exposure to central banks (31 December 2013: €0.7 billion) in relation to funding repurchase agreements which attract a 0% risk weighting.

Credit Risk RWA (Standardised approach and IRB approaches) at 31 December 2014 of €43.6 billion are €5.1 billion lower than Credit Risk RWA of €48.7 billion at 31 December 2013. This decrease is mainly due to a reduction in the quantum of loans and advances to customers and the impact of CRD IV, including; the introduction of reduced risk weights for qualifying SME exposures, and a fixed maturity adjustment on IRB exposures, offset by the introduction of a financial institutions' correlation factor and RWA for threshold deductions.

Market Risk RWA decreased due to a change in calculation approach from a maturity-based calculation of general risk to a duration-based calculation.

Operational Risk RWA have increased based on improved 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.

Under CRD IV, the Credit Valuation Adjustment (CVA) relating to Over-the-Counter (OTC) derivative exposures was introduced.

Capital Resources

Table 2.4 sets out the Group's capital position as at 31 December 2014 and 31 December 2013 and a reconciliation of accounting & 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 2014, other quantitative data is sourced from the Group's regulatory reporting platform and is calculated according to regulatory requirements.

Further explanations relating to items contained in this table are included in Appendix I.

Table 2.4 - Reconciliation of Accounting Capital with Regulatory Capital (including 2009 Preference Stock)

Basel II / CRD 31 December 2013 €m	CRD IV transitional 1 January 2014 €m		**CRD IV transitional 31 December 2014 €m**	**CRD IV fully loaded 31 December 2014 €m**
		Capital base		
7,869	7,869	Total equity	8,747	8,747
-	*81*	*- Impact of amendments to defined benefit pension schemes[1]*	-	-
(210)	**(465)**	**Regulatory adjustments being phased in / out under CRD IV**	**(329)**	**(1,825)**
-	-	*- Deferred tax assets[2]*	-	*(1,452)*
-	(47)	*- 10% / 15% threshold deduction[3]*	-	-
842	*609*	*- Retirement benefit obligations[4]*	*714*	-
(467)	*(486)*	*- Available for sale reserve[5]*	*(609)*	-
(338)	-	*- Deduction for unconsolidated investments*	-	-
(75)	*(60)*	*- Pension supplementary contributions[4]*	*(56)*	-
(59)	*(47)*	*- Capital contribution on CCN[4]*	*(29)*	-
-	*(187)*	*- Tier 1 deductions in excess of Tier 1 capital[6]*	-	-
(113)	*(247)*	*- Other adjustments[7]*	*(349)*	*(373)*
(760)	**(730)**	**Other regulatory adjustments**	**(777)**	**(786)**
(183)	(83)	*- Expected loss deduction[8]*	*(10)*	*(19)*
(368)	*(368)*	*- Intangible assets and goodwill*	*(405)*	*(405)*
(115)	*(115)*	*- Dividend expected on 2009 Preference Stock*	*(115)*	*(115)*
(46)	*(46)*	*- Cash flow hedge reserve*	*(205)*	*(205)*
22	*22*	*- Own credit spread adjustment (net of tax)*	*26*	*26*
(70)	*(140)*	*- Securitisation deduction*	*(68)*	*(68)*
6,899	**6,755**	**Common equity tier 1[9]**	**7,641**	**6,136**
		Additional tier 1		
92	74	Tier 1 debt[6,10]	75	-
-	**(261)**	**Regulatory adjustments**	**(5)**	**-**
-	(167)	*- Expected loss deduction[8]*	*(5)*	-
-	*(94)*	*- 10% / 15% threshold[3]*	-	-
-	187	Tier 1 capital deficit deducted from CET 1 capital[6]	-	-
6,991	**6,755**	**Total tier 1 capital**	**7,711**	**6,136**
		Tier 2		
993	987	Tier 2 dated debt	1,525	1,514
94	106	Tier 2 undated debt	113	163
(591)	**(261)**	**Regulatory adjustments**	**(5)**	**-**
(338)	-	*- Deduction for unconsolidated investments*	-	-
(183)	*(167)*	*- Expected loss deduction[8]*	*(5)*	-
-	*(94)*	*- 10% / 15% threshold[3]*	-	-
(70)	-	*- Securitisation deduction*	-	-
60	60	Standardised incurred but not reported (IBNR) provisions	44	-
101	83	Other adjustments	53	(80)
657	**975**	**Total tier 2 capital**	**1,730**	**1,597**
7,648	**7,730**	**Total regulatory capital**	**9,441**	**7,733**

1 *Equity was increased in the CRD IV transitional and fully loaded ratios at 1 January 2014 to account for the €81 million arising from the impact of changes made to defined benefit pension schemes which was realised in Q1 2014.*
2 *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.*
3 *The 10% / 15% threshold deduction is phased in at 20% in 2014 and increases by 20% per annum thereafter, and is deducted in full from CET 1 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.*
4 *Regulatory deductions applicable under Basel II and phased out under CRD IV 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 CRD IV transitional adjustment for Retirement benefit obligations as at 1 January 2014 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.*
5 *CRD IV 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%. The Group has opted to maintain its filter on both unrealised gains or losses on exposures to central governments classified in the 'Available for Sale' category. The reserve is recognisable in capital under fully loaded CRD IV rules.*
6 *Under CRD IV, Additional tier 1 deductions in excess of Additional tier 1 capital are deducted from CET 1. Under CRD IV transitional rules expected loss and significant investments not deducted from CET 1 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.*
7 *Includes technical items such as other national filters and non-qualifying CET 1 items.*
8 *Under CRD IV transitional rules, expected loss is phased in at 20% in 2014. However, the CBI's implementation of competent authority discretions requires 50% of expected loss to be deducted from CET 1 overall. It is deducted in full from CET 1 under fully loaded rules. See also footnote 6.*
9 *CET 1 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 2014). Under CRD IV 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 CET 1 capital after July 2016, unless de-recognition would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements.*
10 *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.*

The following section provides commentary on the key movements in the reconciliation of accounting capital with regulatory capital during the year ended 31 December 2014. Table 2.4 also provides a capital flow statement outlining the movements in the CRD IV regulatory capital tiers during 2014 and 2013. Appendix I provides qualitative information on, and a brief explanation of, the principle components of the Groups CRD IV Capital resources as outlined in Table 2.4.

Total equity increased by €878 million during 2014 from €7.9 billion at 31 December 2013 to €8.7 billion at 31st December 2014, primarily due to the impact of attributable profits, positive movements in the available for sale, cashflow hedge and FX reserves, partially offset by adverse movements in the defined benefit pensions schemes and the payment of preference stock dividends.

Regulatory adjustments to CET 1 capital totalled €1.1 billion at 31st December 2014 versus €1 billion at 31 December 2013. The increase is primarily due to 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 CRD IV rules is phased out at 20% per annum, giving a reduction in the add back from that as at 31 December 2013, partially offset by the impact of an increase in the defined benefit pensions scheme as at 31 December 2014.
- Available for sale reserve – increase in deduction is due to increase in available for sale reserve partially offset by CRD IV phasing rules which require phasing in of 20% of unrealised losses and 0% unrealised gains in 2014.
- Expected Loss – decrease in expected loss deduction is primarily due to the impact of lower expected losses on defaulted loans as a result of a change in provision assumptions in December 2014 and lower volume of defaulted loans.
- 10 / 15% threshold deductions – reflects threshold calculation for significant investments in financial sector entities and deferred tax assets relating to future profitability and temporary differences. The deduction also reflects the impact of the NIAC capital efficiency transaction and higher level of CET 1.

Tier 2 capital has increased from €0.7 billion at 31 December 2013 to €1.7 billion at 31 December 2014, primarily due to the unconsolidated investments deductions (in the Life and pension business) being replaced by the 10% / 15% threshold deduction and securitisations being fully deducted from CET 1, a reduction in the expected loss deduction as outlined above, and the issuance of the €750 million Tier 2 subordinated debt in June 2014.

Capital Resources (continued)

Table 2.5 below outlines the component parts of regulatory capital with further details of capital instruments, adjustments, deductions and filters in line with the prescribed template provided in Article 5 of commission regulation (EU) No. 1423/2013.

The table further details total risk weighted assets, capital ratios and buffers before listing applicable caps on the inclusion of provisions in Tier 2 and capital instruments subject to phase-out.

Line referencing for Annex VI of commission regulation (EU) No. 1423/2013 is also provided. Rows that are not applicable to the Group have been omitted.

Table 2.5 - Transitional Own Funds Disclosure
Disclosure according to Article 5 in commission implementing regulation (EU) No. 1423/2013.

Annex VI Reference		CRD IV 31 December 2014 €m	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No. 575/2013 €m
Common equity tier 1 capital: Instruments and reserves			
1	Capital instruments and the related share premium accounts	3,618	-
	Of which: ordinary stock	*1,616*	-
	Of which: deferred stock	*920*	-
	Of which: treasury stock	*2*	-
	Of which: share premium	*1,080*	-
2	Retained earnings	3,405	-
3	Accumulated other comprehensive income (and other reserves)	279	-
	Public sector capital injections grandfathered until 1 January 2018	1,286	-
6	**Common equity tier 1 (CET 1) capital before regulatory adjustments**	**8,588**	
Common equity tier 1 (CET 1) capital: regulatory adjustments			
7	Additional value adjustments / other	(200)	-
8	Intangible assets (net of related tax liability)	(405)	-
10	Deferred tax asset that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	(1,452)
11	Fair value reserves related to gains or losses on cash flow hedges	(205)	-
12	Negative amounts resulting from the calculation of expected loss amounts	(10)	(10)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	26	-
15	Defined-benefit pension fund assets	(1)	(5)
16	Direct and indirect holdings by an institution of own CET 1 instruments	(2)	-
19	Direct and indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-
20a	Exposure amount of the following items which qualify for a RW of 1250%	(68)	-
20c	*Of which: securitisation positions*	*(68)*	-
21	Deferred tax assets arising from temporary differences	-	-
22	Amount exceeding the 15% threshold	-	-
26a	Regulatory adjustments relating to unrealised gains and losses	(609)	-
	Of which: unrealised gains on non-sovereign bonds	*(96)*	-
	Of which: unrealised losses on non-sovereign bonds	*33*	-
	Of which: unrealised gains on sovereign bonds	*(547)*	-
	Of which: unrealised losses on sovereign bonds	*1*	-

Capital Resources (continued)

Transitional Own Funds Disclosure (continued)

