

PILLAR 3 Disclosures

For the twelve month period ended
31 December 2010

Bank of Ireland



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 (Group) plans and its current goals and expectations relating to future capital requirements. These forward looking statements are identified by the fact that they do not relate only to historical or current facts, Forward Looking Statements sometimes use words such as 'aim', 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', or other similar looking statements regarding the Group's future capital requirements and ratios, loan to deposit ratios, expected loan losses, the level of the Group's assets, the Group's financial position, payment of dividends, future income, business strategy, projected costs, projected impairment losses, estimated discounts upon transfers of assets to NAMA, margins, future payment of dividends, the implementation of proposed changes in respect of certain of the Group's defined benefit pension schemes, estimates of capital expenditures, discussions with Irish, European and other regulators and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, 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, risks and uncertainties relating to the performance of the Irish and UK economies, the ability of the Group to raise additional capital, property market conditions in Ireland and the UK, the implementation of the Irish Government's austerity measures relating to the financial support package from the EU/IMF, the availability and cost of funding sources, the performance and volatility of international capital markets, actual loan losses, the success of the Group's deleveraging plan, the impact of further changes in credit ratings of the Group's and the Irish national debt, the impact of transfers of assets to NAMA including the level of such asset transfers, the Group's ability to expand certain of its activities, development and implementation of the Group's strategy, including the ability to achieve estimated cost reductions, competition including for customer deposits, and the Group's ability to address information technology issues. Consequently, nothing in this statement should be considered to be a forecast of future profitability or financial position. None of this information 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.

Capital Requirements Directive

PILLAR 3

Risk Management Disclosures

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1. Introduction

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

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

Pillar 2 is 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)

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 processes.

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

The Group's Pillar 3 document is a technical paper which should be read in conjunction with the Group's Annual Report for the twelve month period ended 31 December 2010 (hereafter referred to as the "Group's Annual Report 31 December 2010"), which contains some Pillar 3 qualitative information.

The Group's qualitative disclosure requirements are largely met in the Operating and Financial Review and the Risk Management sections of the Group's Annual Report 31 December 2010. This document contains the Group's Pillar 3 quantitative disclosure requirements and the remainder of the qualitative disclosure requirements. This document should therefore be read in conjunction with the Group's Annual Report 31 December 2010. Copies of the Group's Annual Report 31 December 2010 can be obtained from the Group's website at www.bankofireland.com or from the Group Secretary's Office, Bank of Ireland, 40 Mespil Road, Dublin 4, Ireland.

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

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

Areas Covered

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

The topics covered are also dealt with in the Group's Annual Report 31 December 2010 and cross-referencing to relevant sections is provided throughout this document. In some areas more detail is provided in these Pillar 3 disclosures. For instance, the section on capital requirements includes additional information on the amount of capital held against various risks, and the section on capital resources provide details on the composition of the Group's own funds.

It should be noted that while some quantitative information in this document is based on financial data in the Group's Annual Report 31 December 2010, other quantitative data is sourced from the Group's regulatory reporting platform and is calculated according to a different set of rules. The difference between the financial statement data and that sourced from the Group's regulatory reporting platform is most evident for credit risk disclosures where credit exposure under Basel II (referred to as exposure at default (EAD)) is defined as the expected amount of exposure at default and is estimated under specified Basel II parameters and, unlike financial statement information, includes potential future

drawings of committed credit lines. Pillar 3 quantitative data is thus not always comparable with the quantitative data contained in the Group's Annual Report 31 December 2010.

Supervision

The Bank of Ireland Group is regulated by the Central Bank.

As at 31 December 2010, the Group held 5 separate banking licences. These are held by the Governor and Company of the Bank of Ireland, Bank of Ireland (UK) plc., ICS Building Society, Bank of Ireland Mortgage Bank and Bank of Ireland (IOM) Limited. All of these entities are regulated by the Central Bank of Ireland with the exception of Bank of Ireland (UK) plc., which is regulated by the Financial Services Authority and Bank of Ireland (IOM) Limited which is regulated by the Isle of Man Financial Supervision Commission. By operating a branch in the United States, Bank of Ireland and its subsidiaries are subject to certain regulation by the Board of Governors of the Federal Reserve System under various laws, including the International Banking Act of 1978 and the Bank Holding Company Act of 1956. Each individual licence holder and regulated entity is required to comply with its local regulatory requirements.

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

Key capital ratios

The following table outlines the components of the Group's Risk Weighted Assets (RWA) as well as key capital ratios at 31 December 2010 and 31 December 2009.

Table 1.1 – Risk Weighted Assets and Key Capital Ratios		
Risk Weighted Assets (RWA)	31 December 2010 €m	31 December 2009 €m
Credit Risk	71,403	89,785
Market Risk	1,964	2,133
Operational Risk	5,678	6,415
Total Risk Weighted Assets	79,045	98,333
Key Capital Ratios		
Equity tier 1 capital ratio (Core tier 1 less Preference Stock)	7.3%	5.3%
Core tier 1 capital ratio	9.7%	8.9%
Tier 1 capital ratio	9.7%	9.8%
Total capital ratio	11.0%	13.4%

RWA at 31 December 2010 of €79 billion are €19 billion lower than the RWA of €98 billion at 31 December 2009. This decrease is mainly due to a reduction in loans and advances to customers, the impact of the sale of loans to the National Asset Management Agency (NAMA) during the twelve month period ended 31 December 2010, the impact of higher levels of impaired loans¹ and the increased impairment provisions at 31 December 2010 as compared to 31 December 2009 together with a series of RWA optimisation initiatives and credit risk mitigation partly offset by the impact of a stronger sterling exchange rate.

As referenced above, the Group sold €9.4 billion of assets (before impairment provisions) to NAMA, this resulted in a reduction of approximately €7 billion in RWA. The nominal consideration receivable for these assets amounted to €5.2 billion resulting in a gross discount of 44%. At 31 December 2010, the Group still held as eligible for sale to NAMA €0.9 billion of assets (before impairment provisions).

The Equity tier 1 ratio at 31 December 2010 of 7.3% compares to 5.3% at 31 December 2009. The increase in the ratio is primarily as a result of the capital generating initiatives that were completed during 2010 (detailed in Meeting Capital Requirements section below) and the reduction in RWA, partly offset by the loss after tax incurred during the twelve month period ended 31 December 2010.

The Core tier 1 ratio at 31 December 2010 of 9.7% compares to 8.9% at 31 December 2009. The increase in the ratio is primarily as a result of the net capital generating initiatives that were completed during 2010 and the reduction in RWA, partly offset by the loss after tax incurred during the twelve month period ended 31 December 2010.

The Tier 1 ratio at 31 December 2010 of 9.7% compares to 9.8% at 31 December 2009. The reduction in the ratio is primarily due to the loss after tax incurred during the twelve month period ended 31 December 2010, the increase in the expected loss adjustment at 31 December 2010 as compared with 31 December 2009 and the net reduction in subordinated liabilities due to the liability management exercises completed during the twelve month period ended 31 December 2010, partly offset by the additional Core tier 1 capital generated during 2010 and the reduction in RWA at 31 December 2010 as compared to 31 December 2009.

The Total capital ratio at 31 December 2010 of 11.0% compares to 13.4% at 31 December 2009. The reduction in the ratio is primarily due to the loss after tax incurred during the twelve month period ended 31 December 2010, the increase in the expected loss adjustment at 31 December 2010 as compared with 31 December 2009 and the net reduction in subordinated liabilities due to the liability management exercises completed during the twelve month period ended 31 December 2010, partly offset by the additional Core tier 1 capital generated during 2010 and the reduction in RWA at 31 December 2010 as compared to 31 December 2009.

¹ Under the IRB approach defaulted exposure attracts a 0% risk weighting.

Meeting Capital Requirements

During 2010 the Group made significant progress in strengthening its equity capital position. Through a number of liability management exercises and capital raising initiatives, in aggregate the Group generated €3.6bn in equity.

Key points are set out below:

- In February 2010, the Group completed the exchange of certain Lower tier 2 securities for a new series of longer dated Lower tier 2 securities with a bullet maturity. This yielded a gain to Equity tier 1 capital and Core tier 1 capital of €405 million whilst leaving the total capital position unchanged. €1.62 billion in nominal value of Lower tier 2 securities were exchanged for €1.2 billion in nominal value of higher coupon Lower tier 2 securities, giving rise to the €405 million gain.
- In February 2010 the Group issued 184 million units of ordinary stock to the National Pension Reserve Fund Commission (NPRFC) in lieu of the €250 million cash dividend otherwise due on the 2009 Preference Stock.
- In April 2010 existing holders of eligible debt securities were offered the opportunity to exchange those securities for (a) cash proceeds raised from the allotment of ordinary stock on behalf of these bond holders in the rights issue or (b) allotment instruments of up to €200 million which automatically converted into ordinary stock in September 2010. Participation in the offer was 57% resulting in a total gain of €300 million in Equity tier 1 capital.
- In September 2010 the Group completed a capital raising exercise through the implementation of a number of initiatives including; an Institutional Placing, a Placing to the National Pensions Reserve Fund Commission (NPRFC), a Rights Issue, a Warrant Cancellation together with Debt for Equity Offers. These capital initiatives generated net additional equity for the Group of €3 billion (including ordinary stock issued in September 2010 as part of the debt for equity element of the capital raise).
- In December 2010, the Group completed the exchange of certain Lower tier 2 securities for a new series of senior debt. Approximately €1.4 billion in nominal value of Lower tier 2 securities were exchanged at an average discount of 48% for €0.7 billion in nominal value of senior debt. This generated Core tier 1 capital of €680 million (after tax) whilst reducing Total capital by €675 million.

In addition to the above, the Group has continued to progress its capital raising initiatives in 2011:

- On 10 January 2011, the Group completed the sale of Bank of Ireland Asset Management to State Street Global Advisors for a total consideration of €57 million. This generated Core tier 1 capital of approximately €40 million.
- On 10 February 2011, the Group announced the exchange of €102 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 Core tier 1 capital of €46 million whilst reducing Total capital by €56 million.
- In April 2011 the Group announced the sale of its 50% holding in Paul Capital Investments LLC (PCI), a private equity fund of funds manager, to the firm's existing management team and the sale of its US based foreign currency business, Foreign Currency Exchange Corporation, Inc. to Wells Fargo Bank N.A. This is expected to have a negligible impact on the Group's capital position.
- On 1 June 2011 the Group completed the sale of Bank of Ireland Securities Services (BoISS) to Northern Trust Corporation generating approximately €40 million in Equity tier 1 capital.

The Central Bank completed a revised Prudential Capital Assessment Review (PCAR) in 2011 with the results issued on 31 March 2011. The 2011 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.

As announced on 31 March 2011 the outcome of this review is that the Central Bank has determined that the Group needs 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 is also required via the issue of a subordinated debt instrument which under certain circumstances would convert to equity capital.

On 3 June 2011 the Group announced further details in relation to its proposed capital raising, which will comprise the following elements:

- Liability Management Exercise (LME) with regard to c.€2.6 billion of subordinated liabilities, incorporating equity and cash options;

- Further bondholder burden sharing – to the extent that eligible subordinated liabilities are not acquired pursuant to the proposed liability management exercise, the government has indicated that it will take whatever steps it considers necessary to ensure that burden sharing is achieved;
- State placing – the Irish State has the option to require the Group to make a direct Placing of shares to the Irish State (up to an amount of 15% of the existing shares in issue);
- Rights Issue underwritten by the NPRFC – the rights issue will be for €4.35 billion (€4.2 billion gross of associated costs) less the Core tier 1 capital (a) generated from the LME; and (b) estimated to be generated from the application of Stabilisation Act or other action to any subordinated debt outstanding after the LME;
- Contingent Capital Instrument of €1.0 billion placed with the Irish State.

