Bank of Ireland (UK) Plc

Pillar 3 Disclosures for year ending 31.12.2011.

1. Introduction.

Background

The Basel Capital Accord (Basel II) is a capital adequacy framework which aims to improve the way regulatory capital requirements reflect credit institutions' underlying risks. Basel II has been implemented in the UK by the Financial Services Authority (FSA) and enforced through the Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU). Basel II is based around three complementary elements or "pillars".

> **Pillar 1** contains mechanisms and requirements for the calculation by financial institutions of their minimum capital requirements for credit risk, market risk and operational risk.
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> **Pillar 2** is concerned with the supervisory review process. It is intended to ensure that each financial institution has sound internal processes in place to assess the adequacy of its capital, based on a thorough evaluation of its risks. Supervisors are tasked with evaluating how well financial institutions are assessing their capital adequacy needs relative to their risks. The Internal Capital Adequacy Assessment Process (ICAAP) portal is prepared by the Group on an annual basis in line with Pillar 2 requirements. This is a forward looking document which assesses the Group's risk appetite, tolerance and strategy. The ICAAP is followed by discussions between the Group and the Central Bank of Ireland (the Central Bank) on the appropriate capital levels, this second stage is called the Supervisory Review and Evaluation Process (SREP)
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> **Pillar 3** is intended to complement Pillar 1 and Pillar 2. It requires that financial institutions disclose information annually on the scope of application of the Basel II requirements, capital requirements and resources, risk exposures and risk assessment process.

Scope of Application

This disclosure report is based on the consolidated corporate Group referred to and described as "Bank of Ireland UK Plc" (BoI (UK) Plc, or simply "BoI (UK)").
The firm has complied with the FSA's prudential capital regulations, including BIPRU 11, throughout the year. This Disclosure is presented in respect of the year to 31 December 2011.
In accordance with Pillar 3 requirements, the areas covered by the BoI (UK) Pillar 3 disclosures include the Group's capital requirements and resources, credit risk, market risk, operational risk, information on securitisation activity and the Group's remuneration disclosures.
It should be noted that while some quantitative information in this document is based on financial data in the BoI (UK) Annual Report 31 December 2011, other quantitative data is sourced from the firms regulatory reporting platform and is calculated according to a different set of rules. The difference between the financial statement data and that sourced from the firms regulatory reporting platform is most evident for credit risk disclosures where credit exposure under Basel II (referred to as exposure at default (EAD)) is defined as the expected amount of exposure at default and is estimated under specified Basel II parameters and, unlike financial statement information, includes potential future drawings of committed credit lines. Pillar 3 quantitative data is thus not always comparable with the quantitative data contained in the BoI (UK) Annual Report 31 December 2011.

Frequency & Location

BoI (UK)'s Pillar 3 disclosure is published on an annual basis. The Pillar 3 disclosure document is published on the Bank of Ireland Group website.
The frequency of disclosure will be reviewed should there be a material change in any approach used for the calculation of capital, business structure or regulatory requirements.

Verification

These disclosures are not subject to external audit, except where they are equivalent to those prepared under accounting requirements for inclusion in the Group's audited Annual Report and Accounts dated 31 December 2011. These disclosures are approved by the Board.

Supervision.

BoI (UK) plc is regulated by the Financial Services Authority (FSA).

Key Capital Ratios.

Key Performance Measures

	Year ended 31 December 2011	*9 months ended 31 December 2010
Capital at 31 December 2011		
Core tier 1 capital ratio %	10.3%	8.3%
Total tier 1 capital ratio %	13.2%	11.1%
Total capital ratio %	18.2%	15.9%
Credit Risk (£m)	9,600	10,094*
Operational Risk (£m)	614	688
Total risk weighted assets (£m)	**10,214**	**10,782**

BoI (UK) is strongly capitalised and currently has a core Total capital ratio in excess of 18%. During the year, capital was further enhanced by the injection of £175 million additional capital via the issue of ordinary shares in December 2011 to the parent (Bank of Ireland Group). BoI (UK) continues to have an active approach to capital management which will provide adequate capital to support business plans going forward.