	CRD IV 31 December 2014 €m	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No. 575/2013 €m
26b Amount to be deducted from or added to Common equity tier 1 capital with regard to additional filters and deductions required pre CRR	527	-
Of which: defined benefit pension scheme	*714*	-
Of which: value in force asset	*(128)*	-
Of which: property revaluation reserve	*(5)*	-
Of which: FV on Bristol and West Sub debt	*31*	-
Of which: FV on CoCo bond	*(29)*	-
Of which: minimum funding standard pension contributions	*(56)*	-
28 Total regulatory adjustments to Common equity tier 1 (CET 1)	**(947)**	
29 Common equity tier 1 (CET 1) capital	**7,641**	
Additional tier 1 (AT 1) capital: Instruments		
33 Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT 1	75	-
36 Additional tier 1 (AT 1) capital before regulatory adjustments	**75**	
Additional tier 1 (AT 1) capital: regulatory adjustments		
41a Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common equity tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	(5)	-
Of which: shortfall of provisions to expected losses	*(5)*	-
43 Total regulatory adjustments to Additional tier 1 (AT 1) capital	**(5)**	
44 Additional tier 1 (AT 1) capital	**70**	
45 Tier 1 capital (T1 = CET 1 + AT 1)	**7,711**	
Tier 2 (T2) capital: Instruments and provisions		
46 Capital instruments and the related share premium accounts	1,638	-
47 Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	0	-
51 Tier 2 (T2) capital before regulatory adjustments	**1,638**	

Capital Resources (continued)

Transitional Own Funds Disclosure (continued)	CRD IV 31 December 2014 €m	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No. 575/2013 €m
Tier 2 (T2) capital: regulatory adjustments		
55 Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	(80)	-
56a Residual amounts deducted from Tier 2 capital with regard to deduction from Common equity tier 1 capital during the transitional period pursuant to Article 472 of regulation (EU) No 575/2013	(5)	-
Of which: shortfall of provisions to expected losses	*(5)*	-
56c Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	177	-
Of which: IBNR provisions	*44*	-
Of which: value in force asset	*128*	-
Of which: property revaluation reserve	*5*	-
57 Total regulatory adjustments to Tier 2 (T2) capital	**92**	
58 Tier 2 (T2) capital	**1,730**	
59 Total capital (TC = T1 + T2)	**9,441**	
Capital ratios and buffers		
59a Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in regulation (EU) No 575 / 2013 (i.e. CRR residual amounts)	0	-
Of which: items not deducted from CET 1 (Regulation (EU) No 575/2013 residual amounts) deferred tax assets that rely on future profitability net of related tax liability indirect holdings of own CET 1)	*0*	-
60 Total risk weighted assets	**51,581**	
Capital ratios and buffers		
61 Common equity tier 1	14.8%	
62 Tier 1	14.9%	
63 Total capital	18.3%	
64 Institution specific buffer requirement	-	
65 Of which: capital conservation buffer requirement	-	
66 Of which: countercyclical buffer requirement	-	
67 Of which: systemic risk buffer requirement	-	
67a Of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (0-SII) buffer	-	
68 Common equity tier 1 available to meet buffers	10.8%	

Capital Resources (continued)

Transitional Own Funds Disclosure (continued)	CRD IV 31 December 2014 €m	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No. 575/2013 €m
Amounts below the threshold for deduction (before risk weighting)		
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	
73 Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	563	
75 Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	208	
Applicable caps on the inclusion of provisions In Tier 2		
76 Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach	148	
78 Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	209	
Capital Instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)		
80 Current cap on CET 1 instruments subject to phase out arrangements	-	
81 Amount excluded from CET 1 due to cap (excess over cap after redemptions and maturities)	-	
82 Current cap on AT 1 instruments subject to phase out arrangements	75	
83 Amount excluded from AT 1 due to cap (excess over cap after redemptions and maturities)	*18*	
84 Current cap on T2 instruments subject to phase out arrangements	0	
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	*0*	

Capital Instruments

The following table provides information on the regulatory values of the Group's Additional tier 1 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 2014 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. Information relating to the terms and conditions of the Group's capital instruments is published separately at www.bankofireland.com.

Table 2.6 - Capital Instruments

	Nominal outstanding at 31 December 2014 €m	**Accounting value 31 December 2014 €m**	**CRD IV regulatory value at fully loaded 31 December 2014 €m**	**CRD IV regulatory value at transitional 31 December 2014 €m**	Basel II / CRD regulatory value at 31 December 2013 €m
Bank of Ireland UK Holdings plc					
€600 million 7.4% guaranteed Step-up Callable Perpetual Preferred Securities[1]	*32*	*32*	*-*	*25*	*32*
Non-Cumulative Preference Stock					
(1.9 million units of stg£1 each and 3 million units of €1.27 each)[2] (80%)	6	50	-	50	60
Additional tier 1 capital	**38**	**82**	**-**	**75**	**92**
€1,000 million 10% Convertible Contingent Capital Note 2016[3]	1,000	989	313	313	509
€250 million 10% Fixed Rate Subordinated Notes 2022[4]	250	269	248	248	248
€1,002 million 10% Fixed Rate Subordinated Notes 2020[5]	206	239	206	206	206
CAD$400 million Fixed / Floating Rate Subordinated Notes 2015[6]	70	69	-	11	27
€750 million 4.25% Fixed Rate Subordinated Notes 2024[7]	750	760	745	745	-
Other	2	3	2	2	3
Tier 2 dated debt	**2,278**	**2,329**	**1,514**	**1,525**	**993**
Bank of Ireland stg£75 million 13⅜% Perpetual subordinated bonds[8]	97	97	59	59	55
Bristol & West plc stg£32.6 million 8⅛% Non-Cumulative preference shares[8]	42	42	42	42	39
Non-Cumulative Preference Stock					
(1.9 million units of stg£1 each and 3 million units of €1.27 each)[2] (20%)	1	12	62	12	-
Tier 2 undated debt	**140**	**151**	**163**	**113**	**94**
Total capital instruments	**2,456**	**2,562**	**1,677**	**1,713**	**1,179**

CRD IV treatment

1 *These preferred securities do not qualify as Tier 1 or Tier 2 under CRD IV. They are being 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. The accounting value has been allocated in the same manner.*
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 *The subordinated Notes due 2024 qualify as Tier 2 under CRD. They are subject to regulatory amortisation from 2024.*
8 *These instruments qualify as Tier 2 under CRD IV. As they are undated they will not be subject to regulatory amortisation.*

Risk Management

Risk Management

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 54 of the Group's Annual Report 31 December 2014.

The Court of Directors (the Court) considers the risk management systems in place in the Group as outlined in the Risk Management Report in the Group's Annual Report 2014, and in particular under Section 2 Risk Management Framework (from page 62), to be adequate having regard to the Group's profile and strategy.

The role of the Court in relation to risk management is also set out in "Role of the Court" in the Corporate Governance Statement of the Annual Report 2014 (from page 114).

The Court of Directors section on pages 116 and 117 of the Group's Annual Report 31 December 2014 contains information relating to:

- The recruitment policy for the selection of members of the management body;
- The policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy.

The Court of Directors section on pages 133 to 138 of the Group's Annual Report 31 December 2014 contains information relating to:

- The number of directorships held by members of the management body.

Risk Profile

The Group follows an integrated approach to risk management to ensure that all material classes of risk are taken into consideration and that the Group's overall business strategy practices are aligned with its risk and capital management strategies. This integrated approach is set out in the Group Risk Framework, which is approved by the Court. It identifies the Group's formal governance process around risk, the framework for setting risk appetite and the approach to risk identification, assessment, measurement, management and reporting.

The Risk Governance section 2.2 on pages 63 to 65 of the Group's Annual Report 31 December 2014 contains information relating to:

- The existence of a separate risk committee and the number of times the risk committee has met;
- The description of the information flow on risk to the management body.

The Group's risk identity is to be the leading Irish retail, commercial and corporate bank committed to long-term relationships with its customers. The Group's core franchise is in Ireland with income and risk diversification through a meaningful presence in the UK and selected international activities where the Group has proven competencies. The Group will pursue an appropriate return for the risks taken and on capital deployed while operating within prudent Court approved risk parameters to have and maintain a robust, standalone financial position.

Risk appetite defines the amount and nature of risk the Group is prepared to accept in pursuit of its financial objectives. It is defined in qualitative terms as well as quantitatively through a series of high-level limits and targets covering areas such as credit risk, market risk, funding and liquidity risk and capital measures. These high-level limits and targets are cascaded where appropriate into more granular limits and targets across portfolios and business units. Risk appetite guides the Group in its risk-taking and related business activities, having regard to the maintenance of financial stability, solvency and the protection of the Group's core franchises and growth platforms. The Group has defined measures to track its profile against the most significant risks that it assumes. Each of these measures has a defined target level or limit, as appropriate, and actual performance is tracked against these target levels or limits. As such, risk appetite represents a boundary condition to the Group's strategy.

Key ratios and figures associated with the risk profile of the Group include the following:

Table 3.1 - Key Risk Figures and Ratios

	31 December 2014
Loan book profile	
Mortgages	€51.0bn
Consumer	€3.0bn
SME	€12.1bn
Corporate	€8.3bn
Property & construction	€15.2bn
Capital ratios	
Common equity tier 1 ratio	14.8%
Tier 1 ratio	14.9%
Total capital ratio	18.3%
Liquidity ratios	
Liquidity coverage ratio	98%
Net stable funding ratio	114%
Loan to deposit ratio	110%

All of the above figures and ratios are within the relevant limits set by the Court in the Risk Appetite Statement.

For further information on the Group's Risk Management Framework and Management of Key Group Risks, see Section 2 (pages 62 to 67) and Section 3 (pages 68 to 110) of the Risk Management Report in the Group's Annual Report 2014.

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 2014, the Group applied the Foundation IRB and Retail IRB approaches to 76% (75% at 31 December 2013) of its group exposures by EAD which resulted in 80% of credit Risk Weighted Assets being based on IRB approaches (79% at 31 December 2013). The credit risk information disclosed in this document includes a breakdown of the Group's exposures by CRD IV 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 72 of the Group's Annual Report 31 December 2014.

Market Risk

Market risk is the risk of loss arising from the movement in interest rates, foreign exchange rates or other market prices. Market risk arises from the structure of the Group's balance sheet, the Group's business mix and discretionary risk taking.

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 Court Risk Committee, the Group Risk Policy Committee, the Group Audit Committee and the Group Regulatory, Compliance and Operational Risk Committee. Group and business risk exposures are assessed, controls and mitigants are put in place and 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 Report section from page 54 of the Group's Annual Report 31 December 2014.

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 71 of the Group's Annual Report 31 December 2014. 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 70 of the Group's Annual Report 31 December 2014.

Exposure to Credit Risk

Table 4.1 is based on EAD and shows the Group's point-in-time and average exposure to credit risk.

Table 4.1 - Exposure to Credit Risk

	31 December 2014		31 December 2013	
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				
Institutions	5,634	6,514	7,675	8,520
Corporates	27,593	27,946	28,643	30,174
Retail	53,888	53,453	52,777	53,535
Securitisation positions	401	391	594	690
Total IRB	**87,516**	**88,304**	89,689	92,919
Standardised approach				
Central governments or central banks	17,587	17,662	18,314	18,549
Regional governments or local authorities	92	87	126	144
Public sector entities	2	4	6	8
Multilateral development banks	712	638	583	504
International organisations	394	347	286	147
Corporates	5,341	5,600	5,674	5,857
Retail	2,319	2,336	2,070	2,066
Exposures in default	1,718	2,050	2,378	2,694
Exposures associated with particularly high risk	57	48	43	41
Institutions and corporates with a short-term credit assessment	39	50	14	14
Other items	24	24	25	39
Total standardised	**28,285**	**28,846**	**29,519**	**30,063**
Total	**115,801**	**117,150**	**119,208**	**122,982**

The total credit risk exposures at 31 December 2014 are €3.5 billion lower than at 31 December 2013. This reduction is primarily due to a €2 billion decrease in exposures to institutions, a €0.5 billion reduction in exposures to central governments or central banks and a reduction in exposures in default of €0.7 billion.