Further details on capital stress testing undertaken by the Group since 31 December 2009 are outlined in Appendix I and additional information on the 2011 capital raise can be obtained from the Group's website at www.bankofireland.com/investor-relations.

Regulatory Requirements

The minimum regulatory requirements imposed on the Group, the manner in which regulatory capital is calculated, the instruments that qualify as regulatory capital and the Capital tier to which those instruments are allocated, could be subject to change in the future.

A number of regulatory initiatives have recently been proposed or enacted, which could significantly alter the Group's capital requirements.

These initiatives include:

- EC Directive 2009/111/EC (CRD II): CRD II was implemented on 31 December 2010. In particular it made changes to the criteria for assessing hybrid capital eligible to be included in Tier 1 capital and requires the Group to replace, over a staged grandfathering period, existing capital instruments that do not fall within these revised eligibility criteria. It is noted that the Capital Requirements Directive IV (CRD IV) is expected to further define the treatment of existing capital instruments.
- The EU Capital Requirements Directive III (CRD III): CRD III was implemented on 1 January 2011 with some specific items being phased in over the next two years. It introduces a number of changes in response to the recent and current market conditions, which may:
 - Increase the capital requirements for trading books to ensure that a firm's assessment of the risks connected with its trading book better reflects the potential losses from adverse market movements in stressed conditions;
 - Limit investments in re-securitisations and impose higher capital requirements for re-securitisations to make sure that firms take proper account of the risks of investing in such complex financial products; and
 - Increase the nature and extent of disclosure standards.

On 16 December 2010 the Basel Committee on Banking Supervision, published a paper entitled Basel III: A global regulatory framework for more resilient banks and banking systems. The paper, which follows earlier proposals on Basel III, contains proposals to strengthen the global capital framework by, among other things, raising the quality of the Core tier 1 capital base in a harmonised manner (including through changes to the items which give rise to adjustments to that capital base), strengthening the risk coverage of the capital framework, promoting the build up of capital buffers and introducing a global minimum liquidity standard for the banking sector. These proposals are to be phased in from 1 January 2013 to 1 January 2018.

On 26 February 2010, the European Commission issued a public consultation document on further possible changes to the CRD (CRD IV) which is closely aligned with the initial proposals of 16 December 2009 from the Basel Committee (Basel III). Final changes in CRD IV are expected in mid-2011.

The Solvency II Directive (Directive 2009/138/EC), adopted by the European Parliament on 22 April 2009 and endorsed by the Council of Ministers on 5 May 2009, is a fundamental review of the capital adequacy regime for the European insurance industry. When Solvency II has been implemented (required by 31 October 2012) the capital structure and overall governance of the Group's life assurance business will alter significantly to the extent that New Ireland Assurance Company plc has not been disposed of in accordance with the terms of the EU Restructuring Plan (for more information on the EU Restructuring Plan, please refer to www.bankofireland.com/investor-relations) and this may have an impact on the capital structure of the Group.

The changes proposed by the Basel Committee and the CRD IV consultation document relating to the definition of instruments that are eligible to be included within Core tier 1 capital and the other tiers of regulatory capital will have an impact on the capital and asset and liability management of the Group, which in turn will have an impact on the Group's results, financial condition and prospects.

Preparation and Basis of Consolidation

The Group's Pillar 3 disclosures are published on a consolidated basis for the twelve months ended 31 December 2010. The Group is availing of the discretion provided for in Article 70 of the CRD to report on a 'solo consolidation' basis which allows for the treatment of subsidiaries as if they were, in effect, branches of the parent in their own right.

Not all legal entities are within the scope of Pillar 3. Table 1.2 below illustrates differences between the basis of consolidation for accounting purposes and the Basel II regulatory treatment.

Table 1.2 – Basis of Consolidation		
Entity	Statutory Accounting Treatment	Basel II Regulatory Treatment
BOI Life	Fully Consolidated	90% of investment taken as a deduction to Total capital. Balance of the investment added to RWA.
Joint Ventures	Equity Accounting	For holdings >10% of Joint Venture's Total capital, deduction to Total capital for investment in excess of 10% of the Total capital of the Joint Venture (50% from Tier 1, 50% from Tier 2). Balance of investment added to RWA.
Associates	Equity Accounting	For holdings >10% of the associate's Total capital, deduction to Total capital for investment in excess of 10% of the Total capital of the associate (50% from Tier 1, 50% from Tier 2). Balance of the investment added to RWA.
Securitisation Vehicles	Fully Consolidated	First Loss deduction taken 50% from Tier 1 capital & 50% from Tier 2 capital for tranches retained in originated securitisations which have obtained Pillar 1 derecognition.

Distinctions between Pillar 3 and IFRS Quantitative Disclosures

There are two different types of table included in this document, those compiled based on accounting standards (sourced from the Group's Annual Report 31 December 2010) and those compiled using Basel II methodologies. Unless specified otherwise, both sets of data reflect the position as at 31 December 2010. The specific methodology used is indicated in each individual table.

It should be noted that there are fundamental differences in the basis of calculation between financial statement information based on IFRS accounting standards and Basel II Pillar 1 information based on regulatory capital adequacy concepts and rules. This 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 includes potential future drawings of committed credit lines whereas in the financial statements the Group's loans are recorded at fair value plus transaction costs when cash is advanced to the borrower. They are subsequently accounted for at amortised cost using the effective interest method and take no account of potential future drawings.

While some of the Pillar 3 quantitative disclosures based on Basel II methodologies overlap with quantitative disclosures in the Group's Annual Report 31 December 2010 in terms of disclosure topic covered, any comparison should bear these fundamental differences in mind.

The disclosures contained in this document have been reviewed internally, and this review is consistent with reviews undertaken for unaudited information published in the Group's Annual Report 31 December 2010.

2. Capital

The Group's approach to assessing the adequacy of its internal capital to support current and future activities is set out on page 145 of the Group's Annual Report 31 December 2010 under "Capital Management".

The Group uses the Foundation Internal Ratings Based (IRB) approach, IRB Retail and Standardised approaches for the calculation of its credit risk capital requirements.

The capital requirements for market risk are calculated using the Standardised approach applicable to market risk.

The capital requirements for operational risk are calculated using the Standardised approach applicable to operational risk.

There is a requirement to disclose any impediment to the prompt transfer of funds within the Group. In order to maintain capital and/or liquidity ratios at or above the levels set down by their regulators, the licensed subsidiaries would be unable to remit capital to the parent when to do so would result in such ratios being breached. Apart from this requirement there is no restriction on the prompt transfer of own funds or the repayment of liabilities between the subsidiary companies and the parent.

At 31 December 2010, the Group's actual own funds were not less than the required minimum in all subsidiaries not included in consolidation.

Capital Requirements

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

Table 2.1 – Capital Requirements				
		31 December 2010		31 December 2009
		€m		€m
Credit Risk & Counterparty Risk of which		5,512		7,070
IRB		4,049		3,113
of which	Central Government or Central Banks			
	Institutions	214		249
	Corporates	3,065		1,953
	Retail:			
	Exposures secured by real estate collateral	474		607
	Qualifying revolving retail exposures	46		59
	Other retail exposures	189		155
	Securitisation position	61		90
Standardised		1,463		3,957
of which	Central Government or Central Banks	-		-
	Regional Government or Local Authorities	-		-
	Administrative bodies & non-commercial undertakings	1		2
	Multilateral Development banks	-		-
	International Organisations	-		-
	Institutions	-		-
	Corporates	915		3,140
	Retail	138		176
	Secured by real estate property	-		-
	Past Due items	365		598
	Items belonging to regulatory high risk categories	3		3
	Covered Bonds	-		-
	Short term claims on institutions and corporates	37		35
	Collective Investment Undertakings	-		-
	Others items	4		3
	Securitisation Positions	-		-
Market Risk		157		171
of which	FX	7		14
Operational Risk		454		513
Other Assets		200		113
Total Capital Requirements (excluding transitional floor)		6,323		7,867

Since the Group began calculating its capital requirements under Basel II from 1 January 2008, there has been a Central Bank requirement to maintain a transitional floor. The transitional floor capital requirement, which is based on a percentage of what the Group's capital requirement requirements would have been pre Basel II, was €386 million at 31 December 2010 and €401 million at 31 December 2009.

During the twelve month period ended 31 December 2010 a number of loan portfolios received regulatory approval for IRB treatment. Capital requirements on these models had been calculated under the Standardised approach at 31 December 2009. Consequently there has been an increase in capital requirements calculated under IRB and a decrease in the capital requirements calculated under Standardised.

Breakdown of the Group's Regulatory Capital Requirement

At 31 December 2010, the Group applied the Foundation IRB and IRB Retail approaches to 75% (66% at 31 December 2009) of its credit exposures which resulted in 73% of credit RWA being based on IRB approaches (44% at 31 December 2009).

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

Risk Type	31 December 2010			31 December 2009		
	Capital Requirement	Risk Weighted Assets	Exposure at Default	Capital Requirement	Risk Weighted Assets	Exposure at Default
	€m	€m	€m	€m	€m	€m
Standardised Approach	1,463	18,288	41,992	3,957	49,458	59,633
Retail & Foundation IRB Approach	4,049	50,613	126,472	3,113	38,920	113,936
Market Risk	157	1,964	-	171	2,133	-
Operational Risk	454	5,678	-	513	6,415	-
Other Assets	200	2,502	-	113	1,407	-
Total	6,323	79,045	168,464	7,867	98,333	173,569

The EAD under the IRB approach at 31 December 2010 includes defaulted exposures of €8.9 billion (31 December 2009 €5.3 billion) which attracts a 0% risk weighting.

Standardised EAD includes €10 billion exposure to central banks in relation to funding repurchase agreements which attract a 0% risk weighting.

Credit RWA (Standardised approach and IRB approaches) at 31 December 2010 of €68.9 billion are €19.5 billion lower than Credit RWA of €88.4 billion at 31 December 2009. This decrease is mainly due to a reduction in the quantum of loans and advances to customers, the impact of the sale of loans to NAMA during the twelve month period ended 31 December 2010, the impact of the higher level of impaired loans and the increased impairment provisions at 31 December 2010 as compared to 31 December 2009 together with a series of RWA optimisation initiatives and credit risk mitigation partly offset by the impact of a stronger sterling exchange rate.

During the twelve month period ended 31 December 2010 a number of loan portfolios received regulatory approval for IRB treatment. Capital requirements on these models had been calculated under the Standardised approach at 31 December 2009. Consequently there has been an increase in capital requirements calculated under IRB and a decrease in the capital requirements calculated under Standardised.

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

Other Assets have increased during the period primarily due to deferred tax assets.

Capital Resources

Table 2.3 sets out the Group's capital position as at 31 December 2010. This table shows the amount and type of regulatory capital the Group held at that date to meet its capital requirements.

Summary information on the Group's capital resources and components thereof can be found in the Group's Annual Report 31 December 2010 on page 149 Regulatory capital and key capital ratios, in Note 41 Subordinated liabilities on page 265 and in Note 47 Capital stock on page 277.

