PILLAR 3 Disclosures

For the year ended 31 March 2009

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 (the Group) plans and its current goals and expectations relating to its future financial condition and performance and the markets in which it operates. These forward-looking statements can be 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 words of similar meaning. Examples of forward-looking statements include among others, statements regarding the Group's future financial position, income growth, business strategy, projected costs, estimates of capital expenditures, 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 profitability targets, prevailing interest rates, the performance of the Irish and UK economies and the performance and volatility of the international capital markets, the expected level of credit defaults, 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, the Group's ability to address information technology issues and the availability of funding sources. 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 make in documents it has 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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Executive Summary

Basel 2

The New Basel Capital Accord (Basel 2) is a capital adequacy framework which aims to improve the way regulatory capital requirements reflect credit institutions' underlying risks. Basel 2 was introduced into EU law through the Capital Requirements Directive (CRD). Basel 2 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 (for the Group, this is the Financial Regulator) are tasked with evaluating how well financial institutions are assessing their capital adequacy needs relative to their risks.

Pillar 3 requires financial institutions to publicly disclose detailed information on their Basel 2 risk management processes and risk measures.

The Group's Pillar 3 document is a technical paper which should be read in conjunction with the Group's Annual Report & Accounts 2009, which contains Pillar 3 qualitative information. The Group's Pillar 3 disclosures have been prepared in accordance with the CRD as implemented into Irish law.

Areas Covered

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

The topics covered are also dealt with in the Group's Annual Report & Accounts 2009 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 significantly more detail on loan data is provided.

It should be noted that while some quantitative information in this document is based on financial data in the Group's Annual Report & Accounts 2009 and the Group's Form 20-F 2009, other quantitative data is sourced from the Group's Basel 2 system and is calculated according to a different set of rules. Pillar 3 quantitative data is thus not always comparable with the quantatative data contained in the Group's Annual Report & Accounts 2009 or the Group's Form 20-F.

Meeting Capital Requirements

The Group's total capital position at 31 March 2009 was €16.0bn. Compared to €8.4bn, which equates to 8% of risk weighted assets (8% being the minimum total capital ratio allowed by the Financial Regulator), this represented coverage of 189%.

The Group's Core Tier 1 capital position at 31 March 2009 was €10.0bn. On a pro forma basis, on 31 March 2009, following the Tier 1 debt buyback programme in June 2009, Core Tier 1 capital was €11.0bn.

The Group's capital position was significantly strengthened in the course of the year as a result of a number of initiatives, including the following:

In November 2008 the Group announced its intention not to pay dividends on ordinary stock until more favourable economic and financial conditions returned, given the importance of preserving capital in the current climate.

In January 2009 the Group announced its intention to cease mortgage lending through the intermediary channel in the UK and also to exit from some non-core Corporate Banking international lending niches.

On 31 March the National Pensions Reserve Fund Commission completed the government investment in Bank of Ireland 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.

Risk Management

The Group's risk management structures have been reinforced by changes put in place since 31 March 2009. As a result, two members of the Group Executive Committee have specific risk management responsibility – one for credit and market risk, and one for governance, compliance and operational risk – reflecting the greater prominence that has now been given to risk management in the Group.

In addition, since 31 March 2009, a new committee – the Court Risk Committee – has been established. The Committee comprises non-executive directors of the Court and its primary responsibilities are to assist the Court in discharging its responsibilities in overseeing risk management in the Group. To that end it will form a view on the key risks facing the Group, on how well they are managed and give assurance to the Court on same

Credit Risk

The Group uses Foundation Internal Ratings Based approach (IRB), IRB Retail and Standardised approaches for the calculation of its credit risk capital requirements. The Standardised approaches involve the application of regulatory formulae to credit exposures to calculate the capital requirement. The IRB approaches (Advanced, 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 charge.

At 31 March 2009, the Group applied the Foundation IRB and IRB Retail approaches to 61.5% of its exposures which resulted in 41% of risk weighted assets being based on IRB approaches. Subject to regulatory approval, the Group anticipates further extending the usage of Foundation IRB and IRB Retail during the year to 31 March 2010.

Based on IRB regulatory approvals received, in excess of 45% of risk weighted assets would be based on IRB approaches however currently where the Group has Standardised and IRB exposures to the same obligor both exposures are treated as Standardised.

In addition, it is expected that certain of the Group's higher risk exposures will transition to the National Asset Management Agency (NAMA).

The credit risk information disclosed includes a breakdown of the Group's exposures by Basel exposure class, by location, sector 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 and is a key risk mitigant for the Group.

Market Risk

The Group generates market risk in the normal course of banking business and this risk is substantially mitigated with external counterparties. The Group engages to a limited extent in proprietary risk-taking, but has never sought 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 on, proprietary market risk-taking in Bank of Ireland Global Markets. This is supplemented by a range of other measures including stress tests.

Operational Risk

The Group manages operational risk under an overall strategy which is implemented by accountable executives and monitored by the Group Risk Policy Committee, the Group Audit Committee and the Group Regulatory, Compliance and Operational Risk Committee, supported by the Group Regulatory, Compliance and Operational Risk function. Potential risk exposures are assessed and appropriate controls are put in place. Recognising that operational risk cannot be entirely eliminated, the Group implements risk mitigation controls, including fraud prevention, information security, contingency planning and incident management. This strategy is further supported by risk transfer mechanisms such as the Group's insurance programme, where appropriate.

1. Introduction

The Basel Capital Accord ("Basel 2"), which has been implemented into EU law by the Capital Requirements Directive (CRD), consists of three "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.

- **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 2 requirements, capital requirements, 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 qualitative disclosure requirements are largely met in the Operating and Financial Review and the Risk Management sections of the Group's Annual Report & Accounts for the year ended 31 March 2009. 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 & Accounts 2009. Copies of the Group's Annual Report & Accounts 2009 can be obtained from the Group's website at www.bankofireland.com or from the Group Secretary's Office, Bank of Ireland, Lower Baggot Street, Dublin 2, Ireland.