Geographic Analysis of Exposures

Table 4.2a - Geographic Analysis of Exposures

	ROI			UK			Total		
Exposure Class	**EAD €m**	**Exposure weighted PD %**	**Exposure weighted LGD %**	**EAD €m**	**Exposure weighted PD %**	**Exposure weighted LGD %**	**EAD €m**	**Exposure weighted PD %**	**Exposure weighted LGD %**
IRB approach									
Central governments and central banks	-	-	-	-	-	-	-	-	-
Institutions	5,488	0.3%	34.0%	146	0.0%	2.0%	5,634	0.3%	39.0%
Corporates	22,110	13.1%	36.0%	5,483	13.2%	15.0%	27,593	23.0%	41.0%
Retail									
- SME	*1,773*	*21.3%*	*56.0%*	-	-	-	*1,773*	*21.3%*	*56.0%*
- Secured by immovable property collateral	*25,995*	*14.6%*	*18.0%*	*24,211*	*5.1%*	*10.0%*	*50,206*	*10.0%*	*14.0%*
- Qualifying revolving retail exposures	*1,450*	*6.5%*	*44.0%*	*1*	*6.9%*	*60.0%*	*1,451*	*6.5%*	*45.0%*
- Other	*458*	*24.2%*	*73.0%*	-	-	-	*458*	*24.2%*	*73.0%*
Equity exposures	-	-	-	-	-	-	-	-	-
Securitisation positions	358	-	-	43	-	-	401	-	-
Other non credit obligation assets	-	-	-	-	-	-	-	-	-
Total	**57,632**	**12.7%**	**28.6%**	**29,884**	**6.6%**	**10.9%**	**87,516**	**13.7%**	**25.7%**

Under CRD IV, geographical analysis of credit exposures is required based on exposures in the member states in which the institution has been authorised and member states or third countries in which institutions carry out activities through a branch or subsidiary.

The Group's primary markets are Ireland and the UK. The geographical locations shown in Tables 4.2a and 4.2b are based on the business unit where the exposure is booked, rather than where the borrower is located.

The Group also has branches in the US, Germany and France. The value of exposures booked on the balance sheet of these branches is not material (less than 5% of Group credit exposures on a combined basis) and is included in 'ROI'.

Geographic Analysis of Exposures (continued)

Table 4.2b - Geographic Analysis of Exposures

	31 December 2014			31 December 2013		
Exposure Class	**ROI (EAD) €m**	**UK (EAD) €m**	**Total (EAD) €m**	ROI (EAD) €m	UK (EAD) €m	Total (EAD) €m
Standardised approach						
Central governments or central banks	13,074	4,513	17,587	13,235	5,079	18,314
Regional governments or local authorities	89	3	92	126	-	126
Public sector entities	2	-	2	6	-	6
Multilateral development banks	187	525	712	173	410	583
International organisations	394	-	394	286	-	286
Corporates	3,778	1,563	5,341	3,952	1,722	5,674
Retail	542	1,777	2,319	525	1,545	2,070
Exposures in default	1,254	464	1,718	1,756	622	2,378
Exposures associated with particularly high risk	57	-	57	43	-	43
Institutions and corporates with a short-term credit assessment	39	-	39	6	8	14
Other items	24	-	24	25	-	25
Total	**19,440**	**8,845**	**28,285**	**20,133**	**9,386**	**29,519**

The Group also has branches in the US, Germany and France. The value of exposures booked on the balance sheet of these branches is not material (less than 5% of Group credit exposures on a combined basis) and is included in 'ROI'.

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 2014 have been used, however, the values will differ as these tables are based on EAD.

Table 4.3 - Industry Analysis of Exposure
31 December 2014

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												
Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	5,634	-	-	-	-	5,634
Corporates	914	6,444	8	11,491	2,050	553	1,009	3,461	1,362	294	7	27,593
Retail	643	467	-	191	219	2	29	74	37	1,969	50,257	53,888
Securitisation positions	-	176	-	-	-	-	14	-	-	168	43	401
Total IRB	**1,557**	**7,087**	**8**	**11,682**	**2,269**	**555**	**6,686**	**3,535**	**1,399**	**2,431**	**50,307**	**87,516**
Standardised Approach												
Central governments or central banks	-	-	17,587	-	-	-	-	-	-	-	-	17,587
Regional government or local authorities	-	-	92	-	-	-	-	-	-	-	-	92
Public sector entities	-	-	-	-	2	-	-	-	-	-	-	2
Multilateral development banks	-	-	-	-	-	-	712	-	-	-	-	712
International organisations	-	-	-	-	-	-	394	-	-	-	-	394
Corporates	450	1,525	-	1,019	647	13	454	151	473	524	85	5,341
Retail	151	297	-	38	100	3	4	35	39	1,652	-	2,319
Exposures in default	43	104	-	1,217	38	-	31	16	7	235	27	1,718
Exposures associated with particularly high risk	-	57	-	-	-	-	-	-	-	-	-	57
Institutions and corporates with a ST credit assessment	8	11	-	7	7	-	1	3	1	1	-	39
Other items	-	-	-	-	-	-	24	-	-	-	-	24
Total standardised	**652**	**1,994**	**17,679**	**2,281**	**794**	**16**	**1,620**	**205**	**520**	**2,412**	**112**	**28,285**
Total	**2,209**	**9,081**	**17,687**	**13,963**	**3,063**	**571**	**8,306**	**3,740**	**1,919**	**4,843**	**50,419**	**115,801**

Industry Analysis of Exposures (continued)

Table 4.3 - Industry Analysis of Exposure
31 December 2013

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												
Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	7,675	-	-	-	-	7,675
Corporates	694	6,607	156	12,359	2,159	376	1,049	3,556	1,342	331	14	28,643
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
Public sector entities					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
Exposures in default	47	133	-	1,753	38	1	13	20	66	285	22	2,378
Items belonging to regulatory												
Exposures associated with particularly high risk	-	43	-	-	-	-	-	-	-	-	-	43
Institutions and corporates with a ST credit assessment	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

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.

Table 4.4 - Maturity Analysis of Exposure

31 December 2014 **Exposure Class**	**<1 year (EAD) €m**	**1-5 years (EAD) €m**	**>5 years (EAD) €m**	**Total (EAD) €m**
IRB approach				
Central governments or central banks	-	-	-	-
Institutions	2,716	1,228	1,690	5,634
Corporates	7,561	9,904	10,128	27,593
Retail	4,506	11,552	37,830	53,888
Securitisation positions	26	56	319	401
Total IRB	**14,809**	**22,740**	**49,967**	**87,516**
Standardised approach				
Central governments or central banks	9,030	4,042	4,515	17,587
Regional government or local authorities	5	27	60	92
Public sector entities	-	2	-	2
Multilateral development banks	32	680	-	712
International organisations	-	394	-	394
Corporates	1,105	2,499	1,737	5,341
Retail	619	1,679	21	2,319
Exposures in default	839	566	313	1,718
Exposures associated with particularly high risk	-	-	57	57
Institutions and corporates with a short-term credit assessment	38	1	-	39
Other items	-	-	24	24
Total standardised	**11,668**	**9,890**	**6,727**	**28,285**
Total	**26,477**	**32,630**	**56,694**	**115,801**

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				
Institutions	2,705	3,084	1,886	7,675
Corporates	6,401	12,032	10,210	28,643
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
Public sector entities	-	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
Exposures in default	1,497	319	562	2,378
Exposures associated with particularly high risk	-	-	43	43
Institutions and corporates with a short-term credit assessment	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

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 76% (31 December 2013: 75%) of its exposures. 80% (31 December 2013: 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 (Advanced) Retail IRB approach for retail exposures. Exposures for which capital requirements continue to be determined under the Standardised approach primarily include sovereign, 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 and standards. 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 typically 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 and of the model development 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, using a risk-based approach, Group Internal Audit periodically reviews the risk control framework including policies and standards to ensure that these controls are being adhered to, meet industry good practices and are compliant with regulatory requirements. The ICU function is independently audited on an annual basis.

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

The Internal Ratings Process by Exposure Class

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

Corporates
Corporate entities, including certain SME and specialised lending exposures are rated using a number of models. This suite of models typically incorporates scorecard-based calibrated PD outputs (both TtC and cyclical PD estimates). The Group does not rate purchased corporate receivables under the IRB approach. Information on the Corporates Foundation IRB exposure class is provided in Table 4.6.

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.

Table 4.6 - Analysis of Credit Quality
Foundation IRB - Exposure Class
PD Grade

	CRD IV					
31 December 2014	**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 to 4	2,915	1,019	35%	42%	781	2
5 to 7	8,480	6,962	82%	42%	911	29
8 to 9	6,106	6,725	110%	41%	304	60
10 to 11	4,331	5,532	128%	40%	46	151
Default	5,761	-	-	42%	41	2,459
Total	**27,593**	**20,238**	**73%**	**41%**	**2,083**	**2,701**
Institutions						
1 to 4	4,834	867	18%	39%	20	4
5 to 7	666	237	36%	39%	12	1
8 to 9	134	54	41%	45%	4	-
10 to 11	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total	**5,634**	**1,158**	**21%**	**39%**	**36**	**5**

Table 4.6 - Analysis of Credit Quality
Foundation IRB - Exposure Class
PD Grade

	Basel II / CRD					
31 December 2013	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	-	-	0%	0%	-	-
Default	-	-	0%	0%	-	-
Total	7,675	1,531	20%	35%	29	3

The EAD under the Foundation IRB approach at 31 December 2014 includes defaulted exposures of €5.8 billion (31 December 2013: €6.9 billion) which attracts a 0% risk weighting.
The exposure weighted average risk weight percentage and expected loss for the performing grades (grades 1-11) in Foundation IRB and Retail IRB and the defaulted expected loss across the Retail IRB exposure class includes the impact of the Group's application of certain Central Bank of Ireland required adjustments, as part of the 2013 Balance Sheet Assessment adjustments to the outputs of the Group's risk weighted assets calculations.

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.