* Includes £6m in Counterparty Credit Risk

2. Capital.

BoI (UK) uses the standardised approach for the calculation of its credit risk capital requirements. The capital requirements for both Market Risk and Operational Risk are also calculated using the standardised approach.

There is no impediment to the prompt transfer of funds within BoI (UK).

Capital Requirements.

Table 2.1 shows the minimum amount of capital the firm would be required to set aside to meet the minimum ratio of 8% of RWA set per BIPRU guidelines.

Table 2.1	**31 December 2011 £ 000's**	**31 December 2010 £ 000's**
Credit Risk of which		
Standardised	**768,010**	**807,565**
Of which: Institutions	160	4,717
Corporates	315,655	373,883*
Retail	22,869	24,973
Secured on Real Estate property	272,754	265,740
Past Due Item	142,791	122,228
Short Term Claims on Inst and Corporates	13,134	13,616
Other Items	647	2,408
Operational Risk	49,120	55,071
Market Risk	13	-
Total Capital	**817,143**	**862,636**

* Include £463k in Counterparty Credit Risk

Capital Resources.

Table 2.2 sets out the BoI (UK) Capital position as at 31 December 2011. This table shows the amount and type of regulatory capital the Group held at that date to meet its capital requirements.

Table 2.2. Capital

	31 December 2011 £m	31 December 2010 £m
Capital base		
Ordinary share capital, capital contribution and current period reserves	1,050	897
Available for sale reserve	1	-
Core Tier 1 capital	**1,051**	**897**
Non-cumulative callable preference shares	300	300
Total Tier 1 Capital	**1,351**	**1,197**
Tier 2 capital		
Dated loan capital	523	523
Regulatory adjustments	85	81
Total Tier 2 capital before deductions	**608**	**604**
Total Tier 1 and Tier 2 capital before deductions	**1,959**	**1,801**
Deductions from total Tier 1 and Tier 2 capital		
Regulatory deductions	(103)	(87)
Total Capital	**1,856**	**1,714**
Risk weighted assets		
Credit Risk	9,600	10,094*
Operational Risk	614	688
Total risk weighted assets	**10,214**	**10,782**
Key Capital Ratios		
Core Tier 1	10.3%	8.3%
Total Tier 1	13.2%	11.1%
Total capital	18.2%	15.9%

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* Includes £6m in Counterparty Credit Risk

3. Risk Management.

Risk Management Approach.

The firm has adopted an integrated approach to risk management to ensure that all material classes of risk are taken into account and that its risk management and capital management strategies are aligned with its overall business strategy. This integrated approach is set out in the firms Risk Framework, which is approved by the Board of Directors. It describes the firm's formal governance process around risk and the approach to risk identification, assessment, analysis and reporting. Risk Appetite defines the level of risk that the Bank is prepared to accept in pursuit of its objectives, and guides the Bank in its business activities, risk taking and risk management.
An introduction to the firm's assessment of its capital requirements for Credit Risk, Market Risk and Operational Risk are outlined below, while detail regarding how these and other risks are identified, managed, measured and mitigated is provided in the Risk Management section beginning on page 14 of the BoI (UK) Plc Annual Report 31 December 2011. The firms Risk Objectives are set out in the Risk Appetite section starting on Page 22 of the BoI (UK) Annual Report 2011.

Credit Risk:

BoI (UK) uses the standardised approach for the calculation of credit risk. The Standardised approach involves the application of prescribed regulatory formulae to credit exposures to calculate the capital requirement.
The credit risk information disclosed in this document includes a breakdown of the Group's exposures by Basel exposure class, by location, sector, maturity and asset quality. Information on past due and impaired financial assets and provisions is also provided.
The Group's approach to management of balances in arrears and impaired loans is rigorous, with a focus on early intervention and active management of accounts. The Group has redeployed significant resources from loan origination into remedial management of existing loans which has further strengthened its management of past due and impaired loans.