Supervision

The Bank of Ireland Group is regulated by the Financial Regulator.

As at 31 March 2009, the Group held 4 separate banking licences. These are held by the Governor and Company of Bank of Ireland, ICS Building Society, Bank of Ireland Mortgage Bank and Bank of Ireland (IOM) Limited. All of these entities are regulated by the Financial Regulator with the exception of Bank of Ireland (IOM) Limited which is regulated by the Isle of Man Financial Supervision Commission. Each individual licence holder and regulatory 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.

Preparation and Basis of Consolidation

The Group's Pillar 3 disclosures are published on a consolidated basis for the year ended 31 March 2009. 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.

As this is the first year the Group is obliged to comply with the Pillar 3 disclosure requirements, comparative data is not required and consequently has not been provided.

Not all legal entities are within the scope of Pillar 3. Table 1.1 below illustrates differences between the basis of consolidation for accounting purposes and Basel II regulatory treatment.

Table 1.1 - Basis for Consolidation		
Entity	**Statutory Accounting Treatment**	**Basel II Regulatory Treatment**
BOI Life	Fully Consolidated	90% of investment taken as deduction to Total Capital. Balance of investment added to risk weighted assets.
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 risk weighted assets.
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 investment added to risk weighted assets.
Securitisation Vehicles	Fully Consolidated	1st Loss deduction taken 50% from Tier 1 & 50% from Tier 2

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 Report & Accounts 2009 and the Group's Form 20-F) and those compiled using Basel II methodologies. Unless specified otherwise, both sets of data reflect the position as at 31 March 2009, which is the Group's financial year end. 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 maximum loss that the Group has 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 methdologies overlap with quantitative disclosures in the Group's Annual Report & Accounts 2009 and the Group's Form 20-F 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 & Accounts 2009.

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 66 of the Group's Annual Report & Accounts 2009 under "Capital Management".

The Group uses the Retail Internal Ratings Based approach, the Foundation Internal Ratings Based approach and the Standardised approach to calculate its capital requirement for credit risk. The Group has temporary exemptions from the Financial Regulator to treat a number of portfolios on the Standardised approach and it is anticipated that these will move in due course to the Internal Ratings Based approach. The Group also has some permanent exemptions from the Financial Regulator to treat certain portfolios as Standardised. These permanent exemptions are subject to regular review.

Market risk is calculated using the Standardised approach applicable to market risk.

Operational risk is 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 March 2009, the Group's actual own funds were not less than the required minimum in all subsidiaries not included in consolidation.

Capital Requirements at 31 March 2009

Table 2.1 shows the minimum amount of capital the Group is required to set aside to meet its regulatory capital requirements based on 8% of risk weighted assets.

Table 2.1 - Capital Requirements			
31 March 2009			
		€m	
Credit Risk & Counter party Risk of which:			**7,565**
IRB			3,105
of which:	Central Government & Central Banks	-	
	Institutions	341	
	Corporates	1,935	
	Retail:	-	
	Exposures secured by real estate collateral	560	
	Qualifying revolving retail exposures	49	
	Other retail exposures	199	
	Securitisation Positions	21	
Standardised			4,460
of which:	Central Government & Central Banks	-	
	Regional Governments or Local Authorities	-	
	Administrative bodies and non-commercial undertakings	2	
	Multilateral Development Banks	-	
	International Organisations	-	
	Institutions	-	
	Corporates	3,915	
	Retail	239	
	Secured by real estate property	-	
	Past Due items	253	
	Items belonging to regulatory high risk categories	3	
	Covered bonds	-	
	Short term claims on institutions and corporates	45	
	Collective Investment Undertakings	-	
	Other items	3	
	Securitisation Positions	-	
Market Risk			**201**
of which:	FX	17	
Operational Risk			**517**
Other Assets			**146**
Total Capital Requirements			**8,429**

Breakdown of the Group's Regulatory Capital Requirement

The Group has regulatory approval to use the IRB approach to calculate its capital requirement for the majority of its credit exposures by EAD (61.5%). The Group currently has a number of portfolios that will be ready in the near future to transition to the IRB approach (subject to regulatory approval).

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

Table 2.2 - Minimum Capital Requirements, Risk Weighted Assets and EAD by Risk Type			
31-Mar-09			
Risk Type	Capital Requirement €m	Risk Weighted Assets €m	Exposure at Default €m
Standardised Approach	4460	55,739	72,490
Retail and Foundation IRB Approach	3,105	38,826	115,940
Market Risk	201	2,509	-
Operational Risk	517	6,473	-
Other Assets	146	1,830	-
Total	**8,429**	**105,377**	**188,430**

Capital Resources

Table 2.3 sets out the Group's capital position as at 31 March 2009. This table shows the amount and type of regulatory capital the Group held at that date to meet its capital requirements.

Table 2.3 - Capital Resources		
31-March-09		
	€m	**€m**
Share capital and reserves		6,913
Regulatory retirement benefit obligation adjustments		1,478
Available-for-sale revaluation reserve and cash flow hedging reserve		2,124
Goodwill & other intangibles		(511)
Preference Stock		(58)
New Preference Stock		(3,462)
Other Adjustments		22
Equity Tier 1 Capital		**6,506**
Preference Stock		58
New Preference Stock		3,462
Core Tier 1 Capital		**10,026**
Innovative Hybrid Debt		1,197
Non Innovative Hybrid Debt		1,798
Supervisory deductions		(372)
Of Which:		
Regulatory Deduction	(31)	
First Loss Deduction	(69)	
Expected Loss Deduction	(272)	
Total Tier 1 Capital		**12,649**
Tier 2		
Undated loan capital		229
Dated loan capital		3,827
IBNYR Provisions		307
Revaluation Reserves		80
Supervisory deductions		(372)
Of Which:		
Regulatory Deduction	(31)	
First Loss Deduction	(69)	
Expected Loss Deduction	(272)	
Total Tier 2 Capital		**4,071**
Total Tier 1 and Tier 2 Capital		**16,720**
Supervisory deductions		-
Life and pensions businesses		(749)
Total Capital		**15,971**

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 key risks to which the Group is exposed are credit risk, liquidity risk, market risk, operational risk, pension risk, business risk, life insurance risk, model risk, reputation risk and regulatory risk. Detail regarding how these risks are identified, managed, measured and mitigated is provided in the Risk Management section of the Group's Annual Report & Accounts 2009.