Table 2.3 – Capital Resources					
		31 December 2010		31 December 2009	
Tier 1 Capital		€m	€m	€m	€m
Share capital and reserves			7,407		6,437
Regulatory retirement benefit obligation adjustments			424		1,632
Available-for-sale revaluation reserve and cash flow hedging reserve			1,063		1,118
Goodwill and other intangibles			(435)		(488)
1992 Preference Stock			(60)		(59)
2009 Preference Stock			(1,817)		(3,462)
Other adjustments			(782)		80
Equity Tier 1 Capital			5,800		5,258
1992 Preference Stock			60		59
2009 Preference Stock			1,817		3,462
Core Tier 1 Capital			7,677		8,779
Hybrid Debt (undated, without incentive to redeem)			299		752
Hybrid Debt (dated or incentive to redeem)			280		574
Supervisory deductions			(580)		(454)
<i>of which:</i>					
	Unconsolidated Investments Deduction	(46)		(40)	
	First Loss Deduction	(80)		(71)	
	Expected Loss Deduction	(454)		(343)	
Total Tier 1 Capital			7,676		9,651
Tier 2 Capital					
Undated loan capital			183		225
Dated loan capital			2,018		3,716
IBNR Provisions			174		772
Revaluation Reserves			14		40
Supervisory deductions			(580)		(454)
<i>of which:</i>					
	Unconsolidated Investments Deduction	(46)		(40)	
	First Loss Deduction	(80)		(71)	
	Expected Loss Deduction	(454)		(343)	
Other adjustment			54		11
Total Tier 2 Capital			1,863		4,310
Total Tier 1 and Tier 2 Capital			9,539		13,961
Supervisory deduction - Life business			(816)		(797)
Total Capital			8,723		13,164

For more information of the components of the Group's capital structure please refer to Appendix II

Key movements in Capital Resources are as follows.

Share capital and reserves increased by €970 million to €7,407 million at 31 December 2010 primarily reflecting the capital raised in 2010 through a rights issue and a private placing which generated a net impact on stockholders equity (excluding amounts recognised in the income statement) of €1,006 million, actuarial gains on defined benefit pension schemes of €391m, positive movements in the foreign exchange reserve of €157 million offset by the loss for the period attributable to stockholders of €614 million (including gains on subordinated liability management exercises completed during the year of €1,402 million).

The retirement benefit obligation adjustment declined by €1,208 million during 2010 reflecting a decrease in the Group's defined benefit pension deficit. The deficit declined following a number of amendments that were made to the underlying schemes including limits being placed on future increases in members' pensionable salaries, limits being placed on future levels of discretionary pension increases, reductions being applied to guaranteed pension increases and the introduction of certain members contributions which were previously non-contributory. The total income statement impact of these amendments, net of directly related expenses, amounted to a gain of €733 million. The deficit also declined due to actuarial gains recognised during the period.

The decline in the 2009 Preference Stock reflects the conversion by the NPRFC of part of its holding in the 2009 Preference Stock into ordinary stock as part of the 2010 Capital Raise. The Warrants were also cancelled as part of the transaction.

"Other adjustments" in Equity tier 1 capital primarily represent the reversal of the cumulative gains recognised from the change in credit spreads relating to the Group's liabilities designated at fair value through profit or loss, the regulatory accrual for the dividend payable on the 2009 Preference Stock and a regulatory deduction for supplementary contributions in relation to the Bank's defined benefit pension schemes.

Hybrid debt (dated and undated) and loan capital (dated and undated) have decreased during 2010 as a result of the liability management exercises completed during the year.

IBNR provisions on standardised portfolios declined during 2010 largely reflecting the transfer of assets to NAMA, the transition of certain portfolios to the IRB approach as well as a decrease in the total stock of IBNR provisions, this is further outlined in Table 4.17.

3. Risk Management

The Group follows an integrated approach to risk management to ensure that all material classes of risk are taken into account and that its risk management and capital management strategies are aligned with its overall business strategy. The Group has identified the following key risks: credit risk, liquidity risk, market risk, operational risk, pension risk, business and strategic risk, life insurance risk, model risk, reputation risk and regulatory risk. An introduction to the Group's assessment of its capital requirements for credit risk, market risk and operational risk are outlined below while detail regarding how these, and other risks are identified, managed, measured and mitigated is provided in the Risk Management section from page 89 of the Group's Annual Report 31 December 2010.

The Group's risk objectives are set out in the Risk Strategy and Appetite section on page 101 of the Group's Annual Report 31 December 2010.

Credit Risk

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

At 31 December 2010, the Group applied the Foundation IRB and IRB Retail approaches to 75% (66% at 31 December 2009) of its group exposures which resulted in 73% of credit risk weighted assets (RWA) being based on IRB approaches (44% at 31 December 2009). The movement in EAD in the year between the Standardised and IRB approaches is primarily driven by Central Bank approval for additional IRB models in May 2010.

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.

Market Risk

The Group generates market risk in the normal course of its banking business and this risk is substantially mitigated with external counterparties. The Group engages to a limited extent in proprietary risk-taking, but does not seek to generate a material proportion of its earnings from this activity and has a low tolerance for earnings volatility arising from trading risk.

The management of market risk in the Group is governed by "high level principles" approved by the Court and a detailed statement of policy approved by the Group Risk Policy Committee. Discretionary market risk is subject to strict controls which set out the markets and instruments in which risk can be assumed, the types of positions which can be taken and the limits which must be complied with. The Group employs a VaR approach to measure, and set limits for, proprietary market risk-taking in Bank of Ireland Global Markets. This is supplemented by a range of other measures including stress tests.

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

Operational Risk

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

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

Risk Management Structure and Organisation

Responsibilities for risk management extend throughout the organisation. Details of the risk governance structure, including risk committees, is set out on pages 99-100 of the Group's Annual Report 31 December 2010.

4. Credit Risk

Credit risk is defined as the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. The core values and principles governing credit risk are contained in the Group's Credit Policy. Further detail regarding this policy and strategies and processes by which credit risk is managed are included in the Credit Risk Management section from page 104 of the Group's Annual Report 31 December 2010.

The Group seeks to ensure that adequate up to date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio. Detail on the schedule and content of credit risk reporting is provided under the heading "Credit Reporting/Monitoring" on page 106 of the Group's Annual Report 31 December 2010. Disclosures relating to the active monitoring of credit risk are also included in this section. The processes by which credit risk is assessed and measured are set out in the Credit Risk Assessment and Measurement section on page 109 of the Group's Annual Report 31 December 2010.

Credit Risk Mitigation for Risk Management Purposes

Hedging and mitigation of credit risk for risk management purposes is covered in the Group's credit risk policies. The Group 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, securitisation, hedging). Further detail on credit risk mitigation for risk management purposes is contained on page 110 of the Group's Annual Report 31 December 2010.

Credit Risk Mitigation for Capital Requirements Calculation

For Retail IRB exposures the effect of credit risk mitigation, principally the collateral taken to secure loans, is taken into account in the development of the Group's Loss Given Default (LGD) models, which in turn are used in the calculation of the Group's regulatory capital requirements.

For non-retail Foundation IRB exposures (corporate and commercial lending) Supervisory LGDs are used for minimum capital requirements calculation purposes as is required under the CRD. These Supervisory LGDs are either applied directly to obligors, or the Supervisory LGD is reduced through the recognition of the risk-mitigating impact of qualifying collateral held as security.

Under the IRB approach, depending on the type of credit risk mitigation applied, Probability of Default (PD) or LGD may be impacted. The Group does not apply credit risk mitigation to the calculation of EAD, therefore the amounts shown in the tables below, which are based on EAD, do not change following the application of credit risk mitigation.

Under the Standardised approach, credit risk mitigation impacts on the risk weight which is then subsequently applied to the exposure amount to derive the capital requirement. Therefore, the EAD amounts shown in the Standardised tables below do not alter following the application of credit risk mitigation.

Further information on credit risk mitigation is provided in the Credit Risk Mitigation section below.

Maximum Exposure to Credit Risk

Tables 4.1 and 4.2 are based on EAD and show the Group's point-in-time and average maximum exposure to credit risk. The average exposures for 31 December 2010 are calculated based on the period from 1 January 2010 to 31 December 2010. The average exposures for 31 December 2009 are calculated based on the period from 1 April 2009 to 31 December 2009 (9 months).

Table 4.1 – Maximum Exposure to Credit Risk : IRB Approach				
IRB Exposure Class	31 December 2010		31 December 2009	
	Total Exposure (EAD) €m	Average Exposures over the year (EAD) €m	Total Exposure (EAD) €m	Average Exposures over the year (EAD) €m
Institutions	17,440	19,651	23,051	24,375
Corporates	45,349	43,829	28,017	27,546
Retail	62,277	62,676	61,358	61,733
Securitisation Positions	1,406	1,470	1,510	1,512
Total	126,472	127,626	113,936	115,166

Table 4.2 – Maximum Exposure to Credit Risk : Standardised Approach				
Standardised Exposure Class	31 December 2010		31 December 2009	
	Total Exposure (EAD) €m	Average Exposures over the year (EAD) €m	Total Exposure (EAD) €m	Average Exposures over the year (EAD) €m
Central governments or central banks	23,314	15,900	10,588	11,623
Administrative bodies and non-commercial undertakings	17	18	20	21
Corporates	12,273	20,947	39,902	44,734
Retail	2,304	2,644	2,948	3,784
Past due items	3,546	5,465	5,665	4,590
Items belonging to regulatory high risk categories	27	25	25	24
Short term claims on institutions and corporates	462	433	445	556
Other items	49	154	40	38
Total	41,992	45,586	59,633	65,370

The fall in the IRB Institutions exposure class reflects a rebalancing of the Group's liquid asset portfolio, as maturing bank bonds were replaced with senior NAMA bonds.

The increase in Standardised Central Government exposure is attributable to the receipt of €5.1 billion of government guaranteed senior NAMA bonds as consideration for the transfer of NAMA eligible assets, an increase in EAD arising from funding repurchase transactions with Monetary Authorities and the Central Bank and an increase in government bond holdings. Central government and central banks exposure includes €10 billion in relation to funding repurchase agreements.

Past due items exposures under the Standardised approach has declined during the period largely reflecting the transfer of assets to NAMA and also as a result of certain portfolios transitioning to the IRB approach.

Geographic Analysis of Exposures

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

Table 4.3 – Geographic Analysis of Exposure : IRB Approach						
IRB Exposure Class	31 December 2010			31 December 2009		
	Ireland (EAD) €m	UK & Other (EAD) €m	Total (EAD) €m	Ireland (EAD) €m	UK & Other (EAD) €m	Total (EAD) €m
Institutions	16,783	657	17,440	23,014	37	23,051
Corporates	33,726	11,623	45,349	17,617	10,400	28,017
Retail	31,545	30,732	62,277	31,080	30,278	61,358
Securitisation Positions	1,304	102	1,406	1,411	99	1,510
Total	83,358	43,114	126,472	73,122	40,814	113,936

Table 4.4 – Geographic Analysis of Exposure : Standardised Approach						
Standardised Exposure Class	31 December 2010			31 December 2009		
	Ireland (EAD) €m	UK & Other (EAD) €m	Total (EAD) €m	Ireland (EAD) €m	UK & Other (EAD) €m	Total (EAD) €m
Central governments or central banks	22,761	553	23,314	10,588	-	10,588
Administrative bodies and non-commercial undertakings	17	-	17	20	-	20
Corporates	8,834	3,439	12,273	31,978	7,924	39,902
Retail	863	1,441	2,304	1,230	1,718	2,948
Past due items	2,489	1,057	3,546	4,282	1,383	5,665
Items belonging to regulatory high risk categories	27	-	27	25	-	25
Short term claims on institutions and corporates	264	198	462	417	28	445
Other items	49	-	49	40	-	40
Total	35,304	6,688	41,992	48,580	11,053	59,633

Industry Analysis of Exposures

Tables 4.5 and 4.6 are based on EAD. The industry classification below is based on the purpose of the loan. Similar industry headings to those in the industry analysis contained in the Group's Annual Report 31 December 2010 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 2010 and exposures are thus classified using a different methodology.