Operational Risk:

Operational risks are inherently present in the Bank's businesses, including, as a result of potentially inadequate or failed internal processes (including financial reporting and risk monitoring processes), information technology or equipment failures of external systems and controls including those of the Bank's suppliers or counterparties or from people related or external events, such as the risk of fraud and other criminal acts carried out against the Bank. Any weakness in the Bank's internal control structures and procedures could result in a material adverse impact on the Bank's result, financial condition and prospects, as well as reputational damage which could exacerbate such adverse impact.
The majority of the Bank's systems, processing and customer servicing are provided by the Parent under an outsourcing agreement. Whilst the Bank has put in place provisions within the outsourcing contracts which protect the Bank's position in the event of an operational failure within the Parent and which are supported by the Bank's operational contingency plans, any material operational failure with the Parent could result in an adverse impact on the Bank's financial condition.

Market Risk:

BoI (UK) has no appetite for the holding of proprietary market risk positions, and the running of open banking book market risk exposure. The firm has no trading book, and both interest rate and foreign exchange risks are hedged. The Bank is not exposed to discretionary market risk but is exposed to structural market risk. Structural market risk incorporates the interest rate risk that arises from the presence of non-interest rated assets and liabilities on the balance sheet, the exposure of the Bank earnings to the differential between underlying rates received from lending and paid on borrowings (base rates compared to LIBOR) and the exposure of the Bank's net worth and its principal capital ratios to exchange rate movements. The Bank remains potentially exposed to adverse movements in interest rates and interest rate basis.

3.2 Risk Management and Organisation

Responsibilities for risk management extend throughout the organisation. Details of the risk governance structure, including risk committees, is set out on pages 20 - 21 of the BoI (UK) Annual Report 31 December 2011.

4. Credit Risk.

BoI (UK) has exposure to a range of customers in different sectors, including a material concentration in residential mortgages. Many residential property borrowers in the UK have historically borrowed on short term fixed or discounted floating rates and when such rates expire the potential for higher borrowing rates have led and may continue to lead to higher delinquency rates. Economic conditions may deteriorate further in the Bank's main markets, which may lead to, amongst other things, tenant defaults, further declines in values of collateral and investments, persistently high unemployment levels, weakened consumer and corporate spending, declining corporate profitability and an increase in corporate insolvencies. These developments could adversely impact the Bank's ability to recover on these commercial property and residential investment lending portfolios or lead to write-downs of investments. The Bank has also been exposed to increased counterparty risk as a result of financial institution and corporate failures and will continue to be exposed to the risk of loss if counterparty financial institutions or other corporate borrowers fail or are otherwise unable to meet their obligations.

Credit Risk Mitigation for Risk Management Purposes

BoI (UK) mitigates credit risk through the adoption of both proactive preventative measures (e.g. controls and limits) and the development and implementation of strategies to assess and reduce the impact of particular risks, should these materialise (e.g. taking collateral) Further detail on credit risk mitigation for risk management purposes is contained on page 28 of the BoI (UK) Annual Report 31 December 2011.

Credit Risk Mitigation for Capital Requirements Calculation

For the purposes of calculating the capital requirements for Retail Mortgages, as per the guidelines of BIPRU 3.4, the Risk Weight of Retail Mortgages may be reduced (to a minimum of 35% for fully performing, fully secured mortgages) based on the LTV of the property.

Maximum Exposure to Credit Risk

Table 4.1 show the EAD by standardised asset class as at 31 December 2011 and December 2010.

Table 4.1 Max Exposure to Credit Risk.

	31 December 2011	31 December 2010
	Total Exposure (EAD) £'000's	**Total Exposure (EAD) £'000's**
Central Governments	7,971,425	2,011,179
Institutions	9,997	29,964
Corporates	3,943,760	4,827,558
Secured on real estate property	9,140,097	8,996,551
Retail	381,154	416,209
Past due items	1,338,258	1,180,109
Other Items	8,090	30,105
Short-term claims on. Institutions/Corporates	760,634	789,056
Total	**23,553,415**	**18,280,731**

Total EAD has increased in the period by £5.3bn. This increase in mainly due to an increase of £5.96bn in exposure to Central Governments and a decrease in Corporate exposures of £0.9bn due to strategic deleveraging of the portfolio.