The Group's risk objectives are set out in the Risk Strategy and Appetite section on page 35 of the Group's Annual Report & Accounts 2009.

Risk Management Structure and Organisation

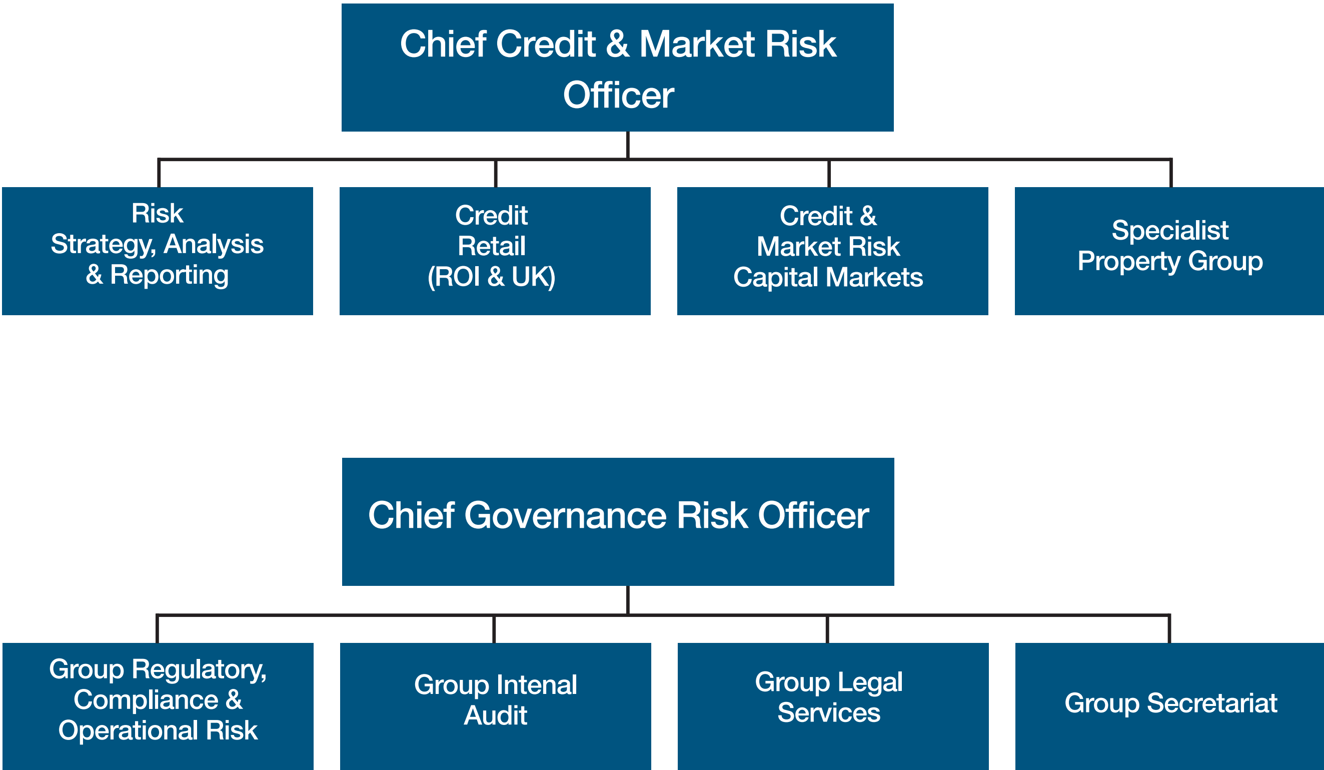
Responsibilities for risk management extend throughout the organisation. Detail of the risk governance structure, including risk committees, is set out on page 34 of the Group's Annual Report & Accounts 2009.

Since 31 March 2009, a new organisational structure has been put in place, and there are now two members of the Group Executive Committee with specific risk management responsibilities.

The Chief Credit and Market Risk Officer (CCMRO) is responsible for both overall risk strategy & reporting and specific credit and market risk strategy and management.

The Chief Governance Risk Officer (CGRO) is responsible for management of regulatory risk and relationships, compliance and operational risk, Group Internal Audit, Group Legal Services and the Group Secretariat.

The Chief Governance Risk Officer and the Chief Credit & Market Risk Officer both report directly to the Group Chief Executive Officer.



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 process by which credit risk is managed are included in the Credit Risk Management section on page 40 of the Group's Annual Report & Accounts 2009.

It is the Group's policy 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 40 of the Group's Annual Report & Accounts 2009. 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 43 of the Group's Annual Report & Accounts 2009.

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. hedging, securitisation and collateralisation). Further detail on credit risk mitigation for risk management purposes is contained on page 44 of the Group's Annual Report & Accounts 2009.

Credit risk mitigation for regulatory capital calculation

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

For our non-retail Foundation IRB assets (corporate and commercial lending) Supervisory LGDs are used for capital calculation purposes as is required under the Capital Requirements Directive. These Supervisory LGDs are either applied directly to obligors, or the Supervisory LGD is reduced through the recognition of the risk-mitigating impact of tangible 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 amounts shown in the Standardised tables below do not alter following the application of credit risk mitigation.

Maximum exposure to Credit Risk

Tables 4.1 and 4.2 are based on exposure at default (EAD) and show the Group's point-in-time and average maximum exposure to credit risk for the year ended 31 March 2009. The average exposures are calculated based on the period from 1 April 2008 to 31 March 2009.

During the year, a number of IRB models received approval from the Financial Regulator. The average shown below treats this category of model as having been on the IRB approach from the outset, irrespective of the date of transfer from Standardised approach to IRB approach.