Table 4.5 – Industry Analysis of Exposures : IRB Approach

IRB Exposure Class	31 December 2010											
	Agriculture (EAD) €m	Business & Other Services (EAD) €m	Central & Local Govt. (EAD) €m	Construction & Property (EAD) €m	Distribution (EAD) €m	Energy (EAD) €m	Financial (EAD) €m	Manufacturing (EAD) €m	Transport (EAD) €m	Personal Other (EAD) €m	Personal Residential Mortgages (EAD) €m	Total (EAD) €m
Institutions	-	-	-	-	-	-	17,440	-	-	-	-	17,440
Corporates	758	9,790	203	19,147	3,217	1,343	2,416	5,948	1,483	1,001	43	45,349
Retail	557	562	-	235	236	2	-	89	-	3,433	57,163	62,277
Securitisation Positions	-	688	-	-	-	24	16	-	-	517	161	1,406
Total	1,315	11,040	203	19,382	3,453	1,369	19,872	6,037	1,483	4,951	57,367	126,472
IRB Exposure Class	31 December 2009											
Institutions	8	370	2	70	1	-	22,600	-	-	-	-	23,051
Corporates	216	4,454	119	19,087	1,477	1	654	626	251	1,086	46	28,017
Retail	410	331	1	155	156	1	9	52	30	5,678	54,535	61,358
Securitisation Positions	-	717	-	-	-	23	17	-	-	596	157	1,510
Total	634	5,872	122	19,312	1,634	25	23,280	678	281	7,360	54,738	113,936

Table 4.6 – Industry Analysis of Exposures : Standardised Approach

Standardised Exposure Class	31 December 2010											
	Agriculture (EAD) €m	Business & Other Services (EAD) €m	Central & Local Govt. (EAD) €m	Construction & Property (EAD) €m	Distribution (EAD) €m	Energy (EAD) €m	Financial (EAD) €m	Manufacturing (EAD) €m	Transport (EAD) €m	Personal Other (EAD) €m	Personal Residential Mortgages (EAD) €m	Total (EAD) €m
Central governments or central banks	-	-	23,314	-	-	-	-	-	-	-	-	23,314
Administrative bodies and non-commercial undertakings	-	-	-	-	17	-	-	-	-	-	-	17
Corporates	477	2,490	-	3,917	642	14	1,009	1,094	913	1,709	8	12,273
Retail	138	162	-	66	298	4	11	67	55	1,502	1	2,304
Past due items	64	288	-	2,506	60	3	4	19	37	562	3	3,546
Items belonging to regulatory high risk categories	-	-	-	-	-	-	27	-	-	-	-	27
Short term claims on institutions and corporates	22	83	-	132	27	-	142	19	6	31	-	462
Other items	-	-	-	-	-	-	46	2	1	-	-	49
Total	701	3,023	23,314	6,621	1,044	21	1,239	1,201	1,012	3,804	12	41,992
Standardised Credit Risk Exposure Class	31 December 2009											
Central governments or central banks	-	-	10,588	-	-	-	-	-	-	-	-	10,588
Administrative bodies and non-commercial undertakings	-	-	-	-	20	-	-	-	-	-	-	20
Corporates	676	7,262	50	12,739	2,603	1,371	1,668	8,329	3,089	2,089	26	39,902
Retail	90	465	9	110	102	3	18	109	71	1,969	2	2,948
Past due items	39	407	-	4,501	197	15	2	167	18	242	77	5,665
Items belonging to regulatory high risk categories	-	-	-	-	-	-	25	-	-	-	-	25
Short term claims on institutions and corporates	32	68	13	172	39	2	12	30	42	35	-	445
Other items	-	-	-	-	-	-	35	4	1	-	-	40
Total Standardised	837	8,202	10,660	17,522	2,961	1,391	1,760	8,639	3,221	4,335	105	59,633

Maturity Analysis of Exposures

The maturity analysis below discloses the Group's 1 credit exposure by residual contractual maturity date. Tables 4.7 and 4.8 are based on EAD.

Table 4.7 – Maturity Analysis of Exposure : IRB Approach								
IRB Exposure Class	31 December 2010				31 December 2009			
	<1 year (EAD) €m	1-5 years (EAD) €m	>5 years (EAD) €m	Total (EAD) €m	<1 year (EAD) €m	1-5 years (EAD) €m	>5 years (EAD) €m	Total (EAD) €m
Institutions	7,572	5,130	4,738	17,440	7,982	11,186	3,883	23,051
Corporates	9,113	20,275	15,961	45,349	6,648	10,275	11,094	28,017
Retail	5,526	11,421	45,330	62,277	3,269	2,989	55,100	61,358
Securitisation Positions	-	330	1,076	1,406	-	267	1,243	1,510
Total	22,211	37,156	67,105	126,472	17,899	24,717	71,320	113,936

Table 4.8 – Maturity Analysis of Exposures : Standardised Approach								
Standardised Credit Risk Exposure Class	31 December 2010				31 December 2009			
	<1 year (EAD) €m	1-5 years (EAD) €m	>5 years (EAD) €m	Total (EAD) €m	<1 year (EAD) €m	1-5 years (EAD) €m	>5 years (EAD) €m	Total (EAD) €m
Central governments or central banks	19,307	2,663	1,344	23,314	6,180	4,206	202	10,588
Administrative bodies and non-commercial undertakings	-	17	-	17	-	-	20	20
Corporates	3,930	4,994	3,349	12,273	9,226	17,998	12,678	39,902
Retail	627	1,642	35	2,304	655	2,222	71	2,948
Past due items	2,512	446	588	3,546	3,667	761	1,237	5,665
Items belonging to regulatory high risk categories	-	-	27	27	-	-	25	25
Short term claims on institutions and corporates	462	-	-	462	445	-	-	445
Other items	-	-	49	49	-	-	40	40
Total	26,838	9,762	5,392	41,992	20,173	25,187	14,273	59,633

IRB Approach – Asset Quality

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

Regulatory Approval of Approach

The Bank of Ireland Group has regulatory approval to use its internal credit models in the calculation of its capital requirements for 75% of its exposures which results in 73% of credit RWA being calculated using internal credit models. This approval covers the adoption of the Foundation IRB approach for non-retail exposures and the Retail IRB approach for retail exposures.

The Structure of Internal Rating Systems

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

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

PD Calculation

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

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

Non-Retail Internal Rating Systems

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

To calculate PD, the Group assesses the credit quality of borrowers and other counterparties using criteria particular to the type of borrower under consideration. With the exception of the Institutions IRB exposure class, these criteria do not include external ratings. External credit agency ratings are a significant component of the Group's rating of Institutions.

For exposures other than to Institutions, external ratings, when available for borrowers, play a role in the independent validation of internal estimates.

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

Retail Internal Rating Systems

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

For retail exposures, the Group calculates PD on a single cyclical basis. These estimates are used for both the calculation of risk-weighted exposure amounts and for internal credit management purposes.

To calculate LGD and CCF, the Group assesses the nature of the transaction and underlying collateral. Both LGD and CCF estimates are calibrated to produce estimates of behaviour characteristic of an economic downturn.

Other uses of Internal Estimates

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

- Internal Reporting
- Credit Management
- Calculation of risk adjusted return on economic capital (RARoC)
- Credit Decisioning / Automated Credit Decisioning
- Borrower Credit Approval
- Internal Capital Allocation between businesses of the Group

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

Association of PD Grades with External Ratings

Table 4.9 illustrates the relationship between PD grade, PD band and S&P type ratings. PD is used in the RWA calculation for IRB purposes. These PD grades differ from internal obligor grades which are used in arriving at IFRS 7 classifications, however there is a defined relationship between both sets of grades. Further information on obligor grades can be found on page 114 of the Group's Annual Report 31 December 2010.

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

Control Mechanisms for Rating Systems

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

A sub-committee of the Group Risk Policy Committee (GRPC), the Risk Measurement Committee (RMC), approves all risk rating models, model developments, model implementations and all associated policies. The Group mitigates model risk through four lines of defence as follows:

1. *Model Development Standards:* The Group adopts centralised standards and methodologies over the operation and development of models. The Group has specific policies on documentation, data quality and management, conservatism and validation. This mitigates model risk at model inception.
2. *Model Performance Monitoring:* All models are subject to testing on a quarterly basis. The findings are reported to, and appropriate actions, where necessary, approved by RMC.
3. *Independent Validation:* All models are subject to in-depth analysis at least annually. This analysis is carried out by a dedicated unit (the Independent Control Unit – ICU) which is part of Group Internal Audit and provides reports directly to the RMC. It is independent of credit origination and management functions. The ICU's report is considered by the RMC in approving models for use in the business and for capital requirements calculations.
4. *Group Internal Audit (GIA):* GIA, separately and distinct from the work carried out by the ICU, regularly reviews the risk control framework including policies and standards to ensure that these are being adhered to, meet industry

good practices and are compliant with regulatory requirements. The ICU function is independently audited on an annual basis.

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

The Internal Ratings Process by Exposure Class

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

— Institutions

Institutions are rated by a single dedicated model. This model incorporates an internally-built scorecard, explicit use of external credit agency assessments and expert credit opinion. The output from this model is a single PD estimate that is fully TtC.

— Corporate

Corporate entities, including SMEs and specialised lending are rated using a number of models. This suite of models typically incorporates scorecard-based calibrated PD outputs (both TtC and cyclical PD estimates).

The Group does not rate purchased corporate receivables under the IRB approach.

— Retail

Retail exposures, including retail SME, retail Real Estate, and Qualifying Revolving Retail exposures, are rated on a number of models based on application and behavioural data that is then calibrated to a PD. This PD estimate typically varies with the economic cycle.

The Group also generates LGD and CCF estimates for its retail exposures. These estimates are calibrated to produce estimates of behaviour characteristic of an economic downturn. These estimates do not vary with the economic cycle.

Securitised positions are dealt with in the section on Securitisation below.

Analysis of Credit Quality for Institutions and Corporates IRB exposure classes

Table 4.10 is based on EAD and shows the breakdown of the IRB Institutions and Corporates exposure classes by PD Grade.

