Preliminary Statement
for the year ended 31 December 2011

Bank of Ireland

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Forward-Looking Statement

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

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

- *concerns on sovereign debt and financial uncertainties in the EU and in member countries and the potential effects of those uncertainties on the Group;*
- *general economic conditions in Ireland, the United Kingdom and the other markets in which the Group operates;*
- *the ability of the Group to generate additional liquidity and capital as required;*
- *the effects of the 2011 PCAR, the 2012 PCAR, the 2011 PLAR and the deleveraging reviews conducted by the Central Bank;*
- *property market conditions in Ireland and the UK;*
- *the potential exposure of the Group to various types of market risks, such as interest rate risk, foreign exchange rate risk, credit risk and commodity price risk;*
- *the implementation of the Irish Government's austerity measures relating to the financial support package from the EU / IMF;*
- *the availability of customer deposits to fund the Group's loan portfolio;*
- *the outcome of the Group's participation in the ELG scheme;*
- *the performance and volatility of international capital markets;*
- *the effects of the Irish Government's stockholding in the Group (through the NPRFC) and possible increases in the level of such stockholding;*
- *the impact of further downgrades in the Group's and the Irish Government's credit rating;*
- *changes in the Irish banking system;*
- *changes in applicable laws, regulations and taxes in jurisdictions in which the Group operates particularly banking regulation by the Irish Government;*
- *the outcome of any legal claims brought against the Group by third parties;*
- *development and implementation of the Group's strategy, including the Group's deleveraging plan, competition for customer deposits and the Group's ability to achieve estimated net interest margin increases and cost reductions; and*
- *the Group's ability to address information technology issues.*

Analyses of asset quality and impairment in addition to liquidity and funding is set out in the Risk Management section.

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

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www.bankofireland.com

Performance Summary

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

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

[2] *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. The Group has treated the following items as non-core: gain on liability management exercises, loss on disposal of loan books, gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss', gain on disposal of business activities, gross-up for policyholder tax in the Life business, cost of restructuring programmes, impact of changes in pension benefits, investment return on treasury stock held for policyholders and impact of 'coupon stopper' on subordinated debt. See page 18 for further information.*

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

Balance sheet and funding metrics	**31 December 2011**	31 December 2010
Stockholders' equity (€ billion)	10.2	7.4
Total assets (€ billion)	155	167
Total loans and advances to customers (after impairment provisions) (€ billion)[4]	102	114
Total customer deposits (€ billion)	71	65
Loan to deposit ratio[4]	144%	175%
Wholesale funding (€ billion)	51	70
Wholesale funding > 1 year to maturity (€ billion)	27	22
Wholesale funding < 1 year to maturity (€ billion)	24	48
Drawings from Monetary Authorities (net) (€ billion)	22	31
Capital		
Core tier 1 ratio	15.1%	9.7%
Core tier 1 ratio (PCAR / EBA stress test basis)[5]	14.3%	-
Total capital ratio	14.7%	11.0%
Risk weighted assets (€ billion)	67.1	79.0

[4] *On the balance sheet on page 94, these amounts are presented on separate lines being Loans and advances to customers and Other assets classified as held for sale.*

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

Group Chief Executive's Review

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

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

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

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

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

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

Financial Performance

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

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

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

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

Asset Quality

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

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

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

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

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

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

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

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

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

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

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

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

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

Our People

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

Outlook

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

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

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

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

Richie Boucher
19 February 2012

Operating and Financial Review

Basis of Presentation

This Operating and Financial Review is presented on an underlying basis. For an explanation of underlying see page 18.

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

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

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

Overview and Market Environment

Global economy

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

Irish Economy[1]

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

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

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

UK Economy

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

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

PCAR / PLAR 2011

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

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

The equity capital requirement was set to cover:

- the higher target capital ratios set by the Central Bank of a minimum Core tier 1 ratio (PCAR / EBA stress test basis)[1] of 10.5% on an ongoing basis and a Core tier 1 ratio of 6% under the adverse stress scenario;
- a prudent regulatory buffer of €0.5 billion for additional conservatism;
- the adverse stress scenario loan loss estimates based on aggressively conservative assumptions;
- a conservative loss on disposal assumption for relevant loans previously expected to transfer to NAMA (these loans are no longer transferring to NAMA); and
- a prudent estimate of losses arising from deleveraging under an adverse stress scenario.

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

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

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

2011 Recapitalisation of the Bank

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

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

[2] *Gains generated forming part of Core tier 1 capital includes: (a) the gain on LME pursuant to the 2011 PCAR of €1,804 million, (b) the increase in retained earnings on the repurchase of the US$150 million FRN of €40 million, (c) less taxation of €45 million and (d) other items amounting to €13 million. The gain on liability management exercises of €1,789 million shown in the income statement on page 92, includes gains of €17 million relating to liability management exercises undertaken in February 2011 and March 2011, is net of costs of €32 million but excludes items (b), (c) and (d) above.*

[3] *Excludes the impact of the capital contribution arising on the issue of the Contingent Capital note (see note 35).*

2011 Recapitalisation of the Bank (continued)

Summary:

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

2011 Recapitalisation of the Bank

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

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

Liability Management Exercises

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

State Placing and Rights Issue

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

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

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

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

Fees and Other Costs

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

Significant investment in Bank of Ireland

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

Reduction in Government stockholding

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

Contingent Capital note

In July 2011 the Group issued a Contingent Capital note to the State with a nominal amount of €1 billion and a maturity of five years. This Contingent Capital note is classified as a subordinated liability and it qualifies as Tier 2 capital. Further details are set out in note 35.

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

Summary Consolidated Income Statement on an Underlying[2] Basis

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

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

[2] *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. The Group has treated the following items as non-core: gain on liability management exercises, loss on disposal of loan books, gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss', gain on disposal of business activities, gross-up for policyholder tax in the Life business, cost of restructuring programmes, impact of changes in pension benefits, investment return on treasury stock held for policyholders and impact of 'coupon stopper' on subordinated debt. See page 18 for further information.*

Operating income (net of insurance claims)

Net interest income

Table: 1

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

The year on year changes in 'net interest income' and 'net other income' are affected by certain IFRS income classifications. Under IFRS, certain assets and liabilities can be designated at 'fair value through profit or loss' (FVTPL). Where the Group has designated liabilities at 'fair value through profit or loss', the total fair value movements on these liabilities, including interest expense, are reported in 'net other income'. However, the interest income on any assets which are funded by these liabilities is reported in the 'net interest income'. In addition, debt is raised in a variety of currencies and the resulting foreign exchange and interest rate risk is managed using derivative instruments – the cost of which is reported in 'net other income'. To enable a better understanding of underlying business trends, the impact of these IFRS income classifications are adjusted between net interest income and net other income and are shown in the table above.

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

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

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

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

partly offset by:

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

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

Table: 2

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

Government guarantee fees of €449 million for the year ended 31 December 2011 compares to a charge of €343 million for the year ended 31 December 2010. The increase of €106 million reflects the higher fee structure associated with the ELG scheme partly offset by the reduction in the level of liabilities guaranteed. The CIFS Scheme expired in September 2010. Further information is set out in note 36.

Net other income

Table: 3

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

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

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

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

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

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

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

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

Operating expenses

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

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

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

Other costs of €785 million for the year ended 31 December 2011 were €10 million higher when compared to €775 million for the year ended 31 December 2010 primarily due to costs relating to property impairment, the transition of IT outsourcing contracts and costs related to the PCAR / PLAR 2011 process.
The Group continues to maintain its tight focus on cost management and the implementation of certain new outsourcing contracts together with ongoing increases in the levels of consolidation, standardisation and simplification of the Group's operations is expected to lead to further cost reductions over the medium term.

Impairment charges on loans and advances to customers

Table: 5

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

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

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

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

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

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

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

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

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

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

Impairment charges on loans and advances to customers (continued)

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

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

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

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

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

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

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

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

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

Impairment charge on available for sale (AFS) financial assets

Table: 6

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

An impairment charge on available for sale (AFS) financial assets of €21 million was incurred in the year ended 31 December 2011 due primarily to a charge of €16 million on subordinated debt issued by Irish Life and Permanent plc. In the year ended 31 December 2010, the Group incurred an impairment charge of €168 million. This included a charge of €98 million on a holding of subordinated debt issued by Allied Irish Banks plc. In addition, the Group incurred an impairment charge of €70 million on NAMA subordinated bonds following the decision by NAMA not to pay the discretionary coupon due on 1 March 2011.

Impairment charges on assets sold to NAMA

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

Table: 7

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

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

Gain / (loss) on sale of assets to NAMA

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

[1] *The consideration consists of the fair value of NAMA senior bonds (representing 95% of the nominal consideration) and the fair value of NAMA subordinated bonds (representing 5% of the nominal consideration) (see note 22 and note 23).*

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

Non-core items

Underlying performance excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. The Group has treated the following items as non-core in the year ended 31 December 2011:

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

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

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

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

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

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

Gross-up for policyholder tax in the Life business
Accounting standards require that the income statement be grossed up in respect of the total tax payable by Bank of Ireland Life, comprising both policyholder and stockholder tax. The tax gross-up relating to policyholder tax is included within non-core items.

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

Impact of changes in pension benefits
The Group recognised a gain of €2 million on its pension schemes during the year ended 31 December 2011. During 2010, the Group implemented a number of changes to its defined benefit pension schemes which resulted in a gain of €733 million in the year ended 31 December 2010.

Investment return on treasury stock held for policyholders
Under accounting standards, the Group income statement excludes the impact of the change in value of Bank of Ireland stock held by Bank of Ireland Life for

Non-core items (continued)

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

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

Taxation

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

Summary Consolidated Balance Sheet

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

[1] *On the balance sheet on page 94, these amounts are presented on separate lines being Loans and advances to customers and Other assets classified as held for sale.*

Loans and advances to customers

Table: 9

Composition by portfolio **Loans and advances to customers**	**31 December 2011** **€bn**	**%**	31 December 2010 €bn	%
Residential mortgages	57	54%	60	51%
- Retail Ireland	*28*	*26%*	*28*	*24%*
- Retail UK	*29*	*28%*	*32*	*27%*
- Retail UK (Stg£bn equivalent)	*25*	*-*	*28*	*-*
Non-property SME and corporate	27	24%	31	26%
- Republic of Ireland SME	*11*	*10%*	*11*	*9%*
- UK SME	*4*	*3%*	*4*	*3%*
- Corporate	*12*	*11%*	*16*	*14%*
Property and construction	21	19%	24	20%
- Investment	*17*	*16%*	*20*	*17%*
- Land and development	*4*	*3%*	*4*	*3%*
Consumer	3	3%	4	3%
Loans and advances to customers (before impairment provisions)	**108**	**100%**	**119**	**100%**
Impairment provisions	(6)		(5)	
Loans and advances to customers (after impairment provisions)	**102**		**114**	**(11%)**
This is presented in the balance sheet on page 94 as:				
Loans and advances to customers	100		114	
Other assets classified as held for sale	2		-	
Loans and advances to customers (after impairment provisions)	**102**		**114**	**(11%)**

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

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

For further information on the disposal of loan portfolios see note 16.

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

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

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

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

Assets held for sale to NAMA

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

Liquid assets

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

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

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

Customer deposits

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

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

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

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

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

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

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

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

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

Wholesale funding

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

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

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

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

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

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

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

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

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

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

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

Subordinated liabilities

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

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

In February 2011, the Group exchanged €103 million nominal value of certain Canadian dollar Lower tier 2 securities for €56 million of euro and Canadian dollar medium term notes due in 2012. This generated additional Core tier 1 capital of €46 million whilst reducing Total capital by a net €56 million.

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

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

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

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

In July 2011, the Group issued a Contingent Capital note ('CCN') with a nominal value of €1 billion and a maturity of five years to the State and received cash of €985 million, (net of a fee of €15 million). For further information see note 35.

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

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

Stockholders' equity

Table: 15

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

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

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

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

Net new equity capital issued comprised of the following elements:

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

partly offset by:

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

Foreign exchange movements relate primarily to the impact on the translation of the Group's net investments in foreign operations arising primarily from the 3% strengthening of the sterling aginst euro in the year ended 31 December 2011.

The cash flow hedge reserve movement reflects the impact of changes in interest rates on the mark to market value of cash flow hedge accounted derivatives. Over time, the reserve will flow through the income statement in line with the underlying hedged instruments.

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

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

Other assets and other liabilities

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

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

At 31 December 2011, the deferred tax asset was €1.4 billion, an increase of €0.2 billion compared to €1.1 billion at 31 December 2010.

Other liabilities, at 31 December 2011, include derivative financial instruments with a negative fair value of €6.0 billion compared to a negative fair value of €5.4 billion at 31 December 2010. The increase of €0.6 billion in the fair value of derivative liabilities is due to the impact of the movement in foreign exchange rates (particularly the euro / sterling exchange rate) and interest rates on the negative fair value of the derivatives during the year ended 31 December 2011.

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

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

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Capital

Regulatory capital and key capital ratios

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

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

Capital (continued)

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

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

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

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

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

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

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

Divisional Performance - on an Underlying Basis

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

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

Retail Ireland

Retail Ireland incorporates the Group's Branch Network, Mortgage Business, Consumer Banking, Business Banking and Private Banking activities in the Republic of Ireland and is built on a broad distribution platform and a comprehensive suite of retail and business products and services.

The year ended 31 December 2011 was particularly difficult for the Group's Retail businesses in Ireland, which continued to be adversely impacted by the ongoing economic downturn. The current economic environment, together with lower disposable incomes, has resulted in subdued demand for lending and other financial services products. Intense competition for deposits and the low interest rate environment resulted in a further reduction in deposit margins. The impairment charge on loans and advances to customers remained elevated due to the economic downturn, high levels of unemployment, increased default arrears in the mortgage portfolio and low levels of transactions in both the residential and commercial property markets.

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

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

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

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

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

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

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

Retail Ireland (continued)

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

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

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

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

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

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

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

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

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

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

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

Retail Ireland (continued)

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

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

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

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

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

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

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

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

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

[2] This number includes an adjustment to consideration in respect of assets transferred during 2010.

Bank of Ireland Life

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

Under the terms of the Group's EU restructuring plan, the Group has committed to dispose of its shareholding in New Ireland, but retains the ability to distribute protection, investment and pension products.

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

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

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

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

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

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

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

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

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

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

Bank of Ireland Life (continued)

Embedded Value Performance

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

The alternative method of presenting the performance of the Life business is on an Embedded Value basis. This method is widely used in the life assurance industry.

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

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

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

Retail UK (Sterling)

The Retail UK Division incorporates the joint ventures with the UK Post Office, the UK Residential mortgage business, the Group's branch network in Northern Ireland and the Group's Business Banking business in Great Britain and Northern Ireland. On 1 November 2010, the Group transferred a substantial part of its UK banking business to a UK, wholly owned licensed banking subsidiary, Bank of Ireland (UK) plc (this has had no impact on segmental reporting).

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

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

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

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

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

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

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

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

Retail UK (Sterling) (continued)

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

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

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

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

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

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

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

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

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

Retail UK (Sterling) (continued)

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

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

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

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

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

Corporate and Treasury

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

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

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

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

Corporate and Treasury (continued)

The change in 'Net interest income' and 'Net other income' is impacted by IFRS income classifications between the two income categories.

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

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

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

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

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

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

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

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

Corporate and Treasury (continued)

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

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

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

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

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

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

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

Corporate and Treasury (continued)

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

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

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

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

Division Centre includes central management costs and IBI Corporate Finance.

Group Centre

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

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

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

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

- higher **Government guarantee fees** of €449 million for the year ended 31 December 2011 compares to a charge of €343 million for the year ended 31 December 2010. The increase of €106 million reflects the higher fee structure associated with the ELG scheme partly offset by the reduction in the level of liabilities guaranteed. The CIFS Scheme expired in September 2010. Further information is set out in note 36 on page 152;
- higher insurance liabilities and claims paid;

partly offset by:

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

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

The **impairment charge on available for sale financial assets (AFS)** of €70 million for the year ended 31 December 2010 reflected the charge arising on the Group's holding of NAMA subordinated bonds following the decision by NAMA not to pay the discretionary coupon due on 1 March 2011.

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

Income Statement - Operating Segments

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

* Underlying performance excludes the impact of non-core items (see page 18).

Income Statement - Operating Segments

Year ended 31 December 2010	Net interest income €m	Insurance net premium income €m	Other income €m	Total operating income €m	Insurance contract liabilities and claims paid €m	Total operating income net of insurance claims €m	Operating expenses €m	Operating profit / (loss) before impairment charges on financial assets €m	Impairment charges on loans and advances to customers €m	Impairment charges on available for sale assets €m	Impairment charges on assets held for sale to NAMA €m	Loss on sale of assets to NAMA €m	Share of results of associates and joint ventures (after tax) €m	Profit / (loss) before taxation €m
Retail Ireland	1,010	-	347	1,357	-	1,357	(919)	438	(1,142)	-	(100)	(675)	12	(1,467)
Bank of Ireland Life	(2)	949	476	1,423	(1,250)	173	(103)	70	-	-	-	-	-	70
Retail UK	592	-	62	654	-	654	(372)	282	(448)	-	(31)	(398)	37	(558)
Corporate and Treasury	885	-	43	928	-	928	(287)	641	(269)	(98)	(126)	(1,121)	-	(973)
Group Centre	(249)	20	(63)	(292)	(18)	(310)	(104)	(414)	-	(70)	-	(47)	-	(531)
Group – underlying*	2,236	969	865	4,070	(1,268)	2,802	(1,785)	1,017	(1,859)	(168)	(257)	(2,241)	49	(3,459)
Non-core items:														
- Gain on liability management exercises	3	-	1,410	1,413	-	1,413		1,413	-	-	-	-	-	1,413
- Impact of changes in pension benefits	-	-	-	-	-	-	733	733	-	-	-	-	-	733
- Gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	-	-	360	360	-	360	-	360	-	-	-	-	-	360
- Impact of 'coupon stopper' on certain subordinated debt	(35)	-	(1)	(36)	-	(36)	-	(36)	-	-	-	-	-	(36)
- Gross-up of policyholder tax in the Life business	-	-	22	22	-	22	-	22	-	-	-	-	-	22
- Investment return on treasury stock held for policyholders	-	-	20	20	-	20	-	20	-	-	-	-	-	20
- Cost of restructuring programmes	-	-	-	-	-	-	(18)	(18)	-	-	-	-	-	(18)
- Gain on disposal of business activities	15	-	-	15	-	15	-	15	-	-	-	-	-	15
Group total	2,219	969	2,676	5,864	(1,268)	4,596	(1,070)	3,526	(1,859)	(168)	(257)	(2,241)	49	(950)

* Underlying performance excludes the impact of non-core items (see page 18).

Risk Management

Key points:

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

3.1.2 Book Profile - Loans and advances to customers

Geographical and industry analysis of loans and advances to customers

Loans and advances to customers in the tables on pages 49 to 56 include loans and advances to customers and loans held for sale at 31 December 2011. The 2010 comparative tables do not include loans held for sale to NAMA.

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

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

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

The Group's primary markets are Ireland and the UK and exposures originated and managed in these countries represent a material concentration of credit risk. Similarly, the Group exhibits a material concentration in Residential mortgages and in the Property and construction sector.

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

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

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

3 Credit Risk (continued)

3.1.3 Asset Quality - Loans and advances to customers

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

The Group applies internal ratings to loans based on an assessment of the credit quality of the customer, as part of its credit risk management system. A thirteen point credit grade rating scale is used for more complex, individually managed loans, including wholesale, corporate and business lending. A seven point credit grade rating scale is used for standard products (including mortgages, personal and small business loans). Both credit scales have a defined relationship with the Group's Probability of Default (PD) scale.

'Neither past due nor impaired' ratings are summarised as set out below:
Mappings to external rating agencies are indicative only, as additional factors such as collateral will be taken into account by the Group in assigning a credit grade to a counterparty.

- high quality ratings apply to loans to customers, strong corporate and business counterparties and consumer banking borrowers (including Residential mortgages) with whom the Group has an excellent repayment experience. High quality ratings are derived from grades 1 to 4 on the thirteen point grade scale, grades 1 and 2 on the seven point grade scale and ratings equivalent to AAA, AA+, AA, AA-, A+, A, A- and BBB+ and BBB for the external major rating agencies;
- satisfactory quality ratings apply to good quality loans that are performing as expected, including loans to small and medium sized enterprises, leveraged entities and more recently established businesses. Satisfactory quality ratings also include some element of the Group's retail portfolios. Satisfactory quality ratings are derived from grades 5 to 7 on the thirteen point grade scale, grade 3 on the seven point grade scale and external ratings equivalent to BBB-, BB+, BB and BB-. In addition, satisfactory quality ratings can also apply to certain temporary and permanent mortgage restructuring arrangements that are neither past due nor impaired;
- acceptable quality ratings apply to loans to customers with increased risk profiles that are subject to closer monitoring and scrutiny by lenders with the objective of managing risk and moving accounts to an improved rating category. Acceptable quality ratings are derived from grades 8 and 9 on the thirteen point grade scale, grade 4 outstandings within the seven point scale and external ratings equivalent to B+. In addition, acceptable quality ratings can also apply to certain temporary mortgage restructuring arrangements that are neither past due nor impaired; and
- the lower quality but neither past due nor impaired rating applies to those loans that are neither in arrears nor impaired but where the Group requires a work down or work out of the relationship unless an early reduction in risk is achievable. Lower quality ratings are derived from outstandings within rating grades 10 and 11 on the thirteen point grade scale and grade 5 on the seven point grade scale and external ratings equivalent to B or below.