Table 4.1 - Maximum Exposure to Credit Risk: IRB Approach		
31-Mar-09		
IRB Exposure Class	Total Exposure (EAD) €m	Average Exposures over the year (EAD) €m
Institutions	27,356	29,802
Corporates	27,040	24,406
Retail	59,970	64,276
Securitisation Positions	1,574	1,986
Total	**115,940**	**120,470**

Table 4.2 - Maximum Exposure to Credit Risk: Standardised Approach		
31-Mar-09		
Standardised Exposure Class	Total Exposure (EAD) €m	Average Exposures over the year (EAD) €m
Central governments or central banks	16,246	6,350
Administrative bodies and non-commercial undertakings	21	22
Corporates	49,367	53,075
Retail	3,985	4,834
Past due items	2,224	1,501
Items belonging to regulatory high risk categories	24	25
Short term claims on institutions and corporates	587	1,142
Other items	36	34
Total	**72,490**	**66,983**

Geographic Analysis of Exposures

The Group's primary markets are Ireland and the UK. The geographic location shown in the tables below is based on the location of the business unit where the exposure is booked.

Tables 4.3 and 4.4 are based on EAD.

Table 4.3 - Geographic Analysis of Exposure: IRB Approach			
31-Mar-09			
IRB Exposure Class	Ireland (EAD) €m	UK & Other (EAD) €m	Total (EAD) €m
Institutions	27,346	10	27,356
Corporates	17,554	9,486	27,040
Retail	30,788	29,182	59,970
Securitisation Positions	1,480	94	1,574
Total	**77,168**	**38,772**	**115,940**

Table 4.4 - Geographic Analysis of Exposure: Standardised Approach			
31-Mar-09			
Standardised Exposure Class	Ireland (EAD) €m	UK & Other (EAD) €m	Total (EAD) €m
Central governments or central banks	16,246		16,246
Administrative bodies and non-commercial undertakings	21		21
Corporates	40,230	9,137	49,367
Retail	2,288	1,697	3,985
Past due items	1,852	372	2,224
Items belonging to regulatory high risk categories	24	-	24
Short term claims on institutions and corporates	503	84	587
Other items	36	-	36
Total	**61,200**	**11,290**	**72,490**

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 classifications to those in the industry analysis contained in the Group's Annual Report & Accounts 2009 have been used, however, the values and distribution within the tables will differ. Values will differ due to the calculation of the exposure amount 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 & Accounts 2009 and exposures are thus classified using a different methodology.

Table 4.5 - Industry Analysis of Exposures: IRB Approach

(EAD) 31 March 2009

IRB Exposure Class	Agriculture €m	Business & Other Services €m	Central & Local Government €m	Construction & Property €m	Distribution €m	Energy €m	Financial €m	Manufacturing €m	Transport €m	Personal Other €m	Personal Residential Mortgages €m	Total €m
Institutions	-	355	2	34	2	-	26,863	8	1	91	-	27,356
Corporates	232	4,390	136	17,880	1,498	16	635	600	253	1,364	36	27,040
Retail	451	362	-	140	177	2	6	62	36	6,006	52,728	59,970
Securitisation Positions	-	665	-	-	-	24	11	10	-	724	140	1,574
Total	**683**	**5,772**	**138**	**18,054**	**1,677**	**42**	**27,515**	**680**	**290**	**8,185**	**52,904**	**115,940**

Table 4.6 - Industry Analysis of Exposures: Standardised Approach												
(EAD) 31 March 2009												
Standardised Exposure Class	Agriculture	Business & Other Services	Central & Local Government	Construction & Property	Distribution	Energy	Financial	Manufacturing	Transport	Personal Other	Personal Residential Mortgages	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Central governments or central banks	-	-	16,246	-	--	-	-	-	-		-	16,246
Administrative bodies and non-commercial undertakings	-	-	-	-	21	-	-	-	-	-	-	21
Corporates	1,098	11,000	60	17,122	3,152	32	2,144	9,937	2,277	2,488	21	49,367
Retail	321	1,838	8	243	197	3	35	158	94	1063	25	3985
Past due items	16	146	-	1,740	49		32	80	14	147	-	2,224
Items belonging to regulatory high risk categories	-	-	-	-	-	-	24	-	-	-	-	24
Short term claims on institutions and corporates	12	118	-	348	22	-	31	12	-	44	-	587
Other items	-	-	-	-	-	-	29	6	1	-	-	36
Total	**1,447**	**13,102**	**16,314**	**19,453**	**3,441**	**35**	**2242**	**10,223**	**2,385**	**3742**	**46**	**72,490**

Maturity Analysis of Exposures

The maturity analysis below discloses the Group's Basel II Pillar 1 credit exposure by contractual maturity date. These numbers are used to generate the credit risk capital requirement.

Tables 4.7 and 4.8 are based on EAD.

Table 4.7 - Maturity Analysis of Exposures: IRB Approach				
31-Mar-09				
IRB Exposure Class	< 1 year (EAD) €m	1 – 5 years (EAD) €m	> 5 years (EAD) €m	Total (EAD) €m
Institutions	9,746	13,678	3,932	27,356
Corporates	5,499	10,200	11,341	27,040
Retail	2,399	3,130	54,441	59,970
Securitisation Positions	7	182	1,385	1,574
Total	**17,651**	**27,190**	**71,099**	**115,940**

Table 4.8 -Maturity Analysis of Exposures: Standardised Approach				
31-Mar-09				
Standardised Exposure Class	< 1 year (EAD) €m	1 – 5 years (EAD) €m	> 5 years (EAD) €m	Total (EAD) €m
Central governments or central banks	13,814	2,402	30	16,246
Administrative bodies and non-commercial undertakings	-	-	21	21
Corporates	13,993	21,009	14,365	49,367
Retail	651	3,089	245	3,985
Past due items	1,659	262	303	2,224
Items belonging to regulatory high risk categories	-	-	24	24
Short term claims on institutions and corporates	587	-	-	587
Other items	-	-	36	36
Total	**30,704**	**26,762**	**15,024**	**72,490**

IRB Approach – Asset Quality

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

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 the majority of its credit risk and counterparty credit risk exposures. 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 "in 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. Cyclic estimates are estimates of default applicable to the next immediate 12 months. These estimates partially capture the economic cycle in that typically these 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. The degree of capture of realised default rates, the model cyclicality, is typically high (50% – 75%).