Table 4.10 – Analysis of Credit Quality for Foundation IRB exposure classes								
PD Grade	31 December 2010				31 December 2009			
	Institutions		Corporates		Institutions		Corporates	
	Total Exposures (EAD) €m	Exposure-weighted Average Risk Weight %	Total Exposures (EAD) €m	Exposure-weighted Average Risk Weight %	Total Exposures (EAD) €m	Exposure-weighted Average Risk Weight %	Total Exposures (EAD) €m	Exposure-weighted Average Risk Weight %
1 – 4	16,174	12%	6,365	27%	22,880	13%	3,972	24%
5 – 7	902	47%	15,326	86%	127	84%	9,135	83%
8 – 9	161	105%	11,757	116%	20	121%	8,377	112%
10 – 11	48	281%	6,654	147%	13	223%	3,893	163%
Default	155	-	5,247	-	11	-	2,640	-
Total	17,440	15%	45,349	84%	23,051	14%	28,017	87%

Analysis of Credit Quality – IRB Retail

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

Table 4.11 – Analysis of Credit Quality of IRB Retail sub-exposure classes										
PD Grade	31 December 2010					31 December 2009				
	Total Exposures (EAD)	Exposure-weighted Average Risk Weight	Exposure-weighted Average LGD	Amount of Undrawn Commitments	Weighted Average CCF	Total Exposures (EAD)	Exposure-weighted Average Risk Weight	Exposure-weighted Average LGD	Amount of Undrawn Commitments	Weighted Average CCF
	€m	%	%	€m	%	€m	%	%	€m	%
Qualifying Revolving										
1 – 4	317	4%	40%	707	33%	216	9%	68%	502	33%
5 – 7	851	13%	47%	1,434	38%	733	19%	62%	1,685	23%
8 – 9	292	35%	48%	262	45%	307	43%	59%	302	27%
10 – 11	394	89%	45%	252	39%	347	131%	59%	298	19%
Default	175	-	47%	16	45%	143	-	62%	13	37%
Total	2,029	29%	46%	2,671	37%	1,746	43%	62%	2,800	25%
Real Estate										
1 – 4	20,406	3%	10%	408	46%	11,517	3%	10%	589	39%
5 – 7	24,273	10%	10%	770	56%	27,840	11%	10%	796	38%
8 – 9	5,395	21%	10%	31	74%	11,648	21%	10%	40	25%
10 – 11	4,353	42%	10%	18	64%	3,665	43%	10%	23	61%
Default	2,736	-	10%	-	91%	2,011	-	10%	1	70%
Total	57,163	10%	10%	1,227	53%	56,681	14%	10%	1,449	38%
Other Retail										
1 – 4	26	19%	43%	53	41%	62	15%	36%	94	64%
5 – 7	295	48%	59%	395	48%	474	38%	43%	324	69%
8 – 9	1,170	91%	63%	85	59%	1,128	80%	56%	76	79%
10 – 11	983	116%	64%	50	64%	806	104%	56%	50	82%
Default	611	-	67%	6	58%	461	-	54%	5	79%
Total	3,085	76%	63%	589	51%	2,931	66%	53%	549	71%

Obligor credit grades are based primarily on account arrears performance. PD grades, while partly driven by arrears, behaviour status and history, are also derived from other obligor and transaction characteristics such as loan-to-value ratios, employment type, etc.

Standardised Approach – Asset Quality

The Standardised approach applies where exposures do not qualify for use of an IRB approach and/or where an exemption from IRB has been granted. It is less sophisticated than the IRB approach for regulatory capital calculations. Under this approach credit risk is measured by applying risk weights outlined in the CRD based on the exposure class to which the exposure is allocated.

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.

The Group uses Fitch Ratings, Moody's Investors Service and Standard & Poor's as its nominated ECAIs for its sovereign exposures and applies the mapping tables published by the Central Bank to map these ECAI ratings to credit quality steps and then risk weights. The Group has not nominated any ECA.

Standardised Approach – Analysis of Credit Quality

Exposure values in Table 4.12 are broken down by risk weight.

Table 4.12 – Analysis of Credit Quality : Standardised Approach								
31 December 2010								
Risk Weight	Central Governments or Central Banks (EAD) €m	Administrative Bodies and Non-Commercial Undertakings (EAD) €m	Corporate (EAD) €m	Retail (EAD) €m	Past Due Items (EAD) €m	Items belonging to Regulatory High Risk Categories (EAD) €m	Short Term claims on Institutions and Corporates (EAD) €m	Other (EAD) €m
0%	23,314	-	-	-	-	-	-	-
10%	-	-	-	-	-	-	-	-
20%	-	-	510	14	1	-	-	-
35%	-	-	-	-	-	-	-	-
50%	-	-	37	-	-	-	-	-
75%	-	-	1,822	2,290	-	-	39	-
100%	-	17	9,814	-	1,519	-	411	49
150%	-	-	90	-	2,026	27	12	-
200%	-	-	-	-	-	-	-	-
Deducted	-	-	-	-	-	-	-	-
Total	23,314	17	12,273	2,304	3,546	27	462	49

Table 4.12 – Analysis of Credit Quality : Standardised Approach

31 December 2009								
Risk Weight	Central Governments or Central Banks (EAD) €m	Administrative Bodies and Non-Commercial Undertakings (EAD) €m	Corporate (EAD) €m	Retail (EAD) €m	Past Due Items (EAD) €m	Items belonging to Regulatory High Risk Categories (EAD) €m	Short Term claims on Institutions and Corporates (EAD) €m	Other (EAD) €m
0%	10,588	-	-	-	-	-	-	-
10%	-	-	-	-	-	-	-	-
20%	-	-	13	15	1	-	-	-
35%	-	-	-	-	-	-	-	-
50%	-	-	35	-	-	-	-	-
75%	-	-	3,045	2,933	-	-	64	-
100%	-	20	36,541	-	2,042	-	368	40
150%	-	-	268	-	3,622	25	13	-
200%	-	-	-	-	-	-	-	-
Deducted	-	-	-	-	-	-	-	-
Total	10,588	20	39,902	2,948	5,665	25	445	40

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.

Loan Loss Experience in the year to 31 December 2010

A discussion on the factors which impacted the loan loss experience in the year to 31 December 2010 is included in the Risk Management section of the Group’s Annual Report 31 December 2010 (Challenging Economic Environment on page 92, Credit Risk on page 93 and Asset Quality – Financial Assets from page 114).

Past Due and Impaired Exposures

Past due exposures are loans where repayment and/or principle are overdue by at least one day but which are not impaired.

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

For additional information on past due and impaired exposures please refer to page 114 of the Group’s Annual Report 31 December 2010.

Past Due and Impaired Exposures by Industry

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

Table 4.13 – Past Due and Impaired Exposures by Industry						
Industry Class	31 December 2010			31 December 2009		
	Past Due Exposures €m	Impaired Exposures €m	Total €m	Past Due Exposures €m	Impaired Exposures €m	Total €m
Personal	3,823	1,448	5,271	3,622	897	4,519
- Residential Mortgages	3,614	1,077	4,691	3,369	471	3,840
- Other	209	371	580	253	426	679
Property & Construction	1,590	6,279	7,869	1,183	9,648	10,831
Business & Other Services	268	1,804	2,072	376	1,394	1,770
Manufacturing	28	535	563	31	660	691
Distribution	127	700	827	141	435	576
Transport	8	151	159	6	63	69
Financial	2	299	301	9	115	124
Agriculture	57	145	202	63	130	193
Energy	-	23	23	1	9	10
Total	5,903	11,384	17,287	5,432	13,351	18,783

Past Due and Impaired Exposures by Geography

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

Table 4.14 – Past Due and Impaired Exposure by Geography						
Geographic Breakdown	31 December 2010			31 December 2009		
	Past Due Exposures €m	Impaired Exposures €m	Total €m	Past Due Exposures €m	Impaired Exposures €m	Total €m
Ireland	2,451	7,796	10,247	2,736	10,182	12,918
United Kingdom & Other	3,452	3,588	7,040	2,696	3,169	5,865
Total	5,903	11,384	17,287	5,432	13,351	18,783

Provisioning

The Loan Loss provisioning methodology used by the Group is set out on page 111 of the Group's Annual Report 31 December 2010. This includes:

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

Provisions by Industry and Geography

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

Table 4.15 – Provisions by Industry						
Industry Analysis	31 December 2010			31 December 2009		
	Total Specific Provisions €m	Specific Provision Charges €m	Amounts Written Off €m	Total Specific Provisions €m	Specific Provision Charges €m	Amounts Written Off €m
Personal	703	469	246	473	280	105
- Residential Mortgages	440	326	44	167	118	29
- Other	263	143	202	306	162	76
Property & Construction	2,286	1,353	201	3,177	2,562	1
Business & Other Services	715	385	98	493	306	24
Manufacturing	194	87	141	250	159	1
Distribution	289	126	40	179	141	14
Agriculture	44	17	8	30	16	-
Energy	8	-	-	10	-	-
Total	4,239	2,437	734	4,612	3,464	145

Table 4.16 shows the Group's provisions on loans and advances to customers split between specific and IBNR provisions on a geographic basis. It is based on financial statement information.

Table 4.16 – Provisions by Geography				
Geographic Breakdown	31 December 2010		31 December 2009	
	Specific Provisions €m	IBNR Provisions €m	Specific Provisions €m	IBNR Provisions €m
Ireland	3,015	535	3517	777
United Kingdom & Other	1,224	276	1095	386
Total	4,239	811	4,612	1,163

Provisions by Provision Type

Table 4.17 shows the Group's provisions against loans and advances to customers split between specific and IBNR provisions. It is based on financial statement information.

Table 4.17 – Provision by Provision Type				
	31 December 2010		31 December 2009	
	Total Balance Sheet Provisions €m	Provision Charges €m	Total Balance Sheet Provisions €m	Provision Charges €m
Total Specific Provisions	4,239	2,437	4,612	3,464
Total IBNR Provisions	811	(321)	1,163	591
Total Group Provisions	5,050	2,116	5,775	4,055

Provisioning Charges during the Period

Table 4.18 below shows the movement in the provision on loans and advances to customers during the twelve month period ended 31 December 2010. It is based on financial statement information.

Table 4.18 – Provisioning Charges during the Period		
Reconciliation	31 December 2010	31 December 2009
	Provisions €m	Provisions €m
Opening Balance	5,775	1,781
Amount charged during the period	2,116	4,055
Amounts reversed, set aside and other adjustments	(2,841)	(61)
<i>Of which recoveries recorded directly to income statement</i>	5	3
Closing Balance	5,050	5,775

Included in 'Amounts reversed, set aside and other adjustments' is the release of €2.2 billion of balance sheet provisions against loans which were transferred to NAMA during the period.

Credit Risk Mitigation

The Credit Risk section commencing on page 104 of the Group's Annual Report 31 December 2010 contains information relating to:

- on- and off-balance sheet netting;
- the policies and processes for collateral valuation and management;
- a description of the main types of collateral taken by the Group;
- market or credit risk concentrations within the credit mitigation taken; and
- the use of credit derivatives.

Collateral used to mitigate risk, both for mortgage and other lending is diversified.

The main types of guarantors are corporates, individuals, financial institutions and sovereigns. Their credit-worthiness is assessed on a case-by-case basis.

Credit Risk Mitigation for Regulatory Capital Requirements Calculation

Tables 4.19 and 4.20 show the volume of exposures against which collateral and guarantees, which have been used in the calculation of the Group's capital requirements, are held. The focus of these tables is narrow, being limited to certain specific types of collateral and guarantees which meet CRD definitions. These tables are not reflective of the volume of exposures against which collateral and guarantees are actually held across the Group, nor do they reflect the range of credit risk mitigation taken. The increase in the volume of Foundation IRB exposures secured by collateral follows a CRM initiative incorporating a review and revaluation of property collateral. The information in tables 4.19 and 4.20 is based on EAD (after the application of netting and volatility adjustments).