'Past due but not impaired' loans are defined as follows:

- loans where repayment of interest and / or principal are overdue by at least one day but which are not impaired.

'Impaired' loans are defined as follows:

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

Asset Quality - Loans and advances to customers (continued)

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

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

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

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

Risk profile of loans and advances to customers

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

Asset Quality - Loans and advances to customers (continued)

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

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

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

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

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

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

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

Asset Quality - Loans and advances to customers (continued)

'Past due but not impaired':

The tables below provide an aged analysis of loans and advances to customers 'past due but not impaired' by asset classification. Amounts arising from operational and / or timing issues that are outside the control of customers are generally excluded.

31 December 2011 **Loans and advances to customers including held for sale - past due but not impaired**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Past due up to 30 days	1,384	273	479	82	2,218
Past due 31 - 60 days	741	84	416	54	1,295
Past due 61 - 90 days	431	73	147	22	673
Past due more than 90 days	1,964	-	-	-	1,964
Total past due but not impaired	**4,520**	**430**	**1,042**	**158**	**6,150**
Impaired	1,474	4,043	7,623	338	13,478
Past due but not impaired and impaired	**5,994**	**4,473**	**8,665**	**496**	**19,628**

31 December 2010 Loans and advances to customers past due but not impaired	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Past due up to 30 days	1,221	303	801	114	2,439
Past due 31 - 60 days	590	108	302	69	1,069
Past due 61 - 90 days	332	79	476	26	913
Past due more than 90 days	1,471	-	-	-	1,471
Total past due but not impaired	3,614	490	1,579	209	5,892
Impaired	1,077	3,657	5,877	371	10,982
Past due but not impaired and impaired	4,691	4,147	7,456	580	16,874

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

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

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

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

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

Asset Quality - Loans and advances to customers (continued)

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

31 December 2010 Loans and advances to customers Composition and impairment	Advances (pre-impairment) €m	Impaired loans €m	Impaired loans as % of advances %	Impairment provisions €m	Impairment provisions as % of impaired loans %
Residential mortgages	60,266	1,077	1.8%	725	67%
- Retail Ireland	*28,067*	*921*	*3.3%*	*575*	*62%*
- Retail UK	*32,199*	*156*	*0.5%*	*150*	*96%*
Non-property SME and corporate	31,073	3,657	11.8%	1,474	40%
- Republic of Ireland SME	*11,155*	*1,782*	*16.0%*	*844*	*47%*
- UK SME	*3,895*	*550*	*14.1%*	*207*	*38%*
- Corporate	*16,023*	*1,325*	*8.3%*	*423*	*32%*
Property and construction	24,394	5,877	24.1%	2,455	42%
- Investment	*19,819*	*2,806*	*14.2%*	*951*	*34%*
- Land and development	*4,575*	*3,071*	*67.1%*	*1,504*	*49%*
Consumer	3,699	371	10.0%	321	87%
Total loans and advances to customers	**119,432**	**10,982**	**9.2%**	**4,975**	**45%**

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

Asset Quality - Loans and advances to customers (continued)

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

'Impaired' loans increased from €11 billion or 9.2% of Loans and advances to customers at 31 December 2010 to €13 billion or 12.5% at 31 December 2011. The loan book continued to be impacted by the general economic downturn in Ireland resulting in falling asset values and low levels of transactions and illiquidity in property markets, high levels of unemployment, lower disposable incomes, poor consumer sentiment and the heightened level of business insolvencies.

The stock of impairment provisions of €6.4 billion at 31 December 2011 represented 47% of impaired loans (31 December 2010: impairment provisions of €5.0 billion representing 45% of impaired loans).

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

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

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

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

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

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

Asset Quality - Loans and advances to customers (continued)

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

Impairment charges on Loans and advances to Customers
High levels of unemployment, lower disposable incomes, falling asset values, poor consumer sentiment, rising business insolvencies and low levels of transactions in property markets are the key drivers of the impairment charges across the Group's loan portfolios.

The impairment **charges on loans and advances to customers** of €1,939 million for the year ended 31 December 2011 increased by €80 million compared to the impairment charge of €1,859 million for the year ended 31 December 2010 reflecting the lower impairment charges on the Non-property SME and corporate portfolio as well as the Consumer portfolio, offset by the higher impairment charges on Residential mortgages and the Property and construction portfolio.

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

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

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

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

Asset Quality - Loans and advances to customers (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Asset Quality - Loans and advances to customers (continued)

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

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

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

3.1.4 Asset Quality - Segmental Analysis

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

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

Asset Quality - Segmental Analysis (continued)

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

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

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

Repossessed collateral

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

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

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

3.1.5 Asset Quality - Held for Sale

Held for sale - composition by division

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

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

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

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

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

Held for sale - composition by risk profile

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

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

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

Asset Quality - Held for Sale (continued)

'Neither past due nor impaired':

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

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

'Past due but not impaired':

The table below provides an aged analysis of loans held for sale which are 'past due but not impaired' by asset classification. Amounts arising from operational and / or timing issues that are outside the control of customers are generally excluded.

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

'Impaired':

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

31 December 2011	Advances €m	Impaired loans €m	Impaired loans as a % of advances €m	Total provisions €m	Provisions as a % of impaired loans €m
Residential mortgages	802	-	-	-	-
Consumer	-	-	-	-	-
Non-property SME and corporate	1,642	20	1%	21	100%
Property and construction	-	-	-	-	-
Loans and Advances to Customers[1]	**2,444**	**20**	**1%**	**21**	**100%**

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

3.1.6 Asset Quality - Other Financial Instruments

Asset quality: Other financial instruments

Other financial instruments include available for sale financial assets, NAMA senior bonds, derivative financial instruments, loans and advances to banks, interest receivable and any reinsurance assets. The table below sets out the Group's exposure to Other financial instruments based on the gross amount before provisions for impairment.

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

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

Sovereign debt and certain other exposures

Set out in the table below is an analysis of the Group's exposure to sovereign debt and certain other exposures (primarily being financial institution exposure) by selected balance sheet line item as at 31 December 2011. In addition, for these line items, further information on the Group's exposures to selected countries (being Ireland, Italy and Spain) representing eurozone countries that have a credit rating of AA or below from Standard & Poor's and where the Group has an exposure of over €250 million are set out on pages 63 to 66.

Cash and balances at central banks

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

The Group's exposure to the United Kingdom shown above and on page 62 in respect of loans and advances to banks primarily relates to liquid assets in excess of regulatory liquidity requirements held by Bank of Ireland (UK) plc. The Group expects its excess holdings of liquid assets in Bank of Ireland (UK) plc to reduce during 2012 as regulatory approval for the transfer of loans to Bank of Ireland (UK) plc is received.

Other financial assets at fair value through profit or loss

The Group's holdings of 'Other financial assets at fair value through profit or loss' primarily relate to the Group's Life Assurance Business. The majority of these assets are held on behalf of policyholders who bear the inherent risks and rewards thereon. Therefore, any change in the carrying value results in an equal change in the amounts due to policyholders. The assets include Government bonds held by Bank of Ireland Life that back linked and non-linked policyholder liabilities and those held for solvency margin purposes. Information on these bonds is set out on pages 63 to 66.

Loans and advances to banks

See table on page 62 for further details.

Available for sale financial assets

Available for sale financial assets consist of Government bonds, senior bank debt, covered bonds, subordinated debt and asset backed securities. See table on page 62 for further details.

NAMA senior bonds

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

Other information

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

Sovereign debt and certain other exposures (continued)

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

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

[1] *Excludes Irish Government bonds with a carrying value of €163 million that are accounted for at fair value through profit or loss and that are held by Bank of Ireland Life. See page 63.*

[2] *NAMA subordinated debt of €113 million, is classified as an available for sale debt instrument.*

Sovereign debt and certain other exposures (continued)

Additional information on selected European countries

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

Ireland

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

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

The Group accounts for each of these assets as follows:

- Cash and balances at Central banks are short term in nature and are held at amortised cost.
- Other financial assets at fair value through profit or loss - any changes in the fair value of these assets are treated as gains or charges in the Group's income statement. Irish Government bonds with a nominal value of €501 million and a fair value of €462 million are held on behalf of the Group and comprise assets held by Bank of Ireland Life for solvency margin purposes (nominal value of €132 million; fair value of €163 million), bonds that back non-linked liabilities to Bank of Ireland Life policyholders (nominal value of €260 million; fair value of €191 million) and bonds that are linked to Bank of Ireland Life policyholder liabilities (nominal value of €110 million; fair value of €108 million).
- Loans and advances to banks include loans to credit institutions and are held at amortised cost.
- Available for sale financial assets are carried in the balance sheet at their fair value. Other than in respect of impairment, any change in fair value is treated as a movement in the AFS reserve in Stockholders equity.
- At 31 December 2011, the Group had holdings of NAMA senior bonds, which are issued by NAMA and guaranteed by the Irish Government, with a nominal value of €5,079 million and a fair value at that date of €5,082 million. NAMA senior bonds are classified as 'Loans and receivables' and accounted for at amortised cost which includes any provisions for impairment. The carrying value of these assets is not adjusted for changes in their fair value.

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

Sovereign debt and certain other exposures (continued)

Ireland (continued)

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

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

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

Sovereign debt and certain other exposures (continued)

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

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

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

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

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

Sovereign debt and certain other exposures (continued)

Spain

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

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

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

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

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

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

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Supplementary section - Retail Ireland Mortgages

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

Book composition

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

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

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

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

Book composition (continued)

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

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

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

Book composition (continued)

Table 3a:

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

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

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

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

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

Book composition (continued)

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

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

Table 3b:

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

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

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

Table 3c:

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

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

Book composition (continued)

Table 3d:

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

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

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

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

Table 3e:

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

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

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

Book composition (continued)

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

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

Asset quality

Table 4:

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

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

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

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

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

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

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

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

Asset quality (continued)

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

Table 5:

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

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

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

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

Asset quality (continued)

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

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

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

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

Temporary forbearance options include setting short term revised repayments or short term suspension of repayments. Permanent forbearance and / or restructuring solutions include, term extensions, phased step-up repayments over total contracted term and capitalisation of arrears.

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

Repossessions (Retail Ireland)

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

Table 6:

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

Table 6a:

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

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

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

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

Supplementary section - UK Mortgages

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

Book composition

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

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

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

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

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

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

Book composition (continued)

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

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

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

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

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

Book composition (continued)

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

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

Table 3b:

Arrears profile of Retail UK mortgages past due but not impaired (before impairment provisions)	31 December 2011 Standard £m	31 December 2011 Buy to let £m	31 December 2011 Self certified £m	31 December 2011 Total £m	31 December 2010 Standard £m	31 December 2010 Buy to let £m	31 December 2010 Self certified £m	31 December 2010 Total £m
1 - 30 days	230	193	255	678	235	210	242	687
31 - 60 days	79	95	88	262	93	103	95	291
61 - 90 days	33	46	39	118	44	57	56	157
91 - 180 days	68	82	74	224	72	101	115	288
181 - 360 days	44	54	61	159	54	64	83	201
Over 360 days	33	40	47	120	33	39	52	124
Total Retail UK mortgages past due, but not impaired	**487**	**511**	**563**	**1,561**	**532**	**573**	**643**	**1,748**
Retail UK mortgages with equity	386	451	505	1,342	433	529	595	1,557
Retail UK mortgages with negative equity	101	60	58	219	99	44	48	191

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

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

Table 3c:
31 December 2011

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

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

Book composition (continued)

Table 3d: 31 December 2011 Loan to value ratio of total Retail UK mortgage loan book including held for sale	Standard £m	Standard %	Buy to let £m	Buy to let %	Self certified £m	Self certified %	Total £m	Total %
Less than 50%	2,236	21%	966	10%	344	9%	3,546	14%
51% to 70%	1,653	15%	2,675	27%	735	18%	5,063	20%
71% to 80%	1,495	14%	2,282	23%	857	21%	4,634	19%
81% to 90%	2,103	19%	2,136	22%	1,022	25%	5,261	21%
91% to 100%	1,846	17%	1,293	13%	821	20%	3,960	16%
Subtotal	**9,333**	**86%**	**9,352**	**95%**	**3,779**	**94%**	**22,464**	**91%**
101% to 120%	1,452	13%	412	4%	224	6%	2,088	8%
121% to 150%	72	1%	45	-	12	-	129	1%
Greater than 150%	48	-	17	-	9	-	73	-
Subtotal	**1,572**	**14%**	**474**	**5%**	**245**	**6%**	**2,291**	**9%**
Total	**10,905**	**100%**	**9,826**	**100%**	**4,024**	**100%**	**24,755**	**100%**
Weighted average LTV:								
Stock of Retail UK mortgages at year end[1]		74%		74%		78%		75%
New Retail UK mortgages during the year[1]		81%		70%		N/A		97%

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

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

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

Table 3e: 31 December 2011 Loan to value ratio of Retail UK mortgages > 90 days past due and / or impaired including held for sale	Standard £m	Standard %	Buy to let £m	Buy to let %	Self certified £m	Self certified %	Total residential mortgage portfolio £m	Total residential mortgage portfolio %
Less than 50%	20	13%	5	2%	4	2%	29	5%
51% to 70%	22	14%	26	10%	18	9%	66	11%
71% to 80%	18	12%	41	16%	27	14%	86	14%
81% to 90%	19	12%	56	22%	48	25%	123	20%
91% to 100%	21	13%	58	22%	59	31%	138	23%
Subtotal	**100**	**64%**	**186**	**72%**	**156**	**81%**	**442**	**73%**
101% to 120%	33	21%	49	19%	32	17%	116	19%
121% to 150%	4	3%	9	3%	3	2%	16	3%
Greater than 150%	19	12%	16	6%	2	1%	36	6%
Subtotal	**56**	**36%**	**74**	**28%**	**37**	**19%**	**167**	**27%**
Total	**156**	**100%**	**260**	**100%**	**193**	**100%**	**609**	**100%**
Weighted average LTV:								
> 90 days past due and / or mortgages in total		81%		90%		88%		87%

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

Asset quality

Table 4:

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

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

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

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

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

Repossessions (Retail UK)

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

Table 5:	**31 December 2011**		31 December 2010	
Repossessions Retail UK mortgages	**Number of repossessions at balance sheet date**	**Balance outstanding before impairment provisions £m**	Number of repossessions as at balance sheet date	Balance outstanding before impairment provisions £m
Owner occupied repossessions	71	9	78	13
Buy to let repossessions	147	19	169	24
Self certified repossessions	55	11	70	13
Total residential repossessions	**273**	**39**	**317**	**50**

Table 5a

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

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

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

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

3.2 Liquidity Risk

Key points

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

Liquidity Risk Measurement

The Group's cash flow and liquidity reporting processes provide management with daily liquidity risk information by designated cash flow categories. These processes capture the cash flows from both on balance sheet and off balance sheet transactions. The tables below summarise the maturity profile of the Group's financial assets and liabilities, excluding those arising from insurance and participating investment contracts at 31 December 2011 and 31 December 2010 based on the remaining contractual maturity period at the balance sheet date. NAMA senior bonds have been included in the table based on their ultimate expected maturity. Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €4,954 million and €7,037 million respectively (31 December 2010: €5,271 million and €7,188 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts. The Group measures liquidity risk by adjusting the contractual cash flows on retail deposit books to reflect their inherent stability.

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

Liquidity Risk (continued)

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

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

Liquidity Risk (continued)

31 December 2010

Maturities of financial assets and liabilities	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Assets						
Cash and balances at central banks	1,014	-	-	-	-	1,014
Trading securities	-	137	-	8	6	151
Derivative financial instruments	840	382	582	2,759	1,812	6,375
Other financial assets at fair value through profit or loss[1]	754	20	101	488	1,513	2,876
Loans and advances to banks	3,608	3,679	153	16	2	7,458
Available for sale financial assets[1]	2	1,342	3,350	7,712	3,060	15,466
NAMA senior bonds	-	-	-	-	5,075	5,075
Loans and advances to customers (before impairment provisions)	3,671	9,481	8,276	32,983	65,021	119,432
Assets classified as held for sale to NAMA (before impairment provisions)	11	460	261	86	61	879
Total	9,900	15,501	12,723	44,052	76,550	158,726
Liabilities						
Deposits from banks	359	7,984	411	2,380	78	11,212
Drawings from Monetary Authorities (gross)	-	33,438	-	-	-	33,438
Customer accounts	48,213	14,816	969	1,060	385	65,443
Derivative financial instruments	815	195	319	2,233	1,883	5,445
Debt securities in issue	-	1,175	3,525	14,280	6,138	25,118
Subordinated liabilities	-	-	-	83	2,692	2,775
Total	49,387	57,608	5,224	20,036	11,176	143,431

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

Liquidity Risk Mitigation

Wholesale Funding diversification

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

Customer Deposits

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

Funding and Liquidity Position

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

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

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

Funding Position

The Group has access to the liquidity operations offered by Monetary Authorities using its pool of contingent collateral. The Group has decreased its usage of liquidity facilities made available by Monetary Authorities by asset deleveraging, growing customer deposits and the use of collateralised market term funding. The Group's funding from Monetary Authorities further decreased to €22 billion (net) at 31 December 2011 from €31 billion (net) at 31 December 2010. As described on page 36, the Group participates in the ELG scheme, which guarantees certain liabilities of Irish financial institutions. A key priority of the Group is to reduce its reliance on Monetary Authorities as market conditions improve and the Group's wholesale funding requirement reduces.

Funding and Liquidity Position (continued)

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

[1] *On the balance sheet on page 94, these amounts are presented on separate lines being Loans and advances to customers and Other assets classified as held for sale.*

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

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

Deleveraging

The 2011 PCAR incorporates a deleveraging plan (PLAR) which anticipates a loan to deposit ratio of less than 122.5% for the Group by 31 December 2013. This plan includes the proposed disposal of c.€10 billion of the non-core loan portfolios by 31 December 2013. The Group has frontloaded the majority of these disposals before 31 December 2011. The Group has been successful in deleveraging non-core portfolios with c.€8.6 billion sales achieved. For further information see note 16.

Funding and Liquidity Position (continued)

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

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

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

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

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

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

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

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

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

Funding and Liquidity Position (continued)

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

Wholesale funding requirements reduced from €70 billion at 31 December 2010 to €51 billion at 31 December 2011 primarily due to:
- loan book divestments;
- loan repayments and redemptions;
- an increase in Group customer deposits; and
- recapitalisation proceeds.

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

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

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

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

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

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

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

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

Funding and Liquidity Position (continued)

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

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Consolidated income statement

for the year ended 31 December 2011

	Note	**Year ended 31 December 2011 €m**	Year ended 31 December 2010 €m
Interest income	3	4,618	5,179
Interest expense	4	(3,084)	(2,960)
Net interest income		**1,534**	**2,219**
Net insurance premium income	5	929	969
Fee and commission income	6	612	633
Fee and commission expense	6	(192)	(257)
Net trading income	7	19	225
Life assurance investment income, gains and losses	8	(38)	474
Gain on liability management exercises	9	1,789	1,402
Other operating income	10	12	199
Total operating income		**4,665**	**5,864**
Insurance contract liabilities and claims paid	11	(750)	(1,268)
Total operating income, net of insurance claims		**3,915**	**4,596**
Other operating expenses	12	(1,644)	(1,803)
Impact of amendments to defined benefit pension schemes	32	2	733
Operating profit before impairment charges on financial assets and gain / (loss) on NAMA / deleveraging		**2,273**	**3,526**
Impairment charges on financial assets (excluding assets sold to NAMA)	13	(1,960)	(2,027)
Impairment charges on assets sold to NAMA	14	(44)	(257)
Gain / (loss) on sale of assets to NAMA including associated costs	15	33	(2,241)
Loss on deleveraging of financial assets	16	(565)	-
Operating loss		**(263)**	**(999)**
Share of results of associates and joint ventures (after tax)		39	49
Profit on disposal of business activities	17	34	-
Loss before taxation		**(190)**	**(950)**
Taxation credit	18	230	341
Profit / (loss) for the year		**40**	**(609)**
Attributable to non-controlling interests		(5)	5
Attributable to stockholders		45	(614)
Profit / (loss) for the year		**40**	**(609)**
Loss per unit of €0.05 ordinary stock (cent) (2010: €0.10 cent)	19	(0.7c)	*(21.5c)
Diluted loss per unit of €0.05 ordinary stock (cent) (2010: €0.10 cent)	19	(0.7c)	*(21.5c)

* *Restated to reflect the bonus element of the Rights Issue which took place in July 2011 (see note 19)*

Patrick J Molloy
Governor

Patrick O'Sullivan
Deputy Governor

Richie Boucher
Group Chief Executive

Helen Nolan
Group Secretary

Consolidated statement of other comprehensive income

for the year ended 31 December 2011

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Profit / (loss) for the year	40	(609)
Other comprehensive income, net of tax:		
Revaluation of property, net of tax	(6)	(15)
Cash flow hedge reserve		
Changes in fair value	(800)	(105)
Transfer to income statement	1,114	380
Net change in cash flow hedge reserve	**314**	**275**
Available for sale reserve		
Changes in fair value	60	(354)
Transfer to income statement		
- On asset disposal	24	(13)
- Impairment	19	147
Net change in available for sale reserve	**103**	**(220)**
Net actuarial (loss) / gain on defined benefit pension funds	(117)	391
Foreign exchange translation gains	180	157
Other comprehensive income for the year net of tax	**474**	**588**
Total comprehensive income for the year net of tax	**514**	**(21)**
Total comprehensive income attributable to equity stockholders	520	(26)
Total comprehensive income attributable to non-controlling interests	(6)	5
Total comprehensive income for the year net of tax	**514**	**(21)**

The effect of tax on the above items is shown in note 18.