Non-Retail Internal Rating Systems

The Group has adopted the Foundation IRB approach for its non-retail exposures. Under this approach, the Group calculates its own estimates for PD. The Group uses regulatory estimates of Loss Given Default (LGD) and Conversion Factor (CF).

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 own estimates of PD on a through-the-cycle (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 own estimates for PD, LGD and CF. 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 cyclic basis. These estimates are used for calculation of risk-weighted exposure amounts and for internal credit management purposes.

To calculate LGD and CF, the Group assesses the nature of the transaction and underlying collateral. Both LGD and CF estimates are "downturned" in that they aim 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, but typically include:

For non-retail exposure:

- Internal Reporting
- Credit Management
- Calculation of risk adjusted return on economic capital (RARoC) and 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 cyclic PD estimates are used. Both estimates feature within internal management reporting.

For retail exposures:

- Internal Reporting
- Credit Management
- Automated Credit Decisioning
- Borrower Credit Approval
- Internal Capital Allocation between businesses of the Group
- RARoC is calculated at portfolio and product level as appropriate for the purpose of portfolio review and business strategy formulation

Association of PD Grades with External Ratings

The table below illustrates the relationship between PD Grade, PD band and S&P type ratings. PD grades are used in the risk weighted asset (RWA) calculation. These PD grades differ from internal obligor grades which are used in arriving at IFRS7 classifications, however there is a defined relationship between both sets of grades. Further information on obligor grades can be found on page 45 of the Group's Annual Report & Accounts 2009.

Table 4.9 - Association of PD Grades with External Ratings

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	$1.45\% \leq PD < 3.6\%$	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. The Group considers model risk to be one of the Group's ten most material risks, 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 regular testing on a monthly basis and formal assessment on a quarterly basis. The findings are reported to RMC and appropriate actions, where necessary, approved.
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) that 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 calculation.
4. Group Internal Audit (GIA): GIA regularly reviews the risk control framework including policies and standards to ensure that these are being adhered to and meet industry good practices.
5. The model development and the ICU functions are 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 exposure class is given below. Departures from the Group standards outlined above are not permitted.

- **Central governments and central banks**
  The Group has a permanent exemption from the use of the IRB Approach for sovereign exposures. Capital requirements are therefore calculated on the basis of the Standardised Approach.

- **Institutions**
  Institutions are rated by a single dedicated model. This model incorporates an internally-built scorecard, explicitly uses 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 incorporate scorecard-based calibrated PD outputs (both TtC and cyclic 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 CF estimates for its retail exposures. These estimates are downturned in that they aim to produce estimates of behaviour characteristic of an economic downturn. These estimates do not vary with the economic cycle.

- **Equities**
  The Group has a permanent exemption from the use of the IRB Approach for equity exposures. Capital requirements are therefore calculated on the basis of the standardised approach.

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

Loan Loss Experience in the year to March 2009

A discussion on the factors which impacted the loan loss experience in the year to 31 March 2009 is included in the Credit Risk Assessment and Measurement section on page 43 of the Group's Annual Report & Accounts 2009. Further detail is provided on page 50.

Analysis of Credit Quality for Institutions and Corporates IRB exposure classes

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

Table 4.10 - Analysis of Credit Quality for certain IRB Exposure Classes				
31-Mar-09				
	Institutions		Corporates	
PD Grade	Total Exposures (EAD) €m	Exposure-weighted Average Risk Weight %	Total Exposures (EAD) €m	Exposure-weighted Average Risk Weight %
1 - 4	26,833	15	3,535	26
5 - 7	417	54	11,635	82
8 - 9	18	128	7,915	111
10 - 11	17	229	3,180	154
Default	71	-	775	-
Total	**27,356**	**16**	**27,040**	**89**

Analysis of Credit Quality – IRB Retail

Tables 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: IRB Retail Sub-Exposure Classes

31-Mar-09

PD Grade	Qualifying Revolving					Real Estate					Other Retail				
	Total Exposures (EAD) €m	Exposure-weighted Average Risk Weight %	Exposure-weighted Average LGD %	Amount of Undrawn Commitments €m	Exposure-weighted Average Exposure Value %	Total Exposures (EAD) €m	Exposure-weighted Average Risk Weight %	Exposure-weighted Average LGD %	Amount of Undrawn Commitments €m	Exposure-weighted Average Exposure Value %	Total Exposures (EAD) €m	Exposure-weighted Average Risk Weight %	Exposure-weighted Average LGD %	Amount of Undrawn Commitments €m	Exposure-weighted Average Exposure Value %
1 - 4	135	5	53	225	59	10,944	4	11	762	48	167	14	41	237	67
5 - 7	705	14	44	1,824	23	32,464	11	11	983	44	731	42	41	218	73
8 - 9	353	31	41	407	26	6,100	25	11	37	42	1,381	60	44	45	80
10 - 11	460	86	41	395	24	4,116	53	12	31	63	658	84	44	48	83
Default	105	-	41	14	32	1,340	-	12	-	2	311	-	44	2	80
Total	**1,758**	**35**	**43**	**2,865**	**27**	**54,964**	**14**	**11**	**1,813**	**44**	**3,248**	**53**	**43**	**550**	**79**

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 given fixed risk weights in the CRD based on the exposure class to which the exposures is allocated.