Table 4.7a - Analysis of Credit Quality Retail IRB - Exposure Class PD Grade	CRD IV						
31 December 2014	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 mortgage							
1-4	6,291	404	6%	15%	616	35%	2
5-7	12,634	2,053	16%	16%	681	36%	13
8-9	1,544	693	45%	18%	4	58%	7
10-11	2,308	2,385	103%	20%	1	85%	108
Default	3,218	2,000	62%	26%	-	0%	1,220
Total	**25,995**	**7,535**	**29%**	**17%**	**1,302**	**36%**	**1,350**
UK mortgages							
1-4	12,418	459	4%	10%	106	0%	2
5-7	7,748	1,133	15%	10%	418	63%	8
8-9	1,781	629	35%	10%	67	73%	6
10-11	1,584	1,043	66%	10%	48	62%	71
Default	680	621	91%	10%	1	0%	72
Total	**24,211**	**3,885**	**16%**	**10%**	**640**	**53%**	**159**
Total mortgages	**50,206**	**11,420**	**23%**	**14%**	**1,942**	**42%**	**1,509**
Qualifying revolving exposures							
1-4	204	6	3%	34%	474	29%	-
5-7	826	107	13%	49%	1,354	40%	2
8-9	189	62	33%	46%	170	43%	2
10-11	175	125	72%	37%	125	31%	10
Default	57	33	58%	46%	7	61%	26
Total	**1,451**	**333**	**23%**	**45%**	**2,130**	**38%**	**40**
SME & other retail							
1-4	166	30	18%	54%	327	45%	-
5-7	341	166	49%	57%	219	51%	2
8-9	727	543	75%	58%	61	59%	11
10-11	577	535	93%	61%	31	60%	33
Default	420	174	41%	63%	7	57%	285
Total	**2,231**	**1,448**	**65%**	**59%**	**645**	**49%**	**331**
Total retail	**53,888**	**13,201**	**24%**	**17%**	**4,717**	**41%**	**1,880**

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.

Table 4.7b - Analysis of Credit Quality
Retail IRB - Exposure Class
PD Grade

31 December 2013	Basel II / CRD 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

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.

Under CRD IV, RWA & exposure weighted average risk weight are impacted by the introduction of; reduced risk weights for qualifying SME exposures, fixed maturity adjustment on IRB exposures and the financial institutions' correlation factor. This applies to tables 4.6a, 4.6b, 4.7a & 4.7b.

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 CRD IV based on the exposure class to which the exposure is allocated. The following tables outline the standardised exposure classes by CRD IV prescribed risk weight. The total weighted average risk weight on Standardised exposures, excluding sovereign, multilateral development bank and international organisation exposures at 31 December 2014 is 91% (31 December 2013: 99%), impacted by the reduced risk weights applicable to qualifying SME risk exposures under CRD IV.

Table 4.8 - Analysis of Credit Quality Standardised Approach - Exposure Class EAD €m

31 December 2014	**Risk Weight 0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Total EAD**	**Total RWA**
Central governments or central banks	17,587	-	-	-	-	-	-	-	17,587	-
Regional government or local authorities	-	92	-	-	-	-	-	-	92	19
Public sector entities	-	-	-	-	-	2	-	-	2	2
Multilateral development banks	712	-	-	-	-	-	-	-	712	-
International organisations	394	-	-	-	-	-	-	-	394	-
Corporate[1]	1	108	-	-	-	5,232	-	-	5,341	4,865
Retail[1]	-	5	-	-	2,314	-	-	-	2,319	1,649
Exposures in default	-	-	-	-	-	1,006	712	-	1,718	2,075
Items belonging to regulatory Exposures associated with particularly high risk	-	-	-	-	-	-	57	-	57	85
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	39	-	-	39	31
Other items	-	-	-	-	-	24	-	-	24	24
Total EAD	**18,694**	**205**	**-**	**-**	**2,314**	**6,303**	**769**	**-**	**28,285**	**-**
Total RWA	**-**	**41**	**-**	**-**	**1,649**	**5,907**	**1,153**	**-**	**-**	**8,750**

[1] *Certain Corporate and Retail SME standardised exposures also qualify for the application of reduced risk weights.*

Table 4.8 - Analysis of Credit Quality Standardised Approach - Exposure Class EAD €m

31 December 2013	Risk Weight 0%	20%	35%	50%	75%	100%	150%	250%	Total EAD	Total RWA
Central governments or central banks	18,314	-	-	-	-	-	-	-	18,314	-
Regional government or local authorities	-	126	-	-	-	-	-	-	126	25
Public sector entities	-	-	-	-	-	6	-	-	6	6
Multilateral development banks	583	-	-	-	-	-	-	-	583	-
International organisations	286	-	-	-	-	-	-	-	286	-
Corporate	-	108	-	-	1	5,565	-	-	5,674	5,587
Retail	-	8	-	-	2,062	-	-	-	2,070	1,548
Exposures in default	-	-	-	-	-	1,292	1,086	-	2,378	2,920
Items belonging to regulatory Exposures associated with particularly high risk	-	-	-	-	-	-	43	-	43	65
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	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

Loan Loss Experience in the year ended 31 December 2014

A discussion on the factors which impacted the loan loss experience in the year ended 31 December 2014 is included in the Risk Management Report of the Group's Annual Report 31 December 2014 (under the Credit Risk section from page 68).

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 68 to 93 of the Group's Annual Report 31 December 2014.

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.

Table 4.9 - Past Due and Impaired Exposures by Industry Class

	31 December 2014			31 December 2013		
	Past due exposures €m	**Impaired exposures €m**	**Total €m**	Past due exposures €m	Impaired exposures €m	Total €m
Personal	2,679	2,974	5,653	3,394	3,283	6,677
- Residential mortgages	*2,584*	*2,785*	5,369	*3,288*	*3,047*	6,335
- Other	*95*	*189*	284	*106*	*236*	342
Property & construction	292	6,722	7,014	413	8,591	9,004
Business & other services	107	2,096	2,203	147	2,152	2,299
Manufacturing	24	433	457	20	521	541
Distribution	35	698	733	43	737	780
Transport	2	164	166	4	214	218
Financial	3	50	53	1	41	42
Agriculture	31	258	289	28	229	257
Energy	-	3	3	-	17	17
Total	**3,173**	**13,398**	**16,571**	**4,050**	**15,785**	**19,835**

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 2014				31 December 2013			
	Past due exposures				Past due exposures			
	€m <90 days past due	€m >90 days past due	Impaired exposures €m	Total	€m <90 days past due	€m >90 days past due	Impaired exposures €m	Total
ROI	864	677	9,808	11,349	1,317	1,015	11,135	13,467
UK	1,367	265	3,590	5,222	1,394	324	4,650	6,368
Total	**2,231**	**942**	**13,398**	**16,571**	**2,711**	**1,339**	**15,785**	**19,835**

Specific Credit Risk Adjustments (Provisions)

The loan loss provisioning methodology used by the Group is set out on pages 92 and 93 of the Group's Annual Report 31 December 2014.

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

CRD IV introduced the definition of 'specific' and 'general' credit risk adjustments and, in line with the relevant technical standard, the Group has included 'specific provisions' and 'IBNR' as specific credit risk adjustments. The Group has no 'general' credit risk adjustments.

Specific Credit Risk Adjustments by Industry and Geography

Table 4.11 shows the specific credit risk adjustments and provision charge by industry classification. It is based on financial statement information.

Table 4.11 - Specific Credit Risk Adjustments by Industry

	31 December 2014		31 December 2013	
Industry Class	Total specific credit risk adjustments €m	Charges for specific credit risk adjustments €m	Total specific credit risk adjustments €m	Charges for specific credit risk adjustments €m
Personal	1,789	(126)	2,214	607
- Residential mortgages	*1,604*	*(146)*	*2,002*	*567*
- Other	*185*	*20*	*212*	*41*
Property & construction	3,938	452	4,118	592
Business & other services	1,042	143	1,247	351
Manufacturing	234	42	231	50
Distribution	334	28	339	54
Agriculture	80	3	79	3
Energy	6	1	13	8
Total	**7,423**	**542**	**8,241**	**1,665**

Specific Credit Risk Adjustments (Provisions) (continued)

Table 4.12 shows the Group's specific credit risk adjustments on loans and advances to customers split between specific provisions 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 - Specific Credit Risk Adjustments by Geography

	Specific Credit Risk Adjustments 31 December 2014			Specific Credit Risk Adjustments 31 December 2013		
Geographic Breakdown	**Specific provisions €m**	**IBNR provisions €m**	**Total €m**	Specific provisions €m	IBNR provisions €m	Total €m
ROI	5,149	529	5,678	5,538	702	6,240
UK	1,567	178	1,745	1,812	189	2,001
Total	**6,716**	**707**	**7,423**	**7,350**	**891**	**8,241**

Specific Credit Risk Adjustments by Provision Type

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

Table 4.13 - Specific Credit Risk Adjustments Type

	31 December 2014		31 December 2013	
Specific Credit Risk Adjustments	**Total specific credit risk adjustments €m**	**Specific credit risk adjustments charges €m**	Total specific credit risk adjustments €m	Specific credit risk adjustments charges €m
Total Specific provisions	6,716	739	7,350	1,474
Total IBNR provisions	707	(197)	891	191
Total group specific credit risk adjustments	**7,423**	**542**	**8,241**	**1,665**

Specific Credit Risk Adjustments by Regulatory Approach

Table 4.14 shows the Group's provisions against loans and advances to customers split by specific provisions and IBNR provisions and between regulatory approach, Standardised or IRB. It is based on financial statement information.

Table 4.14 - Specific Credit Risk Adjustments by Regulatory Approach

	31 December 2014			31 December 2013		
Specific Credit Risk Adjustments	**IRB provisions €m**	**Standardised provisions €m**	**Total €m**	IRB provisions €m	Standardised provisions €m	Total €m
Total Specific provisions	3,919	2,797	6,716	4,258	3,092	7,350
Total IBNR provisions	652	55	707	831	60	891
Total group specific credit risk adjustments	**4,571**	**2,852**	**7,423**	**5,089**	**3,152**	**8,241**

Specific Credit Risk Adjustments (Provisions) (continued)

Specific Credit Risk Adjustment 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 2014. It is based on financial statement information.

Table 4.15 – Specific Credit Risk Adjustment Charges during the Year

Provisions	**31 December 2014 €m**	31 December 2013 €m
Opening balance	8,241	7,544
Amount charged during the year	542	1,665
Provisions utilised, reversed and other movements	(1,360)	(968)
- Of which recoveries	*6*	*12*
Closing balance	**7,423**	**8,241**

Credit Risk Mitigation

The Credit Risk Section on page 68 to 93 of the Group's Annual Report 31 December 2014 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 IV. 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 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 IV 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)

Table 4.16 - Credit Risk Mitigation

IRB Approach - Exposure Class **31 December 2014**	**Covered by eligible financial collateral (EAD) €m**	**Covered by other eligible collateral (EAD) €m**	**Covered by guarantees / credit derivatives (EAD) €m**	**Total (EAD) €m**
Institutions	349	6	690	1,045
Corporates	63	8,775	-	8,838
Total	**412**	**8,781**	**690**	**9,883**

Table 4.16 - Credit Risk Mitigation

IRB Approach - Exposure Class 31 December 2013	Covered by eligible financial collateral (EAD) €m	Covered by other eligible collateral (EAD) €m	Covered by guarantees / credit derivatives (EAD) €m	Total (EAD) €m
Institutions	587	-	745	1,332
Corporates	86	9,166	-	9,252
Total	673	9,166	745	10,584

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 relate 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 IV in the presence of certain criteria including a legal right of offset.

