PILLAR 3 Disclosures

For the nine months ended 31 December 2009

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, projected impairment losses, capital ratios, margins, future payment of dividends, the outcome of the current review 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, property market conditions in Ireland and the UK, costs of funding, the performance and volatility of international capital markets, the expected level of credit defaults, the impact of the National Asset Management Agency, the outcome from the review by the European Commission under EU state aid rules of the restructuring plan submitted by the Group, 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 file or submit to the US Securities and Exchange Commission.

Capital Requirements Directive

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Basel II

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 (for the Bank of Ireland Group ("the Group"), this is the Irish Financial Regulator (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 II 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 for the nine months ended 31 December 2009 (hereafter referred to as the "Group's Annual Report 31 December 2009"), which contains some 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 and resources, 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 31 December 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 31 December 2009 and the Group's Form 20-F December 31, 2009, other quantitative data is sourced from the Group's Basel II system and is calculated according to a different set of rules. The difference between the financial statement data and that sourced from the Group's Basel II system 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 2009 or the Group's Form 20-F December 31, 2009.

Meeting Capital Requirements

The Group's total capital position at 31 December 2009 was €13.2 billion (€16.0 billion at 31 March 2009). Compared to a capital requirement of €7.9 billion (€8.4 billion at 31 March 2009), which equates to 8% of risk weighted assets (8% being the minimum total capital ratio required by the Financial Regulator), this represented coverage of 167% (189% at 31 March 2009).

The Group's core tier 1 capital position was €8.8 billion at 31 December 2009 (€10.0 billion at 31 March 2009). The Group's equity tier 1, core tier 1, tier 1 and total capital ratios at 31 December 2009 were 5.3%, 8.9%, 9.8% and 13.4% respectively.

Since 31 March 2009, the Group has undertaken a number of measures, including the following, to strengthen its capital position:

- In June 2009 the Group announced the successful completion of a debt re-purchase programme of €1.7 billion of euro, sterling and US dollar denominated non core tier 1 securities. This initiative increased the Group's equity tier 1 by €1 billion.

- In February 2010 the Group successfully completed a lower tier 2 debt-for-debt exchange, which yielded a gain to equity and core tier 1 capital of €405 million, whilst leaving the total capital position unchanged.

- 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 (for information on the 2009 Preference Stock, refer to Note 55 of the Group's Annual Report 31 December 2009).

- The Financial Regulator has completed a Prudential Capital Assessment Review (PCAR) on the Group in order to assess its capital requirements. This review, which was completed on 30 March 2010, has taken into account both expected base and potential stressed case loan losses, together with other financial developments, over a 3 year time horizon to 31 December 2012.

  The PCAR has been 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%.
  - A target level of 4% core tier 1 capital should be maintained in a stress scenario.

  As announced by the Financial Regulator on 30 March 2010, the outcome of this review determined that the Group would need to raise €2.66 billion of equity capital by 31 December 2010 to comply with the PCAR.

  This outcome is aligned with previously held views within the Group and the Group has raised additional capital in excess of the Financial Regulator's requirements. In conjunction with these plans and to support them, the State (NPRFC) committed to converting part of its holding (€3.5 billion Preference Stock) into ordinary equity.

- On 26 April 2010, the Group announced its intention to strengthen capital by €3.4 billion gross / €2.8 billion net (subject to shareholder approval), by way of the Institutional Placing €0.5 billion, the NPRFC Placing €1.036 billion (through the conversion of part of the €3.5 billion Preference Stock), the Rights Issue (including NPRFC Rights Issue Undertaking) of up to €1.885 billion and the Debt for Equity Offers.

- Shareholder approval was obtained at the EGC meeting of 19 May 2010.

- On 9 June 2010 the Group announced the successful completion of all the elements of the capital raise, which resulted in the Group strengthening capital by €3.56 billion gross / €2.94 billion net.

- The Group transferred Tranche 1 of its National Asset Management Agency (NAMA) bound assets on 2 April 2010.