Nominated ECAIs and ECAs

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

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-Mar-09

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 Items (EAD) €m
0%	16,246	-	-	-	-	-	-	-
10%	-	-	-	-	-	-	-	-
20%		-	52	23	-	-	-	-
35%	-	-	1	-	-	-	-	-
50%	-	-	-	-	-	-	-	-
75%		-	2,501	3,943	-	-	96	-
100%	-	21	46,327	18	352	-	485	36
150%	-	-	486	1	1,872	24	6	-
200%	-	-	-	-	-	-	-	-
Deducted		-	-	-	-	-	-	-
Total	**16,246**	**21**	**49,367**	**3,985**	**2,224**	**24**	**587**	**36**

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 €1m and as such are assigned a retail risk weight.

Past Due and Impaired Exposures

The definitions for accounting purposes of 'past due' and 'impaired' are set out in the Asset Quality section on page 45 of the Group's Annual Report & Accounts 2009.

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			
31-Mar-09			
Industry Class	Past Due Exposures €m	Impaired Exposures €m	Total €m
Personal	3,096	597	3,693
- *Residential Mortgages*	*2,782*	*229*	*3,011*
- *Other*	*314*	*368*	*682*
Property & Construction	1,892	3,538	5,430
Business & Other Services	384	615	999
Manufacturing	33	187	220
Distribution	273	174	447
Transport	9	40	49
Financial	2	60	62
Agriculture	70	68	138
Energy	2	43	45
Total	**5,761**	**5,322**	**11,083**

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.

Table 4.14 - Past Due and Impaired Exposures by Geography		
31-Mar-09		
Geographic Breakdown	Past Due Exposures €m	Impaired Exposures €m
Ireland	3,008	4,143
United Kingdom & Other	2,753	1,179
Total	**5,761**	**5,322**

Provisioning

The Loan Loss provisioning methodology used by the Group is set out in page 48 of the Group's Annual Report & Accounts 2009. 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 specific provision, specific charges and amounts written off on specific provisions by industry classification. It is based on financial statement information.

Table 4.15 - Provisions by Industry			
31-Mar-09			
Industry Analysis	Specific Provisions €m	Total Specific Provision Charges €m	Amounts Written Off €m
Personal	312	227	96
- Residential Mortgages	76	66	10
- Other	236	161	86
Property & Construction	593	581	15
Business & Other Services	190	154	122
Manufacturing	54	40	6
Distribution	44	30	4
Agriculture	14	7	2
Energy	11	11	-
Total	**1,218**	**1,050**	**245**

Table 4.16 shows the Group provision against loans and advances to customers split between specific and IBNR provisions. It is based on financial statement information.

Table 4.16 - Provisions by Provision Type		
31-Mar-09		
Provision Type	Balance Sheet Impairment Provisions €m	Total Loan Impairment Charge €m
Total Specific Provisions	1,218	1,050
Total IBNR Provisions	563	385
Total Group Provisions	1,781	1,435

The provision above does not include provisions of €2 million that are carried against loans and advances to banks. Impairment charges of €81 million on available for sale assets are charged directly against the relevant asset rather than being separately held as a provision.

Provisioning Charges during the Period

Table 4.17 below shows the movement in the provision on loans and advances to customers during the year to 31 March 2009. It is based on financial statement information.

Table 4.17 - Provisioning Charges during the Period	
31-Mar-09	
Reconciliation	Provisions €m
Opening Balance	596
Amount charged during the period	1,435
Amounts reversed, set aside and other adjustments	(250)
Closing Balance	**1,781**

The amount charged above does not include €2 million charged to the income statement relating to loans and advances to banks or €76 million charged to the income statement relating to impairment losses on available for sale assets.

Table 4.18 shows the Group provision on loans and advances to customers split between specific and IBNR provisions on a geographic basis. €2 million of provisions against loans and advances to banks relates to Ireland with €1 million classified as specific and €1 million classified as IBNR.

Of the €76 million of impairment charges on available for sale assets, €56 million relates to Ireland with €20 million relating to the UK and Other. All of the €76 million is classified as specific.

Table 4.18 - Provisions by Geographic Location		
31-Mar-09		
Geographic Breakdown	Specific Provisions €m	IBNR Provisions €m
Ireland	897	423
United Kingdom & Other	321	140
Total	**1,218**	**563**

Credit Risk Mitigation for Risk Management

The Credit Risk Mitigation section in page 44 of the Group's Annual Report & Accounts 2009 contains information relating to

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

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

Credit derivatives are not used by the Group as a hedging/risk mitigating mechanism.

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

Credit Risk Mitigation for Capital Calculation

The information in tables 4.19 and 4.20 is based on EAD.

Table 4.19 - Credit Risk Mitigation: IRB Approach			
31-Mar-09			
IRB Exposure Class	Total Exposure after netting and volatility adjustments covered by Eligible Financial Collateral (EAD) €m	Total Exposure after netting and volatility adjustments covered by Other Eligible Collateral (EAD) €m	Total (EAD) €m
Institutions	-	5	5
Corporates	7	5,786	5,793
Total	**7**	**5,791**	**5,798**

Table 4.20 - Credit Risk Mitigation: Standardised Approach	
31-Mar-09	
Standardised Exposure Class	Total Exposure after netting covered by Guarantees / Credit Derivatives (EAD) €m
Corporates	70
Total	**70**

Comparison of Expected versus Actual Loss

This table is based on a comparison of regulatory Expected Loss (EL) of the performing loan portfolio as at 31 March 2008 with Actual Loss (specific provision charge) in the period 31 March 2008 to 31 March 2009.

The EL underlying parameters PD, LGD and EAD represent through the cycle estimations, i.e. they reflect and estimate the average outcomes from an entire credit life 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: IRB Approach		
2008-2009		
IRB Exposure Class	Expected Loss calculated on 31-Mar-08 €m	Specific Provision Charge year to 31-Mar-09 €m
Institutions	11	64
Corporates	195	74
Securitisation positions	-	83
Total	**206**	**221**

Table 4.22 - Expected versus Actual Loss: IRB Retail Approach			
2008-2009			
Retail IRB Exposure Class		Expected Loss calculated on 31-Mar-08 €m	Specific Provision Charge year to 31-Mar-09 €m
Retail	Retail exposures secured by real estate collateral	115	79
	Qualifying revolving and Other retail	120	145
Total		**235**	**224**

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

Detail on how Counterparty Credit Risk is managed is contained in page 41 of the Group's Annual Report & Accounts 2009.