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Geographic Analysis of Exposures

BoI (UK) has two primary markets, Great Britain and Northern Ireland. Tables 4.2 and 4.3 are based on EAD and show the location of the exposures

Table 4.2 Max Exposure to Credit Risk.

31 December 2011

Total Exposure (EAD) £'000's

	NI	Great Britain	Other	Total
Central Governments		7,971,425		7,971,425
Institutions			9,997	9,997
Corporates	1,609,684	2,334,076		3,943,760
Secured on real estate property	240,139	8,899,958		9,140,097
Retail	60,633	320,521		381,154
Past due items	877,538	460,720		1,338,258
Short-term claims on. Institutions/Corporates		190,811	569,823	760,634
Other Items		8,090		8,090
Total	**2,787,994**	**20,185,601**	**579,820**	**23,553,415**

Table 4.3 Max Exposure to Credit Risk.

31 December 2010

Total Exposure (EAD) £'000's

	NI	Great Britain	Other	Total
Central Governments		2,011,179		2,011,179
Institutions		29,964		29,964
Corporates	2,111,742	2,715,816		4,827,558
Secured on real estate property	200,131	8,796,420		8,996,551
Retail	65,148	351,061		416,209
Past due items	534,738	645,371		1,180,109
Short-term claims on. Institutions/Corporates		590,970	198,086	789,056
Other Items		30,105		30,105
Total	**2,911,759**	**15,170,886**	**198,086**	**18,280,731**

Industry Analysis of Exposures

Tables 4.4 and 4.5 are based on EAD. The industry classification below is based on the purpose of the loan. Similar industry headings to those in the industry analysis contained in the BoI (UK) Annual Report 31 December 2011 have been used, however, the values will differ as these tables are based on EAD. The distribution will differ as information on an accounting basis is used in the Group's Annual Report 31 December 2011 and exposures are thus classified using a different methodology.

Table 4.4 Industry Analysis

31 December 2011

Total Exposure (EAD) £'000's

	Central and Local Government	Mortgage	Personal	Manufacturing	Agri	Services	Construct & Property	Distribution	Energy	Other	Total
Central Governments	7,971,425										7,971,425
Institutions						9,997					9,997
Corporates		2,259	191,257	302,733	29,173	1,026,290	2,224,401	111,419	1,397	54,831	3,943,760
Secured on real estate property		9,140,037				60					9,140,097
Retail			363,987	3,011	7,293			6,863			381,154
Past due items		198,543	43,808	16,043	1,216	165,294	899,018	13,591		745	1,338,258
Short-term cl. Institutions/Corporates			26	758	6,109	745,963	7,778				760,634
Other										8,090	8,090
Total	**7,971,425**	**9,340,839**	**599,078**	**322,545**	**43,791**	**1,947,604**	**3,131,197**	**131,873**	**1,397**	**63,666**	**23,553,415**

Table 4.5 Industry Analysis

31 December 2010

Total Exposure (EAD) £'000's

	Central and Local Government	Mortgage	Personal	Manufacturing	Agri	Services	Construct & Property	Distribution	Energy	Other	Total
Central Governments	2,011,179										2,011,179
Institutions						29,964					29,964
Corporates		3,171	219,345	262,109	23,428	1,106,457	2,418,772	108,569	9,847	675,860	4,827,558
Secured on real estate property		8,996,491				60					8,996,551
Retail			401,384	4,064	8,060					2,701	416,209
Past due items		231,611	30,155	15,762	1,279	135,464	643,479	6,953	1,468	113,938	1,180,109
Short-term cl. Institutions/Corporates				1,914	5,940	771,833	7,541			1,828	789,056
Other										30,105	30,105
Total	**2,011,179**	**9,231,273**	**650,884**	**283,849**	**38,707**	**2,043,778**	**3,069,792**	**115,522**	**11,315**	**824,432**	**18,280,731**

Maturity Analysis of Exposures

The maturity analysis below discloses the BoI (UK) credit exposure by residual contractual maturity date. Tables 4.6 and 4.7 are based on EAD.