Patrick J Molloy	***Patrick O'Sullivan***	***Richie Boucher***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Consolidated balance sheet

as at 31 December 2011

	Note	31 December 2011 €m	31 December 2010 €m
ASSETS			
Cash and balances at central banks		8,181	1,014
Items in the course of collection from other banks		443	491
Trading securities		6	151
Derivative financial instruments		6,362	6,375
Other financial assets at fair value through profit or loss	20	8,914	10,045
Loans and advances to banks	21	8,059	7,458
Available for sale financial assets	22	10,262	15,576
NAMA senior bonds	23	5,016	5,075
Loans and advances to customers	24	99,314	114,457
Assets held for sale to NAMA		-	804
Other assets classified as held for sale	25	2,446	119
Interest in associates		31	26
Interest in joint ventures		245	199
Intangible assets – goodwill		-	44
Intangible assets – other		393	408
Investment properties		1,204	1,304
Property, plant and equipment		336	372
Current tax assets		9	125
Deferred tax assets	31	1,381	1,128
Other assets		2,270	2,291
Retirement benefit asset	32	8	11
Total assets		**154,880**	**167,473**
EQUITY AND LIABILITIES			
Deposits from banks	27	31,534	41,075
Customer accounts	28	70,506	65,443
Items in the course of transmission to other banks		271	293
Derivative financial instruments		6,018	5,445
Debt securities in issue	29	19,124	28,693
Liabilities to customers under investment contracts		4,954	5,271
Insurance contract liabilities		7,037	7,188
Other liabilities		3,111	3,102
Current tax liabilities		86	139
Provisions		38	64
Deferred tax liabilities	31	88	91
Retirement benefit obligations	32	422	435
Subordinated liabilities	30	1,426	2,775
Other liabilities classified as held for sale	25	13	52
Total liabilities		**144,628**	**160,066**
Equity			
Capital stock	34	2,452	1,210
Stock premium account		5,127	3,926
Retained earnings		3,507	3,740
Other reserves		(869)	(1,510)
Own stock held for the benefit of life assurance policyholders		(15)	(15)
Stockholders' equity		**10,202**	**7,351**
Non-controlling interests		50	56
Total equity		**10,252**	**7,407**
Total equity and liabilities		**154,880**	**167,473**

Patrick J Molloy
Governor

Patrick O'Sullivan
Deputy Governor

Richie Boucher
Group Chief Executive

Helen Nolan
Group Secretary

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Capital stock		
Balance at the beginning of the year	1,210	699
Issue of ordinary stock (note 35)	1,242	238
Conversion of 2009 Preference Stock	-	155
Dividend on 2009 Preference Stock paid in ordinary stock	-	118
Balance at the end of the year	**2,452**	**1,210**
Stock premium account		
Balance at the beginning of the year	3,926	4,092
Premium on issue of ordinary stock (note 35)	1,331	1,409
Transaction costs (note 35)	(114)	(121)
Transferred from retained earnings (note 35)	(16)	(800)
Loss on cancellation of warrants	-	(381)
Conversion of 2009 preference stock	-	(155)
Dividend on 2009 preference stock paid in ordinary stock	-	(118)
Balance at the end of the year	**5,127**	**3,926**
Retained earnings		
Balance at the beginning of the year	3,740	3,263
Profit / (loss) for the year attributable to stockholders	*45*	*(614)*
Dividends on 2009 preference stock and other equity interests paid in cash	*(222)*	-
Transfer to capital reserve	*(2)*	*(46)*
Profit / (loss) retained	(179)	(660)
Transfer to stock premium account	16	800
Net actuarial (loss) / gain on defined benefit pension schemes	(117)	391
Transfer from share based payment reserve	5	4
Transfer from revaluation reserve	2	-
Repurchase of capital note (note 9)	41	24
Repurchase of treasury stock	(1)	(79)
Other movements	-	(3)
Balance at the end of the year	**3,507**	**3,740**
Other Reserves:		
Available for sale reserve		
Balance at the beginning of the year	(828)	(608)
Net changes in fair value	68	(402)
Deferred tax on reserve movements	(14)	29
Transfer to income statement (pre tax)		
- Asset disposal	28	(15)
- Impairment	21	168
Balance at the end of the year	**(725)**	**(828)**
Cash flow hedge reserve		
Balance at the beginning of the year	(235)	(510)
Changes in fair value	(1,034)	(205)
Transferred to income statement (pre tax)	-	
- Net interest income	154	411
- Net trading income (foreign exchange)	1,226	109
Deferred tax on reserve movements	(32)	(40)
Balance at the end of the year	**79**	**(235)**

Consolidated statement of changes in equity (continued)

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Foreign exchange reserve		
Balance at the beginning of the year	(1,042)	(1,199)
Exchange adjustments during the year	180	157
Balance at the end of the year	**(862)**	**(1,042)**
Capital reserve		
Balance at the beginning of the year	508	462
Transfer from retained earnings	2	46
Balance at the end of the year	**510**	**508**
Share based payment reserve		
Balance at the beginning of the year	12	22
Credit to the income statement	-	(6)
Transfer to retained earnings	(5)	(4)
Balance at the end of the year	**7**	**12**
Revaluation reserve		
Balance at the beginning of the year	14	29
Revaluation of property	(8)	(18)
Deferred tax on revaluation of property	2	3
Transfer to retained earnings	(2)	-
Balance at the end of the year	**6**	**14**
US$150 million capital note		
Balance at the beginning of the year	61	114
Repurchase of capital note (note 9)	(61)	(53)
Balance at the end of the year	**-**	**61**
Capital contribution		
Balance at the beginning of the year	-	-
Contribution during the year	116	-
Balance at the end of the year	**116**	**-**
Core and secondary tranche warrants		
Balance at the beginning of the year	-	110
Cancellation of warrants	-	(110)
Balance at the end of the year	-	**-**
Total other reserves	**(869)**	(1,510)

Consolidated statement of changes in equity (continued)

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Own stock held for the benefit of life assurance policyholders		
Balance at the beginning of the year	(15)	(87)
Changes in value and amount of stock held	-	72
Balance at the end of the year	**(15)**	**(15)**
Total stockholders' equity excluding non-controlling interests	**10,202**	**7,351**
Non-controlling interests		
Balance at the beginning of the year	56	50
Share of net (profit) / loss	(5)	5
Other movements	(1)	1
Balance at the end of the year	**50**	**56**
Total equity	**10,252**	**7,407**
Total comprehensive income included within the above:		
Total comprehensive income attributable to equity stockholders	520	(26)
Total comprehensive income attributable to non-controlling interests	(6)	5
Total comprehensive income for the year, net of tax	**514**	**(21)**

Patrick J Molloy
Governor

Patrick O'Sullivan
Deputy Governor

Richie Boucher
Group Chief Executive

Helen Nolan
Group Secretary

Consolidated cash flow statement

for the year ended 31 December 2011

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Cash flows from operating activities		
Loss before taxation	(190)	(950)
Share of results of associates and joint ventures	(39)	(49)
Profit on disposal of business activities	(34)	(15)
Depreciation and amortisation	136	147
Impairment charges on financial assets (excluding assets sold to NAMA)	1,960	2,027
Impairment charges on assets sold to NAMA	44	257
(Gain) / loss on sale of assets to NAMA including associated costs	(33)	2,241
Loss on deleveraging of financial assets	565	-
Decline in value of property below cost	15	10
Revaluation of investment property	10	(49)
Interest expense on subordinated liabilities and other capital instruments	171	312
Charge for retirement benefit obligation	88	174
Impact of amendments to defined benefit pension schemes	(2)	(733)
Gain on subordinated liability management exercises	(1,789)	(1,402)
Gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	(56)	(360)
Other non-cash items	45	144
Cash flows from operating activities before changes in operating assets and liabilities	**891**	**1,754**
Net change in items in the course of collection from other banks	30	8
Net change in trading securities	145	252
Net change in derivative financial instruments	1,021	(768)
Net change in other financial assets at fair value through profit or loss	1,124	(273)
Net change in loans and advances to banks	148	(258)
Net change in loans and advances to customers	4,938	6,288
Net change in other assets	252	(20)
Net change in deposits from banks	(9,556)	23,143
Net change in customer accounts	4,272	(20,355)
Net change in debt securities in issue	(8,478)	(15,721)
Net change in liabilities to customers under investment contracts	(317)	226
Net change in insurance contract liabilities	(151)	589
Net change in other liabilities	(105)	(275)
Effect of exchange translation and other adjustments	(757)	(616)
Net cash flow from operating assets and liabilities	**(7,434)**	**(7,780)**

Cash flow statement (continued)

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Net cash flow from operating activities before taxation	**(6,543)**	**(6,026)**
Taxation refunded	22	2
Net cash flow from operating activities	**(6,521)**	**(6,024)**
Investing activities (section a)	12,750	5,230
Financing activities (section b)	1,334	(558)
Net change in cash and cash equivalents	**7,563**	**(1,352)**
Opening cash and cash equivalents	8,135	9,187
Effect of exchange translation adjustments	74	300
Closing cash and cash equivalents	**15,772**	**8,135**
(a) Investing activities		
Additions to available for sale financial assets	(21,532)	(8,106)
Disposal available for sale financial assets	27,160	13,375
Additions to property, plant and equipment	(31)	(41)
Disposal of property, plant and equipment	5	8
Additions to intangible assets	(72)	(50)
Disposal of investment property	30	7
Dividends received from joint ventures	52	35
Net change in interest in associates	(6)	2
Net proceeds from disposal of loan portfolios	6,996	-
Net proceeds from disposal of business activities	148	-
Cash flows from investing activities	**12,750**	**5,230**
(b) Financing activities		
Net proceeds from Rights Issue and institutional placing[1]	1,794	908
Net proceeds from Contingent Capital note	985	-
Dividends on other equity interests paid	(222)	-
Interest paid on subordinated liabilities	(240)	(218)
Consideration paid in respect of liability management exercises	(983)	-
Redemption of subordinated liabilities	-	(750)
Cancellation of warrants	-	(491)
Buyback of treasury stock	-	(7)
Cash flows from financing activities	**1,334**	**(558)**

[1] *The institutional placing took place during the year ended 31 December 2010.*

Patrick J Molloy	***Patrick O'Sullivan***	***Richie Boucher***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) and with those parts of the Companies Acts, 1963 to 2009 applicable to companies reporting under IFRS, with the European Communities (Credit Institutions: Accounts) Regulations, 1992 and with the Asset Covered Securities Acts, 2001 to 2007. The EU adopted version of IAS 39 currently relaxes some of the hedge accounting rules in IAS 39 'Financial Instruments — Recognition and Measurement'. The Group has not availed of this, hence these financial statements comply with both IFRS as adopted by the EU and IFRS as issued by the IASB.

The financial statements have been prepared under the historical cost convention as modified to include the fair valuation of certain financial instruments and land and buildings.

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. A description of the critical estimates and judgements is set out on pages 104 to 106.

There have been no significant changes to the Group's accounting policies as set out on pages 197 to 218 of the Annual Report to 31 December 2010.

The financial statements in this preliminary announcement are not the statutory financial statements of the Group, a copy of which is required to be annexed to the Bank's annual return to the Companies Registration Office in Ireland. A copy of the statutory financial statements required to be annexed to the Bank's annual return in respect of the year ended 31 December 2010 has in fact been so annexed. The auditors of the Group have made a report, without any qualification, on their audit of those statutory financial statements. A copy of the statutory financial statements in respect of the year ended 31 December 2011 will be annexed to the next annual return. The directors approved the Group's statutory financial statements for the year ended 31 December 2011 on 19 February 2012 and the auditors have made a report without any qualification on their audit of those statutory financial statements.

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

Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2011 is a period of twelve months from the date of approval of these financial statements ('the period of assessment').

In making this assessment, the Directors considered the Group's business, profitability forecasts, funding and capital plans, including under base and stress scenarios, together with a range of factors such as the outlook for the Irish economy taking account of the impact of fiscal realignment measures, the impact of the EU / IMF Programme, the availability of collateral to access the Eurosystem, together with the possible impacts of the Eurozone sovereign debt crisis, and in particular the Directors have focussed on the matters set out below:

Context

The deterioration of the Irish economy throughout 2010, culminating in the Programme for the Recovery of the Banking System announced by the Irish Government on 28 November 2010 (the 'EU / IMF programme'), adversely impacted the Group's financial condition and performance and poses ongoing challenges.

During 2010, the Group experienced a significant outflow of ratings sensitive customer deposits following a number of downgrades to the credit ratings of the Irish Sovereign and of the Group and the withdrawal of the Irish Sovereign from the funding markets. Since that time, the Group has had limited access to market sources of wholesale funding and as a result the Group became dependent on secured funding from the European Central Bank (the 'ECB') and exceptional liquidity assistance from the Central Bank of Ireland (the 'Central Bank'). These challenges also caused the Group to notify the Central Bank of temporary breaches of regulatory liquidity requirements in January 2011, April 2011, June 2011 and September 2011. All breaches were subsequently remediated.

The Group does not currently have access to unsecured term wholesale funding markets and it is expected that the Group will continue to be dependent on Monetary Authorities for funding during the period of assessment. This poses a liquidity risk for the Group which the Directors addressed in detail as part of the going concern assessment.

The EU / IMF programme provided for a fundamental downsizing and reorganisation of the banking sector so that it was proportionate to the size of the economy. The EU / IMF programme envisaged that the banking sector would be capitalised to the highest international standards, and in a position to return to normal market sources of funding. As a result, the Group had to generate additional capital to meet these requirements.

Concerns regarding the European sovereign debt crisis intensified during 2011 which resulted in renewed instability in financial markets adversely impacting market sentiment and restricting access to wholesale funding markets for certain sovereigns and financial institutions across Europe. These concerns prompted a series of strong policy responses from European governments and institutions including the ECB. However, political and economic risks remain.

On 21 July 2011, a formal Statement by the Heads of State or Government of the euro area and EU institutions reaffirmed their commitment to the euro and to do whatever was needed to ensure the financial stability of the euro area as a whole and its Member States. This Statement ultimately led to the decision by the ECB to actively implement its Securities Markets Programme.

The Statement also included a number of announcements that were positive for Ireland including a reduction in the interest rates on loans under the EU / IMF Programme and an extension to the maturity date of these loans. It also noted the commitment of the Heads of State or Government of the euro area and the EU institutions to the success of the EU / IMF Programme and critically it confirmed their determination to provide support to countries under such programmes until they have regained market access, provided they successfully implement those programmes.

Following their most recent quarterly review under the EU / IMF Programme in January 2012 the IMF stated that the programme implementation remains strong, that the substantial fiscal consolidation targeted for 2011 had been achieved with a margin and that major progress was made in strengthening and downsizing the banking system in 2011.

Irish sovereign bond yields have tightened significantly since July 2011.

Amid rising tensions, a package of measures to restore confidence and address the tensions in financial markets was also agreed by the European Council and euro area heads of State or Government on 9 December 2011. These measures included a new fiscal compact and the strengthening of stabilisation tools for the euro area, including a more effective European Financial Stability Facility (EFSF), the bringing forward of the implementation of the European Stability Mechanism (ESM) and a solution for the unique challenges faced by Greece.

Within the above context, the Group has achieved a number of significant milestones in the past twelve months, most notably generating the additional capital required under the 2011 Prudential Capital Assessment Review (the “2011 PCAR”) and meeting its 2011 deleveraging targets.

Capital

As part of the EU / IMF programme, the Central Bank undertook the 2011 PCAR incorporating a Prudential Liquidity Assessment Review (‘2011 PLAR’) and the results were announced on 31 March 2011.

The 2011 PCAR is a stress test of the capital resources of the bank. The resultant capital requirements are derived from the results of BlackRock’s independent assessment of forecast loan losses through to the end of 2013, the outputs from the Group’s deleveraging plans under the 2011 PLAR (including the phased sales of certain non-core assets) and the estimated income and expenditure items based on conservative, Central Bank specified, economic and other factors together with prudent additional regulatory buffers. The process was conducted in close consultation with the staff of the EC, ECB and the IMF, who reviewed the methodology utilised.

As a result the Central Bank assessed that the Group needed to generate an additional €4.2 billion (including a prudent regulatory buffer of €0.5 billion) of equity capital. In addition, €1.0 billion of Contingent Capital was required via the issue of a debt instrument which, under certain circumstances, would convert to equity capital.

The Group successfully generated all of the required equity capital of €4.2 billion by 31 December 2011 and in July 2011, the Group issued a €1 billion debt instrument to the Irish Government which under certain circumstances will convert to equity capital.

The Group separately passed the EBA stress test in July 2011 and the EBA capital exercise (incorporating a capital buffer against sovereign exposures) in December 2011 without any requirement for further additional capital.

The Directors believe this satisfactorily addresses the capital risk.

Liquidity and funding

The 2011 PLAR established funding targets in order to reduce the leverage of the Group, reduce its reliance on short-term, largely ECB and Central Bank funding, and ensure convergence to Basel III liquidity standards over time.

As a consequence the Group is required to achieve a target loan to deposit ratio of 122.5% by December 2013. An objective of the Central Bank in the 2011 PLAR was to ensure that the required improvement in banks' loan to deposit ratios would be by way of deleveraging i.e. the reduction of loans through the disposal and run-down of non-core portfolios.

The successful implementation of the deleveraging plan is expected to reinforce the benefits of higher capital and help the Group to regain access to market sources of financing.

During 2011, the Group announced divestments totalling €8.6 billion representing 86% of the required three year (2011 – 2013) target of €10 billion. The proceeds in respect of €7.6 billion of divestments were settled by 31 December 2011 with the remaining €1 billion settling early in 2012.

During 2011, the Group increased its customer deposits by €5.1 billion from €65.4 billion at 31 December 2010 to €70.5 billion at 31 December 2011. The Group's loan-to-deposit ratio at 31 December 2011 was 144% representing a reduction of 31% from the level of 175% at 31 December 2010.

The impact of the above, together with the €4.2 billion of secured term wholesale funding transactions executed during 2011, allowed the Group to reduce its net drawings from Monetary Authorities by €9 billion from €31 billion at 31 December 2010 to €22 billion at 31 December 2011 consisting of secured funding from the ECB of €22 billion (net) (31 December 2010: €23 billion (net)) and exceptional liquidity assistance from the Central Bank of €nil (31 December 2010: €8 billion).

The Group's term wholesale funding profile was improved further through its participation in the three year ECB long term repo operation ('LTRO') in December 2011 when the Group converted €7.5 billion of shorter term ECB funding into the three year facility.

It is expected that the Group will continue to be dependent on Monetary Authorities for funding during the period of assessment.

Continued access to Eurosystem refinancing requires that the Group is solvent. The additional €4.2 billion of equity capital and €1.0 billion of Contingent Capital has substantially strengthened the Group and given it a sound capital base, particularly given the conservative nature of the assumptions and methodologies that were used in the 2011 PCAR process. Following the announcement on 31 March 2011 that the Irish banks would generate the 2011 PCAR capital, the ECB confirmed that the Eurosystem would continue to provide liquidity to banks in Ireland and hence the Group.

In addition, in the context of its assessment of going concern, the Group discussed the relevant public announcements from the ECB, the EC and the IMF and the Minister for Finance (together 'the announcements') with the Central Bank and the Department of Finance (together 'the State authorities') and it sought assurance on the continued availability of required liquidity from the Eurosystem during the period of assessment. The Directors are satisfied, based on the announcements and the clarity of confirmations received from the State authorities, that, in all reasonable circumstances, the required liquidity and funding from the ECB and the Central Bank will be available to the Group during the period of assessment.

The Directors believe that this satisfactorily addresses the liquidity risk above.

Conclusion

On the basis of the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment.