Limits, policies and collateral

Counterparty credit limits are established 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 from there calculating EL and RWA figures.

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. Currently in excess of 90% of our interbank counterparty credit risk is collateralised.

When CSAs are signed a threshold amount is agreed, below which collateral will not be exchanged. This effectively limits our counterparty exposure to the amount of the threshold (plus a buffer to allow for movements in market rates between collateral calls). Thresholds are linked to counterparty grades. When a counterparty is downgraded the threshold is reviewed and can be reduced if appropriate. The effect of the reduction is to reduce the amount of exposure taken against the counterparty.

The Group recognises the potential for "wrong-way" exposure in derivative re-writing risk. This occurs where the potential market-driven exposure on the contract is likely to be positively correlated with the counterparty default correlation because both are linked to a common factor such as a commodity price or an exchange rate. At a systematic level, 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 March 2009, the maximum impact of a two notch downgrade by either S&P or Moody's on the Group's CSA's covering its interbank derivative positions, is that the Group could be asked to post an additional €0.2bn in collateral. 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 impact of netting. Current credit exposures consist of replacement cost of contracts together with potential future credit exposure.

Table 5.1 - Contract Values	
31-Mar-09	
Contract Values	Balance €m
Gross Positive Fair Value of Contracts	6,761
Potential Future Credit Exposure	2,663
Total Current Credit Exposure	9,424
Netting Benefits	5,999
Netted Current Credit Exposures	3,425
Net Derivative Credit Exposure	3,425

Current Credit Exposure

Table 5.2 - Current Credit Exposure	
31-Mar-09	
Current Credit Exposure	Current Credit Exposure €m
Interest Rate	1,574
FX	150
Equity	144
Netted agreements Credit Exposure	1,584
Credit Derivatives	-
Total	**3,425**

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, under the CRD, to be material 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 has a balance sheet value of €60.6m.

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.

Accounting Treatment & Valuation

Direct Private Equity Fund Investments and Equity Co-Investments are accounted for in the same manner. Both are treated as Available for Sale (AFS) assets on the Bank's Balance Sheet. Given the absence of an active market or a timely Market Value Price they are held at cost.

An impairment charge is recognised when the Bank 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 Profit and Loss account unless an actual recovery has occurred.

The Group's venture capital investments are accounted for in accordance with the requirements of Irish GAAP and IFRS. The Group's venture capital interests are deemed " Financial Assets" for the purposes of IAS 39.

CRD Treatment

These exposures are treated under the Standardised approach for credit risk exposures.

7. Securitisation

Role and Objectives in the Securitisation Process

The Group has acted as originator with respect 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 the funding that is long-term, as well as to achieve capital improvements. Information on the exposures securitised under these securitisations 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 to the above, the Group has done a number of internal securitisations. 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 Bank has not acted as sponsor in securitised transactions.

Calculation of Risk Weighted Exposure Amounts

The securitisations originated by the Group qualify for derecognition under Pillar 1. The Group has however retained positions in these securitisations and the risk weighted exposure amounts for these positions are calculated using the IRB approach.

The risk weighted exposure amounts for the Group's purchased positions are also 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 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 the originated securitisations have been derecognised for Pillar 1 purposes, they have not been derecognised for accounting purposes. The exposures securitised under these securitisations, all of which are mortgages, are therefore treated as credit risk exposures under IFRS 7.

The Group's purchased positions are treated as loans and receivables from an accounting perspective.

Use of External Credit Assessment Institutions

For purposes of RWA calculation, ECAIs are used for the Group's purchased positions. The following ECAIs are used: Moodys, Fitch 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 - Total Amount of Exposures Securitised	
31-Mar-09	
Exposure Type	Traditional Outstanding Exposures €m
Residential Mortgages	5,270

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 Securitised Exposures			
31-Mar-09			
Exposure Type	Past Due Exposures €m	Impaired Exposures €m	Losses Recognised €m
Residential Mortgages	236	10	1

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

This table is based on EAD.

Table 7.3 - Retained and Purchased Securitisation Positions by Exposure Type	
31-Mar-09	
Exposure Type	Retained or Purchased (EAD) €m
Residential Mortgages	598
Commercial Mortgages	556
Leasing	7
Loans to Corporates or SMEs	192
Consumer Loans	133
Trade Receivables	8
Other Assets	80
Total	**1,574**

Securitisation Positions Retained and Purchased by Risk Weight

This table is also based on EAD.

Table 7.4 - Retained and Purchased Securitisation Positions by Risk Weight	
31-Mar-09	
Risk Weight Band	Retained or Purchased (EAD) €m
10%	760
18%	100
35%	459
75%	112
425%	2
650%	1
Deducted	140
Total	**1,574**

Summary of Securitisation Activity

There have been no new securitisations originated by the Bank which qualify for derecognition under Pillar 1 in the period 31 March 2008 to 31 March 2009.

8. Market Risk

The market risk objectives and the process by which market risk is governed and managed is set out in the Market Risk section in page 58 of the Group's Annual Report & Accounts 2009. This section also includes detail regarding the relevant strategies and processes by which market risk is managed, hedged and mitigated.

Market risk is the risk of loss in Group income or net worth arising from adverse change in interest rates, exchange rates or other market prices. Market risk arises in customer facing banking 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.

BoIGM is the sole Group business permitted to take discretionary market risk on behalf of the Group. The Group has never sought 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 Capital Requirements Directive and are marked to market for financial reporting purposes. Discretionary risk is also taken in the Banking Book in BoIGM.

Banking Book risk in the Group is substantially concentrated in BoIGM through internal risk-transfer arrangements, with some forms of basis risk remaining in retail business units. Where prepayment is a material feature of a particular lending activity, this is allowed for in hedging practice. The Group may also make behavioural assumptions about the dynamics of its balance sheet in managing certain sorts of risk, notably basis risk.