Table 4.6 Max Exposure to Credit Risk.

	31 December 2011 Total Exposure (EAD) £'000's			
	< 1 Year	1 -5 Years	> 5 Years	Total
Central Governments	7,971,425			7,971,425
Institutions	9,997			9,997
Corporates	950,075	1,542,990	1,450,695	3,943,760
Secured on real estate property	64,671	357,689	8,717,737	9,140,097
Retail	381,154			381,154
Past due items	842,065	158,368	336,825	1,338,258
Short-term claims on. Institutions/Corporates	760,634			760,634
Other Items	8,090			8,090
Total	**10,989,111**	**2,059,047**	**10,505,257**	**23,553,415**

Table 4.7 Max Exposure to Credit Risk.

	31 December 2010 Total Exposure (EAD) £'000's			
	< 1 Year	1 -5 Years	> 5 Years	Total
Central Governments	2,011,179			2,011,179
Institutions	29,964			29,964
Corporates	1,507,231	1,631,812	1,688,515	4,827,558
Secured on real estate property	103,044	337,003	8,556,504	8,996,551
Retail	413,508	2,701		416,209
Past due items	654,944	193,560	331,605	1,180,109
Short-term claims on. Institutions/Corporates	789,056			789,056
Other Items	30,105			30,105
Total	**5,539,031**	**2,165,076**	**10,576,624**	**18,280,731**

Asset Quality

Under the standardised approach, credit risk is measured by applying risk weights outlined in BIPRU based on the exposure class to which the exposure is allocated. Where a counterparty is rated by External Credit Assessment Institutions ('ECAIs') or Export Credit Agencies ('ECAs'), the Standardised approach permits banks to use these ratings to determine the risk weighting applicable to exposures to that counterparty. This is done by firstly mapping the rating to a Pillar 1 credit quality step, which in turn is then mapped to a risk weight.

BoI (UK) use Fitch Ratings, Moody's Investors Service, Standard & Poor's and DBRS as its nominated ECAIs for its sovereign exposures and applies the mapping tables published by the FSA to map these ECAI ratings to credit quality steps and then risk weights.

The Group has a number of exposures which fall within the 'Corporate' and 'Short Term Claims on Institutions and Corporates' Standardised exposure classes. These exposures are for less than €1 million and are therefore assigned a retail risk weight.

Exposure values in table 4.8 & 4.9 are broken down by risk weight.

31 December 2011

Table 4.8 Asset Quality Analysis

Total Exposure (EAD) £'000's

Risk Weight	Central Governments	Institutions	Corporates	Retail	Secured on real estate property	Past Due Item	Short-term claims on Inst/Corp	Other	Total
0 %	**7,971,425**								**7,971,425**
1% – 20 %		**9,997**					**745,823**		**755,820**
21% - 50%			**649**		**9,126,075**	**2,864**			**9,129,588**
51% - 75%				**381,154**	**14,022**				**395,176**
76% - 100%			**3,943,111**			**329,043**	**14,811**	**8,090**	**4,295,055**
101% - 150%						**1,006,351**			**1,006,351**
Total	**7,971,425**	**9,997**	**3,943,760**	**381,154**	**9,140,097**	**1,338,258**	**760,634**	**8,090**	**23,553,415**

31 December 2010

Table 4.9 Asset Quality Analysis

Total Exposure (EAD) £'000's

Risk Weight	Central Governments	Institutions	Corporates	Retail	Secured on real estate property	Past Due Item	Short-term claims on Inst/Corp	Other	Total
0 %	**2,011,179**		**6,229**			**1,339**			**2,018,747**
1% – 20 %		**29,964**					**773,580**		**803,544**
21% - 50%			**93,962**		**8,986,845**	**352**			**9,081,159**
51% - 75%			**238,452**	**416,209**	**9,706**				**664,367**
76% - 100%			**4,488,915**			**349,791**	**15,476**	**30,105**	**4,884,287**
101% - 150%						**828,627**			**828,627**
Total	**2,011,179**	**29,964**	**4,827,558**	**416,209**	**8,996,551**	**1,180,109**	**789,056**	**30,105**	**18,280,731**

Past Due and Impaired Exposures.