Foreign currency translation

The principal rates of exchange used in the preparation of the financial statements are as follows:

	31 December 2011		31 December 2010	
	Average	**Closing**	Average	Closing
€ / US$	1.3920	1.2939	1.3258	1.3362
€ / Stg£	0.8679	0.8353	0.8579	0.8607

Critical accounting estimates and judgements

In preparing the financial statements, the Group makes estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As management judgement involves an estimate of the likelihood of future events, actual results could differ from those estimates, which could affect the future reported amounts of assets and liabilities. The estimates and judgements that have had the most significant effect on the amounts recognised in the Group's financial statements are set out below.

(a) Impairment charges on financial assets
The Group reviews its loan portfolios for impairment on an ongoing basis. The Group first assesses whether objective evidence of impairment exists. This assessment is performed individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The use of historical loss experience is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to differ from that suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess inherent loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment loss derived solely from historical loss experience.

A key judgemental area is in relation to residential mortgages. This loan portfolio has been significantly affected in the current economic climate, as values of security have considerably reduced, particularly in Ireland, and there are very low levels of activity in the sector. Residential mortgage loans before impairment provisions at 31 December 2011 amounted to €57 billion (31 December 2010: €60 billion), against which were held provisions for impairment of €1.2 billion (31 December 2010: €0.7 billion). At 31 December 2011, the assumption adopted by the Group in respect of the expected average decline in the value of Irish residential properties was 55% from their peak in 2007. A 5% decline in average values beyond this assumed level would give rise to additional impairment provisions of c.€125 million to €150 million.

A further important judgemental area is in relation to the level of impairment provisions for property and construction loans and advances. The loans in this portfolio have been similarly affected by the current economic climate. Property and construction loans before impairment provisions at 31 December 2011 amounted to €20.6 billion (31 December 2010: €24.4 billion), against which were held provisions for impairment of €3.1 billion (31 December 2010: €2.5 billion).

The estimation of impairment charges is subject to uncertainty, which has increased in the current economic environment, and is highly sensitive to factors such as the level of economic activity, unemployment rates, bankruptcy trends, property price trends and interest rates. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment charges are reviewed regularly in the light of differences between loss estimates and actual loss experience.

(b) Taxation
The taxation charge accounts for amounts due to fiscal authorities in the various territories in which the Group operates and includes estimates based on a judgement of the application of law and practice in certain cases to determine the quantification of any liabilities arising. In arriving at such estimates, management assesses the relative merits and risks of tax treatments assumed, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice.

At 31 December 2011, the Group had a net deferred tax asset of €1,293 million (31 December 2010: €1,037 million), of which €1,195 million (31 December 2010: €898 million) related to incurred trading losses. See note 31.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unutilised tax losses can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of future taxable profits, and the future reversals of existing taxable temporary differences.

To the extent that the recognition of a deferred tax asset is dependent on sufficient future profitability, a degree of estimation and the use of assumptions are required. The Group's judgement takes into consideration the impact of both positive and negative evidence, including historical financial performance, projections of future taxable income, the impact of tax legislation and future reversals of existing taxable temporary differences.

The most significant judgement relates to the Group's assessment of the recoverability of the portion of the deferred tax asset relating to trading losses. Under current Irish and UK tax legislation, there is no time restriction on the utilisation of these losses. There is however, a restriction on the utilisation of Irish tax losses carried forward by a financial institution participating in NAMA. This significantly lengthens the period over which the deferred tax asset will reverse by restricting by 50% the amount of profits against which the carried forward trading losses can be utilised. The balance continues to be available for indefinite carry forward and there is no time limit on the utilisation of these losses.

Based on its projection of future taxable income, the Group has concluded that it is probable that sufficient taxable profits will be generated to recover this deferred tax asset, and it has been recognised in full.

(c) Fair value of financial instruments
The Group measures certain of its financial instruments at fair value on the balance sheet. This includes trading securities, other financial assets and liabilities at fair value through profit or loss, all derivatives and available for sale financial assets. The fair values of financial instruments are determined by reference to observable market prices where available and where an active market exists.

Where market prices are not available or are unreliable, fair values are determined using valuation techniques including discounted cash flow models which, to the extent possible, use observable market inputs. Where valuation techniques are used they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparable market prices. Using valuation techniques may necessitate the estimation of certain pricing inputs, assumptions or model characteristics such as credit risk, volatilities and correlations and changes in these assumptions could affect reported fair values.

The fair value movement on assets and liabilities held at fair value through profit or loss, including those held for trading, are included in net trading income.

The most significant area of judgement is in relation to certain financial assets and liabilities classified within level 3 of the 3-level fair value hierarchy.

Liabilities classified within level 3 comprise certain debt securities in issue, certain customer deposits and certain subordinated liabilities which together have a fair value of €495 million (31 December 2010: €670 million) which are measured at fair value through profit or loss, and the fair value of which is based on valuation techniques incorporating significant unobservable market data. The key judgement relates to the Group's credit spread. The Group estimates this spread by reference to recent transactions in the same instrument or in similar instruments issued by the Group. In addition the Group considers the credit spread applicable to Irish Government bonds. A 1% increase / (decrease) in the estimated credit spread at 31 December 2011 would result in a decrease of €26 million / (increase of €26 million) in the fair value of the liabilities, with a corresponding impact on the income statement.

The contingent capital note issued to the State during the year ended 31 December 2011 (see note 35) was fair valued on initial recognition by discounting the expected cash flows on the note, in the absence of conversion, using the estimated market yield for the instrument, including the conversion feature. This yield is not considered to be observable. A 0.50% increase / (decrease) in this yield at the date of initial recognition of the note in July 2011 would have resulted in an increase of €10 million / (decrease of €10 million) in the capital contribution credited directly to reserves.

The equity conversion feature of the note is considered to be an embedded derivative requiring separation, with changes in its fair value recognised in profit or loss. The derivative is valued using a discounted cash flow model in which the principal input is the yield differential, or spread, between the contingent capital note and the yield on similar notes without the conversion feature. This spread is not considered to be observable. A 0.50% increase/(decrease) in this spread at 31 December 2011 would result in an increase of €9 million (decrease of €9 million) in the fair value of the derivative, with a corresponding impact on the income statement. The host instrument is subsequently measured at amortised cost.

As with all financial assets, NAMA senior bonds are measured at fair value at initial recognition. The bonds do not trade in an active market. Fair value at initial recognition has been estimated by using a valuation technique which takes into consideration the Government guarantee, collateral and other support, valuations in the repo market and the yield on Irish Government bonds of similar maturity. The bonds are subsequently measured at amortised cost.

(d) Retirement benefits
The Group operates a number of defined benefit pension schemes. In determining the actual pension cost, the actuarial values of the liabilities of the schemes are calculated by external actuaries. This involves modelling their future growth and requires management to make assumptions as to discount rates, price inflation, dividend growth, salary and pensions increases, return on investments and employee mortality. There are acceptable ranges in which these estimates can validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used. An analysis of the sensitivity of the defined benefit pension liability to changes in the key assumptions is set out in note 32 on retirement benefit obligations.

(e) Life assurance operations
The Group accounts for the value of the stockholders' interest in long term assurance business using the embedded value basis of accounting. Embedded value is comprised of the net tangible assets of Bank of Ireland Life and the present value of its in force business. The value of in force business is calculated by projecting future surpluses and other net cash flows attributable to the shareholder arising from business written up to the balance sheet date and discounting the result at a rate which reflects the shareholder's overall risk premium, before provision has been made for taxation.

Future surpluses will depend on experience in a number of areas such as investment returns, lapse rates, mortality and investment expenses. Surpluses are projected by making assumptions about future experience, having regard to both actual experience and forecast long term economic trends.

Changes to these assumptions may cause the present value of future surpluses to differ from those assumed at the balance sheet date and could significantly affect the value attributed to the in force business. The value of in force business could also be affected by changes in the amounts and timing of other net cash flows (principally annual management charges and other fees levied upon the policyholders) or the rate at which the future surpluses and cash flows are discounted. In addition, the extent to which actual experience is different from that assumed will be recognised in the income statement for the period.

Index to selected notes information

1 Comparatives

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

2 Operating segments

The Group has five reportable operating segments which reflect the internal financial and management reporting structure and are organised as follows:

Retail Ireland (formerly Retail Republic of Ireland)
Retail Ireland includes all the Group's branch operations in the Republic of Ireland. The branches offer a wide range of financial products and services in addition to the deposit, lending, current account and other money transmission services traditionally offered by banks. It also includes Bank of Ireland Mortgage Bank, ICS Building Society, Business Banking, Private Banking, an instalment credit and leasing business, credit card operations, commercial finance / factoring businesses, together with direct telephone and online banking services.

Bank of Ireland Life
The Group operates in the life and pensions market in Ireland through its wholly owned subsidiary New Ireland Assurance Company plc which trades as Bank of Ireland Life. Bank of Ireland Life offers life assurance, protection, pensions and investment products to the Group's customers in Ireland via the Bank of Ireland Life network. These products are manufactured by New Ireland Assurance Company plc. New Ireland Assurance Company plc also operates in the independent intermediary market under the New Ireland brand and through a direct sales force.

Retail UK (formerly UK Financial Services)
Retail UK comprises Business Banking in Great Britain and Northern Ireland, the branch network in Northern Ireland, the UK residential mortgage business and the business activities with the UK Post Office. The business banking unit provides loan facilities to medium and large corporate clients in addition to international banking, working capital financing, leasing and electronic banking services. Offshore deposit taking services are offered in the Isle of Man. The business activities with the UK Post Office provide a range of retail financial services. A substantial part of the Retail UK operations are conducted through the Group's wholly owned UK licensed subsidiary, Bank of Ireland (UK) plc.

During the year ended 31 December 2011, the Group sold a portion of its UK mortgage loan portfolio and a portion of its UK investment property portfolio. See note 16 for more detail.

Corporate and Treasury (formerly Capital Markets)
This division comprises Global Markets, Corporate Banking and IBI Corporate Finance.

Global Markets is responsible for managing the Group's interest rate and foreign exchange risks, while also executing the Group's liquidity and funding requirements. Global Markets trades in a range of market instruments on behalf of the Group itself and the Group's customers. The trading activities include dealing in inter-bank deposits and loans, foreign exchange spot and forward contracts, options, financial futures, bonds, swaps, forward rate agreements and equity tracker products. Global Markets' operations are based in Ireland, the UK and the US.

Corporate Banking provides integrated relationship banking services to a significant number of the major Irish corporations, financial institutions and multinational corporations operating in or out of Ireland. The range of lending products provided includes overdraft and short term loan facilities, term loans, project finance and structured finance. Corporate Banking is also engaged in international lending with offices located in the UK, France, Germany, Australia and the US. Its international lending business includes acquisition finance, project finance, term lending and asset based financing principally in the UK, Continental Europe and the US.

During the year ended 31 December 2011, the Group announced the deleveraging of certain project finance loan portfolios, its US investment property portfolio, the Burdale business and certain other international loans, all of which formed part of the Corporate Banking business. Certain of these portfolios were deleveraged during the year with the remaining portfolios included in assets held for sale at the balance sheet date. Further information is shown in note 16 and note 25.

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

The Group disposed of Bank of Ireland Asset Management, Bank of Ireland Securities Services and Paul Capital International LLC during the year ended 31 December 2011.

Group Centre
Group Centre comprises capital management activities, unallocated Group support costs and the cost of the Government Guarantee Schemes.

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

Other reconciling items
Other reconciling items represent inter-segment transactions which are eliminated upon consolidation.

Basis of preparation of segmental information
The analysis of results by operating segment is based on the information used by management to allocate resources and assess performance. Transactions between the business segments are on normal commercial terms and conditions. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

The measures of segmental assets and liabilities provided to the chief operating decision maker are not adjusted for transfer pricing adjustments or revenue sharing agreements as the impact on the measures of segmental assets and liabilities is not significant.

Allocation methods are also unchanged other than a modification to the method used to allocate funding expense between segments. The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as 'Underlying profit' in its internal management reporting systems. Underlying profit or loss excludes:

- gain on liability management exercises;
- loss on deleveraging of financial assets;
- impact of amendments to defined benefit pension schemes;
- gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss';
- impact of 'coupon stopper' on certain subordinated debt*;
- gross-up for policyholder tax in the Life business;
- investment return on treasury stock held for policyholders in the Life business;
- the cost of restructuring programmes; and
- gain / (loss) on disposal of business activities.

* *Interest expense for the year ended 31 December 2010 included a charge of €35 million and net trading expense included a charge of €1 million in relation to a change in the expected cash flows on certain subordinated liabilities. This arose as a result of restrictions which the European Commission imposed on the Group's ability to make coupon payments on certain subordinated liabilities unless under a binding legal obligation to do so (a 'coupon stopper' provision). On 31 December 2009 the Group expected that it would be precluded from making coupon payments on these instruments for two years and therefore the Group recognised a gain of €67 million in its financial statements for the year ended 31 December 2009. However, it was subsequently confirmed by the European Commission during the year ended 31 December 2010 that the 'coupon stopper' provision would cease on 31 January 2011, which gave rise to a charge to the income statement.*

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

Gross revenue comprises interest income, net insurance premium income, fee and commission income, net trading income, life assurance investment income gains and losses, gain on liability management exercises, other operating income, insurance contract liabilities and claims paid and share of results of associates and joint ventures.

There were no revenues derived from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

2 Operating segments (continued)

Year ended 31 December 2011	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Interest income	4,532	24	2,811	4,250	(886)	(6,113)	4,618
Interest expense	(3,683)	(19)	(2,444)	(3,508)	466	6,104	(3,084)
Net interest income	**849**	**5**	**367**	**742**	**(420)**	**(9)**	**1,534**
Other income, net of insurance claims	297	122	119	44	(36)	(22)	524
Total operating income, net of insurance claims	**1,146**	**127**	**486**	**786**	**(456)**	**(31)**	**2,058**
Other operating expenses	(818)	(95)	(342)	(178)	(77)	-	(1,510)
Depreciation and amortisation	(43)	(6)	(38)	(9)	(41)	-	(137)
Total operating expenses	**(861)**	**(101)**	**(380)**	**(187)**	**(118)**	**-**	**(1,647)**
Operating profit / (loss) before impairment charges on financial assets and loss on NAMA	**285**	**26**	**106**	**599**	**(574)**	**(31)**	**411**
Impairment charges on financial assets (excluding sold to NAMA)	(1,297)	-	(435)	(228)	-	-	(1,960)
Impairment charges on assets sold to NAMA	(9)	-	(26)	(9)	-	-	(44)
Gain / (loss) on sale of assets to NAMA including associated costs	1	-	(5)	24	13	-	33
Share of results of associates and joint ventures	3	-	36	-	-	-	39
Underlying loss before tax	**(1,017)**	**26**	**(324)**	**386**	**(561)**	**(31)**[1]	**(1,521)**

Reconciliation of underlying loss before tax to profit before taxation	Group €m
Underlying loss before tax	(1,521)
Gain on liability management exercises	1,789
Loss on deleveraging of financial assets	(565)
Gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	56
Profit on disposal of business activities	34
Gross-up for policyholder tax in the Life business	10
Cost of restructuring programmes	3
Impact of amendments to defined benefit pension schemes	2
Investment return on treasury stock held for policyholders in the Life business	2
Loss before taxation	**(190)**

[1] *This relates to certain inter-segment transactions which are eliminated at a Group level. However, at a divisonal level the transactions are reported as core income in the Corporate and Treasury division and non-core expense in the Retail UK division as part of the loss on deleveraging of financial assets.*

2 Operating segments (continued)

Year ended 31 December 2010	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Interest income	3,853	19	2,818	4,048	(400)	(5,174)	5,164
Interest expense	(2,843)	(21)	(2,226)	(3,163)	151	5,174	(2,928)
Net interest income	**1,010**	**(2)**	**592**	**885**	**(249)**	**-**	**2,236**
Other income, net of insurance claims	347	175	62	43	(61)	-	566
Total operating income, net of insurance claims	**1,357**	**173**	**654**	**928**	**(310)**	**-**	**2,802**
Other operating expenses	(865)	(95)	(336)	(275)	(67)	-	(1,638)
Depreciation and amortisation	(54)	(8)	(36)	(12)	(37)	-	(147)
Total operating expenses	**(919)**	**(103)**	**(372)**	**(287)**	**(104)**	**-**	**(1,785)**
Operating profit / (loss) before impairment charges on financial assets and loss on NAMA	**438**	**70**	**282**	**641**	**(414)**	**-**	**1,017**
Impairment charges on financial assets (excluding sold or held for sale to NAMA)[1]	(1,142)	-	(448)	(367)	(70)	-	(2,027)
Impairment charges on assets sold or held for sale to NAMA[2]	(100)	-	(31)	(126)	-	-	(257)
Loss on sale of assets to NAMA including associated costs	(675)	-	(398)	(1,121)	(47)	-	(2,241)
Share of results of associates and joint ventures	12	-	37	-	-	-	49
Underlying (loss) / profit before tax	**(1,467)**	**70**	**(558)**	**(973)**	**(531)**	**-**	**(3,459)**

Reconciliation of underlying loss before tax to loss before taxation	**Group €m**
Underlying loss before tax	(3,459)
Gain on liability management exercises	1,413
Impact of amendments to defined benefit pension schemes	733
Gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	360
Impact of 'coupon stopper' on certain subordinated debt	(36)
Gross-up for policyholder tax in the Life business	22
Investment return on treasury stock held for policyholders in the Life business	20
Cost of restructuring programmes	(18)
Gain on disposal of business activities[3]	15
Loss before taxation	**(950)**

[2] The impairment charges on financial assets and assets sold or held for sale to NAMA have been adjusted for the year ended 31 December 2010 to reflect the impairment charge on loans sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010, with no change to the total impairment charge (see note 14).

[3] This relates to a gain of €15 million arising on the re-measurement of a loan note received as consideration for the disposal of a business activity in the year ended 31 December 2009, due to an increase in the expected cash flows. Consistent with the Group's definition of underlying profit, this item has been classified as non-core and excluded from underlying profit.

2 Operating segments (continued)

Year ended 31 December 2011 Analysis by operating segment	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Capital expenditure	**14**	**4**	**18**	**-**	**67**	**-**	**103**
Investment in associates and joint ventures	150	52	74	-	-	-	276
External assets	45,860	11,486	55,034	39,834	2,666	-	154,880
Inter segment assets	66,792	2,228	39,955	149,010	38,894	(296,879)	-
Total assets	**112,652**	**13,714**	**94,989**	**188,844**	**41,560**	**(296,879)**	**154,880**
External liabilities	45,830	12,352	31,191	53,661	1,594	-	144,628
Inter segment liabilities	66,914	479	63,713	133,758	32,015	(296,879)	-
Total liabilities	**112,744**	**12,831**	**94,904**	**187,419**	**33,609**	**(296,879)**	**144,628**

Year ended 31 December 2010 Analysis by operating segment	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Capital expenditure	27	3	18	4	38	-	90
Investment in associates and joint ventures	146	-	79	-	-	-	225
External assets	47,715	12,325	52,642	50,949	3,842	-	167,473
Inter segment assets	76,490	1,918	36,765	151,054	47,302	(313,529)	-
Total assets	124,205	14,243	89,407	202,003	51,144	(313,529)	167,473
External liabilities	50,467	12,802	26,027	66,693	4,077	-	160,066
Inter segment liabilities	74,415	535	63,591	135,582	39,406	(313,529)	-
Total liabilities	124,882	13,337	89,618	202,275	43,483	(313,529)	160,066

Year ended 31 December 2011 Gross revenue by operating segments	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
External revenue	1,850	184	1,933	1,487	1,776	-	7,230
Inter segment revenue	3,003	40	1,135	2,897	(824)	(6,251)	-
Total gross revenue	4,853	224	3,068	4,384	952	(6,251)	7,230

Year ended 31 December 2010	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
External revenue	1,936	279	2,269	1,598	1,780	-	7,862
Inter segment revenue	2,310	11	769	2,664	(368)	(5,386)	-
Total gross revenue	4,246	290	3,038	4,262	1,412	(5,386)	7,862

2 Operating segments (continued)

The analysis below is on a geographical basis - based on the location of the business unit by where revenues are generated.