Table 4.19 – Credit Risk Mitigation : IRB Approach

IRB Exposure Class	31 December 2010				31 December 2009			
	Covered by Eligible Financial Collateral (EAD) €m	Covered by Other Eligible Collateral (EAD) €m	Covered by Guarantees / Credit Derivatives (EAD) m	Total (EAD) €m	Covered by Eligible Financial Collateral (EAD) €m	Covered by Other Eligible Collateral (EAD) €m	Covered by Guarantees / Credit Derivatives (EAD) €m	Total (EAD) €m
Institutions	1	11	-	12	-	3	-	3
Corporates	47	10,215	-	10,262	8	2,129	-	2,137
Total	48	10,226	-	10,274	8	2,132	-	2,140

Table 4.20 – Credit Risk Mitigation : Standardised Approach

	31 December 2010	31 December 2009
	Total Exposure after netting covered by Guarantees / Credit Derivatives (EAD) €m	Total Exposure after netting covered by Guarantees / Credit Derivatives (EAD) €m
Corporates	5,114	40
Retail	-	15
Past due items	-	1
Total	5,114	56

Corporates in Table 4.20 mainly represents senior NAMA bonds obtained by the Group in return for the transfer of assets to NAMA. Senior NAMA bonds are guaranteed by the Irish government. These exposures are categorised as Central governments in the credit risk tables in this document.

For Retail IRB exposures the effect of credit risk mitigation, principally the collateral taken to secure loans, is taken into account in the development of the Group's Loss Given Default (LGD) models, which in turn are used in the calculation of the Group's regulatory capital requirements. As a result, the tables above do not include Retail IRB exposures.

Comparison of Expected versus Actual Loss

Tables 4.21 and 4.22 are based on a comparison of regulatory Expected Loss (EL) of the performing loan portfolio as at 31 December 2009 with actual loss (specific provision charge incurred) in the twelve month period to 31 December 2010.

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

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

Table 4.21 – Expected versus Actual Loss : Foundation IRB Approach				
IRB Exposure Class	Expected Loss calculated on 31 December 2009 €m	Specific Provision Charge to 31 December 2010 €m	Expected Loss calculated on 31 March 2009 €m	Specific Provision Charge 9 months to 31 December 2009 €m
Institutions	5	98	7	1
Corporates	441	1,309	242	447
Securitisation Positions	-	-	-	4
Total	446	1,407	249	452

Table 4.22 – Expected versus Actual Loss : IRB Retail Approach				
Retail IRB Exposure Class	Expected Loss calculated on 31 December 2009 €m	Specific Provision Charge to 31 December 2010 €m	Expected Loss calculated on 31 March 2009 €m	Specific Provision Charge 9 months to 31 December 2009 €m
Retail exposures secured by real estate collateral	144	326	190	118
Qualifying revolving and other retail	120	181	94	179
Total	264	507	284	297

Under the Foundation IRB approach rating agency ratings rather than EL are used to calculate the capital requirements for securitisation positions. Therefore the Group does not calculate EL for securitisation positions.

5. Counterparty Credit Risk

Details on how counterparty credit risk is managed are outlined on page 107 of the Group's Annual Report 31 December 2010.

Limits, policies and collateral

Counterparty credit limits are based firstly on the counterparty grade and after that based on historic limit usage and requirements from the business. The capital calculation is based on assigning PDs to counterparties based on their ratings and the PDs are then used to calculate EL and RWA.

Policies are in place for securing collateral and establishing credit reserves. Legal agreements giving effect to collateral arrangements (ISDA, GMRA and CSA) are negotiated and put in place with interbank and other wholesale financial counterparties. Based on these agreements, collateral calls are agreed with the counterparty. In the vast majority of cases collateral is cash and the agreed amount is either transferred by the counterparty to the Group or paid by the Group to the counterparty. At 31 December 2010 in excess of 98% of the Group's derivative interbank counterparty credit risk is collateralised.

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

The Group recognises the potential for "wrong-way" exposure in derivatives re-writing risk. This occurs where the potential market-driven exposure on the contract is likely to be positively correlated with the counterparty correlation because both are linked to a common factor such as a commodity price or an exchange rate. Most corporate interest rate hedging is potentially wrong-way exposure because, in a cyclical downturn, swap rates decline while defaults go up. This risk is inherent in providing risk management services to corporate clients. At a specific level, the Group factors in the potential impact of wrong-way exposure qualitatively in assessing individual credits.

Regulatory Disclosure

As at 31 December 2010, the maximum impact of a two notch downgrade by either S&P or Moody's on the Group's CSAs covering its interbank derivative positions, is that the Group could be asked to post up to an additional €25 million in collateral (€250 million as at 31 December 2009). This assumes that all deals move against the Group (i.e. it would have to pay to exit).

The measure for exposure value used for counterparty credit risk exposures is the Mark-to-Market method.

Counterparty Credit Exposure

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

Table 5.1 – Contract Values		
	Balance as at 31 December 2010 €m	Balance as at 31 December 2009 €m
Gross Positive Fair Value of Contracts	6,494	5,590
Potential Future Credit Exposure	3,114	2,732
Total Current Credit Exposure	9,608	8,322
Netting Benefits	(5,625)	(5,087)
Netted Current Credit Exposures	3,983	3,235
Collateral Held	-	-
Net Derivative Credit Exposure	3,983	3,235

Table 5.2 – Current Credit Exposure		
	Current Credit Exposure as at 31 December 2010 €m	Current Credit Exposure as at 31 December 2009 €m
Interest Rate	1,218	1,146
FX	113	115
Equity	48	96
Netted agreements Credit Exposure	2,591	1,875
Credit Derivatives	-	-
Commodity Contracts	13	3
Total	3,983	3,235

6. Equity Holdings not in the Trading Book

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

The Group's total exposure to non-trading book equities had a balance sheet value at 31 December 2010 of €76 million (€65 million at 31 December 2009). The Group considers its exposure to non-trading book equities not to be material within the context of the CRD's definition of materiality and the Group will not be disclosing further quantitative information required to be disclosed with respect to non-trading book equity holdings.

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

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

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

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

Accounting Treatment & Valuation

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

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

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

CRD Treatment

The Group's non-trading book equities are treated under the Standardised approach for credit risk exposures.

7. Securitisation

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

The Group also has purchased positions in securitised transactions. These positions have been purchased in transactions where the individual notes were highly rated and benefited from strong credit enhancement provided by lower ranking notes. The purchased positions cover a broad range of asset classes including CMBS, RMBS, consumer loans, auto loans, trade receivables and equipment leases.

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

The Group has not acted as sponsor in securitised transactions.

Calculation of Risk Weighted Exposure Amounts

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

The risk weighted exposure amounts for the Group's purchased positions are calculated using the IRB approach.

Accounting Policies for Securitisation Activities

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

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

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

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

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

Use of External Credit Assessment Institutions

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

Total Outstanding Amount of Exposures Securitised

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

Table 7.1 – Outstanding Amount of Exposures Securitised		
Exposure Type	Traditional Outstanding Exposures 31 December 2010 €m	Traditional Outstanding Exposures 31 December 2009 €m
Residential Mortgages	4,421	5,043

Losses Recognised, Past Due and Impaired Securitised Exposures

Table 7.2 below is based on financial statement information and again relates to securitisations originated by the Group. Pillar 1 is concerned with exposures that are greater than 90 days past due, the table below, however, interprets past due in accordance with the relevant accounting standards as one cent, one day past due.

Table 7.2 – Losses Recognised, Past Due and Impaired Securities Exposures						
Exposure Type	Past Due Exposures 31 Dec 2010 €m	Impaired Exposures 31 Dec 2010 €m	Losses Recognised 31 Dec 2010 €m	Past Due Exposures 31 Dec 2009 €m	Impaired Exposures 31 Dec 2009 €m	Losses Recognised 31 Dec 2009 €m
Residential Mortgages	170	31	1	197	15	2

Securitisation Positions Retained and Purchased

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

Securitisation Positions Retained and Purchased by Exposure Type

Exposure Type	Retained or Purchased 31 December 2010 (EAD) €m	Retained or Purchased 31 December 2009 (EAD) €m
Residential Mortgages	471	585
Commercial Mortgages	559	529
Credit Card Receivables	-	-
Leasing	-	1
Loans to Corporates or SMEs	200	204
Consumer Loans	85	106
Trade Receivables	10	8
Other Assets	81	77
Total	1,406	1,510

Securitisation Positions Retained and Purchased by Risk Weight

Risk Weight Band	Retained or Purchased 31 December 2010 (EAD) €m	Retained or Purchased 31 December 2009 (EAD) €m
10%	483	655
18%	59	85
35%	479	379
75%	117	92
100%	29	57
250%	27	17
425%	31	11
650%	-	-
1250%	20	56
Deducted	161	158
Total	1,406	1,510

Summary of Securitisation Activity

There have been no new securitisations originated by the Group which qualify for derecognition under Pillar 1 in the twelve months to 31 December 2010.

8. Market Risk

Market Risk

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

The management of market risk in the Group is governed by a Statement of High Level Principles approved by the Court and a detailed statement of policy approved by the GRPC. Market risk limits and other controls are set by the Asset and Liability Committee (ALCO) which has primary responsibility for the oversight of market risk.

The Group's approach to the measurement, management and control of market risk is set out in pages 135 to 139 of the Group's Annual Report 31 December 2010. This section also outlines the extent to which the Group assumes market risk to generate earnings.

Customer and Structural Risk

Market risk arises in customer facing business units mainly on the asset side of the balance sheet through fixed rate lending. These books are hedged with maturity matched funding from Bank of Ireland Global Markets (BoIGM). This exposure is, in turn, substantially eliminated by BoIGM through external hedges. In the case of business lines that are subject to prepayment – which is largely confined to UK mortgage lending – these books are hedged net of expected prepayment and assumptions with respect to prepayment are reviewed regularly.

Market risk also arises where variable rate assets and liabilities re-price at different frequencies (monthly, quarterly, semi annually) and where lending re-prices with changes in central bank rates but is funded at short dated market rates. This is termed balance sheet basis risk and this is mainly managed as a structural treasury risk.

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

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

Discretionary Risk

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

Discretionary risk is taken in both the Trading and Banking Books in BoIGM. Positions are allocated to the Trading Book in line with the criterion of 'intent to trade' as set out in the CRD and are marked to market for financial reporting purposes.

The Group employs a Value at Risk (VaR) approach to measure, and set limits on, discretionary market risk in BoIGM. This applies to both the Trading and Banking Books. The Group measures VaR for a 1 day horizon at the 99% level of statistical confidence. VaR reporting is conducted daily.

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

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

9. Operational Risk

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

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

Further detail on management of operational risk within the Group is provided in the Regulatory Compliance and Operational Risk section of the Risk Management section of the Group's Annual Report 31 December 2010 (page 143). Operational Risk loss tolerance is set at Group level by the Group Regulatory, Compliance and Operational Risk Committee (GRCORC) and approved by GRPC. Loss events are reported monthly by all business units; GRCOR provides summary information on overall losses and details on significant loss events to GRCORC. Further detail on risk mitigation and risk reporting is provided in the Operational Risk section on page 143 of the Group's Annual Report 31 December 2010.

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

The strategies and processes by which Operational Risk is managed are set out in the Regulatory and Operational Risk section on page 143 of the Group's Annual Report 31 December 2010.

Appendix I

March 2010 Prudential Capital Assessment Review

In March 2010 the Central Bank completed a Prudential Capital Assessment Review (PCAR) for Bank of Ireland in order to assess its capital requirements. This review took into account both expected base and potential stressed loan losses, together with other financial developments, over a 3 year time horizon to 2012.

The PCAR was undertaken with reference to:

- a target Core tier 1 ratio level of 8% in the base case. As a further prudent requirement, the capital to meet the base case target must be principally in the form of equity to meet a targeted Equity tier 1 ratio of 7%; and
- a target level of 4% Core tier 1 capital should be maintained in a stress scenario.