Table 4.17 - Credit Risk Mitigation

Standardised Approach - Exposure Class	**31 December 2014 Total exposure covered by guarantees (EAD) €m**	31 December 2013 Total exposure covered by guarantees (EAD) €m
Corporates	2,376	3,991
Retail	-	-
Exposures in default	-	-
Total	**2,376**	**3,991**

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 2013 with actual loss (specific provision charge incurred) on these portfolios in the year ended 31 December 2014.

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 2013 €m**	**Specific provision charge for the year ended 31 December 2014 €m**	Expected loss calculated on 31 December 2012 €m	Specific provision charge for the year ended 31 December 2013 €m
Institutions	3	-	5	-
Corporates	252	401	306	686
Retail				
- SME & Other	*49*	*22*	*53*	*66*
- Secured by immovable property collateral	*242*	*42*	*214*	*328*
- Qualifying revolving retail exposures	*17*	*-*	*18*	*-*
Total	**563**	**465**	**596**	**1,080**

Counterparty Credit Risk

Information on how counterparty credit risk is managed is provided on page 69 of the Group's Annual Report 31 December 2014.

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 2014, 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 in accordance with the relevant specific regulatory rules. 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, once again in accordance with the relevant specific regulatory rules.

The Group recognises the potential for 'wrong-way' exposure in derivatives rewriting 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. The Group allows for the potential impact of wrong-way exposure qualitatively in assessing individual credits. In addition, a Credit Valuation Adjustment ("Incurred 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 2014 Incurred CVA of €115 million reduces EAD on the relevant exposures consistent with the requirements of the CRR.

As at 31 December 2014, 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 2013). 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 values for counterparty credit risk using the mark-to-market method. This primarily covers derivative exposures. The Group determines exposure values for repurchase transactions using the Financial Collateral Comprehensive Method (FCCM) and as such, no disclosures for repurchase agreements are made in this section.

Counterparty Credit Exposure

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

Table 5.1 - Contract Values

	Balance as at 31 December 2014 €m	Balance as at 31 December 2013 €m
Gross positive fair value of contracts	3,726	3,415
Potential future credit exposure	1,651	1,605
Total current credit exposure	**5,377**	**5,020**
Netting benefits	(3,387)	(2,861)
Netted current credit exposures	**1,990**	**2,159**
Collateral held	(349)	(587)
Net derivative credit exposure	**1,641**	**1,572**

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 2014 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 2014 €m	Balance as at 31 December 2013 €m
Interest rate	729	624
FX	57	64
Equity	16	6
Netted agreements credit exposure	830	860
Credit derivatives	4	15
Commodity contracts	5	3
Total	**1,641**	**1,572**

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 2014 is €83 million (31 December 2013: €79 million).

CVA (Regulatory)
Under CRD IV, a Credit Valuation Adjustment (CVA) risk weighted asset is now calculated for certain financial counterparties Over-the-Counter (OTC) derivative exposures (2014 RWA €0.3 billion).

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.

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

A supervisory deduction is taken from CET 1 for purchased positions which otherwise would have attracted a 1250% risk weight under the approach.

Accounting Policies for Securitisation Activities

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

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

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

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

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

Use of External Credit Assessment Institutions (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 2014 €m**	31 December 2013 €m
Residential mortgages	1,870	3,442
Corporate loans	34	81
Total	**1,904**	**3,523**

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 2014. The Kildare securitisation transaction is no longer derecognised under Pillar 1 and the mortgage exposures are now reflected in the Group's risk weighted assets.

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 2014 €m**	**Impaired exposures 31 December 2014 €m**	**Specific provisions 31 December 2014 €m**	Past due exposures 31 December 2013 €m	Impaired exposures 31 December 2013 €m	Specific provisions 31 December 2013 €m
Residential mortgages	95	15	2	181	99	34
Corporate loans	-	9	6	-	5	3
Total	**95**	**24**	**8**	**181**	**104**	**37**

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 2014 (EAD) €m	31 December 2013 (EAD) €m
Residential mortgages	146	204
Commercial mortgages	93	201
Loans to corporates or SMEs	118	134
Consumer loans	42	50
Other assets	2	5
Total	**401**	**594**

Retained positions total €57 million at 31 December 2014 (31 December 2013: €93 million) and are reflected under Residential mortgages at €43 million (31 December 2013: €79 million) and under Loans to Corporates or SME's at €14 million (31 December 2013: €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 2014		31 December 2013	
Risk Weight Band	(EAD) €m	(RWA) €m	(EAD) €m	(RWA) €m
10%	76	7	117	12
18%	64	8	32	6
35%	96	32	177	62
75%	45	21	50	38
100%	2	2	11	11
250%	21	55	33	81
425%	28	147	34	142
650%	-	-	-	-
1250%	-	-	-	-
Deducted	69	-	140	-
Total	**401**	**272**	**594**	**352**

Retained positions total €57 million at 31 December 2014 (31 December 2013: €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 IV permits non-disclosure where the information to be provided is not regarded as material. Information is deemed to be material under the CRD IV 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 2014 of €47 million (31 December 2013: €36 million). The Group considers its exposure to non-trading book AFS equities not to be material within the context of the CRD IV'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 CRD IV, 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 IV 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 the movement in interest rates, foreign exchange rates or other market prices. Market risk arises from the structure of the Group's balance sheet, the Group's business mix and discretionary risk taking.

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. In 2014, the Group changed from the maturity-based calculation of general risk to the duration-based calculation of general risk for the calculation of market risk weighted assets. Risk weighted assets for market risk (predominantly interest rate risk on the trading book and foreign exchange risk) at 31 December 2014 are €515 million (31 December 2013: €1,217 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 IV 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 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

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems, or from external events.

The Group is exposed to Operational Risks in the normal pursuit of its business objectives and encompasses a very broad range of sources of potential financial loss which the Group actively seeks to manage, mitigate and transfer. Such sources include inadequate or failed internal processes such as payments 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 contractually 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 to the 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:

- setting out the boundary conditions in which operational risks are to be managed, by way of the Court-approved Risk Appetite Statement;
- formulating and disseminating a Group Operational Risk policy specifying the risk management obligations of management within the Group;
- maintaining 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
- developing the 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 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 Policy and Governance
In 2014, in accordance with its risk appetite, the Group continued to maintain its 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 within the Group and its material subsidiaries.

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 (continued)

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 multi-year program of enhancement to operational risk management processes and procedures was initiated in 2014. This improvement initiative includes the implementation of a new enterprise risk management system supporting more effective risk reporting, appetite monitoring and review of compliance with internal policy standards.

Operational Risk Capital

The Group holds Pillar 1 regulatory capital to cover the potential financial impact of operational risk events, and has adopted the Standardised Approach (TSA) to determine its Pillar 2 capital requirement. The Pillar 2 capital assessment process incorporates a scenario analysis programme through which the Group assesses 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 programme formed part of the operational risk element of the Group's ICAAP.

Scenario Analysis

As part of its scenario analysis programme, 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 programme forms part of the operational risk element of the Group's ICAAP.

Insurance

The Group mitigates the risk of potential 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 tracks internal and external operational risk events as part of its on-going 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 incurred a financial loss. A standard threshold is used for recording such events and this information is used to identify where improvements may be required 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 updates via the Court Risk Report. There is also an annual review and challenge process in place to enable the Court to consider the adequacy of Group-wide operational risk management processes and the extent to which these are in accordance with the Group's Risk Appetite. The Head of the GRCOR function reports to the GRCOR committee 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.

Encumbered and Unencumbered Assets

Tables 7.1, 7.2 and 7.3 are designed to show the amounts of encumbered and unencumbered assets held by the Group. Assets are differentiated between those that are available for potential funding needs. All tables below are based on the official EBA reporting templates pertaining to Asset Encumbrance under CRD IV.

Table 7.1 – Assets
As at 31 December 2014

	Carrying amount of encumbered assets €m	Fair value of encumbered assets €m	Carrying amount of unencumbered assets €m	Fair value of unencumbered assets €m
Assets	**27,748**	**-**	**88,537**	-
Loans on demand	328	-	4,988	-
Equity instruments	-	-	48	48
Debt securities	1,760	1,760	14,545	14,545
Loans and advances other than loans on demand	25,610	-	61,045	-
Other assets	50	-	7,911	-

Table 7.2 – Collateral Received
As at 31 December 2014

	Fair value of encumbered collateral received or own debt securities issued €m	Fair value of collateral received or own debt securities issued available for encumbrance €m
Collateral received	**642**	**50**
Equity instruments	-	-
Debt securities	39	50
Other collateral received	603	-
Own debt securities issued other than own covered bonds or ABSs	-	-

Table 7.3 – Encumbered Assets / Collateral Received and Associated Liabilities
As at 31 December 2014

	Matching liabilities, contingent liabilities or securities lent €m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered €m
Carrying amount of selected financial liabilities	16,468	24,948
Other sources of encumbrance	2,459	3,442
Total sources of encumbrance	18,927	28,390

As part of managing its funding requirements, the Group from time to time encumbers assets as collateral to support wholesale funding initiatives. This would include covered bonds, asset backed securities, securities repurchase agreements and other structures that are secured over customer loans. At 31 December 2014, €28.4bn of the Group's assets and collateral received were encumbered, primarily through these structures.

Covered bonds, a key element of the Group's long-term funding strategy are issued through its subsidiary Bank of Ireland Mortgage Bank (BOIMB). BOIMB is registered as a designated mortgage credit institution to issue Irish Asset Covered Securities in accordance with relevant legislative requirements. BOIMB is required to maintain minimum contractual overcollateralisation of 5% and minimum legislative overcollateralisation of 3% (both on a prudent market value basis). This is monitored by the Covered Asset Monitor on behalf of the Central Bank of Ireland.

The Group recognises the restrictions on the transfer of liquidity between jurisdictions and separately monitors asset encumbrance by jurisdiction.

The Group has €7.9bn of unencumbered "Other assets". These are primarily made up of assets which would not be deemed available for encumbrance in the normal course of business and include intangible assets, tax assets, fixed assets and derivative assets.

Appendix I: CRD IV Capital Resources

Appendix I provides qualitative information on, and a brief explanation of, the principle components of the Group's CRD IV capital resources as outlined in Table 2.4.

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 160 and 161 of the Group's Annual Report 31 December 2014. Total equity includes preference stock, primarily the balance on the 2009 Preference Stock of which there is €1.3 billion outstanding at 31 December 2014 (31 December 2013: €1.3 billion outstanding).

Deferred tax assets

Key provisions under CRD IV include the introduction of new deductions from CET 1 capital relating to Deferred Tax Assets (DTA) that rely on future profitability according to Article 36 of the CRR.

Grandfathering of capital instruments

CRD IV provides for a grandfathering regime which allows member states to recognise, on a transitional basis, certain capital instruments which do not qualify for inclusion in Additional tier 1 or Tier 2 capital under CRD IV, on a reducing basis until 31 December 2021. Additional tier 1 capital which does not qualify as Tier 1 capital under CRD IV but does qualify as Tier 2 capital will be phased into Tier 2 from Additional tier 1 on a gradual basis.