Year ended 31 December 2011 Geographical analysis	**Republic of Ireland €m**	**United Kingdom €m**	**Rest of World €m**	**Other reconciling items €m**	**Total €m**
External revenue	4,638	2,462	130	-	7,230
Inter segment revenue	1,002	757	66	(1,825)	-
Gross revenue	**5,640**	**3,219**	**196**	**(1,825)**	**7,230**
Capital expenditure	**85**	**18**	**-**	**-**	**103**
External assets	94,503	58,632	1,745	-	154,880
Inter segment assets	43,869	16,007	2,905	(62,781)	-
Total assets	**138,372**	**74,639**	**4,650**	**(62,781)**	**154,880**
External liabilities	110,342	33,068	1,218	-	144,628
Inter segment liabilities	18,004	41,625	3,152	(62,781)	-
Total liabilities	**128,346**	**74,693**	**4,370**	**(62,781)**	**144,628**

Year ended 31 December 2010 Geographical analysis	Republic of Ireland €m	United Kingdom €m	Rest of World €m	Other reconciling items €m	Total €m
External revenue	4,985	2,661	216	-	7,862
Inter segment revenue	974	616	171	(1,761)	-
Gross revenue	5,959	3,277	387	(1,761)	7,862
Capital expenditure	72	18	-	-	90
External assets	107,893	56,560	3,020	-	167,473
Inter segment assets	57,983	23,657	3,035	(84,675)	-
Total assets	165,876	80,217	6,055	(84,675)	167,473
External liabilities	132,105	25,959	2,002	-	160,066
Inter segment liabilities	27,482	53,411	3,782	(84,675)	-
Total liabilities	159,587	79,370	5,784	(84,675)	160,066

3 Interest income

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Loans and advances to customers (including loans sold to NAMA)	3,836	4,387
Available for sale financial assets	609	584
Finance leases and hire purchase receivables	109	141
Loans and advances to banks	64	67
Interest income	**4,618**	**5,179**

Included within interest income is €217 million (year ended 31 December 2010: €210 million) arising on financial assets on which an impairment provision has been recognised. Net interest income also includes a charge of €154 million (year ended 31 December 2010: charge of €411 million) transferred from the cash flow hedge reserve.

4 Interest expense

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Customer accounts	1,392	1,467
Debt securities in issue	755	895
Deposits from banks	766	286
Subordinated liabilities	171	312
Interest expense	**3,084**	**2,960**

Included within interest expense for the year ended 31 December 2011 is an amount of €449 million (year ended 31 December 2010: €275 million) relating to the cost of the Credit Institutions (Eligible Liabilities Guarantee) Scheme (ELG). The cost of this scheme is classified as interest expense as it is directly attributable and incremental to the issue of specific financial liabilities. Further information on this scheme is outlined in note 36. The cost of the Credit Institutions (Financial Support) Scheme (CIFS) for the year ended 31 December 2010 of €68 million is shown in fee and commission expense (note 6). This CIFS scheme expired on 29 September 2010.

Interest expense for the year ended 31 December 2010 includes a charge of €35 million in relation to a change in the expected cash flows on certain subordinated liabilities.

5 Net insurance premium income

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Gross premiums written	1,026	1,069
Ceded reinsurance premiums	(104)	(112)
Net premiums written	922	957
Change in provision for unearned premiums	7	12
Net insurance premium income	**929**	**969**

6 Fee and commission income and expense

Income	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Retail banking customer fees	386	362
Insurance commissions	76	81
Credit related fees	66	52
Asset management fees	28	83
Brokerage fees	11	8
Other	45	47
Fee and commission income	**612**	**633**

Included in other fees is an amount of €2 million (year ended 31 December 2010: €3 million) related to trust and other fiduciary fees.

Expense	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Government Guarantee fee (note 36)	-	68
Other	192	189
Fee and commission expense	**192**	**257**

The Government Guarantee fee for the year ended 31 December 2010 related to the fee paid under the CIFS Scheme, which commenced on 30 September 2008 and expired on 29 September 2010. The cost of the ELG scheme for the year ended 31 December 2011 of €449 million (year ended 31 December 2010: €275 million) is recognised in interest expense (note 4).

Other fee and commission expense of €192 million (year ended 31 December 2010: €189 million) primarily comprises brokerage fees, sales commissions and other fees to third parties.

7 Net trading income

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Financial assets designated at fair value	(1)	19
Financial liabilities designated at fair value	56	189
Related derivatives held for trading	(82)	67
	(27)	**275**
Other financial instruments held for trading	44	(76)
Net fair value hedge ineffectiveness	1	26
Cash flow hedge ineffectiveness	1	-
Net trading income	**19**	**225**

Net trading income of €19 million (year ended 31 December 2010: €225 million) includes the gains and losses on financial instruments held for trading and those designated at fair value through profit or loss (other than unit linked life assurance assets and investment contract liabilities). It includes the gains and losses arising on the purchase and sale of these instruments, the interest income receivable and expense payable and the fair value movement on these instruments, together with the funding cost of the trading instruments. It also includes €54 million (year ended 31 December 2010: €124 million) in relation to net gains arising from foreign exchange.

Net trading income includes the total fair value movement (including interest receivable and payable) on liabilities that have been designated at fair value through profit or loss. The interest receivable on amortised cost assets which are funded by those liabilities is reported in net interest income. Net trading income also includes the total fair value movements on derivatives that are economic hedges of assets and liabilities which are measured at amortised cost, the net interest receivable or payable on which is also reported within net interest income. The net amount reported within net interest income relating to these amortised cost instruments was €102 million (year ended 31 December 2010: €175 million).

Net fair value hedge ineffectiveness comprises a net gain from hedging instruments of €56 million (31 December 2010: net gain of €280 million) offsetting a net loss from hedged items of €55 million (year ended 31 December 2010: net loss of €254 million).

The net gain from the change in credit spreads relating to the Group's liabilities designated at fair value through profit or loss was €56 million (year ended 31 December 2010: €360 million). Of this amount, €42 million (year ended 31 December 2010: €297 million) has been recognised within net trading income, with a further €11 million (year ended 31 December 2010: €58 million) included within insurance contract liabilities and claims paid and €3 million (year ended 31 December 2010: €5 million) included in other operating income. During the year ended 31 December 2011, subordinated liabilities measured at fair value through profit or loss, with a cumulative fair value gain from changes in credit spreads of €56 million (year ended 31 December 2010: €25 million) were repurchased at fair value as part of the Group's liability management exercises. As a result, the cumulative impact at 31 December 2011 from the change in credit spreads relating to liabilities recognised on the balance sheet at that date is a net gain of €425 million (31 December 2010: €425 million).

Included within net trading income in the year ended 31 December 2010 is a charge of €1 million in relation to the revised estimates of future cash flows on certain subordinated liabilities. See note 4 for further details.

8 Life assurance investment income, gains and losses

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Gross life assurance investment income, gains and losses	(39)	464
Elimination of investment return on treasury stock held for the benefit		
of policyholders in the Life businesses	1	10
Life assurance investment income, gains and losses	**(38)**	**474**

8 Life assurance investment income, gains and losses (continued)

Life assurance investment income, gains and losses comprise the investment return, realised gains and losses and unrealised gains and losses which accrue to the Group on all investment assets held by Bank of Ireland Life, other than those held for the benefit of policyholders whose contracts are considered to be investment contracts.

IFRS requires that Bank of Ireland stock held by the Group, including that held by Bank of Ireland Life for the benefit of policyholders, is reclassified as treasury stock and accounted for as a deduction from equity. Changes in the value of any treasury stock held are recognised in equity at the time of disposal and dividends are not recognised as income or distributions.

The impact on the Group income statement for the year ended 31 December 2011 of applying this accounting treatment is that the loss arising on life assurance investment income, gains and losses of €39 million has been reduced by €1 million which is the change in value of Bank of Ireland stock held under insurance contracts. Other operating income (note 10) has been increased by €1 million which is the change in value of stock held under investment contracts. The combined adjustment is €2 million.

9 Gain on liability management exercises

Gain on liability management exercises	**Year ended 31 December 2011 €m**	Year ended 31 December 2010 €m
Gain on liability management exercises	1,789	1,402

As part of its capital management activities, including the recapitalisation of the Bank (see note 35), the Group has repurchased and / or exchanged certain subordinated liabilities and mortgage-backed securities at significant discounts to their nominal amounts.

This involved a number of transactions as follows:

- a Debt for debt exchange relating to two Canadian dollar subordinated notes in February 2011 and the repurchase of a euro subordinated note in March 2011, which generated a gain of €17 million; and
- various liability management exercises between July 2011 and December 2011 to generate part of the incremental equity capital of €4.2 billion required by the Central Bank as a result of the 2011 PCAR (see note 35), which generated gains of €1,772 million as follows:

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

9 Gain on liability management exercises (continued)

The table below summarises the results of the transactions undertaken in February 2011 and March 2011.

Description	Nominal amount prior to debt exchange	Debt for debt exchange	Cash offer	Residual nominal amount	Price (% of nominal amount exchanged)
CAD$400 million *Fixed / Floating Rate Subordinated Notes 2015*	CAD$221m	CAD$83m	-	CAD$138m	52%
CAD$145 million *Fixed / Floating Rate Subordinated Notes 2018*	CAD$145m	CAD$55m	-	CAD$90m	59%
€750 million *Floating Rate Subordinated Notes 2017*	€93m	-	€2m	€91m	53%
US$150 million Floating Rate Note (FRN) (accounted for as preference equity*)	US$80m	-	US$5m	US$75m	37%

* *The difference of €1 million between the fair value of the consideration of €2 million and the carrying value of the notes of €3 million is shown as an increase in retained earnings and is included as part of the increase of €41 million in the Statement of Changes in Equity.*

The net gain before transaction costs on the repurchase of these subordinated liabilities amounted to €17 million (€17 million after taxation) being the difference between the consideration paid of €57 million (being the fair value of new notes issued of €56 million and cash of €1 million) and the carrying value of the notes repurchased of €74 million.

9 Gain on liability management exercises (continued)

The gain of €1,497 million arising from the liability management exercises undertaken on the subordinated liabilities pursuant to the 2011 PCAR was related to dated debt securities (gain of €1,032 million) and undated debt securities (gain of €465 million) as set out in the tables below:

Dated debt exchanges Description	Nominal amount prior to debt exchange	Nominal amount exchanged / repurchased Debt for equity offer	Cash offer	Call option*	Residual nominal amount	Average price (% of nominal amount exchanged)
€650 million Fixed / Floating Rate Subordinated Note due 2019	€202m	€178m	€5m	€19m	-	36%
€600 million Subordinated Floating Rate Notes 2017	€48m	€32m	€15m	-	€1m	39%
€750 million Floating Rate Subordinated Notes 2017	€91m	€87m	-	€4m	-	38%
US$600 million Floating Rate Subordinated Notes due 2018	US$185m	US$180m	US$1m	US$4m	-	39%
Stg£400 million Fixed / Floating Rate Subordinated Note due 2018	Stg£57m	Stg£57m	-	-	-	40%
Stg£450 million Fixed / Floating Rate Subordinated Notes 2020	Stg£272m	Stg£268m	Stg£2m	Stg£2m	-	40%
Stg£75 million 10 ¾% subordinated Note 2018	Stg£27m	Stg£25m	Stg£1m	Stg£1m	-	37%
€1,002 million Fixed Rate Subordinated Notes 2020	€747m	€530m	€11m	-	€206m	40%
Stg£197 million Fixed Rate Subordinated Notes 2020	Stg£87m	Stg£61m	Stg£24m	-	Stg£2m	41%
CAD$400 million Fixed / Floating Rate Subordinated Notes 2015	CAD$138m	CAD$38m	CAD$1m	-	CAD$99m	39%
CAD$145 million Fixed / Floating Rate Subordinated 2018	CAD$90m	CAD$39m	CAD$50.8m	-	CAD$0.2m	42%

* *The Group was granted the right to insert a call option (which it subsequently exercised) to compulsorily acquire €0.1 billion of debt securities for cash at 0.001% of their nominal value.*

The net gain before transaction costs set out in the table above amounted to €1,032 million (€1,025 million after taxation), being the difference between the fair value of the consideration of €625 million and the carrying value of the securities of €1,657 million.

9 Gain on liability management exercises (continued)

Undated debt exchanges Description	Nominal amount prior to debt exchange	Nominal amount exchanged / repurchased Debt for equity offer	Cash offer	Call option*	Residual nominal amount	Average price (% of nominal amount exchanged)
€600 million 7.40% Guaranteed step-up Callable Perpetual Preferred Securities	€253m	€108m	€113m	-	€32m	34%
Stg £350 million 6.25% Guaranteed Callable Perpetual Preferred Securities	Stg£40m	Stg£39m	Stg£1m	-	-	20%
€600 million Fixed Rate / Variable rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	€216m	€96m	€54m	€66m	-	11%
US$800 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	US$61m	US$55m	US$3m	US$3m	-	19%
US$400 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	US$20m	US$14m	US$2m	US$4m	-	14%
Stg£500 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	Stg£5m	Stg£4m	Stg£1m	-	-	18%
Stg£75 million 13.375% Perpetual Subordinated Bonds	Stg£75m	-	Stg£29m	-	Stg£46m	35%
US$150 million Floating Rate Note (FRN) (accounted for as preference equity**)	US$75m	US$65m	US$10m	-	-	37%

* *The Group was granted the right to insert a call option (which it subsequently exercised) to compulsorily acquire €0.1 billion of debt securities for cash at 0.001% of their nominal value.*

** *The difference of €40 million between the fair value of the consideration of €18 million and the carrying value of the notes of €58 million is shown as an increase in retained earnings and is included as part of the increase of €41 million in the Statement of Changes in Equity.*

The net gain before transaction costs set out in the table above amounted to €465 million (€465 million after taxation), being the difference between the fair value of the consideration of €131 million and the carrying value of the notes repurchased of €596 million.

9 Gain on liability management exercises (continued)

The following table summarises the results of the repurchase of certain residential mortgage-backed securities:

Repurchase of mortgage-backed securities during the year ended 31 December 2011 Description / Issuer	Nominal amount prior to repurchase	Nominal amount repurchased	Residual nominal amount	Average price (% of nominal amount repurchased)
Kildare Securities Limited mortgage-backed Floating Rate Notes December 2043:				
Class A2	US$474m	US$15m	US$459m	88%
Class A3	€1,062m	€260m	€802m	75%
Class B	€97m	€61m	€36m	51%
Class C	€91m	€60m	€31m	42%
Class D	€27m	€21m	€6m	33%
Brunel Residential Mortgage Securitisation No. 1 plc Mortgage-backed Floating Rate Notes January 2039:				
Class A4a	€723m	€125m	€598m	92%
Class A4b	Stg£743m	Stg£301m	Stg£442m	75%
Class A4c	US$1,111m	US$141m	US$970m	92%
Class B4a	€98m	€9m	€89m	77%
Class B4b	Stg£19m	Stg£12m	Stg£7m	75%
Class C4a	€156m	€28m	€128m	72%
Class C4b	Stg£23m	Stg£2m	Stg£21m	67%
Class C4c	US$23m	US$8m	US$15m	72%
Class D4a	€122m	€69m	€53m	66%
Class D4b	Stg£21m	Stg£9m	Stg£12m	65%
Class D4c	US$23m	US$21m	US$2m	64%
Bank of Ireland Mortgage Bank				
ACS 4% 5 July 2013	€2,100m	€8m	€2,092m	89%
ACS 3.25% 22 June 2015	€2,000m	€20m	€1,980m	77%

The net gain before transaction costs on the repurchase of these mortgage-backed securities amounted to €307 million (€268 million after taxation) being the difference between the fair value of the consideration of €872 million and the carrying value of the mortgage-backed securities of €1,179 million.

9 Gain on liability management exercises (continued)

Year ended 31 December 2010

During the year 31 December 2010 the Group undertook a range of liability management exercises on its subordinated liabilities as follows:

- a Debt for debt exchange relating to five subordinated notes in February 2010;
- a Debt for equity offer as part of the 2010 Capital Raising, under which holders of certain notes exchanged these notes for (a) cash proceeds from the allotment of ordinary stock on behalf of such holders in the Rights Issue or (b) allotment instruments which automatically converted into ordinary stock on 10 September 2010;
- a Debt for debt exchange in July 2010 in relation to US dollar subordinated notes;
- a Debt for debt exchange in September 2010 in relation to Canadian dollar subordinated notes, this transaction did not give rise to a gain as the notes repurchased were measured at fair value through profit or loss; and
- a Debt for debt exchange relating to nine subordinated notes in December 2010.

The gains arising on these transactions are summarised below:

	Year ended 31 December 2010 €m
Debt for debt exchanges (Dated)	1,126
Debt for equity offer (Undated)	276
Gain on liability management exercises	**1,402**

The following tables summarise the results of the debt for debt exchanges and the debt for equity offer in the year ended 31 December 2010.

Dated securities Description	**Total nominal amount exchanged during year**	**Average price (% of nominal amount exchanged)**
€650 million Fixed/Floating Subordinated Note due 2019	€448m	65%
€600 million Subordinated Floating rate Notes 2017	€552m	67%
€750 million Floating Rate Subordinated Notes 2017	€657m	67%
€1,002 million Fixed Rate Subordinated Notes 2020	€255m	57%
Stg£400 million Fixed / Floating Rate Subordinated Notes 2018	Stg£343m	71%
Stg£450 million Fixed / Floating Rate Subordinated Notes 2020	Stg£178m	53%
Stg£75 million 10 ¾% Subordinated Note 2018	Stg£48m	58%
Stg£197 million Fixed Rate Subordinated Notes 2020	Stg£110m	57%
US$600 million Subordinated Floating Rate Notes due 2018	US$415m	61%
CAD$400 million Fixed / Floating Rate Subordinated Notes 2015	CAD$179m	81%

9 Gain on liability management exercises (continued)

The net gain after transaction costs amounted to €1,126 million (€1,103 million after taxation) being the difference between the fair value of the new notes issued of €1,934 million and the carrying value of the notes repurchased of €3,073 million, less transaction costs of €13 million.

Undated securities Description	Total nominal amount exchanged during year	Price (% of nominal amount exchanged)
€600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities	€223m	86%
Stg£350 million 6.25% Guaranteed Callable Perpetual Preferred Securities	Stg£6m	63%
€600 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	€134m	60%
US$800 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	US$339m	73%
US$400 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	US$180m	72%
Stg£500 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	Stg£32m	58%
US$150 million Floating Rate Note (FRN) (accounted for as preference equity*)	US$70m	58%

* *The difference of €24 million between the fair value of the consideration of €29 million and the carrying value of the notes of €53 million is shown as an increase in retained earnings and is included in the Statement of Changes in Equity.*

The net gain after transaction costs on the debt for equity offer on subordinated liabilities amounted to €276 million (€269 million after taxation) being the difference between the fair value of the consideration of €588 million and the carrying value of the securities of €871 million less transaction costs of €7 million.

10 Other operating income

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Other insurance income	49	70
Other income	7	55
Movement in value of in force asset	(19)	41
Transfer from available for sale reserve on asset disposal	(28)	15
Elimination of investment return on treasury stock held for the benefit of policyholders in the Life business (note 8)	1	10
Dividend income	2	8
Other operating income	**12**	**199**

11 Insurance contract liabilities and claims paid

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Surrenders	(795)	(597)
Death and critical illness	(148)	(108)
Annuities	(41)	(65)
Maturities	(1)	(3)
Other	(39)	(35)
Gross claims	**(1,024)**	**(808)**
Reinsurance	53	47
Net claims paid	**(971)**	**(761)**
Change in contract liabilities:		
Gross	151	(530)
Reinsurance	70	23
Net change in insurance contract liabilities	**221**	**(507)**
Net insurance contract liabilities and claims paid	**(750)**	**(1,268)**

12 Other operating expenses

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Administrative expenses		
- Staff costs (see analysis below)	862	1,003
- Other administrative expenses	635	645
Depreciation		
- Intangible assets	99	107
- Property, plant and equipment	37	40
Reversal of impairment of intangible assets	(4)	(2)
Revaluation of property	15	10
Total other operating expenses	**1,644**	**1,803**
Staff costs are analysed as follows:		
Wages and salaries	692	748
Social security costs	72	76
Retirement benefit costs (defined benefit plans) (note 32)	88	174
Retirement benefit costs (defined contribution plans)	2	-
Share based payment schemes	-	(6)
Other	8	11
Staff costs	**862**	**1,003**

Retirement benefit costs (defined benefit plans) exclude a gain of €2 million (year ended 31 December 2010: a gain of €733 million) in relation to the impact of amendments to defined benefit pension schemes. This gain has been shown as a separate line item on the income statement and further details are set out in note 32.

Included in Other administrative expenses above is an amount of €69 million (year ended 31 December 2010: €65 million) in relation to operating lease payments.

Staff numbers

In the year ended 31 December 2011 the average number of staff (full time equivalents) was 13,671 (year ended 31 December 2010: 14,284) categorised as follows in line with the operating segments as stated in note 2.

	Year ended 31 December 2011	Year ended 31 December 2010
Retail Ireland	5,374	5,594
Bank of Ireland Life	1,073	1,016
Retail UK	2,236	2,505
Corporate and Treasury	925	1,342
Group Centre	4,063	3,827
Total	**13,671**	**14,284**

The number of staff (full time equivalents) as at 31 December 2011 was 13,234 (31 December 2010: 14,235).

13 Impairment charges on financial assets (excluding assets sold to NAMA)

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Loans and advances to customers (note 26)	1,939	1,859
Available for sale financial assets (AFS)	21	168
Impairment charges on financial assets (excluding assets sold to NAMA)	**1,960**	**2,027**

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

In the 2010 Annual Report, the amount disclosed in respect of impairment charges on financial assets (excluding assets sold or held for sale to NAMA) for the year ended 31 December 2010 was €2,055 million.