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 are not impaired; and
- residential mortgages may be past due but not impaired in cases where the loan to value (LTV) ratio on the mortgage indicates no loss in the case of default by the borrower to the Bank.

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;
- all assets in grades 12 and 13 on the thirteen point grade scale and grades 6 and 7 on the seven point grade scale are impaired; and
- residential mortgages are only classified as impaired when there is a specific provision against them.

Past Due and Impaired Exposures by Industry

Tables 4.10 and 4.11 are based on financial statement information and disclose past due but not impaired and impaired balances by industry.

Table 4.10: Past Due and Impaired Exposures by Industry	**Residential Mortgages**	**Non-property SME and corporate**	**Property and construction**	**Consumer**	**Total**
31 December 2011	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets past due but not impaired	471	35	164	20	690
Impaired financial assets	24	221	1,132	26	1,403
Total	**495**	**256**	**1,296**	**46**	**2,093**

Table 4.11: Past Due and Impaired Exposures by Industry	**Residential Mortgages**	**Non-property SME and corporate**	**Property and construction**	**Consumer**	**Total**
31 December 2010	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets past due but not impaired	533	62	289	25	909
Impaired financial assets	19	395	827	26	1,267
Total	**552**	**457**	**1,116**	**51**	**2,176**

Past Due and Impaired Exposures by Geography

Tables 4.12 and 4.13 are based on financial statement information and disclose past due but not impaired and impaired balances by Geography.

Table 4.12: Past Due and Impaired Exposures by Geography	**Northern Ireland**	**Great Britain**	**Total**
31 December 2011	**£m**	**£m**	**£m**
Financial assets past due but not impaired	121	569	690
Impaired financial assets	922	481	1,403
Total	**1,043**	**1,050**	**2,093**

Table 4.13: Past Due and Impaired Exposures by Geography	**Northern Ireland**	**Great Britain**	**Total**
31 December 2010	**£m**	**£m**	**£m**
Financial assets past due but not impaired	123	786	909
Impaired financial assets	804	463	1,267
Total	**927**	**1,249**	**2,176**

Provisioning.

The loan loss provisioning methodology is set out on pages 42 - 44 of the BoI (UK) Annual Report 31 December 2011.

Provisions by Industry and Geography

Table 4.14 show the balance sheet specific provisions, specific provision charges and amounts written off on specific provisions by industry classification. It is based on financial statement information.

Table 4.14	**31 December 2011**			**31 December 2010**		
	Total Specific Provisions	**Total Charges**	**Total Write Offs**	**Total Specific Provisions**	**Total Charges**	**Total Write Offs**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Residential Mortgages	7	8	8	6		1
Non-property SME and Corporate	40	23	9	24	(26)	2
Property and Construction	443	123	57	370	22	3
Consumer	22	23	26	21	5	4
Total loan impairment charge / (release)	**512**	**177**	**100**	**421**	**1**	**10**

Table 4.15 shows the specific provision breakdown on a geographic basis. It is based on financial statement information.

Table 4.15 Geographic Region	31 December 2011 Specific Provisions (£m)	31 December 2010 Specific Provisions (£m)
Northern Ireland	319	222
Great Britain	193	199
Total loan impairment charge / (release)	**512**	**421**

Provisions by Provision Type

Table 4.16 show the provisions split between Specific and IBNR Provisions. It is based on financial statement information.

Table 4.16 Impairment Provision by nature of impairment provision	31 December 2011 £m	31 December 2010 £m
Specific provisions	512	421
Incurred but not reported (IBNR)	73	85
Total impairment provision	**585**	**506**

Provisions Charges during the Period

Table 4.17 shows the movement in the provisions during the 12 month period ended 31 December 2011. It is based on financial statement information.