Retirement benefit obligations

A prudential filter was previously applied in relation to the Group's defined benefit pension schemes resulting in a reversal of the IAS 19 accounting deficit and an add-back to total equity. The prudential filter required that any surpluses arising under IFRS in a defined benefit pension scheme was reversed for capital adequacy purposes. Similarly any deficits, reflecting actuarial losses were reversed from accounting equity. This is no longer the case under CRD IV and is to be phased out in line with CRD IV transitional rules.

Pension supplementary contributions

Under a prudential filter previously applied, credit institutions were required to deduct from capital certain pension supplementary contributions. As 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 CRD IV funding standard rules. This prudential filter is being phased out under CRD IV transitional rules.

Cashflow hedge reserve

The cashflow hedge reserve is included in accounting equity and is removed from regulatory capital through the application of a prudential filter. The cash flow reserve was positive at 31 December 2014, hence the application of the filter results in a deduction from total equity.

Available for sale reserve

The available for sale reserve was removed from regulatory capital under Basel II / CRD. CRD IV 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%. Under national discretion, the AFS filters remain for sovereign exposures on a transitional basis only. The available for sale is recognisable in capital under fully loaded CRD IV 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.

Intangible assets and goodwill

Intangible assets and goodwill are deducted in accordance with CRD IV requirements. The deduction is made at the level of CET 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 IV 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.

Holdings in financial sector entities & 10% / 15% threshold deduction

Where the investments in financial sector entities exceed relevant thresholds, then a deduction from CET 1 is required.

Additional Tier 1 capital

Additional Tier 1 capital instruments are subordinated securities with some equity like features but cannot be included as CET 1 capital, but can be included in AT 1 capital provided they meet the criteria set out in Article 52 of the CRR. 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 2.6 for further information.

Tier 2 capital

Tier 2 capital comprises certain qualifying subordinated liabilities, the criteria for which is set out in Article 62 of the CRR.

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 2.6 for further information.

Tier 2 undated debt

Undated subordinated loan capital 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 2.6 for further information.

Appendix II: 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 2014, and in particular the Remuneration Report pages 140 to 148. Copies of the Group's Annual Report 31 December 2014 can be obtained from our website www.bankofireland.com.

This section summarises remuneration for Code Staff in respect of 2014 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. During 2014, the Group Remuneration Committee met four times.

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

Code staff

The first Group Coded Roles listing was developed in early 2011, and submitted to the Central Bank of Ireland on the 6th of May 2011. As per our internal Coded Role list process, this listing is reviewed on a regular basis, at a minimum bi-annually, using the Coded Role identification process. In January 2014, the EBA published new guidelines on the identification process, which contain more specific details on how these roles are categorised. Eighteen different criteria are listed, split between qualitative and quantitative measures. These criteria were tested against all Bank of Ireland employees to determine who was holding a Coded Role. As at 31 Dec 2014, there were 156 Code Staff (31 December 2013: 115).

Remuneration restrictions

The Group is currently operating under a number of remuneration restrictions which cover all Directors, 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 are contained within "the 2011 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 considers itself to be in compliance with these remuneration restrictions.

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 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 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. The four Key Result Areas (KRAs), each with a minimum weighting of 10%, are as follows:
- Customer KRA
- Leadership and People Development KRA
- Financial / Revenue / Cost / Efficiency KRA
- Risk KRA (covers all areas of Risk including Credit, Regulatory, Operational and Conduct Risk)

Further 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:
- The Group's efforts are aligned with, and contribute to, the long term sustainability, value creation and success of the Group
- The Group has the necessary platform to attract, retain and motivate high calibre employees
- The Group offers 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 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
- The Group is 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, customer and public 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[1] in 2014.

Table 1a - Aggregate 2014 Remuneration Expenditure by Business Area

Business Area	No. of coded roles as at 31 December 2014[1]	No. of employees who held a coded role in 2014	2014 Remuneration expenditure €m
Corporate & treasury	40	41	11.99
Group credit & market risk	16	18	4.12
Group governance risk	19	21	3.67
Group manufacturing	5	7	1.59
Group support functions (CEO, Group Finance, Group HR, Non-Core)	19	26	5.79
Retail Ireland	22	34	7.06
Retail UK	14	18	4.33
Governor and NEDs	21[2]	24[2]	2.20
Total	156	189	40.75

Includes Fees, Salaries, Employer Pension Contributions (as specified in the 2014 EBA benchmarking exercise guidelines) and variable payments, made in 2014 and other cash benefits payable e.g. car allowance.
In addition, a payment to nearly all employees, relating to the Career & Reward Framework, which was a once-off non-performance related payment, is included.

No individual earned total remuneration of €1million or more in 2014.

[1] *Data shown for all employees who held a Code Role at any stage in 2014.*
[2] *For 2014, the Governor and NEDs figures include NEDs from Bank of Ireland Group (BOIG), Bank of Ireland (UK) plc (BOIUK), New Ireland Assurance Company (NIAC) and Bank of Ireland Mortgage Bank. Prior to 2014, these figures included NEDs from BOIG, BOIUK and a number of NEDs who held coded roles in Bank of Ireland subsidiaries (this is due to change in coded role criteria).*

Table 1b - 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[1]	20[1]	1.98
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.
[1] *The Governor and NEDs from Bank of Ireland Group, Bank of Ireland (UK) plc. and a number of NEDs who hold coded roles in Bank of Ireland subsidiaries.*

Table 2 – Analysis of 2014 Remuneration between Fixed and Variable Amounts (actually paid in 2014)

Table 2a - Senior Managers Remuneration Table (Group Executive Committee and Senior Management Teams for BOIUK & NIAC) (Note: There were 30 Senior Managers in Coded Roles in 2014)	**31 December 2014**	
	Non-deferred €m	**Deferred €m**
Total value of remuneration awarded in 2014		
Fixed remuneration[1]		
Cash based	9.79	-
Shares and share-linked instruments	-	-
Other[2]	0.16	-
Variable remuneration[3]		
Cash based	-	-
Shares and share-linked instruments	-	-
Other	-	-

Table 2b - All Other Risk Roles Remuneration Table (Governor, Non-Executive Directors & All Other Code Staff (Note: There were 159 Coded Roles (excluded Senior Managers) in 2014)	**31 December 2014**	
	Non-deferred €m	**Deferred €m**
Total value of remuneration awarded in 2014		
Fixed remuneration[1]		
Cash based	29.56	-
Shares and share-linked instruments	-	-
Other[2]	1.20	-
Variable remuneration[3]		
Cash based	-	-
Shares and share-linked instruments	-	-
Other	0.04	-

[1] *Fixed remuneration 2014: fees, salaries, employer pension contribution amounts, car allowances and other payments.*
[2] *Fixed Remuneration Other 2014: Relates to the once-off Career & Reward Framework Transition payment.*
[3] *Variable remuneration 2014: Cash bonuses, guaranteed bonus / contractual guarantees, cash LTIPs / deferred bonuses, retention payments, commissions and discretionary pension credits.*
The fixed to variable remuneration ratio for 2014 was 1:0

2014 New sign-on and severance payments

- No payments were made to any code staff hired during 2014 relating to the commencement of their employment.
- During the course of the year, three 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 was €0.93 million.
- The above payments are not included in the previous tables.

Appendix III: 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[1], 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;
2. Quarterly targets for the number of sustainable solutions **concluded** with customers;
3. Quarterly targets for the number of **terms being met** by customers in respect of forbearance, restructures and Personal Insolvency Arrangements (PIAs).

At 31 December 2014, the targets set by the CBI are as follows:

1. **Proposed**[1] sustainable solutions in respect of 85% of the loans in arrears greater than 90 days at previous quarter end;
2. **Concluded**[1] sustainable solutions in respect of 45% of the loans in arrears greater than 90 days at previous quarter end;
3. **Terms being met** in respect of 75% of the loans in forbearance / restructures and PIAs at previous quarter end.

In the context of the aforementioned public targets, at 31 December 2014, complying with the calculations stipulated by the CBI, the Group has reported:

1. **Proposed** sustainable solutions in respect of 103%[2] of the loans in arrears greater than 90 days;
2. **Concluded** sustainable solutions in respect of 85 % of the loans in arrears greater than 90 days;
2. **Terms being met** of 93% of the loans in forbearance / restructures and PIAs.

[1] *As defined in the Central Bank of Ireland document “Mortgage Arrears Resolution Targets” published on 13 March 2013.*
[2] *Under the CBI methodology, which applies to all Irish banks, the Group has exceeded 100% of the target set by the CBI.*

Appendix IV: Significant Subsidiaries

Bank of Ireland (UK) plc

Bank of Ireland (UK) plc, published a separate Pillar 3 document available at www.bankofirelanduk.com.

Table 1 shows the amount of capital Bank of Ireland (UK) plc is required to set aside to meet the minimum total capital ratio of 8% of RWAs set by the CRR.

	31 December 2014			31 December 2013		
Table 1 - Breakdown of Bank of Ireland (UK) plc's Regulatory Capital Requirement	**Capital requirement £m**	**RWA £m**	**Exposure at default £m**	Capital requirement £m	RWA £m	Exposure at default £m
Central governments or central banks	-	-	4,550	-	-	5,306
Multinational development banks	-	-	412	-	-	340
Institutions	5	59	225	6	78	291
Corporates	161	2,015	2,212	237	2,945	2,878
Retail	77	965	1,372	77	964	1,288
Secured by mortgages on residential property	402	5,019	14,070	377	4,713	12,988
Exposures in default	73	918	767	89	1,113	880
Other items	10	129	386	20	261	441
Credit and Counterparty Risk	**728**	**9,105**	**23,994**	**806**	**10,074**	**24,412**
Operational Risk	**51**	**643**	**-**	**43**	**544**	**-**
Total	**779**	**9,748**	**23,994**	**849**	**10,618**	**24,412**

Table 2 sets out Bank of Ireland (UK) plc's capital position as at 31 December 2014. This table shows a reconciliation between the reported capital in the Bank of Ireland (UK) plc's Annual Report and Regulatory Capital.

Table 2 - Reconciliation of Accounting Capital to Regulatory Capital	**Statutory Group balance sheet 31 December 2014 £m**	Regulatory Group balance sheet 31 December 2014 £m
Capital Base		
Total equity	**1,467**	**1,405**
- Ordinary share capital	*851*	*851*
- Capital Contribution[1]	*401*	*399*
- Retained Earnings[2]	*186*	*125*
- Cash flow hedge reserve	*26*	*26*
- Available for sale reserve	*3*	*3*
Common equity tier 1 (CET 1) capital regulatory adjustments:	**(175)**	**(169)**
- Deferred tax assets relying on future profitability[3]	*(105)*	*(98)*
- Intangible assets	*(39)*	*(39)*
- Cash flow hedge reserve	*(26)*	*(26)*
- Qualifying holdings outside the financial sector	*(3)*	*(3)*
- Available for sale reserve gains	*(3)*	*(3)*
Common equity tier 1 capital	**1,292**	**1,236**
Non-cumulative callable preference shares	300	240
Total Tier 1 capital	**1,592**	**1,476**
Subordinated liabilities (note 28 of the Bank of Ireland (UK) plc's Annual Report)	658	658
Grandfathered non-cumulative callable preferences shares	-	60
Total Tier 2 capital	**658**	**718**
Total capital base	**2,250**	**2,194**

The regulatory reporting group of Bank of Ireland (UK) plc is made up of the Bank and its subsidiaries comprising the NIIB Group.