14 Impairment charges on assets sold to NAMA

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Impairment charges on assets sold to NAMA	**44**	**257**

At 31 December 2011, the Group did not have any assets held for sale to NAMA (31 December 2010: €804 million, after impairment provisions of €75 million).

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

In the 2010 Annual Report, the amount disclosed in respect of impairment charges on assets sold or held for sale to NAMA at 31 December 2010 was €229 million.

15 Gain / (loss) on sale of assets to NAMA including associated costs

The gain / (loss) on sale of assets to NAMA which reflects those assets that were sold to NAMA during the year ended 31 December 2011 and the year ended 31 December 2010, is set out below:

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

[1] *The consideration consists of the fair value of NAMA senior bonds (representing 95% of the nominal consideration) and the fair value of NAMA subordinated bonds (representing 5% of the nominal consideration) (see note 22 and note 23).*
[2] *As at 31 December 2010, the final NAMA due diligence process was still ongoing for €3.6 billion of assets transferred to NAMA. Given the uncertainty over the final consideration for these transferred assets, the Group was required to estimate the amount receivable from NAMA. The ultimate amount received from NAMA was greater than originally anticipated by €90 million.*

During the year ended 31 December 2011, the Group sold €498 million of assets to NAMA (year ended 31 December 2010: €9,401 million) before impairment provisions at the date of sale of €198 million (year ended 31 December 2010: €2,237 million). The fair value of the consideration received for these assets amounted to €246 million (year ended 31 December 2010: €5,046 million). After taking account of other items and the adjustment to consideration in respect of assets transferred during 2010, the Group's gain on sale of assets to NAMA was €33 million (year ended 31 December 2010: a loss of €2,241 million).

At 31 December 2011, the Group did not have any assets held for sale to NAMA (31 December 2010: €804 million, after impairment provisions of €75 million).

16 Loss on deleveraging of financial assets

The Group announced the deleveraging of financial assets with a carrying value of €8.6 billion during 2011 of which €7.6 billion had been completed and derecognised by 31 December 2011 with the remaining €1.0 billion of assets expected to settle in early 2012.

An analysis of the deleveraging completed during 2011 (which includes the sale of loan portfolios to third parties together with managed re-financing decisions taken by the Group) is set out below:

Year ended 31 December 2011	Consideration received (net of costs) €m	Carrying value of assets derecognised €m	Loss €m
Retail UK divison			
UK Investment Property loan portfolio	1,169	1,464	(295)
UK Mortgage loan portfolio	1,275	1,399	(124)
Corporate and Treasury division			
Project Finance loan portfolios	833	944	(111)
US Investment Property loan portfolio	803	805	(2)
Other international loans	2,916	2,949	(33)
Total	**6,996**	**7,561**	**(565)**

The assets of €1.0 billion which the Group has contracted to sell but where the sale had not completed by 31 December 2011 are reported as other assets classified as held for sale as at 31 December 2011.

UK Investment Property loan portfolio
A loan portfolio and certain associated derivatives with a carrying value of €1.5 billion was sold to Kennedy Wilson and its institutional partners. The consideration for these loans was €1.2 billion, giving rise to a loss on disposal after transaction costs of €0.3 billion. The sale was completed in December 2011.

UK Mortgage loan portfolio
A loan portfolio with a carrying value of €1.4 billion was sold to The Mortgage Works (UK) plc, a wholly owned subsidiary of Nationwide Building Society. The consideration for these loans was €1.3 billion, giving rise to a loss on disposal after transaction costs of €0.1 billion. The sale was completed in December 2011.

Project Finance loan portfolios
During 2011, the Group agreed the sale of Project Finance loans with a total carrying value of €1.3 billion to GE Energy Financial Services, Sumitomo Mitsui Banking Corporation and other third parties. By 31 December 2011, €944 million of these sales had completed and the assets were derecognised. The consideration received for these loans was €833 million, giving rise to a loss on disposal after transaction costs of €111 million.

As a result, as at 31 December 2011, the Group had a remainder of €0.4 billion of loans that were contracted to sell. These loans are reported as other assets classified as held for sale at 31 December 2011 (see note 25).

US Investment Property loan portfolio
A loan portfolio with a carrying value of €0.8 billion was sold to Wells Fargo Bank N.A. for a consideration of €0.8 billion. The sale was completed during September 2011.

Other International loans
Other International loans with a carrying value of €2.9 billion were derecognised during 2011, principally through managed refinancing decisions taken by the Group.

Year ended 31 December 2010
The Group 2011 PCAR / PLAR requirements were set down during 2011, therefore there is no comparative information for the year ended 31 December 2010.

17 Profit on disposal of business activities

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Corporate and Treasury division		
Bank of Ireland Asset Management (BIAM)	39	-
Bank of Ireland Securities Services (BoISS)	32	-
Paul Capital Investments LLC	-	-
Impairment of goodwill in Burdale	(45)	-
Retail Ireland division		
Foreign Currency Exchange (FCE) Corporation	8	-
Profit of disposal of business activities	**34**	**-**

Bank of Ireland Asset Management (BIAM)
In line with the commitments given in the EU Restructuring plan, on 22 October 2010 the Group announced the sale of BIAM to State Street Global Advisors for cash consideration of €57 million, subject to certain conditions. On 10 January 2011, all conditions of the sale were satisfied and the sale was completed, with a resulting profit of €39 million.

Bank of Ireland Securities Services (BoISS)
On 24 February 2011, the Group announced the sale of BoISS to Northern Trust Corporation for cash and deferred consideration. The fair value of the consideration was estimated to be €51 million and the sale was completed on 1 June 2011, with a resulting profit of €32 million.

Paul Capital Investments LLC
In line with the commitments given in the EU Restructuring plan, on 21 April 2011 the Group completed the sale of its 50% holding in Paul Capital Investments LLC to the firm's existing management team for consideration of €9 million. The profit was less than €1 million.

Impairment of goodwill in Burdale Financial Holdings Limited (Burdale)
The Group incurred a charge of €45 million, being the impairment of the goodwill in Burdale following the announcement on 19 December 2011 of the sale of this business to Wells Fargo International Banking Corporation. The sale completed on 1 February 2012, resulting in a loss of €6 million which will be included in the income statement for the year ended 31 December 2012.

Foreign Currency Exchange (FCE) Corporation
In line with the commitments given in the EU Restructuring plan, on 9 May 2011 the Group announced the sale of FCE Corporation to Wells Fargo Bank N.A. for consideration of €31 million. On 1 August 2011, all conditions were satisfied and the sale was completed with a resulting profit of €8 million.

18 Taxation

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Current tax		
Irish Corporation Tax		
- Current year	(25)	(21)
- Prior year	32	11
Double taxation relief	2	2
Foreign tax		
- Current year	(49)	(29)
- Prior year	7	(2)
	(33)	**(39)**
Deferred tax credit		
Origination and reversal of temporary differences (note 31)	263	380
Taxation credit	**230**	**341**

The reconciliation of tax on the profit / (loss) before taxation at the standard Irish corporation tax rate to the Group's actual tax credit for the year ended 31 December 2011 and the year ended 31 December 2010 is as follows:

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Profit / (loss) before tax multiplied by the standard rate of corporation tax in Ireland of 12.5% (2010: 12.5%)	24	119
Effects of:		
Gains arising on repurchase of subordinated liabilities	185	156
Foreign earnings subject to different rates of tax	84	51
Other adjustments for tax purposes	(4)	49
Previously unrecognised deferred tax assets	-	15
Non-deductible goodwill impairment	(13)	-
Share of results of associates and joint ventures shown post tax in the income statement	5	6
Elimination of investment return on treasury stock held for the benefit of policyholders	-	2
Impact of corporation tax rate change on deferred tax	(18)	(10)
Non-deductible expenses	(32)	(15)
Prior year adjustments	10	-
Bank of Ireland Life companies - different basis of accounting	(23)	(32)
Tax exempt profits on disposal of business activities	12	-
Taxation credit	**230**	**341**

The effective taxation rate for the year ended 31 December 2011 is a credit of 121%. The effective taxation rate for the year ended 31 December 2010 was a credit of 36%. Excluding the impact of the gain on liability management exercises, loss on disposal of loan books, gains arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss', gain on disposal of business activities, gross-up for policyholder tax in the Life business, impact of changes in pension benefits, cost of restructuring programmes, investment return on treasury stock held for policyholders and impact of 'coupon stopper' on subordinated debt the effective taxation rate was 11% compared to a rate of 14% for the year ended 31 December 2010.

18 Taxation (continued)

Tax effects relating to each component of other comprehensive income

	Year ended 31 December 2011			Year ended 31 December 2010		
	Pre tax amount €m	Tax (charge) / credit €m	Net of tax amount €m	Pre tax amount €m	Tax (charge) / credit €m	Net of tax amount €m
Net change in revaluation reserve	(8)	2	(6)	(18)	3	(15)
Cash flow hedge						
Changes in fair value	(1,034)	234	(800)	(205)	100	(105)
Transfer to income statement	1,380	(266)	1,114	520	(140)	380
Net change in cash flow hedge reserve	346	(32)	314	315	(40)	275
Available for sale						
Changes in fair value	68	(8)	60	(402)	48	(354)
Transfer to income statement						
- On asset disposal	28	(4)	24	(15)	2	(13)
- Impairment	21	(2)	19	168	(21)	147
Net change in reserve	117	(14)	103	(249)	29	(220)
Net actuarial (loss) / gain on defined benefit pension funds	(137)	20	(117)	465	(74)	391
Foreign exchange transaction gains	180	-	180	157	-	157
Other comprehensive income for the year	**498**	**(24)**	**474**	**670**	**(82)**	**588**

19 Loss per share

The calculation of basic loss per unit of €0.05 (2010: €0.10) ordinary stock is based on the profit / (loss) attributable to ordinary stockholders divided by the weighted average number of units of ordinary stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders.

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Basic		
Profit / (loss) attributable to stockholders	45	(614)
Dividends on other equity interests	(7)	-
Dividend on 2009 Preference Stock	(188)	(231)
Repurchase of capital note (note 9)	41	24
Loss attributable to ordinary stockholders	**(109)**	**(821)**
Weighted average number of units of stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders	15,704	3,811
Basic loss per share (cent)[1]	**(0.7)**	**(21.5)**

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

19 Loss per share (continued)

As set out in note 34, 19,078 million new units of €0.05 ordinary stock were issued in July 2011 at €0.10 per share on the basis of eighteen new units of ordinary stock for every five units held under the terms of the Rights Issue. The actual cum rights price on 11 July 2011, the last day of quotation cum rights, was €0.101 per unit of ordinary stock and the theoretical ex-rights price per unit of €0.05 ordinary stock was therefore €0.1002 per share. The comparative loss per share figures have been calculated by applying a factor of 1.007809 to the average number of units of ordinary stock in issue for the year ended 31 December 2010 in order to adjust for the bonus element of the Rights Issue.

Diluted
The diluted loss per share is based on the earnings / loss attributable to ordinary stockholders divided by the weighted average ordinary stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders adjusted for the effect of all dilutive potential ordinary stock.

	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Diluted		
Earnings / (loss) attributable to stockholders	45	(614)
Dividends on other equity interests	(7)	-
Dividend on 2009 Preference Stock	(188)	(231)
Repurchase of capital note (note 9)	41	24
Loss attributable to ordinary stockholders	**(109)**	**(821)**
Weighted average number of units of stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders	15,704	3,811
Effect of all dilutive potential ordinary stock	-	-
	15,704	3,811
Diluted loss per share (cent)[1]	**(0.7)**	**(21.5)**

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

Where a dividend on the 2009 Preference Stock is not paid in either cash or units of ordinary stock, that dividend must subsequently be paid in the form of units of ordinary stock before a subsequent dividend on the 2009 Preference Stock or dividend on ordinary stock can be paid. The dividend required for the year ended 31 December 2011 has been deducted in the calculation of basic and diluted loss per share.

For the year ended 31 December 2011 and the year ended 31 December 2010 there was no difference in the weighted average number of units of stock used for basic and diluted net loss per share as the effect of all potentially dilutive ordinary units of stock outstanding was anti-dilutive.

As at 31 December 2011 there were stock options over 3 million units of ordinary units of stock (31 December 2010: 9 million units of potential ordinary stock) which could potentially have a dilutive impact in the future, but which were anti-dilutive in the year ended 31 December 2011 and the year ended 31 December 2010 respectively.

20 Other financial assets at fair value through profit or loss

	31 December 2011 €m	31 December 2010 €m
Equity securities	5,934	7,186
Government bonds	1,812	1,776
Unit trusts	954	786
Debt securities	165	202
Loans and advances	49	95
Other financial assets at fair value through profit or loss	**8,914**	**10,045**

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying asset is held by the Group, but the inherent risks and rewards in the assets are borne by the policyholders. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal change in the value of the amounts due to policyholders. The associated liabilities are included in liabilities to customers under investment contracts and insurance contract liabilities on the balance sheet. At 31 December 2011, such assets amounted to €7,881 million (31 December 2010: €9,074 million)

21 Loans and advances to banks

	31 December 2011 €m	31 December 2010 €m
Placements with other banks	6,088	4,062
Mandatory deposits with central banks	1,392	3,102
Funds placed with central banks	162	216
Securities purchased with agreement to resell	417	79
	8,059	**7,459**
Less allowance for impairment on loans and advances to banks	-	(1)
Loans and advances to banks	**8,059**	**7,458**

Placements with other banks includes cash collateral of €2.2 billion (31 December 2010: €1.8 billion) placed with derivative counterparties in relation to net derivative liability positions.

For the purpose of disclosure of credit risk exposures, loans and advances to banks are included within other financial instruments of €33.9 billion (31 December 2010: €38.6 billion).

The Group has entered into transactions to purchase securities with agreement to resell and has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The fair value of this collateral at 31 December 2011 was €417 million (31 December 2010: €79 million).

An amount of €1,012 million included within mandatory deposits with central banks relates to collateral in respect of notes in circulation (31 December 2010: €967 million).

22 Available for sale financial assets

	31 December 2011 €m	31 December 2010 €m
Government bonds	4,570	3,736
Other debt securities		
- listed	5,324	11,197
- unlisted	315	593
Equity securities		
- listed	1	1
- unlisted	52	49
Available for sale financial assets	**10,262**	**15,576**

At 31 December 2011, available for sale financial assets of €7.8 billion (31 December 2010: €12.9 billion) had been pledged to third parties in sale and repurchase agreements. The Group has not derecognised any securities delivered in repurchase agreements.

Included within unlisted debt securities are NAMA subordinated bonds with a fair value of €113 million (31 December 2010: €98 million) and a nominal value of €280 million (31 December 2010: €271 million). These bonds represented 5% of the nominal consideration received for assets sold to NAMA, with the remaining 95% received in the form of NAMA senior bonds (note 23). The subordinated bonds are not guaranteed by the State, they are not marketable and the payment of interest and repayment of capital is dependent on the performance of NAMA. An impairment charge of €70 million was incurred on the NAMA subordinated bonds during the year ended 31 December 2010.

23 NAMA senior bonds

	31 December 2011 €m	31 December 2010 €m
NAMA senior bonds	**5,016**	**5,075**

The Group received as consideration for the assets transferred to NAMA a combination of Government guaranteed bonds (NAMA senior bonds) issued by NAMA (95% of the nominal consideration) and NAMA subordinated bonds issued by NAMA (5% of the nominal consideration).

The interest rate on the NAMA senior bonds bonds is six month Euribor, set semi-annually on 1 March and 1 September. The contractual maturity of these bonds is 1 March 2012. NAMA may, with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

During the year ended 31 December 2011, the Group received bonds with a nominal value of €232 million as consideration for assets transferred to NAMA and bonds with a nominal value of €221 million were redeemed.

At 31 December 2011 and 31 December 2010, all NAMA senior bonds had been pledged to Monetary Authorities in sale and repurchase agreements.

24 Loans and advances to customers

	31 December 2011 €m	31 December 2010 €m
Loans and advances to customers	104,006	117,510
Finance leases and hire purchase receivables	1,652	1,922
	105,658	119,432
Less allowance for impairment charges on loans and advances to customers (note 26)	(6,344)	(4,975)
Loans and advances to customers	**99,314**	**114,457**
Amounts include		
Due from joint ventures	84	105

The net reduction in loans and advances to customers reflects deleveraging (note 16), impairment charges (note 26), net redemptions and the impact of foreign exchange movements.

25 Other assets and liabilities classified as held for sale

Assets classified as held for sale	31 December 2011 €m	31 December 2010 €m
Project Finance Loan Portfolios	998	-
UK Mortgage Loan Portfolio	802	-
Assets of Burdale	646	-
Assets of Foreign Currency Exchange Corporation (FCE Corporation)	-	59
Assets of Bank of Ireland Asset Management (BIAM)	-	44
Assets of Bank of Ireland Securities Services (BoISS)	-	6
Share of net assets of Paul Capital Investments LLC	-	10
Total	**2,446**	**119**

Liabilities classified as held for sale	31 December 2011 €m	31 December 2010 €m
Liabilities of Burdale	13	-
Liabilities of BIAM	-	29
Liabilities of FCE Corporation	-	23
Total	**13**	**52**

Following on from the 2011 PLAR, at 31 December 2011 the Group considered that it was highly probable that the following loan portfolios totalling €2.4 billion (of which €1.0 billion were contracted to sell as at 31 December 2011) would be disposed of within twelve months and they are classified as assets held for sale:

- The Project Finance business (excluding its Irish business), forming part of the Corporate and Treasury division, with remaining assets consisting of loans and advances to customers of €1 billion of which €0.4 billion was contracted in 2011 and is expected to complete in early 2012;
- UK Mortgage Loan Portfolio forming part of the Retail UK division, consisting of loans and advances to customers of €0.8 billion; and
- Burdale, an asset-based lending business forming part of the Corporate and Treasury division, with net assets consisting primarily of loans and advances to customers of €0.6 billion. The sale of Burdale was agreed in December 2011 and completed in February 2012 (note 37).

The loan portfolios continue to be measured on the same basis as prior to their classification as assets held for sale. In particular, loans and advances to customers continue to be measured at amortised cost less any incurred impairment losses. Associated derivatives continue to be measured at fair value through profit or loss.

The Group expects to incur a loss on disposal of these loan portfolios.

26 Impairment provisions

The Group's loan portfolios and related impairment provisions at 31 December 2011 are classified as follows:

31 December 2011	Assets Gross €m	Impairment provision €m	Carrying value €m
Loans and advances to customers (note 24)	105,658	(6,344)	99,314
Loans classified as held for sale (note 25)	2,444	(21)	2,423
Total	**108,102**	**(6,365)**	**101,737**

The following tables show the movement in the impairment provisions during the year ended 31 December 2011 and 31 December 2010.

31 December 2011	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total impairment provisions €m
Impaired financial assets	1,474	4,043	7,623	338	13,478
Provision at 1 January 2011	725	1,475	2,529	321	5,050
Exchange adjustments	4	11	32	1	48
Charge against income statement	470	497	936	80	1,983
- Loans and advances to customers	*469*	*497*	*893*	*80*	*1,939*
- Assets sold to NAMA	*1*	*-*	*43*	*-*	*44*
Recoveries	(2)	1	(2)	10	7
Amounts written off	(49)	(254)	(166)	(147)	(616)
Release of provision on sale of assets to NAMA	(4)	-	(194)	-	(198)
Release of provision on loan book disposals	-	(25)	15	-	(10)
Other movements	15	18	55	13	101
Provision at 31 December 2011	**1,159**	**1,723**	**3,205**	**278**	**6,365**

The provision at 31 December 2011 is analysed as follows:

Loans and advances to customers	1,159	1,702	3,205	278	6,344
Loans classified as held for sale	-	21	-	-	21
Provision at 31 December 2011	**1,159**	**1,723**	**3,205**	**278**	**6,365**

26 Impairment provisions (continued)

31 December 2010	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total impairment provisions €m
Impaired financial assets	1,077	3,657	6,279	371	11,384
Provision at 1 January 2010	359	1,152	3,884	380	5,775
Exchange adjustments	4	(5)	29	1	29
Charge against income statement	417	623	949	127	2,116
- Loans and advances to customers	*404*	*609*	*719*	*127*	*1,859*
- Assets sold to NAMA	*13*	*14*	*230*	*-*	*257*
Recoveries	1	2	(2)	4	5
Amounts written off	(44)	(287)	(201)	(202)	(734)
Release of provision on sale of assets to NAMA	(20)	(22)	(2,195)	-	(2,237)
Other movements	8	12	65	11	96
Provision at 31 December 2010	725	1,475	2,529	321	5,050

The provision at 31 December 2010 is analysed as follows:

Loans and advances to customers	725	1,475	2,454	321	4,975
Loans held for sale to NAMA	-	-	75	-	75
Provision at 31 December 2010	725	1,475	2,529	321	5,050

Provisions include specific and 'incurred but not reported' (IBNR) provisions. IBNR provisions are recognised on all categories of loans for losses not specifically identified but which experience and observable data indicate are present in the portfolio at the date of assessment.