Table 4.17 Provisioning Charges during the Period.	31 December 2011 £m
Opening Balance	506
Amount Charged During Period	165
Amounts reversed, set aside and other adjustments	(89)
Recoveries	3
Closing Balance	**585**

5. Securitisation.

BoI (UK) has a single internal securitisation that may be used, if required, to secure external funding. These do not qualify for derecognition under Pillar 1 and the exposures securitised under them are included in the credit risk tables above. As such, this securitisation is outside the scope of this section.

6. Liquidity and Funding Risk.

Liquidity and Funding Risk is the risk that the Firm will experience difficulty in financing its assets and/or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds which will affect its franchise and long term viability.

The Firms' liquidity risk appetite is aligned with its overall strategy of being a self-funded business with minimum dependency on either BoI Group or wholesale funding sources:

- The firm will grow its assets by sustainable retail deposit growth.
- Short term wholesale funding will not be used to fund the mortgage business and only for working capital requirements.
- The development of retail products will be aligned with the liquidity risk appetite statement.

In consideration of its own internal stress testing (i.e. over and above the FSA's ILG requirements) BoI (UK) plc holds specific liquidity buffers to cover survival periods under a stress scenario.

Further detail on liquidity risk for risk management can be found on pages 47-52 of the BoI (UK) Annual Report 31 December 2011.

6. Counterparty Credit Risk.

The continued weak international financial environment has meant that the Bank continues to be exposed to increased counterparty risk. The Bank has invoked a number of measures to mitigate this increased risk. These include reduced individual Bank exposures across a wider spread of banking institutions, strict credit risk management procedures and the application of tighter credit policy criteria where required.

The Bank manages its interest rate risk position through arrangements with the Parent whereby all monies received from customer deposits are placed onward with the Parent for an equivalent term and customer lending is funded via amounts borrowed from the Parent on an equivalent term basis. From a counterparty credit risk perspective, whilst these amounts are disclosed on a gross basis within loans and advances to Banks and deposits from Banks, the Bank has in place a contractual Master Netting Agreement with the Parent whereby, in the event of a default by either party, all amounts due or payable will be settled immediately on a net basis. The net exposure to the Parent is measured and monitored on a daily basis and is maintained within the Bank's Large Exposure limits (see below).

The Board Risk Committee is responsible for establishing an appropriate policy framework for the prudential management of treasury credit risk including net exposure to the Bank's Parent. Credit counterparties are subject to ongoing credit review and exposures are monitored on a daily basis.

7. Market Risk.

Market risk is the risk of loss due to potential adverse changes in income or net worth arising from movements in interest rates, exchange rates or other market prices.
BoI (UK) plc has no appetite for the holding of proprietary market risk positions, and the running of open banking book market risk exposures. The firm has no trading book, and both interest rate and foreign exchange are hedged to the de-minimis limits detailed below:

- All Interest rate and FX risk will be managed through hedging and will be measured in terms of the P&L impact of a 1 basis point parallel shift in the yield curve. This 1 basis point shift limit is set at £20K.
- FX exposures are managed by limiting the total overnight FX exposure to £600k.

8. Operational Risk.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems, or from external events, but excluding reputation and strategic risks.
The firms approach to managing Operational Risk is detailed on pages 56 & 57 of the BoI (UK) Annual Report 31 December 2011.

9. Remuneration.

Details on remuneration are contained in Appendix 1.

Appendix I

Remuneration at Bank of Ireland (UK) plc

This section summarises remuneration for Code Staff in respect of 2011 and provides brief information on the decision-making policies for remuneration and the links between pay and performance. These disclosures reflect the requirements set out in the Financial Services Authority Remuneration Code.

Decision-making process for remuneration policy

The Nomination, Remuneration & Governance Committee (NRG) holds delegated responsibility from the Board of Directors for the oversight of the Bank of Ireland (UK) plc (hereafter referred to as "The Company") Remuneration Policy with specific reference to the Directors and senior management across the Company and those employees whose activities have a material impact on the Company's risk profile.

Code staff

The Company completed a rigorous process through which, over the course of 2011, an aggregate of 21 employees were identified as Code Staff on the basis that their professional activities were deemed to have a material impact on the Company's risk profile. As at 31 Dec 2011 there were 21 Code Staff in Bank of Ireland (UK) plc.