As announced on 30 March 2010, the outcome of this review was that the Central Bank determined that the Group needed to raise an additional €2.66 billion of equity capital by 31 December 2010 to comply with the PCAR. This requirement was exceeded following the successful completion of the capital raising initiatives for the Group which generated net additional equity capital of €3 billion.

July 2010 CEBS stress test

In July 2010 the Group was subject to the 2010 stress testing exercise co-ordinated by the Committee of European Banking Supervisors (CEBS), in co-operation with the European Central Bank (ECB) and under the supervision of the Central Bank.

The objective of the stress test, which was conducted on a bank by bank basis across 91 banks, was to assess the overall resilience of the EU banking sector and the banks ability to absorb further possible shocks on credit and market risks including sovereign risks. Bank of Ireland passed the stress test. Under the adverse scenario including the additional sovereign shock, Bank of Ireland's estimated Tier 1 capital ratio would be 7.1% at 31 December 2011 which is 1.1% or €933 million in excess of the threshold of 6% Tier 1 capital ratio agreed exclusively for the purpose of this exercise.

September 2010 PCAR update

On 30 September 2010 the Minister for Finance announced a change in the NAMA eligibility criteria such that where the total exposure of a customer was below €20 million, that customer's loans would not be transferred to NAMA, thus facilitating the completion of all NAMA transfers by 31 December 2010. The threshold had previously been set at €5 million. In addition the Minister stated that it was now 'possible for NAMA to forecast with confidence the final overall discount to be applied to the remaining tranches of loans'. The Central Bank confirmed on 30 September 2010 that the Group had sufficient capital to meet the PCAR standard (including the buffer set by the Central Bank for the non-NAMA portfolio) recognising the change in threshold and estimated NAMA haircuts announced by the Minister.

November 2010 PCAR update

As a consequence the Central Bank set a new minimum capital requirement for the Group of 10.5% Core tier 1. The Central Bank also required the Group to generate / raise additional equity capital amounting to €2.199 billion in order to achieve a capital ratio of at least 12% Core tier 1 by the 28 February 2011. This was superseded by the outcome of the 2011 PCAR.

2011 PCAR

On 31 March 2011 the Central Bank announced the results of the 2011 PCAR. The key highlights of the 2011 PCAR results for the Group are as follows:

A requirement to generate incremental equity capital of €4.2 billion including a regulatory buffer of €0.5 billion, leading to a very strongly capitalised Group with a pro-forma Core tier 1 ratio estimated to exceed 15% at 31 December 2010.

The equity capital requirement has been set to cover:

- the higher target capital ratios set by the Central Bank of a minimum Core tier 1 ratio 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;
- notwithstanding that the land and development loans of the Group where an individual customer / sponsor exposure less than €20 million at 31 December 2010 are not expected to transfer to NAMA, the 2011 PCAR process was prepared under an assumption that the relevant loans would transfer to NAMA using conservative loss on disposal assumptions; and
- a conservative estimate of losses arising from deleveraging under an adverse stress scenario.

In addition €1.0 billion of contingent capital is also required through the issue of a subordinated debt instrument which under certain circumstances would convert to equity capital.

European Banking Authority (EBA) stress testing

The European Banking Authority (EBA) was established on 1 January 2011 with a broad remit that includes safeguarding the stability of the EU financial system. The EBA is required, in cooperation with the European Systemic Risk Board (ESRB), to initiate and coordinate EU-wide stress tests to assess the resilience of financial institutions to adverse market developments. Building on experience of two previous EU-wide stress tests undertaken by the EBA's predecessor, the Committee of European Banking Supervisors (CEBS), the EBA is conducting a stress test on a wide sample of banks (including the Group) in the first half of 2011. This exercise is being undertaken in coordination with national supervisory authorities, the ESRB, the European Central Bank (ECB) and the European Commission.

The Group is subject to this test and the exercise is being carried out between March 2011 and June 2011. After a series of national supervisory authority reviews all results will be submitted centrally to the EBA. These results will undergo an extensive quality control and peer review process that will involve further interaction with national supervisory authorities and relevant banks as appropriate.

The stress test is one of a range of supervisory tools used for assessing the resilience of individual financial institutions as well as the overall resilience of the system. The exercise is conducted on a bank-by-bank basis and the objective of the stress test is to assess the resilience of the EU banking system, and the specific solvency of individual financial institutions, to hypothetical stress events under certain restrictive conditions imposed by supervisors.

Appendix II

Equity tier 1

Equity tier 1 comprises total accounting equity per the Group's consolidated balance sheet as adjusted for prudential filters, regulatory adjustments and instruments that do not meet the criteria for inclusion in common equity. These components, as set out in Table 2.3 are outlined below:

Share capital and reserves

Share capital and reserves represents accounting equity and comprises capital stock (including related share premium), retained earnings, foreign exchange reserve, available for sale reserve, cash flow hedging reserve and other reserves. A consolidated statement of changes in these reserves is outlined on pages 192 and 193 of the Group's Annual Report at December 2010.

Regulatory retirement benefit obligation adjustment

A prudential filter is applied to the Group's defined benefit pension schemes resulting in a reversal of the accounting deficits and an add back to share capital and reserves. The prudential filter requires that any surpluses arising under IFRS in the defined benefit pension scheme should be reversed for capital adequacy purposes, as they cannot give rise to a future cash inflow.

Available for sale reserve and cashflow hedge reserve

While the available for sale and cash flow hedge reserves are included in accounting equity they are removed from the regulatory capital base through the application of a prudential filter as fair value gains and losses are required to be eliminated. As both of these reserves are negative at 31 December 2010 the filter results in an add back to share capital and reserves, reflecting the removal of these reserves.

Goodwill and other intangible assets

Goodwill and intangible assets are taken as a deduction in line with CRD requirements. The deduction is made at the level of Equity tier 1.

Preference stock

Preference stock, comprising the balance on the 2009 Preference Stock invested by the Irish government and other smaller preference stock issuances, does not qualify as Equity tier 1 capital. The balance is accounted for in total equity on the Group balance sheet but for regulatory capital purposes the amount is reclassified to Core tier 1 capital.

Other adjustments

There are a number of other regulatory adjustments that are made to accounting equity which are made at the level of Equity tier 1.

a) Pension supplementary contribution

Under local supervisory rules credit institutions are required to deduct three years supplementary contributions from capital. As a result, the accounting deficit, which is reversed from capital as outlined above, is replaced with an amount required over a three year period towards the elimination of a pension deficit.

b) Government coupon payments

The coupon on the 2009 Preference Stock is reflected in accounting equity when paid in line with accounting standards. For regulatory purposes the coupon is accrued. At December 2010 coupon payments not yet settled totalled €188m.

c) Own credit

Under CRD rules credit institutions shall not include in own funds gains recognised on their liabilities accounted for at fair value that are attributable to changes in the credit institutions' own credit standing. Gains recognised in the Income Statement are reversed for regulatory capital purposes. (€366 million at 31 December 2010)

Core tier 1 comprises Equity tier 1 as outlined above and qualifying preference stock, primarily represented by the 2009 Preference Stock.

Total tier 1

Total tier 1 comprises Core tier 1 as well as certain qualifying capital instruments and after the application of supervisory deductions.

Hybrid instruments

Hybrid instruments are subordinated securities with some equity like features that can be included as non-core tier 1 capital. Such securities do not generally carry voting rights and rank higher than ordinary shares for coupon payments in the event of a winding-up. Innovative Tier 1 instruments are either dated or have a moderate incentive to redeem. Non-innovative instruments are undated and are without an incentive to redeem. The securities may be called and redeemed by the issuer, subject to the prior approval of the Central Bank.

Supervisory deductions

Certain supervisory deductions as specified in the CRD are taken 50% from Total tier 1 and 50% from Tier 2 capital. The supervisory deductions for the Group are as follows.

a) Unconsolidated investments

Holdings in other credit and financial institutions amounting to more than 10% of their capital is deducted from regulatory own funds. This deduction primarily applies to investments in Group entities that are not consolidated for regulatory purposes.

b) First loss deduction

The Group has retained first loss tranches in certain externally originated securitisation transactions. The deduction is taken 50% from Total tier 1 and 50% from Tier 2.

c) Expected loss deduction

The shortfall of accounting provisions on the Group's IRB portfolios to the expected loss calculated for these portfolios ($LGD \times PD \times EAD$) is taken as a supervisory deduction applied as above, 50% from Total tier 1 and 50% from Tier 2.

Tier 2 capital

Tier 2 capital comprises certain qualifying subordinate liabilities, IBNR provisions against standardised portfolios, supervisory deductions (as outlined above) and other regulatory deductions.

Undated loan capital

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

Dated loan capital

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

Total capital

Total capital comprises Total tier 1 and Tier 2 capital as outlined above as adjusted for a deduction in relation to participations that the Group has in insurance undertakings. The Group's deduction represents 90% of the equity of Bank of Ireland Life.

Appendix III

Tables A and B show the capital resources and risk weighted assets of the Group's subsidiary, Bank of Ireland UK Plc, which is fully consolidated. For local capital adequacy reporting (FSA) RWA in Bank of Ireland UK Plc is calculated under the Standardised approach.

Table A – Capital Resources and Risk Weighted Assets	
	Bank of Ireland UK Plc €m
Tier 1 Capital	1,272
Paid up Capital	675
Eligible Reserves	349
Other tier 1 capital (preference shares)	349
Supervisory and other Deductions	(101)
Tier 2 Capital	702
Sub Debt	608
IBNYR	94
Supervisory and other Deductions	-
Total Capital Resources	1,973
Total Risk Weighted Assets	12,521
Credit Risk	11,721
Operational Risk	799
Market Risk	1
Total Capital Ratio	15.76%

Table B – Breakdown of Credit Risk Weighted Assets	
	Bank of Ireland UK Plc €m
Institutions	68
Corporates	5,423
Retail	363
Secured on real estate property	3,859
Past due items	1,775
Short Term Claims on institutions and corporates	198
Other Items	35
Total	11,721

Appendix IV

Remuneration at Bank of Ireland

This section of the Group's Pillar 3 document should be read in conjunction with the Group's Annual Report for the twelve month period ended 31 December 2010, in particular the Remuneration Report (pages 173 to 184). Copies of the Group's Annual Report 31 December 2010 can be obtained from our website www.bankofireland.com.

This section summarises remuneration for Code Staff in respect of 2010 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 Committee of European Banking Supervisors' (CEBS, now EBA) Guidelines on Remuneration Policies and Practices, issued in December 2010.

Decision-making process for remuneration policy

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

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

The GRC received independent advice on executive remuneration issues from Deloitte LLP and remuneration data from Towers Watson during 2010. Other consultants were used from time to time to advise on specific issues.

Code staff

The Group has completed a rigorous process through which 116 employees have been identified as Code Staff on the basis that their professional activities are deemed to have a material impact on the Group's risk profile.

Link between pay and performance

The Group is governed by obligations in relation to remuneration as contained in the Subscription Agreement (March 2009) and the Credit Institutions (Financial Support) Scheme 2008 (expired in September 2010).

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

Design and structure of remuneration and performance management

The Group's remuneration and performance strategy is to align remuneration and performance management with the Group's strategy and business goals through providing a suite of remuneration and performance management tools directly related to:

- Sustainable long term financial and business performance targets;
- Risk measures, which ensure that the policies on remuneration are risk adjusted and appropriately reflect risk timeframes;
- Capital and liquidity measures; and
- Non-financial measures of Group-wide behaviours on leadership, customer satisfaction, regulatory compliance and employee engagement.