27 Deposits from banks

	31 December 2011 €m	31 December 2010 €m
Deposits from banks	1,817	4,685
Securities sold under agreement to repurchase	29,585	35,978
Other bank borrowings	132	412
Deposits from banks	**31,534**	**41,075**

Deposits from banks includes cash collateral of €1.1 billion (31 December 2010: €0.7 billion) received from derivative counterparties in relation to net derivative asset positions.

The Group has reduced its usage of liquidity facilities provided by Monetary Authorities to €22 billion (net) (31 December 2010: €23 billion (net)) and reduced exceptional liquidity assistance provided by the Central Bank of Ireland to €nil (31 December 2010: €8 billion). €15 billion (31 December 2010: €31 billion) rolls over on a short term basis (up to three months).

28 Customer accounts

	31 December 2011 €m	31 December 2010 €m
Term deposits and other products	39,379	33,066
Demand deposits	16,397	16,541
Current accounts	14,730	15,836
Customer accounts	**70,506**	**65,443**
Amounts include		
Due to associates and joint ventures	26	57

Deposit accounts where a period of notice (typically 21 or 40 days) is required to make a withdrawal are classified within term deposits and other products.

At 31 December 2011, the Group's largest 20 customer deposits amounted to 2% (31 December 2010: 4%) of customer accounts.

At 31 December 2010, current accounts of €0.8 billion were presented net against related loans and advances to customers in accordance with IAS 32. At 31 December 2011, these balances no longer meet the criteria for net presentation and accordingly are presented gross.

29 Debt securities in issue

	31 December 2011 €m	31 December 2010 €m
Bonds and medium term notes	16,676	21,081
Other debt securities in issue	2,448	7,612
Debt securities in issue	**19,124**	**28,693**

30 Subordinated liabilities

Undated loan capital	31 December 2011 €m	31 December 2010 €m
Bank of Ireland UK Holdings plc		
€600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities	32	255
Bank of Ireland		
Stg£75 million 13 3/8% Perpetual Subordinated Bonds	91	144
Bristol & West plc		
Stg£32.6 million 8 1/8% Non-Cumulative Preference Shares	39	38
Bank of Ireland UK Holdings plc		
Stg£350 million 6.25% Guaranteed Callable Perpetual Preferred Securities	-	48
BoI Capital Funding (No 1) LP		
€600 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	-	213
BoI Capital Funding (No 2) LP		
US$800 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	-	50
BoI Capital Funding (No 3) LP		
US$400 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	-	15
BoI Capital Funding (No 4) LP		
Stg£500 million Fixed Rate / Variable Rate Guaranteed Non-voting Non-Cumulative Perpetual Preferred Securities	-	6
	162	**769**
Dated loan capital		
€600 million Subordinated Floating Rate Notes 2017	1	48
€750 million Floating Rate Subordinated Notes 2017	-	93
Stg£400 million Fixed / Floating Rate Subordinated Notes 2018	-	67
US$600 million Subordinated Floating Rate Notes due 2018	-	138
Stg£75 million 10¾% Subordinated Bonds 2018	-	37
€650 million Fixed / Floating Rate Subordinated Notes 2019	-	215
Stg£450 million Dated Callable Step-up Fixed / Floating Rate Subordinated Notes 2020	-	354
€1,002 million 10% Fixed Rate Subordinated Notes 2020	225	757
Stg£197 million 10% Fixed Rate Subordinated Notes 2020	2	105
CAD$400 million Fixed / Floating Rate Subordinated Notes 2015	27	83
CAD$145 million Fixed / Floating Rate Subordinated Notes 2018	-	109
€1,000 million 10% Convertible Contingent Capital Note 2016	1,009	-
	1,264	**2,006**
	1,426	**2,775**

31 Deferred tax

	31 December 2011 €m	31 December 2010 €m
The movement on the deferred tax account is as follows:		
At beginning of year	1,037	731
Income statement credit for year (note 18)	263	380
Available for sale financial assets – credit / (charge) to other comprehensive income	(14)	29
Cash flow hedges – charge to other comprehensive income	(32)	(40)
Revaluation / reclassification of property during the year	2	3
Pension	20	(74)
Other movements	17	8
At end of year	**1,293**	**1,037**
Deferred tax assets and liabilities are attributable to the following items:		
Deferred tax assets		
Pensions and other post retirement benefits	62	63
Provision for loan impairment	14	12
Accelerated capital allowances on equipment used by the Group	4	-
Available for sale reserve	100	115
Unutilised tax losses	1,195	898
Cash flow hedge reserve	7	39
Other temporary differences	6	17
Deferred tax assets	**1,388**	**1,144**
Deferred tax liabilities		
Accelerated capital allowances:		
- on finance leases	(16)	(20)
- on equipment used by the Group	-	(4)
Property revaluation surplus	(11)	(16)
Life companies	(46)	(55)
Other temporary differences	(22)	(12)
Deferred tax liabilities	**(95)**	**(107)**
Represented on the balance sheet as follows:		
Deferred tax assets	1,381	1,128
Deferred tax liabilities	(88)	(91)
	1,293	**1,037**

The amount of the deferred tax asset expected to be recovered within one year is €23 million. The amount of deferred tax liability expected to be settled within one year is €3 million.

In accordance with IAS 12, in presenting the deferred tax balances above the Group offsets deferred tax assets and liabilities where:

- an entity has a legally enforceable right to set off current tax assets against current tax liabilities, and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

31 Deferred tax (continued)

Deferred tax liabilities have not been recognised for tax that may be payable if earnings of certain overseas subsidiaries were remitted to Ireland as the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the forseeable future. Unremitted earnings for overseas subsidiaries totalled €171 million (31 December 2010: €375 million).

The deferred tax asset of €1,381 million (31 December 2010: €1,128 million) shown on the balance sheet is after netting by jurisdiction (€1,388 million before netting by jurisdiction, 31 December 2010: €1,144 million). This includes an amount of €1,195 million at 31 December 2011 (31 December 2010: €898 million) in respect of operating losses which are available to relieve future profits from tax. This deferred tax asset has been recognised on the basis that it is probable it will be recovered as the Directors are satisfied that it is probable that the Group will have sufficient future taxable profits against which the deferred tax can be utilised to the extent it has not already reversed.

Under current Irish and UK tax legislation there is no time restriction on the utilisation of trading losses. There is, however, a restriction on the utilisation of Irish tax losses carried forward by a financial institution participating in NAMA. This significantly lengthens the period over which the deferred tax asset will reverse by restricting by 50% the amount of profits in any year against which the carried forward trading losses can be utilised. The balance continues to be available for indefinite carry forward and there is no time limit, under existing Irish and UK legislation, on the utilisation of these losses.

The UK Finance Act 2011 reduced the main rate of corporation tax to 26% from 1 April 2011 (and not 27% as previously announced). In addition it enacted a reduced main rate of corporation tax of 25% to be effective from 1 April 2012. The effect of the change enacted in the UK Finance Act 2011 has been to reduce the deferred tax asset at 31 December 2011 by €18 million. The proposed reductions in the main rate of corporation tax by 1% per annum to 23% by 1 April 2014 are to be enacted separately each year. The overall effect of the future reductions from 25% to 23% would be to reduce the deferred tax asset at 31 December 2011 by an additional €36 million.

Deferred tax assets have not been recognised in respect of US tax losses of €71 million (31 December 2010: €69 million) and US temporary differences of €3 million (31 December 2010: €3 million). €23 million (31 December 2010: €23 million) of the tax losses expire in the period 2020 to 2028 with €48 million due to expire in 2029. There is no expiry date on the tax credits. Deferred tax assets have not been recognised in respect of these losses due to an annual limitation on use.

The deferred tax credit in the income statement comprises the following temporary differences:

	31 December 2011 €m	31 December 2010 €m
Current year losses	323	435
Pensions and other retirement benefits	(20)	(109)
Life companies	(10)	(30)
Other provisions	(3)	22
Accelerated tax depreciation	11	21
Other temporary differences	(9)	51
Prior year adjustment	(29)	(10)
Total deferred tax	**263**	**380**

32 Retirement benefit obligations

The Group operates a number of defined benefit and defined contribution schemes in Ireland and overseas. The defined benefit schemes are funded and the assets of the schemes are held in separate trustee administered funds. In determining the level of contributions required to be made to each scheme and the relevant charge to the income statement the Group has been advised by independent actuaries, Towers Watson.

The most significant defined benefit scheme in the Group is the Bank of Ireland Staff Pensions Fund (BSPF) which accounts for approximately 64% of the pension deficit on the consolidated Group balance sheet. The BSPF was closed to new members from 1 October 2006, with the exception of a number of new entry-level employees (who joined from 1 October 2006 to 21 November 2007), who were offered a one-off option to join the scheme. All new employees in the Group from 21 November 2007 are eligible to become members of the Bank of Ireland Group Pensions Fund (BIGPF) or the Bank of Ireland Group UK Pension Fund. The BIGPF is a hybrid scheme which includes elements of both a defined benefit and a defined contribution scheme.

Retirement benefits under the BSPF and a majority of the other defined benefit plans are calculated by reference to pensionable service and pensionable salary at normal retirement date.

Actuarial Valuation of the BSPF

The last formal valuation of the BSPF, using the Attained Age method, was carried out as at 31 March 2010. The Attained Age method measures liabilities taking account of the projected future levels of pensionable earnings at the time of commencement of benefits i.e. at normal retirement date.

The valuation disclosed that the fair value of scheme assets represented 85% of the benefits that had accrued to members after allowing for expected future increases in earnings and pensions and after taking account of the impact of the changes in pension benefits set out below. The actuary recommended that the contribution rate increase to 29.1% of salaries (inclusive of employee contributions) from 16.7% previously, in the funding programme following the conclusion of the valuation. The next formal valuation is expected to be made as at 31 March 2013. The BSPF is also currently in deficit as per the statutory funding standard and as a result the Trustees and the Bank will be submitting a funding proposal to the Pensions Board to address this deficit within the required timescales which are expected to be issued by the Pensions Board in the near future.

The actuarial valuations are available for inspection to the members of the schemes but are not available for public inspection.

Pension Levy

The Irish Finance Act (No.2) Act 2011 introduced a stamp duty levy of 0.6% on the market value of assets under management in Irish pension funds, for the years 2011 to 2014 (inclusive). The levy is based on scheme assets as at 30 June in each year or as at the end of the preceding scheme financial year. No decision has yet been taken as to who will ultimately bear this levy. Accounting standards require that a charge for the 0.6% levy for 2011, amounting to €20 million, be included in the financial statements for the year ended 31 December 2011 in the form of a reduction in scheme assets. The charge of €20 million has been recognised within Other Comprehensive Income for the year ended 31 December 2011 as it did not form part of the expected return on assets for 2011, which was determined at the start of the year. Payments of €20 million in respect of the levy were made to the Irish Revenue Commissioners during the year.

The accounting will be updated to reflect the final decision as to who will ultimately bear the levy once it is taken.

Group pensions review

During 2011 and 2010, the Group completed a review to address the IAS 19 pension deficit in the defined benefit pension schemes sponsored by the Group. Following this review the Group proposed a number of amendments to these schemes. By 31 December 2011, the relevant amendments had been implemented, in respect of substantially all of the Group's defined benefit pension schemes including the BSPF.

The income statement impact of the amendments in the year ended 31 December 2011 was a gain of €2 million. A gain of €733 million was recognised in the year ended 31 December 2010, consisting of a curtailment gain of €413 million and negative past service cost of €324 million, relating to amendments to future increases in pensionable salaries and future discretionary pension increases respectively, net of directly related expenses.

As part of the Group pensions review the Group indicated that it would be prepared to pay additional deficit-related contributions of up to €750 million over a five to seven year period if the benefit restructuring changes were accepted and implemented. The precise amounts and timing of these payments is at the Group's discretion. In this regard, the Group agreed the level of payments with the trustees of the individual defined benefit schemes and paid additional contributions of €116 million during 2011 (year ended 31 December 2010: €68 million) and it expects to pay additional deficit-related contributions of €117 million in 2012.

32 Retirement benefit obligations (continued)

The financial assumptions used in measuring the Group's defined benefit pension liability under IAS 19 are set out in the table below.

Financial assumptions	31 December 2011 % p.a.	31 December 2010 % p.a.
Irish schemes		
Inflation rate	2.00	2.00
Discount rate	5.30	5.50
Rate of general increase in salaries	*2.50	*2.50
Rate of increase in pensions in payments	*1.90	*1.90
Rate of increase to deferred pensions	1.90	2.00
UK schemes		
Consumer Price Inflation	2.10	3.00
Retail Price Inflation	3.00	3.50
Discount rate	4.90	5.50
Rate of general increase in salaries	*3.50	*4.00
Rate of increase in pensions in payments	*2.80	*3.34
Rate of increase to deferred pensions	2.10	3.00

** Weighted average increase across all Group schemes.*

Mortality assumptions

The mortality assumptions adopted for Irish pension arrangements are based on the results of the Society of Actuaries in Ireland mortality investigations.

Post retirement mortality assumptions (Main Scheme)	At 31 December 2011 years	At 31 December 2010 years
Longevity at age 70 for current pensioners		
Males	17.1	16.9
Females	18.6	18.4
Longevity at age 60 for active members currently aged 60 years		
Males	26.8	26.6
Females	28.4	28.3
Longevity at age 60 for active members currently aged 40 years		
Males	29.4	29.3
Females	30.6	30.5

32 Retirement benefit obligations (continued)

The expected long term rates of return and market value of assets of the material defined benefit schemes on a combined basis as at 31 December 2011 and 31 December 2010 were as follows:

	31 December 2011 Expected long term rates of return				31 December 2010 Expected long term rates of return			
%	**RoI %**	**UK %**	**Fund %**	**Market Value €m**	RoI %	UK %	Fund %	Market Value €m
Equities	7.50	7.50	53.7	2,396	7.25	8.00	55.1	2,274
Debt securities	4.32	3.77	38.6	1,723	4.44	4.52	34.3	1,415
Property	6.00	6.00	6.1	271	6.00	6.00	6.4	263
Cash and other	2.30	3.00	1.6	73	2.60	4.10	4.2	174
Total market value of schemes' assets				4,463				4,126
Actuarial value of liabilities of funded schemes				(4,867)				(4,540)
Aggregate deficit in funded schemes				(404)				(414)
Unfunded schemes				(9)				(9)
Net defined benefit pension deficit				(413)				(423)
Defined contribution schemes				(1)				(1)
				(414)				**(424)**
This is shown in the balance sheet as:								
Retirement benefit obligations				422				435
Retirement benefit asset				(8)				(11)
				414				**424**

The scheme assets have been valued on a bid basis.

The expected rates of return on individual asset classes is estimated using current and projected economic and market factors at the measurement date, based on the global asset model employed by the independent actuaries. The overall expected return on scheme assets is based upon the weighted average of the assumed returns on the major asset classes. The expected long term rate of return on the total of the Group schemes' assets as at 31 December 2011 is 5.60% (31 December 2010: 6.06%).

The expected returns on the debt securities are derived from gilt yields and corporate bond yields. Approximately 73% (31 December 2010: 64%) of the value of debt securities is held in a Liability Driven Investment portfolio.

The retirement benefit schemes' assets include Bank of Ireland stock amounting to €2 million (31 December 2010: €2 million) and property occupied by Bank of Ireland Group companies to the value of €24 million (31 December 2010: €25 million).

The following table sets out the components of the cost of the defined benefit schemes for the years ended 31 December 2011 and 31 December 2010.

Components of pension expenses	**Year ended 31 December 2011 €m**	Year ended 31 December 2010 €m
Current service cost	95	128
Past service cost	-	(324)
Curtailments	(5)	(413)
Expected return on retirement benefit scheme assets	(253)	(233)
Interest on pension scheme liabilities	247	279
Cost of providing defined retirement benefits	**84**	**(563)**

32 Retirement benefit obligations (continued)

Actual return on scheme assets	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Expected return on scheme assets	253	233
Actuarial (loss) / gain on scheme assets	(37)[1]	86
Actual return on scheme assets	**216**	**319**

[1] *Includes a charge of €20 million in respect of the Irish pension levy (year ended 31 December 2010: €nil).*

Movement in defined benefit obligations during the year	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Defined benefit obligations at beginning of year	4,549	5,365
Current service cost	95	128
Actual member contributions	14	14
Past service cost	-	(324)
Interest cost	247	279
Actuarial loss / (gain) on scheme liabilities	82	(410)
Benefits paid	(138)	(137)
Curtailments	(5)	(413)
Currency loss	32	47
Defined benefit obligation at end of year	**4,876**	**4,549**

Movement in the fair value of scheme assets during the year	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Fair value of scheme assets at beginning of year	4,126	3,734
Expected return	253	233
Actual member contributions	14	14
Actuarial (loss) / gain on scheme assets	(37)	86
Contributions by employer	230[1]	180[1]
Benefits paid	(138)	(137)
Currency gain	15	16
Fair value of scheme assets at end of year	**4,463**	**4,126**

[1] *Includes €116 million (year ended 31 December 2010: €68 million) of additional contributions related to the Group pensions review.*

Statement of Other Comprehensive Income (SOCI)	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m
Actuarial (loss) / gain on scheme assets	(37)	86
Experience gain on liabilities	33	115
(Loss) / gain on change of assumptions (financial and demographic)	(115)	295
Currency loss	(18)	(31)
Total (loss) / gain recognised in the SOCI during the year before adjustment of tax	**(137)**	**465**
Cumulative amount of losses recognised in SOCI to end of year	(758)	(621)

32 Retirement benefit obligations (continued)

History of experience gains and losses	Year ended 31 December 2011 €m	Year ended 31 December 2010 €m	9 months ended 31 December 2009 €m	Year ended 31 March 2009 €m	Year ended 31 March 2008 €m
Actuarial (loss) / gain on scheme assets:					
Amount	(37)	86	574	(1,176)	(823)
Percentage of scheme assets	0.8%	2.1%	15.4%	(39.2%)	(20.7%)
Experience gain / (loss) on scheme liabilities:					
Amount	33	115	33	63	(58)
Percentage of scheme liabilities	0.7%	2.5%	0.6%	1.4%	(1.2%)
Total actuarial (loss) / gain recognised in SOCI[1]					
Amount	(137)	465	(99)	(624)	(244)
Percentage of scheme liabilities	2.8%	10.2%	(1.8%)	(13.9%)	(5.1%)

[1] *Statement of other comprehensive income*

Defined benefit pension schemes	31 December 2011 €m	31 December 2010 €m	31 December 2009 €m	31 March 2009 €m	31 March 2008 €m
Present value of obligations	4,876	4,549	5,365	4,481	4,762
Scheme assets	4,463	4,126	3,734	3,003	3,967
Deficit within schemes	**413**	**423**	**1,631**	**1,478**	**795**

Expected employer contributions for the year ended 31 December 2012 are €227 million, inclusive of €117 million of additional contributions related to the Group pensions review. Expected employee contributions for the year ended 31 December 2012 are €15 million.

Sensitivity analysis for each of the key assumptions used to measure the scheme liabilities at 31 December 2011.

Factor	Change in assumption	BSPF Impact on actuarial liabilities
Discount rate	Decrease 0.1%	Increase 1.8%
Rate of Inflation	Decrease 0.1%	Decrease 1.6%
Rate of salary growth	Decrease 0.1%	Decrease 0.2%
Life expectancy	Increase by 1 year	Increase 2.1%

While the table above shows the impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

33 Contingent liabilities and commitments

The table below gives the contract amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

	31 December 2011 Contract amount €m	31 December 2010 Contract amount €m
Contingent liabilities		
Acceptances and endorsements	10	35
Guarantees and irrevocable letters of credit	983	1,482
Other contingent liabilities	249	599
	1,242	**2,116**
Commitments		
Documentary credits and short term trade related transactions	178	185
Undrawn note issuance and revolving underwriting facilities	100	100
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- revocable or irrevocable with original maturity of 1 year or less	14,017	16,655
- irrevocable with original maturity of over 1 year	5,217	6,601
	19,512	**23,541**

In common with other banks, the Group conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

An **acceptance** is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. **Endorsements** are residual liabilities of the Group in respect of bills of exchange, which have been paid and subsequently rediscounted.

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Other contingent liabilities primarily include performance bonds and are generally short term commitments to third parties which are not directly dependent on the customers' credit worthiness. The Group is party to legal actions arising out of its normal business operations. The Directors believe that adequate provision has been made in respect of these litigations.

Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions.