Structural interest rate risk, arising from the existence of non-interest bearing liabilities and assets on the Group's balance sheet, is managed centrally in line with a passive investment rule described below under Structural Market Risk.

All of these processes are subject to rigorous compliance monitoring and regular reporting which ranges from daily to monthly depending on the nature of the risks involved.

The Group's approach to market risk measurement is contained in the Market Risk Measurement section in page 59 of the Group's Annual Report & Accounts 2009.

Exposure to interest rate risk on positions not included in the trading book

Information on the nature of interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk is included in the Market Risk Measurement section on page 59 of the Group's Annual Report & Accounts 2009.

The impact of upward and downward rate shocks on Trading book VaR and Non-Trading Book Net Interest Income is also included in this section.

The Group uses the Standardised approach for its assessment of own funds requirements for Market risk, using the prescribed regulatory calculation methodology.

9. Operational Risk

The strategies and processes by which Operational Risk is managed are set out in the Regulatory and Operational Risk section on page 62 of the Group's Annual Report & Accounts 2009. The new committee and function names referred to below are as a result of the new risk management structures introduced post 31 March 2009.

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 and Operational Risk section of the Risk Management section of the Group's Annual Report & Accounts 2009 (page 62).

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; GROR 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 64 of the Group's Annual Report & Accounts 2009.

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

10. Glossary

Advanced IRB	Advanced Internal Ratings Based Approach. The approach which allows banks to calculate their capital requirement in respect of credit risk represented by a particular asset by using their own internally generated estimates of PD, LGD and EAD. These variables are then fed into a standard formula to produce the capital requirement for the asset.
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.
Basis Risk	Basis risk arises where lending re-prices with changes in central bank rates but is funded at short dated market rates. While it has always been a feature of retail and commercial banking, it has become more material since the onset of the current crisis in August 2007 as the volatility of spreads between central bank rates and short term market rates increased significantly
Capital Requirements Directive (CRD)	EU Capital Requirements Directive (implementation of Basel II accord in the EU)
Collateral	Property or assets made available by a borrower as security against a loan. Under a collateralisation arrangement, a party who 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.
Contractual Maturity	Date on which a contractual agreement, financial instrument, guaranty, loan or offer becomes due for settlement.
Credit Conversion Factor (CCF)	Percentages designed to convert the off-balance sheet items to credit equivalent assets which are then placed in the respective risk-based categories, thereby converting them to on-balance sheet equivalents.
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 application of credit risk mitigants such as collateral, guarantees and credit protection.
CSA	Collateral 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.
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 Agencies (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, 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.

Export Credit Assessment Agencies (ECAIs): An eligible Export 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 and the Securitisation Ratings Based Approach.

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, 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 weight Average risk weighting of exposures. Calculating the exposure weighted average risk weight involves multiplying the exposure values by the relevant risk weight, summing the answers and dividing by the total exposure values.

Exposure weighted average LGD Calculating the exposure weighted average LGD involves multiplying the exposure values by the relevant LGD, summing the answers and dividing by the total exposure values.

Exposure weighted average exposure value Calculating the exposure weighted average exposures involves multiplying the exposure commitment amount by the relevant CCF, and dividing by the total commitment amount.

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 GMRAs are Global Master Repurchase Agreements, version 1, issued by the Public Securities Association and the International Securities Market Association ("ISMA") in 1995 and version 2 issued by The Bond Market Association and ISMA in 2000. These agreements are standard industry agreements that permit the netting and the collateralisation of repo type transactions.

IFRS International Financial Reporting Standard

IRB Exposure Classes

- Institutions: Exposures to Financial Institutions authorised and supervised by the competent authorities and subject to prudential requirements.
- Corporates: The CRD does not provide a definition of the corporate exposure class; it simply provides that any exposure not falling into any of the other exposure classes will be allocated to the corporate exposure class.
- Exposures secured by real estate collateral: Exposures secured by residential mortgages.
- Qualifying revolving retail exposures: The exposures (to individuals) are revolving, unsecured, and to the extent they are not drawn immediately and unconditionally, cancellable by the credit institution.
- Securitisation positions: Exposures belonging to a pool - as defined below under securitisation.

ISDA: ISDA is the International Swaps and Derivatives Association

	ISDA Agreements are standard industry agreements issued by ISDA which permit the netting of derivative transactions
Internal Ratings Based Approach (IRB):	Approach to credit risk under which a bank may use internal estimates to generate risk components for use in 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.
Operational Risk Standardised Approach	The Pillar I 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.
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 a 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 reliquefy the asset. Any asset that generates an income stream can be securitised – i.e. mortgages, car loans, credit-card receivables.
Standardised Exposure Classes	
- Regulatory Retail:	Exposures must be to an individual person or person or to a small or medium sized entity. It must be one of a significant number of exposures with similar characteristics such that the risk associated with such lending are substantially reduced and, the total amount owed, shall not, to the knowledge of the credit institution, exceed €1m.
- Administrative bodies and non-commercial	Exposures to Administrative bodies and non-commercial undertakings.

undertakings:

- Corporates:	In general, a corporate exposure is defined as a debt obligation of a corporate, partnership or proprietorship – CRD Annex VII.
- Past due loans >90 days:	Where the exposure is past due more than 90 days.
- Items belonging to regulatory high risk categories:	Exposures associated with particularly high risks such as investments in venture capital firms and private equity investments.
- Short term claims on Institutions and Corporates:	Short term exposures to an institution or Corporate.
- Other items:	Exposures not falling into the other exposure classes outlined
Trading Book:	A trading book consists of positions in financial instruments and commodities held either with intent to trade, or in order to hedge other elements of the trading book. To be eligible for trading book capital treatment, financial instruments must either be free of any restrictive covenants on their tradability, or able to be hedged completely.

Bank of Ireland is regulated by the Financial Regulator.