Remuneration restrictions

The Company, as part of the overall Bank of Ireland Group is currently operating under a number of remuneration restrictions which cover all Directors, Senior Executives, Employees and Service Providers across the Group. These restrictions were contained within the 'Subscription Agreement' with the Irish Government (March 2009) and subsequently in the Minister's Letter, under which the Group gave a number of commitments and undertakings to the Minister for Finance in respect of remuneration practices. The Minister's Letter was a condition of the Transaction Agreement with the Irish Government which was part of the 2011 Recapitalisation of the Bank of Ireland Group.
The Group is in compliance with the remuneration restrictions contained within both of these documents.

Link between pay and performance

Individual performance measures and targets are agreed for each employee using a Balanced Scorecard approach through the Company performance management process. One of the Key Result Areas as captured in the balanced scorecard covers all aspects of credit, regulatory, operational and other risks as well as compliance with internal procedures.

Bank of Ireland (UK) plc Remuneration Strategy

The Bank of Ireland (UK) plc remuneration policy aims to support the Company's objectives of long term sustainability and success, sound and responsible risk management and good corporate governance. The application of this Policy will be done in consideration of and in alignment with the Business's Risk Strategy and Appetite Statement.

In addition the remuneration policy is designed to ensure that;

- our efforts are aligned with and contribute to the long term sustainability, value creation and success of the Company
- we have the necessary platform to attract, retain and motivate high calibre employees
- we offer a competitive remuneration package across all markets, in a cost effective manner
- remuneration practices are simple, transparent, easy to understand and implement
- sound and effective risk management is reflected in performance management and remuneration structures and their alignment to performance targets and governance structures
- remuneration is applied in consideration of and in alignment with the Business's Risk Strategy and Appetite Statement and overall risk governance framework,

- risk adjusted financial performance is an important measure when evaluating performance
- business and individual performance measures and targets are aligned with business strategy, risk measures and priorities and is based on a balanced scorecard approach
- all remuneration practices are subject to appropriate governance by the Nomination, Remuneration & Governance Committee.
- we are fully compliant with all applicable regulatory remuneration requirements as they relate to the Company
- remuneration policies, process, procedures, systems and controls support the fair treatment of customers and mitigate the potential for conflict between commercial and customer interests.
-

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

Remuneration Expenditure

The following tables show the remuneration awards made by the Company to Code Staff in

Table 1 – Aggregate 2011 Remuneration Expenditure by Business Area				
	NEDS	**Group Support Functions**	**Retail ROI & UK**	**Grand Total**
Number of Code Staff	6	2	13	21
2011 Remuneration Expenditure £m	0.29	0.49	2.38	3.16

2011.

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

Table 2 – Analysis of 2011 Remuneration between Fixed and Variable Amounts (actually paid in 2011)				
	NEDS	**Key Control Function Roles**	**Key Front Line Roles**	**Grand Total**
Number of Code Staff	6	2	13	21
Fixed (cash based)	- Fixed payments 2011 include fees, salaries, car allowances and other payments			
Fixed (cash based) £m	0.29	0.21	2.47	2.97
Total Fixed £m	**0.29**	**0.21**	**2.47**	
Variable	- Variable payments 2011 include guaranteed bonus / contractual guarantees, cash LTIPs / deferred bonuses, retention payments and commissions.			
Non-Deferred Cash £m	-	-	-	-
Deferred Cash £m	-	0.15	0.04	1 0.19
Total Variable £m	**-**	**0.15**	**0.04**	**0.19**
Variable Recipients	-	1	1	2
Fixed & Variable £m	**0.29**	**0.36**	**2.51**	**3.16**

Non Deferred cash payments referenced in Table 2 above refers to cash awards made and paid in 2011.

Deferred cash payments referenced in Table 2 above refer to those payments awarded prior to 2011 and paid in 2011

2011 New sign-on and severance payments

- No new hire (Code Staff) received a sign-on payment during the relevant year, 2011, relating to their commencement of employment.
- No severance payments were made during the relevant year, 2011, to this population.