34 Capital stock

Authorised	31 December 2011	31 December 2010
Eur€	**€m**	€m
90 billion units of €0.05 ordinary stock (31 December 2010: 24 billion units of €0.10 ordinary stock)	4,500	2,400
228 billion units of €0.01 deferred stock (31 December 2010: 2 billion units of €0.54 deferred stock)	2,280	1,080
100 million units of non-cumulative preference stock of €1.27 each	127	127
100 million units of undesignated preference stock of €0.25 each	25	25
3.5 billion units of non-cumulative 2009 Preference Stock of €0.01 each	35	35
Stg£	**£m**	£m
100 million units of non-cumulative preference stock of Stg£1 each	100	100
100 million units of undesignated preference stock of Stg£0.25 each	25	25
US$	**$m**	$m
8 million units of non-cumulative preference stock of US$25 each	200	200
100 million units of undesignated preference stock of US$0.25 each	25	25

Allotted and fully paid	31 December 2011 €m	31 December 2010 €m
30.109 billion units of €0.05 ordinary stock (31 December 2010: 5.293 billion units of €0.10 ordinary stock)	1,505	529
91.981 billion units of €0.01 deferred stock (31 December 2010: 1.210 billion units of €0.54 deferred stock)	920	654
45.133 million units of €0.05 treasury stock (31 December 2010: 27.7 million units of €0.10 treasury stock)	2	2
1.9 million units of non-cumulative preference stock of Stg£1 each	3	3
3.0 million units of non-cumulative preference stock of €1.27 each	4	4
1.837 billion units of non-cumulative 2009 Preference Stock of €0.01 each	18	18
	2,452	**1,210**

Ordinary stock

The weighted average number of units of ordinary stock in issue at 31 December 2011, used in the earnings per share calculation, excludes treasury stock which does not represent ordinary stock in issue. Treasury stock does not rank for dividend. While own stock held for the benefit of life assurance policyholders legally rank for dividend, in line with accounting standards this dividend does not accrue in the Group financial statements.

	Ordinary Stock		Treasury Stock	
Movements in ordinary and treasury stock (units)	**31 December 2011**	31 December 2010	**31 December 2011**	31 December 2010
At beginning of year	5,293,719,448	993,001,864	27,702,862	33,223,815
Long term performance stock plan (LTPSP)	-	11,890	-	-
2011 Capital raise - rights issue	19,077,889,032	-	-	-
2011 Capital raise - liability management exercise	5,755,203,190	-	-	-
2010 Recapitalisation of the Bank and dividend on 2009 Preference Stock	-	4,295,184,741	-	-
Stock (purchased) / sold and held for the benefit of life assurance policyholders	(17,430,456)	5,520,953	17,430,456	(5,520,953)
At end of year	**30,109,381,214**	**5,293,719,448**	**45,133,318**	**27,702,862**

35 Capital stress test and associated recapitalisation

2011 Prudential Capital Assessment Review
In the first quarter of 2011, the Central Bank undertook a Prudential Capital Assessment Review (2011 PCAR) which incorporated a Prudential Liquidity Assessment Review (2011 PLAR).

On 31 March 2011 the Central Bank announced the results of the 2011 PCAR, which required the Group to generate incremental equity capital of €4.2 billion including a regulatory buffer of €0.5 billion. In addition €1.0 billion of Contingent Capital was also required through the issue of a debt instrument which under certain circumstances would convert to equity capital.

2011 Recapitalisation of the Bank
Following the announcement of the results of the 2011 PCAR by the Central Bank on 31 March 2011, the Group undertook a range of initiatives to generate the incremental capital required. Ultimately these initiatives, the principal elements of which were approved at the Extraordinary General Court on 11 July 2011 and 9 September 2011, included the following:

(i) Liability management exercises;
(ii) A Rights Issue underwritten by the State with a significant investment by institutional investors; and
(iii) The issuance of a Contingent Capital note to the State.

The completion of the above has enabled the Group to satisfy the requirement of the 2011 PCAR to generate €4.2 billion of additional equity capital and €1 billion of Contingent Capital.

The following table summarises the balance sheet impact of the 2011 recapitalisation of the Bank.

	Income statement / retained earnings €m	Ordinary stock €m	Stock premium €m	Other reserves €m	Total €m
Liability management exercises					
Gain arising on the liability management exercises (note 9)[1]	1,804	-	-	-	1,804
Issue of ordinary stock	-	288	377	-	665
Repurchase of US$150 million Floating Rate Note[2]	40	-	-	(58)	(18)
Impact of liability management exercises	**1,844**	**288**	**377**	**(58)**	**2,451**
Rights issue	-	954	954	-	1,908
	1,844	**1,242**	**1,331**	**(58)**	**4,359**
Transaction costs					
Liability management exercises					
- Recognised in the income statement[1]	(32)	-	-	-	(32)
- Transferred from retained earnings to stock premium	16	-	(16)	-	-
Rights issue	-	-	(114)	-	(114)
Taxation	**(45)**	**-**	**-**	**-**	**(45)**
2011 recapitalisation of the Bank, net of transaction costs and taxation	**1,783**	**1,242**	**1,201**	**(58)**	**4,168**

[1] *Recognised in the income statement during the year ended 31 December 2011.*
[2] *The US$150 million Floating Rate Note was previously classified as equity within other reserves. On the repurchase of this note, the difference between the fair value of the consideration and the carrying value of the note is shown as a credit in retained earnings.*

35 Capital stress test and associated recapitalisation (continued)

(i) Liability management exercises

During 2011, the Group undertook a number of liability management exercises which generated €2,451 million of additional equity capital.

In June 2011, the Group invited certain subordinated bondholders to exchange their bonds for cash or units of ordinary stock. This resulted in subordinated bonds, with a nominal value of €1,924 million, being tendered in exchange for 5,755,203,190 units of ordinary stock at a price of €0.1156 per unit and €13 million of cash. In addition, the Group was granted the right to insert a call option (which it subsequently exercised), to compulsorily acquire certain subordinated bonds with a nominal value of €101 million for cash at 0.001% of their nominal value.

In September 2011 and December 2011, the Group announced that it had repurchased certain subordinated bonds with a nominal value of €205 million. In December 2011, the Group announced that it had repurchased certain Residential mortgage-backed securities with a total nominal value of €1,148 million issued by Kildare Securities Limited and Brunel Residential Mortgage Securitisation No.1 plc. Further details are set out in note 9.

(ii) A Rights Issue underwritten by the State with a significant investment by institutional investors

In July 2011 the Group successfully completed an 18 for 5 Rights Issue of 19,077,889,032 units of ordinary stock at a Rights Issue price of €0.10 per unit of ordinary stock, which raised gross proceeds of €1,908 million. The results of the Rights Issue were as follows:

- valid acceptances were received from the State in respect of 6,875,316,158 units of ordinary stock (representing 36% of the stock issued);
- valid acceptances were received from other stockholders in respect of 4,486,370,275 units of ordinary stock (representing 23.5% of the stock issued);
- 1,432,343,038 units of ordinary stock (representing 7.5% of the stock issued) were placed in the rump issue; and
- in accordance with the transaction agreement with the State (see note 36), the State subscribed for the remaining 6,283,859,561 units of ordinary stock (representing 33% of the stock issued).

Following the completion of the Rights Issue, the State sold 10,510,960,763 units of ordinary stock to a group of institutional investors comprising Fairfax Financial Holdings, WL Ross, Capital Research (part of The Capital Group), Fidelity Investments and Kennedy Wilson. The institutional investors all manage their stockholdings independently. The sale completed on 17 October 2011, following which the State's stockholding in the Bank represents 15.1% of the issued ordinary stock.

(iii) Contingent Capital note

To satisfy the requirement under the 2011 PCAR, the Group issued a Contingent Capital note to the State in July 2011. The nominal value of this note is €1 billion and the cash proceeds received (net of a fee paid to the State) amounted to €985 million. The note has a term of five years and an annual coupon of 10%, which can be increased to a maximum coupon of 18% if the State sells the note to a third party. If the Core tier 1 capital ratio of the Group (as calculated under the terms of the instrument) falls below 8.25%, the note automatically converts to units of ordinary stock. The conversion price at which the note would convert is the volume-weighted average price (VWAP) of the ordinary stock over the 30 days prior to conversion, subject to a minimum conversion price of €0.05 per unit.

36 Summary of relations with the State

The State, through both the Group's participation in the Government Guarantee Schemes and the investment by the NPRFC in the 2009 Preference Stock of the Bank, is a related party of the Group.

(a) Ordinary stock
During the year ended 31 December 2011, the State's proportionate holding of the ordinary stock of the Bank reduced significantly following the Rights Issue, the debt for equity and cash offers and in particular the sale by the State of a significant number of units of ordinary stock in the Bank to a group of institutional investors and fund managers. See note 35 for further detail on these transactions

As a result, at 31 December 2011 the State held 15% of the ordinary stock of the Bank (31 December 2010: 36%).

(b) 2009 Preference Stock
At 31 December 2011 and at 31 December 2010, there were 1,837,041,304 number of units of 2009 Preference Stock in issue all of which were held by the NPRFC.

On 21 February 2011, the Bank paid a cash dividend of €214.5 million on the 2009 Preference Stock to the NPRFC. In February 2010, in accordance with the terms of the instrument, the Bank issued to the NPRFC 184,394,378 units of ordinary stock, being the number of units equal to the aggregate cash amount of the 2010 dividend on the 2009 Preference Stock of €250.4 million divided by the Thirty Day Average Price[1] (which equated to a share price of €1.3582).

(c) Contingent Capital note
In July 2011 the Group issued a Contingent Capital note to the State, satisfying the requirement under the 2011 PCAR to issue €1 billion of Contingent Capital. The nominal value of this note is €1 billion and cash proceeds of €985 million were received (net of a fee paid to the State of €15 million). The note has a term of five years and a coupon of 10%, which can be increased to a maximum of 18% if the State sells the note to a third party. For further details see note 35.

(d) Fees paid
Fees paid to the State in connection with the recapitalisation of the Bank (see note 35) amounted to €83 million (year ended 31 December 2010: €52 million).

(e) Guarantee schemes
Credit Institutions (Eligible Liabilities Guarantee) Scheme (ELG scheme)
On 11 January 2010, four Group entities (the Governor and Company of the Bank of Ireland, Bank of Ireland Mortgage Bank, ICS Building Society and Bank of Ireland (IOM) Limited) were accepted into the State's Eligible Liabilities Guarantee Scheme. On 21 July 2010, Bank of Ireland (UK) plc was also accepted into the ELG scheme.

The purpose of the ELG scheme was to update and revise the government guarantee which had previously been provided under the Credit Institutions (Financial Support) Scheme 2008 (the CIFS Scheme), which expired on 29 September 2010.

The ELG scheme provides a guarantee for relevant customer deposits. In November 2011 the Minister for Finance introduced flexibility for covered institutions to issue certain customer deposits in unguaranteed form. At 31 December 2011, no such unguaranteed deposits had been issued by the Group. The guarantee also provides flexibility to issue certain debt securities in both unguaranteed and guaranteed form (up to a maximum maturity of five years).

Eligible liabilities include:
- deposits to the extent not covered by deposit protection schemes in Ireland or any other jurisdiction;
- senior unsecured certificates of deposit;
- senior unsecured commercial paper;
- other senior unsecured bonds and notes; and
- other forms of senior unsecured debt which may be specified by the Minister, consistent with EU State aid rules and the EU Commission's Banking Communication (2008 / C270 / 02) and subject to prior consultation with the EU Commission.

36 Summary of relations with the State (continued)

Dated subordinated debt, covered bonds and other forms of secured funding are not guaranteed under the ELG scheme.

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

An approval by the EU Commission of a further extension of the ELG scheme to 31 December 2012 would ensure that debt securities and deposits issued under the ELG scheme prior to 31 December 2012 would be covered up to their maturity, subject to a maximum term of five years.

The following table summarises the fees paid under the ELG and CIFS Schemes during the years ended 31 December 2011 and 2010 and the liabilities covered at each balance sheet date.

	Year ended 31 December 2011	Year ended 31 December 2010
Liabilities covered at year end	**€bn**	**€bn**
ELG		
- Customer deposits	26	29
- Debt securities in issue	6	7
- Deposits by banks*	10	3
Total	**42**	**39**
Fees for the year	**€m**	**€m**
ELG	449	275
CIFS	-	68
Total	**449**	**343**

** The charge under the guarantee relates to Government guaranteed debt issued and retained by the Group which are used as collateral for these deposits.*

European Communities (Deposit Guarantee Schemes) Regulations, 1995

Under the European Communities (Deposit Guarantee Schemes) Regulations, 1995 as amended by the State on 20 September 2008, deposits of up to €100,000 per depositor per licensed financial institution regulated by the Central Bank are guaranteed by the State. This Scheme covers current accounts, demand deposit accounts and term deposit accounts. The Scheme is funded by credit institutions lodging funds in a deposit protection account maintained at the Central Bank.

In addition to the deposits covered by these Regulations and by the ELG scheme as set out above, certain other Group deposits are covered by the deposit protection schemes in other jurisdictions, chiefly the UK Financial Services Compensation Scheme (in respect of deposits issued by Bank of Ireland (UK) plc) and the Isle of Man Depositors Compensation Scheme (in respect of deposits issued by Bank of Ireland (I.O.M.) Limited).

(f) Indemnity on Ministerial Guarantee

On 23 December 2010, the Bank entered into a facility deed (the deed) with the Central Bank, providing for an uncommitted facility to the Group, guaranteed by the Minister for Finance. In entering into the deed, the Bank also entered into a counter indemnity agreement with the Minister for Finance. This agreement indemnifies the Minister for Finance in respect of any payments made by him under the guarantee in favour of the Central Bank in respect of any indebtedness under the deed. It is coterminous with payment of interest and prepayment of principal in full under the deed.

The facility was initially for an amount of €10 billion, with the Central Bank having the option to increase this to an amount determined at its absolute discretion. The facility reached a maximum amount of €14 billion during the year ended 31 December 2011. At 31 December 2011, the amount of the facility was €10 billion, and this was subsequently reduced to €5 billion on 23 January 2012. The facility is currently due to expire on 23 April 2012.

36 Summary of relations with the State (continued)

(g) Bonds issued by the State

At 31 December 2011 the Group held bonds issued by the State with a carrying value of €4,222 million (31 December 2010 €3,811 million). Further details are set out on page 64.

(h) Bonds issued by NAMA

At 31 December 2011 the Group held bonds issued by NAMA with a carrying value of €5,129 million (31 December 2010 €5,173 million).

	31 December 2011 €m	31 December 2010 €m
NAMA senior bonds	5,016	5,075
NAMA subordinated bonds	113	98
Total	**5,129**	**5,173**

(i) National Asset Management Agency (NAMA)

Details on NAMA are set out in note 15.

(j) National Asset Management Agency Investment Limited (NAMAIL)

On 30 March 2010, the Group, through its wholly-owned subsidiary New Ireland Assurance Company plc, acquired 17 million B shares in NAMAIL, corresponding to one-third of the 51 million B shares issued by NAMAIL. The balance of the B shares were acquired in equal proportion by Irish Life Assurance and major pension and institutional clients of AIB Investment Managers. The cost to the Group of acquiring these B shares was €17 million. NAMAIL has also issued 49 million A shares to NAMA. As a result the Group holds 17% of the total ordinary share capital of NAMAIL. NAMAIL is a holding company and its subsidiaries include the entities to which NAMA Participating Institutions transfer Eligible Bank Assets and which issue the NAMA senior bonds and NAMA subordinated debt as consideration for those assets.

The A shares and B shares generally rank equally, except as otherwise provided in the Articles of Association of NAMAIL. NAMA may appoint up to six Directors to the board of NAMAIL. In total, the B shareholders may also jointly appoint up to six Directors. As holder of the A shares, NAMA has veto rights in relation to: the declaration of dividends; the appointment or removal of Directors; the exercise of voting rights in respect of any subsidiary of NAMAIL and the appointment of a Chairman. In addition NAMA can veto any actions by NAMAIL, which NAMA considers in any manner to be inconsistent with its objectives. A holder of the B shares may not sell the shares without the consent of NAMA.

On a winding-up, the return on B shares is capped at 110% of the capital invested, (€18.7 million in the case of the Group), and the maximum loss that may be suffered is limited to the original amount invested (€17 million in the case of the Group).

A discretionary non-cumulative dividend on the capital invested may be paid on an annual basis and this is limited to the yield on ten year State bonds. A dividend of €1.7 million was received by the Group on 1 April 2011.

The Group had no involvement with NAMAIL prior to 30 March 2010.

(k) Other transactions with the State and entities under its control or joint control

In addition to the matters set out above, the Group enters into other transactions in the normal course of business with the State, its agencies and entities under its control or joint control. These transactions include the provision of banking services, including money market transactions, dealing in government securities and trading in financial instruments issued by certain banks. Other than as set out below, none of these transactions is considered to be individually or collectively significant.

36 Summary of relations with the State (continued)

The entities listed below (including their subsidiaries and joint ventures) were under the control of the State at 31 December 2011 and are considered to be related parties of the Group at that date. The Group held bonds with a carrying value of €93 million (31 December 2010: €416 million) issued by these entities as follows:

	31 December 2011 €m	31 December 2010 €m
Senior bonds		
Allied Irish Banks plc (AIB)[1]	57	180
Irish Bank Resolution Corporation (IBRC)[2]	36	89
Irish Life and Permanent (ILP)[3]	-	96
Total senior bonds	**93**	**365**
Subordinated bonds		
Allied Irish Banks plc	-	42
Irish Bank Resolution Corporation	-	-
Irish Life and Permanent plc	-	9
Total subordinated bonds	**-**	**51**
Total	**93**	**416**

[1] *During the year ended 31 December 2011, AIB acquired EBS Building Society (EBS). At 31 December 2010 and up to the date of this acquisition, both AIB and EBS were related parties of the Group.*
[2] *During the year ended 31 December 2011, the assets and liabilities of Irish Nationwide Building Society (INBS) were transferred to Anglo Irish Bank Corporation Limited (Anglo) as a result of a transfer order under the Credit Institutions (Stabilisation Act) 2010. Subsequently, Anglo changed its name to Irish Bank Resolution Corporation Limited (IBRC). Both Anglo and INBS were related parties of the Group at 31 December 2010.*
[3] *During the year ended 31 December 2011, ILP came under the control of the State and hence became a related party of the Group.*

There was an impairment charge of €16 million on a holding of ILP subordinated debt in the year ended 31 December 2011 and an impairment charge of €98 million on a holding of AIB subordinated debt in the year ended 31 December 2010.

In addition, at 31 December 2011, the Group had loans to AIB of €70 million (31 December 2010: €34 million) which were included in loans and advances to banks and deposits from IBRC of €9 million (31 December 2010: €80 million) which were included in deposits from banks .

At 31 December 2011, the Group held deposits from the National Treasury Management Agency (NTMA) of nil (31 December 2010: €200 million). These deposits were on normal commercial terms. The maximum amount of these deposits during the year was €3.2 billion.

37 Post balance sheet events

On 1 February 2012, the sale of Burdale completed. For further information see note 25.

Consolidated average balance sheet and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the year ended 31 December 2011 and the year ended 31 December 2010. The calculations of average balances are based on daily, weekly or monthly averages, depending on the reporting unit. The average balances used are considered to be representative of the operations of the Group. The Group's operating divisions are managed on a product margin basis, with funding and interest exposure managed centrally by Global Markets. The explanation of the underlying business trends in the Group's net interest margin, after adjusting for the impact of IFRS income classifications, is explained on page 11.

Average Balance Sheet

	Year ended 31 December 2011			Year ended 31 December 2010		
	Average Balance €m	**Interest[1] €m**	**Rate %**	Average Balance €m	Interest €m	Rate %[2]
Assets						
Loans and advances to banks	9,810	64	0.7	8,946	67	0.7
Loans and advances to customers[2]	113,582	3,945	3.5	131,016	4,528	3.5
Available for sale financial assets and NAMA senior bonds	18,999	609	3.2	20,162	584	2.9
Other financial assets at fair value through profit or loss	70	-	-	172	-	-
Total interest earning assets	**142,461**	**4,618**	**3.2**	**160,295**	**5,179**	**3.2**
Allowance for impairment charges	(5,222)	-	-	(5,900)	-	-
Non interest earning assets	21,399	-	-	22,975	-	-
Total Assets	**158,638**	**4,618**	**2.9**	**177,370**	**5,179**	**2.9**
Liabilities and stockholders' equity						
Deposits from banks	38,518	675 [1]	1.8	25,695	262[1]	1.0
Customer accounts	53,529	1,094 [1]	2.0	67,979	1,272[1]	1.9
Debt securities in issue	21,414	695 [1]	3.2	37,187	839[1]	2.3
Subordinated liabilities	2,141	171	8.0	4,708	312	6.6
Total interest earning liabilities	**115,602**	**2,635**	**2.3**	**135,569**	**2,685**	**2.0**
Current accounts	12,862	-	-	9,564	-	-
Non interest bearing liabilities	21,153	-	-	25,003	-	-
Stockholders' Equity	9,021	-	-	7,234	-	-
Total liabiities and Stockholders' Equity	**158,638**	**2,635**	**1.7**	**177,370**	**2,685**	**1.5**

The balance sheet of the life assurance business has been consolidated and is reflected under 'non-interest earning assets' and 'other non-interest bearing liabilities'.

[1] *Excludes the cost of the ELG scheme of €449 million (year ended 31 December 2010: €275 million) which is included within interest expense.*
[2] *Includes assets held for sale to NAMA and other assets classified as held for sale.*

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