1 *The £2 million difference in capital contribution relates to statutory accounting consolidation adjustments for NIIB, one of the Group's subsidiaries.*
2 *Of the £61 million difference in retained earnings, £60 million relates to statutory accounting consolidation adjustments for First Rate Exchange Service Holdings Limited (FRESH), the Group's jointly controlled entity and the remaining £1 million relates to statutory accounting consolidation adjustments for Bank of Ireland Trustee Co. Ltd., one of the Group's subsidiaries. Neither FRESH nor Bank of Ireland Trustees form part of the Group's regulatory reporting group.*
3 *Statutory Group Balance Sheet deferred tax asset includes c.£6 million of deferred tax asset that is not reliant on future profitability and hence not deductible from CET 1 but rather is risk weighted at 250%.*

Bank of Ireland Mortgage Bank

The principal activities of Bank of Ireland Mortgage Bank are the provision of Irish residential mortgages and the issuance of securities in accordance with the Asset Covered Securities Acts, 2001 to 2007 (the 'ACS Acts').

Bank of Ireland Mortgage Bank is a wholly owned subsidiary of the Governor & Company of the Bank of Ireland ('Bank of Ireland').

Risk Management
The Board of Directors for Bank of Ireland Mortgage Bank approves policies and limits with respect to credit risk, market risk, liquidity risk and operational risk. Bank of Ireland Mortgage Bank has entered into a range of service level agreements with Bank of Ireland to support its overall risk management and control processes.

The Head of Credit has responsibility for credit policy implementation and the Head of Finance has responsibility for financial risk policy implementation. Bank of Ireland Group Treasury has responsibility for day-to-day monitoring of market and liquidity risks. The Group Regulatory Compliance and Operational Risk Unit has responsibility for operational risk policy and controls.

Bank of Ireland Mortgage Bank's risk management and control policies comply with Bank of Ireland Group risk management policies, which include reviews on a regular basis. In addition, Bank of Ireland control functions (e.g. Credit, Group Internal Audit) independently review compliance with Bank of Ireland policies as part of their on-going work in Bank of Ireland Mortgage Bank.

Credit Risk Mitigation
Bank of Ireland Mortgage Bank employs a range of policies and practices to mitigate credit risk. The most important of these is the initial assessment of the borrower's capacity to repay the facility over the agreed timescale and the taking of security for funds advanced. Bank of Ireland Mortgage Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. In relation to loans and advances to customers, the principal type of security taken is residential property.

Bank of Ireland Mortgage Bank's loan book property values are determined by reference to the original or latest property valuations held, indexed to the Residential Property Price index published by the CSO. This index provides the relevant index to be applied to original market values in the period after January 2005. Equity / negative equity values are determined using the Residential property price index published by the CSO for the year ended 31 December 2014. The weighted average indexed LTV for the total loan book was 82% at 31 December 2014 (31 December 2013: 97%).

Security for each account in Bank of Ireland Mortgage Bank's portfolio consists of a first legal charge over residential real estate with supporting life and fire cover as appropriate. A dedicated team is responsible for the receipt and maintenance of security.

Bank of Ireland Mortgage Bank's requirements around completion, valuation and management requirements for collateral / security are set out in appropriate policies and procedures. Bank of Ireland Mortgage Bank's credit risk processes are designed to ensure that mortgage charges are enforceable at the time the credit agreement is concluded and that mortgage charges are filed on a timely basis.

Capital
At the 31 December 2014, Bank of Ireland Mortgage Bank's total capital ratio, including 2014 profits, was 13.5% (31 December 2013: 9.1%). During the year, a subordinated loan of €162 million matured whilst two further subordinated loans of €80 million and €70 million were redeemed before their final maturity dates. These subordinated loans were no longer efficient from a regulatory capital perspective and were replaced by a new €50 million subordinated loan which qualifies as regulatory capital.

Remuneration
Bank of Ireland Mortgage Bank is covered under the Group's Remuneration policy and associated governance. Please see pages 140 to 148 of the Group's Annual Report.

Remuneration disclosures relating to Bank of Ireland Mortgage Bank's material risk takers are incorporated within the Groups renumeration disclosures.

Capital Requirements / RWA

Table 1 shows the amount of capital Bank of Ireland Mortgage Bank is required to set aside to meet the minimum total capital ratio of 8% of RWA set by CRD IV.

Table 1 - Capital Requirements / RWA

	CRD IV transitional 31 December 2014	
	Capital requirement €m	**Risk weighted assets €m**
Credit risk & counterparty risk	426	5,331
IRB	426	5,331
Retail:		
- Secured by immovable property collateral	426	5,331
Standardised	-	-
Market risk	-	-
Operational risk	17	216
Other assets	9	108
Credit valuation adjustment	-	-
Total capital requirements	452	5,655

Breakdown of the Group's Regulatory Capital Requirement

Table 2 shows Bank of Ireland Mortgage Bank's minimum capital requirements (based on 8% of RWA), RWA and EAD by risk type.

Table 2 – Breakdown of Bank of Ireland Mortgage Bank's Regulatory Capital Requirement

	CRD IV transitional 31 December 2014		
	Capital requirement €m	**Risk weighted assets €m**	**Exposure at default €m**
Retail & foundation IRB Approach	426	5,331	20,260
Standardised approach	-	-	3,082
Market risk	-	-	-
Operational risk	17	216	-
Other assets	9	108	108
Credit valuation adjustment	-	-	-
Total	**452**	**5,655**	**23,450**

Capital Resources

Table 3 sets out Bank of Ireland Mortgage Bank's capital position as at 31 December 2014, and a reconciliation of accounting & regulatory capital.

Table 3 - Reconciliation of Accounting Capital with Regulatory Capital

	CRD IV transitional 31 December 2014 €m	CRD IV fully loaded 31 December 2014 €m
Capital base		
Total equity	870	870
Regulatory adjustments being phased in / out under CRD IV	**-**	**(74)**
- Deferred tax assets[1]	-	(74)
Other regulatory adjustments	**(86)**	**(86)**
- Cash flow hedge reserve	*(86)*	*(86)*
Common equity tier 1	**784**	**710**
Additional tier 1	**-**	**-**
Total tier 1 capital	**784**	**710**
Tier 2		
Tier 2 dated debt	140	140
Positive expected loss amounts[2]	32	32
Total tier 2 capital	**172**	**172**
Total capital	**956**	**882**
Total risk weighted assets	**7,090**	**7,090**[3]

1 *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.*
2 *Bank of Ireland Mortgage Bank has an excess of provisions over expected losses and these are included in Tier 2 capital subject to a limit of 1.25% of risk weighted assets calculated under the IRB approach.*
3 *Under CRD IV, Bank of Ireland Mortgage Bank is required to maintain a transitional floor set at 80% of Basel I requirements. The transitional floor capital requirement was €115 million (RWA €1.44 billion) at 31 December 2014.*

Capital Resources (continued)

Table 4 below outlines the component parts of regulatory capital with further details of capital instruments, adjustments, deductions and filters in line with the prescribed template provided in Article 5 of commission regulation (EU) No. 1423/2013.

The table further details total risk weighted assets, capital ratios and buffers before listing applicable caps on the inclusion of provisions in Tier 2 and capital instruments subject to phase-out.

Line referencing for Annex VI of commission regulation (EU) No. 1423/2013 is also provided. Rows that are not applicable to Bank of Ireland Mortgage Bank have been omitted.

Table 4 - Transitional Own Funds Disclosure
Disclosure according to Article 5 in commission implementing regulation (EU) No. 1423/2013.

Annex VI Reference		CRD IV 31 December 2014 €m	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No. 575/2013 €m
Common equity tier 1 capital: Instruments and reserves			
1	Capital instruments and the related share premium accounts	1,399	-
	Of which: ordinary stock	*738*	-
	Of which: share premium	*661*	-
2	Retained earnings	(615)	-
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses)	86	-
6	**Common equity tier 1 (CET 1) capital before regulatory adjustments**	**870**	
Common equity tier 1 (CET 1) capital: regulatory adjustments			
10	Deferred tax asset that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	74
11	Fair value reserves related to gains or losses on cash flow hedges	(86)	-
28	**Total regulatory adjustments to Common equity tier 1 (CET 1)**	**(86)**	-
29	**Common equity tier 1 (CET 1) capital**	**784**	
Additional tier 1 (AT 1) capital: Instruments			
36	**Additional tier 1 (AT 1) capital before regulatory adjustments**	**-**	
Additional tier 1 (AT 1) capital: regulatory adjustments			
43	**Total regulatory adjustments to Additional tier 1 (AT 1) capital**	**-**	
44	**Additional tier 1 (AT 1) capital**	**-**	
45	**Tier 1 capital (T1 = CET 1 + AT 1)**	**784**	
Tier 2 (T2) capital: Instruments and provisions			
46	Capital instruments and the related share premium accounts	140	-
50	Credit risk adjustments	32	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**172**	

Capital Resources (continued)

Transitional Own Funds Disclosure (continued)	CRD IV 31 December 2014 €m	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No. 575/2013 €m
Tier 2 (T2) capital: regulatory adjustments		
57 Total regulatory adjustments to Tier 2 (T2) capital	**-**	
58 Tier 2 (T2) capital	**172**	
59 Total capital (TC = T1 + T2)	**956**	
Capital ratios and buffers		
59a Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in regulation (EU) No. 575 / 2013 (i.e. CRR residual amounts)	0	-
Of which: items not deducted from CET 1 (regulation (EU) No 575/2013 residual amounts) deferred tax assets that rely on future profitability net of related tax liability	0	-
60 Total risk weighted assets	**7,090**	
Capital ratios and buffers		
61 Common equity tier 1	11.1%	
62 Tier 1	11.1%	
63 Total capital	13.5%	
64 Institution specific buffer requirement	-	
65 Of which: capital conservation buffer requirement	-	
66 Of which: countercyclical buffer requirement	-	
67 Of which: systemic risk buffer requirement	-	
67a Of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (0-SII) buffer	-	
68 Common equity tier 1 available to meet buffers	7.1%	

Capital Resources (continued)

Transitional Own Funds Disclosure (continued)	CRD IV 31 December 2014 €m	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No. 575/2013 €m
Applicable caps on the Inclusion of provisions in Tier 2		
76 Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach	1	-
78 Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	-
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	32	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)		
80 Current cap on CET 1 instruments subject to phase out arrangements	-	-
81 Amount excluded from CET 1 due to cap (excess over cap after redemptions and maturities)	-	-
82 Current cap on AT 1 instruments subject to phase out arrangements	-	-
83 Amount excluded from AT 1 due to cap (excess over cap after redemptions and maturities)	-	-
84 Current cap on T2 instruments subject to phase out arrangements	-	-
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

Capital Instruments

Table 5 provides information on the regulatory values of Bank of Ireland Mortgage Bank's Tier 2 subordinated loans.