Remuneration Expenditure

The following tables show the remuneration awards made by the Group to Code Staff in 2010.

Table 1 – Aggregate 2010 Remuneration Expenditure by Business Area

	Capital Markets	Credit & Market Risk	Governor & NEDS	Group Support Functions – CEO, Finance, HR	Group Governance Risk	Group Manufacturing	Retail ROI & UK	Grand Total
Number of Code Staff	20	14	15	11	7	7	42	116
2010 Remuneration Expenditure €m	8.99	2.90	1.55	3.64	1.51	1.69	9.76	30.04

Includes Fees, Salaries and variable payments (including any deferred elements) made in 2010 and other cash benefits payable e.g. car allowance.

Table 2 – Analysis of 2010 Remuneration between Fixed and Variable Amounts (actually paid in 2010)

	Governor & NEDS	Group Executive Committee	Key Control Function Roles	Key Front Line Roles	Other Key Roles with Impact on Risk	Grand Total
Number of Code Staff	15	8	24	61	8	116
Fixed (cash based)	- Fixed payments 2010 include fees, salaries, car allowances and other payments					
Fixed (cash based) €m	1.55	4.22	4.64	11.88	1.73	24.02
Total Fixed €m	1.55	4.22	4.64	11.88	1.73	24.02
Variable	- Variable payments 2010 include guaranteed bonus / contractual guarantees, cash LTIPs / deferred bonuses, retention payments and commissions.					
Non-Deferred Cash €m	-	-	0.03	1.88	-	1.91
Deferred Cash €m	-	-	0.47	3.64	-	4.11
Total Variable €m	-	-	0.50	5.52	-	6.02
Variable Recipients	-	-	5	20	-	25
Fixed & Variable €m	1.55	4.22	5.14	17.40	1.73	30.04

Non Deferred cash payments referenced in Table 2 above refers to cash awards made and paid in 2010.

Deferred cash payments referenced in Table 2 above refer to those payments awarded prior to 2010 and paid in 2010

2010 New sign-on and severance payments

- No new hire (Code Staff) received a sign-on payment during the relevant year, 2010, relating to their commencement of employment.
- No severance payments were made during the relevant year, 2010, to this population.

Glossary

Advanced IRB	Advanced Internal Ratings Based approach. The approach which allows banks to calculate their capital requirement for credit risk for their retail and wholesale portfolios using their own internally generated estimates of PD, LGD and CCF. These variables are then fed into a standard formula to produce the capital requirement for the asset. Referred to as retail IRB in this document.
Banking Book	The Banking Book consists of all banking assets, liabilities and derivatives other than those held with trading intent and booked on this basis in the Trading Book.
Basel II	The New Capital Adequacy Framework issued in June 2004 by the Basel Committee, and implemented into EU law by Directive 2006/48/EC and Directive 2006/49/EC.
Capital Requirements Directive (CRD)	Directive 2006/48/EC of the European Parliament and the Council of 14 June 2006 together, relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions.
Central Bank	The Central Bank of Ireland.
Collateral	Property or assets made available by a borrower as security against a loan. Under a collateralisation arrangement, a party who has owes an obligation to another party posts collateral - typically consisting of cash or securities - to secure the obligation. In the event that the counterparty defaults on the obligation, the secured party may seize the collateral.
Credit Conversion Factor (CCF)	An estimate of the proportion of undrawn commitments expected to be drawn down at the point of default. The CCF is expressed as a percentage and is used in the calculation of exposure at default (EAD).
Credit Risk Standardised Approach	A method for calculating risk capital requirements using ECAI ratings (where available) and supervisory risk weights.
Credit Risk Mitigation	A technique to reduce the credit risk associated with an exposure by the application of credit risk mitigants such as collateral, guarantees and credit protection.
CSA	Credit Support Annex. This is an annex to an ISDA agreement which allows the exchange of collateral (usually cash) based on Mark to Market movements on derivative contracts between counterparties.
Derecognition	The removal of a previously recognised financial asset or financial liability from an entity's balance sheet.
EBA	The European Banking Authority, formerly CEBS (the Committee of European Banking Supervisors).
Expected Loss (EL)	A regulatory calculation of the amount expected to be lost on an exposure using a twelve month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).
Export Credit Agency (ECA)	An Export Credit Agency is an agency in a creditor country that provides insurance, guarantees, or loans for the export of goods and services. The CRD limits the use of ECA credit assessments to exposures to central governments and central banks. Therefore, credit institutions are allowed to use ECA credit assessments to calculate the risk weight of their exposures to central governments and central banks, in addition to ECAIs' credit assessments for other types of exposures.
External Credit Assessment Institution (ECAI)	An eligible External Credit Assessment Institution (ECAI) is an entity, other than an Export Credit Agency, that issues external credit assessments, and that has been determined by the competent authorities to meet the eligibility requirements set out in the Capital Requirements Directive. The credit assessment provided by the ECAI is used to provide a basis for capital requirement calculations in the Standardised approach for securitisation positions.
Exposure at Default (EAD)	The value of the bank's exposure at the moment of the borrower's default. EAD can be different from the initial exposure of the bank, it can be less than the full face value because, for example, a part of the loan commitment has not been drawn, special collateral is present, or some derivative operation has been undertaken.
Exposure Weighted	Average risk weighting of exposures. Calculating the exposure weighted average risk weight involves multiplying the exposure values by the relevant risk weight, summing the answers and dividing by the

Average Risk Weight	total exposure values.
Exposure Weighted Average LGD	Calculating the exposure weighted average LGD involves multiplying the exposure values by the relevant LGD, summing the answers and dividing by the total exposure values.
Foundation IRB	The approach where institutions use their own estimates of PD to calculate risk weights for each exposure. Supervisory estimates of LGDs and EADs are used.
GMRA	Global Master Repurchase Agreements, are standard industry agreements that permit the netting and the collateralisation of repo type transactions.
IBNR	Incurred but not reported.
IFRS	International Financial Reporting Standards.
IRB Exposure Classes	<ul style="list-style-type: none"> • <i>Institutions:</i> Exposures to Financial Institutions authorised and supervised by the competent authorities and subject to prudential requirements. • <i>Corporates:</i> The CRD does not provide a definition of the corporate exposure class; it simply provides that any exposure not falling into any of the other exposure classes will be allocated to the corporate exposure class. • <i>Exposures secured by real estate collateral:</i> Residential mortgages. • <i>Qualifying revolving:</i> The exposures (to individuals) are revolving, unsecured, and to the extent they are not retail exposures drawn immediately and unconditionally, cancellable by the credit institution. • <i>Securitisation positions:</i> Exposures belonging to a pool - as defined below under securitisation.
ISDA	ISDA is the International Swaps and Derivatives Association. ISDA Agreements are standard industry agreements issued by ISDA which permit the netting of derivative transactions.
Internal Ratings Based Approach (IRB)	Approach to credit risk under which a bank may use internal estimates to generate risk components for use in the calculation of their credit risk regulatory capital requirements. There are two approaches: Foundation and Advanced (including Retail).
Loss Given Default (LGD)	The likely financial loss associated with the 'default', net of collections / recovery costs and realised security.
Mark to Market (MTM)	The act of recording the price or value of a security, portfolio or account to reflect its current market value rather than its book value.
Market Risk Standardised Approach	The Standardised approach to the determination of Pillar 1 capital for market risk in the Trading Book involves estimating a minimum required capital charge based on the difference in the re-pricing periods for assets, liabilities and derivatives (treated as equivalent on-balance sheet assets and liabilities). In addition, depending on the nature of the positions, it also provides for a specific risk charge. The total minimum capital charge is converted to a risk weighted asset equivalent for the Trading Book which is summed with other risk weighted assets in determining overall regulatory capital ratios.
Monetary Authorities	The European Central Bank, the Central Bank of Ireland, the Bank of England, the Financial Services Authority and the US Federal Reserve.
NAMA	The National Asset Management Agency and, where the context permits, other members of NAMA's group including subsidiaries and associated companies.
National Pensions Reserve Fund Commission (NPRFC)	The NPRFC controls and manages the National Pensions Reserve Fund ("the Fund"). The Fund was established in April 2001 with the stated objective of meeting as much as possible of the costs of Ireland's social welfare and public service pensions from 2025 onwards when these costs are projected to increase dramatically due to the ageing of the population. In February 2009 the Minister for Finance announced that the Fund would finance a €7 billion bank recapitalisation programme. On 31 March 2009, the NPRFC completed the recapitalisation of the Group through their investment of €3.5 billion in new preference stock and warrants to subscribe for up to 25% of the enlarged ordinary stock in the Group.

Operational Risk Standardised Approach	The Pillar 1 approach which allows banks to calculate their capital requirement in respect of operational risk by multiplying the gross income from each business line by the relevant factor specified in respect of that business line (as set out in Basel II).
Originator	An entity which, either itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposure being securitised; or an entity which purchases a third party's exposures onto its balance sheet and then securitises them.
PCAR	Prudential Capital Assessment Review. These are local stress tests performed by the Irish Central Bank to assess the Bank's capital adequacy over a future horizon.
Probability of Default (PD)	The likelihood that a debt instrument will default within a stated timeframe (For Basel this is a twelve month time horizon). For example, the probability of default of a certain loan is 2%; this means that there are 2 chances out of 100 that the borrower will default in the next 12 months.
Risk Weighted Assets (RWA)	Used in the calculation of risk-based capital ratios. Total assets are calculated by applying predetermined risk-weight factors (set by the regulators) to the nominal outstanding amount of each on-balance sheet asset and the notional principal amount of each off-balance sheet item.
Securitisation	Converting an asset such as a loan into a marketable commodity by turning it into securities. Assets are pooled and sold, often in unitised form, enabling the lender to reliquify the asset. Any asset that generates an income stream can be securitised – i.e. mortgages, car loans, credit-card receivables.
Standardised Exposure Classes	<ul style="list-style-type: none"> • <i>Regulatory Retail:</i> Exposures must be to an individual person or person or to a small or medium sized entity. It must be one of a significant number of exposures with similar characteristics such that the risks associated with such lending are substantially reduced and, the total amount owed, shall not, to the knowledge of the credit institution, exceed €1 million. • <i>Administrative Bodies:</i> Exposures to Administrative bodies and non-commercial undertakings. • <i>Corporates:</i> In general, a corporate exposure is defined as a debt obligation of a corporate, partnership or proprietorship – CRD Annex VII. • <i>Past due loans >90 days:</i> Where the exposure is past due more than 90 days. • <i>Items belonging to regulatory high risk categories:</i> Exposures associated with particularly high risks such as investments in venture capital firms and private equity investments. • <i>Short term claims on Institutions and Corporates:</i> Short term exposures to an Institution or Corporate. • <i>Other items:</i> Exposures not falling into the other exposure classes outlined.
Trading Book	A trading book consists of positions in financial instruments and commodities held either with intent to trade, or in order to hedge other elements of the trading book. To be eligible for trading book capital treatment, financial instruments must either be free of any restrictive covenants on their tradability, or able to be hedged completely.
Through-the-Cycle PD (TtC PD)	A version of the Probability of Default measure engineered to estimate the average one-year probability of default over an economic cycle. For example, if the TtC PD of a certain loan is 2% this means that there is, on average over an economic cycle, a 2 in 100 chance that the borrower will default in any given year.