Table 5 - Capital Instruments

	Nominal outstanding at 31 December 2014 €m	**Accounting Value 31 December 2014 €m**	**CRD IV regulatory value at fully loaded 31 December 2014 €m**	**CRD IV regulatory value at transitional 31 December 2014 €m**	Basel II / CRD regulatory value at 31 December 2013 €m
Subordinated loans from Parent	140	140	140	140	402
Tier 2 debt	**140**	**140**	**140**	**140**	**402**
Total capital instruments	**140**	**140**	**140**	**140**	**402**

Exposure to Credit Risk

Table 6 is based on EAD and shows Bank of Ireland Mortgage Bank's point-in-time and average exposure to credit risk.

Table 6 - Exposure to Credit Risk

	31 December 2014	
Exposure Class	**Total exposure (EAD) €m**	**Average exposures over the year (EAD) €m**
IRB approach		
Retail	20,260	20,279
Total IRB	**20,260**	**20,279**
Standardised approach		
Institutions	3,082	3,181
Total standardised	**3,082**	**3,181**
Total	**23,342**	**23,460**

Geographic Analysis of Exposures

Table 7a - Geographic Analysis of Exposures

Exposure Class	ROI EAD €m	ROI Exposure weighted PD %	ROI Exposure weighted LGD %	Total EAD €m	Total Exposure weighted PD %	Total Exposure weighted LGD %
IRB Approach						
- *Secured by immovable property collateral*	*20,260*	*13.3%*	*17.0%*	*20,260*	*13.3%*	*17.0%*
Total	**20,260**	**13.3%**	**17.0%**	**20,260**	**13.3%**	**17.0%**

Under CRD IV, geographical analysis of credit exposures is required based on exposures in the member states in which the institution has been authorised and member states or third countries in which institutions carry out activities through a brand or subsidiary.

Bank of Ireland Mortgage Bank's primary market is Ireland. The geographical locations shown in Tables 7a and 7b are based on the business unit where the exposure is booked, rather than where the borrower is located.

Table 7b - Geographic Analysis of Exposures

Exposure Class	31 December 2014 ROI (EAD) €m	31 December 2014 Total (EAD) €m
Standardised approach		
Institutions	3,082	3,082
Total	**3,082**	**3,082**

Industry Analysis of Exposures

Table 8 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 Bank of Ireland Mortgage Bank's Annual Report 31 December 2014 have been used, however, the values will differ as these tables are based on EAD.

Table 8 - Industry Analysis of Exposure

31 December 2014 Exposure Class	Financial (EAD) €m	Personal residential mortgages (EAD) €m	Total (EAD) €m
IRB approach			
Retail	-	20,260	20,260
Total IRB	**-**	**20,260**	**20,260**
Standardised approach			
Institutions	3,082	-	3,082
Total standardised	**3,082**	-	**3,082**
Total	**3,082**	**20,260**	**23,342**

Maturity Analysis of Exposures

The maturity analysis below discloses Bank of Ireland Mortgage Bank's credit exposure by residual contractual maturity date. Table 9 is based on EAD.

Table 9 - Maturity Analysis of Exposure

31 December 2014 Exposure Class	<1 year (EAD) €m	1-5 years (EAD) €m	>5 years (EAD) €m	Total (EAD) €m
IRB approach				
Retail	1,374	3,715	15,171	20,260
Total IRB	**1,374**	**3,715**	**15,171**	**20,260**
Standardised approach				
Institutions	2,124	227	731	3,082
Total standardised	**2,124**	**227**	**731**	**3,082**
Total	**3,498**	**3,942**	**15,903**	**23,342**

Analysis of Credit Quality – Retail IRB

Table 10 is based on EAD and shows the breakdown of the Retail sub-exposure classes by PD grade.

Table 10 - Analysis of Credit Quality Retail IRB - Exposure Class PD Grade

	CRD IV						
31 December 2014	**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	5,900	373	6%	15%	614	35%	2
5-7	9,366	1,474	16%	16%	676	36%	10
8-9	1,104	480	43%	18%	4	55%	5
10-11	1,604	1,613	101%	19%	1	85%	72
Default	2,286	1,391	61%	26%	-	-	894
Total	**20,260**	**5,331**	**26%**	**17%**	**1,295**	**36%**	**983**
Total retail	**20,260**	**5,331**	**26%**	**17%**	**1,295**	**36%**	**983**

The exposure weighted average risk weight percentage and expected loss for the performing grades (grades 1-11) and the defaulted expected loss across the Retail IRB exposure class includes the impact of the Group's application of certain Central Bank of Ireland required adjustments as part of the 2013 Balance Sheet Assessment adjustments to the outputs of the Group's risk weighted assets calculations.

Analysis of Credit Quality – Standardised Approach

Table 11 - Analysis of Credit Quality Standardised Approach - Exposure Class EAD €m

	Risk Weight									
31 December 2014	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Total EAD**	**Total RWA**
Institutions	3,082	-	-	-	-	-	-	-	3,082	-
Total EAD	**3,082**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,082**	**-**

Loan Loss Experience in the year ended 31 December 2014

A discussion on the factors which impacted the loan loss experience in the year ended 31 December 2014 is included in the Risk Management Report of the Group's Annual Report 31 December 2014 (under the Credit Risk section from page 68).

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.

For additional information on past due and impaired exposures please refer to pages 68 to 93 of the Group's Annual Report, 31 December 2014.

Past Due and Impaired Exposures by Industry

Table 12 is based on financial statement information and discloses ‘past due but not impaired’ and ‘impaired’ balances by industry class.

Table 12 - Past Due and Impaired Exposures by Industry Class

	31 December 2014		
	Past due exposures €m	**Impaired exposures €m**	**Total €m**
Personal			
- Residential mortgages	*935*	*1,825*	*2,760*
Total	**935**	**1,825**	**2,760**

Past Due and Impaired Exposures by Geography

Table 13 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 13 - Past due and Impaired

	31 December 2014		
Exposure by Geography	**Past due exposures €m**	**Impaired exposures €m**	**Total €m**
ROI	935	1,825	2,760
Total	**935**	**1,825**	**2,760**

Specific Credit Risk Adjustments (Provisions)

The loan loss provisioning methodology used by the Group is set out on page 92 and 93 of the Group’s Annual Report 31 December 2014.

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

CRD IV introduced the definition of ‘specific’ and ‘general’ credit risk adjustments and, in line with the relevant technical standard, the Group has included ‘specific provisions’ and ‘IBNR’ as specific credit risk adjustments. The Group has no ‘general’ credit risk adjustments.

Specific Credit Risk Adjustments (Provisions) (continued)

Specific Credit Risk Adjustments by Industry and Geography

Table 14 shows the specific credit risk adjustments and provision charge by industry classification. It is based on financial statement information.

Table 14 - Specific Credit Risk Adjustments by Industry

	31 December 2014	
Industry Class	**Total specific credit risk adjustments €m**	**Charges for specific credit risk adjustments €m**
Personal		
- Residential mortgages	*1,076*	*(101)*
Total	**1,076**	**(101)**

Table 15 shows Bank of Ireland Mortgage Bank specific credit risk adjustments on loans and advances to customers split between specific provisions 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 15 - Specific Credit Risk Adjustments by Geography

	Specific Credit Risk Adjustments 31 December 2014		
Geographic Breakdown	**Specific provisions €m**	**IBNR provisions €m**	**Total €m**
ROI	838	238	1,076
Total	**838**	**238**	**1,076**

Specific Credit Risk Adjustments by Provision Type

Table 16 shows Bank of Ireland Mortgage Bank's provisions against loans and advances to customers split by specific provisions and IBNR provisions.

Table 16- Specific Credit Risk Adjustments Type

	31 December 2014	
Specific Credit Risk Adjustments	**Total specific credit risk adjustments €m**	**Specific credit risk adjustments charges €m**
Total specific provisions	838	31
Total IBNR provisions	238	(132)
Total specific credit risk adjustments	**1,076**	**(101)**

Specific Credit Risk Adjustments by Regulatory Approach

Table 17 shows Bank of Ireland Mortgage Bank's provisions against loans and advances to customers, split by specific provisions and IBNR provisions and between regulatory approach; Standardised or IRB. It is based on financial statement information.

Table 17 - Specific Credit Risk Adjustments by Regulatory Approach

	31 December 2014		
Specific Credit Risk Adjustments	**IRB provisions €m**	**Standardised provisions €m**	**Total €m**
Total specific provisions	838	-	838
Total IBNR provisions	238	-	238
Total specific credit risk adjustments	**1,076**	**-**	**1,076**

Specific Credit Risk Adjustment Charges during the Year

Table 18 below shows the movement in the provision on loans and advances to customers during the year ended 31 December 2014. It is based on financial statement information.

Table 18 - Specific Credit Risk Adjustment charges during the Year

Provisions	**31 December 2014 €m**
Opening balance	1,345
Amount charged during the year	(101)
Provisions utilised, reversed and other movements	(168)
- Of which recoveries	*(16)*
Closing balance	**1,076**

Credit Risk Mitigation

The Credit Risk section on page 68 to 93 of the Group's Annual Report 31 December 2014 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.

Comparison of Expected versus Actual Loss

Table 19 is based on a comparison of regulatory expected loss of the performing IRB loan portfolios as at 31 December 2013 with actual loss (specific provision charge incurred) on these portfolios in the year ended 31 December 2014.

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 19 - Expected versus Actual Loss

IRB Exposure Class	**Expected loss calculated on 31 December 2013 €m**	**Specific provision charge for the year ended 31 December 2014 €m**	Expected loss calculated on 31 December 2012 €m	Specific provision charge for the year ended 31 December 2013 €m
Corporates	-	-	-	-
Institutions	-	-	-	-
Retail				
- SME & Other	-	-	-	-
- Secured by immovable property collateral	*1,253*	*31*	*731*	*232*
- Qualifying revolving retail exposures	-	-	-	-
Total	**1,253**	**31**	**731**	**232**

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.
CET 1	Common equity tier 1.
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 / CBI	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.
CVA	Credit Value Adjustments.
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. CRD IV 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:* CRD IV 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. • *Secured by immovable property 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 CRD IV 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 I of the CRR.
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 CRD IV).
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.
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. The term risk weighted assets for the purposes of this document also can be described as risk weighted exposures.
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.
SME	Small Medium Enterprise is defined as an enterprise which employs fewer than 250 people and whose annual turnover is less than €50 million, or annual balance sheet total less than €43 million.

Standardised Exposure Classes	• *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.
	• *Public Sector Entities:*	Exposures to Public Sector Entities and non-commercial undertakings.
	• *Corporates:*	In general, a corporate exposure is defined as a debt obligation of a corporate, partnership or proprietorship.
	• *Exposures in default:*	Where the exposure is past due more than 90 days or unlikely to pay.
	• *Exposures associated with particularly high risks:*	Exposures associated with particularly high risks such as investments in venture capital firms and private equity investments.
	• *Institutions and Corporates with a short-term credit assessment:*	Short term exposures to an Institution or Corporate.
	• *Other items:*	Exposures not falling into the other exposure classes outlined.

Trading Book

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

Through-the-Cycle PD (TtC PD)

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

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