  - The loans that are expected to transfer to NAMA of approximately €12.2 billion, had impairment provisions of €2.8 billion at 31 December 2009 which together with accrued interest and related derivatives of €0.2 billion, will give rise to an expected net transfer of €9.6 billion of Bank of Ireland Eligible Bank Assets to NAMA. The loans are expected to comprise €8.5 billion of land and development loans and €3.7 billion of associated loans.
  - Tranche 1 NAMA Assets of €1.9 billion (before impairment provisions), comprised €0.9 billion of land and development loans and €1.0 billion of associated loans. The consideration received for these assets amounted to €1.2 billion in Government guaranteed bonds and non-guaranteed subordinated bonds resulting in a discount to gross loan value of approximately 36%.
  - The Group has developed a model which it believes replicates the NAMA valuation methodology and has put a sample of €6 billion (approximately 50% of the loans which the Group expects to transfer to NAMA, including Tranche 1 NAMA Assets) through this model. The model indicates that on this sample, the level of discount would be similar to that pertaining to Tranche 1 NAMA Assets.
  - The loss on disposal of Bank of Ireland Eligible Bank Assets to NAMA will be a function of three factors: the quantum of those assets, the mix of those assets as between land and development and associated loans, and the discount that would apply to those assets.

- While the limited number and nature of loans involved in Tranche 1 NAMA Assets may not be representative of the total portfolio, applying the level of discount (approximately 36%) on the disposal of the Tranche 1 NAMA Assets to the portfolio of €12.2 billion of loans would result in a loss of €4.4billion (before taking account of impairment provisions of €2.8 billion at 31 December 2009).
- The Bank estimates that the disposal of loans to NAMA of €12.2 billion will reduce the Risk Weighted Assets of the Group by approximately €11 billion. The pro forma impact on capital ratios is outlined in Part XV, page 153 (Unaudited Pro Forma Financial Information) of the Prospectus for the Rights Issue dated 26 April 2010 available on the Group's website. [1]

Risk Management

The Group's risk management structure has been reinforced by changes put in place since 31 March 2009. An internal reorganisation has been implemented, which includes a split of the role of the Chief Risk Officer into two functions – Chief Credit & Market Risk Officer (CCMRO) and Chief Governance Risk Officer (CGRO) – both of whom report directly to the Group Chief Executive Officer. The restructure was designed to enhance the status of risk at executive level and give greater line of sight on accountability and responsibility for risk.

In addition, since 31 March 2009, a new committee – the Court Risk Committee (CRC) – 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 forms a view on the key risks facing the Group, on the quality and effectiveness of risk identification assessment, control and reporting, reviews the extent to which strategy is informed by and aligned with the Group's risk appetite, and reports its findings to the Court. The CRC meets at least quarterly; it met 4 times during the second half of 2009 and is scheduled to meet 6 times in 2010.

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 approach involves the application of prescribed 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 needs.

At 31 December 2009, the Group applied the Foundation IRB and IRB Retail approaches to 66% (61.5% at 31 March 2009) of its exposures which resulted in 44% of credit risk weighted assets (RWA) being based on IRB approaches (41% at 31 March 2009).

In May 2010 the Group received IRB model approval for three further models. Had approval for these models been in place as at 31 December 2009, 81% of the Group's exposures and 66% of credit RWA would have been based on IRB approaches. Subject to regulatory approval, the Group anticipates extending the usage of Foundation IRB and IRB Retail in due course.

In addition, circa €12.2 billion of the Group's higher risk loan exposures consisting of performing and non-performing land and development loans, together with associated loans (primarily investment property loans), are in the process of being transitioned to the National Asset Management Agency (NAMA). €1.9 billion of exposures have been transferred to date.

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.

[1] http://www.bankofireland.com/investor/capital_raising/documents_and_announcements/index.html,

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 the Group Risk Policy Committee, the Group Audit Committee and the Group Regulatory, Compliance and Operational Risk Committee. Group and business risk exposures are assessed and appropriate controls and mitigants are put in place; 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.

1. Introduction

The Basel Capital Accord ("Basel II"), 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 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 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 2009 and the Group's Form 20-F December 31, 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 31 December 2009. Copies of the Group's Annual Report 31 December 2009 and the Group's Form 20-F December 31, 2009 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 produced in accordance with the Group's Pillar 3 Disclosure Policy.

Supervision

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

As at 31 December 2009, the Group held 4 separate banking licences. These are held by the Governor and Company of the 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 nine months ended 31 December 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.

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

Table 1.1 – 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 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 investment added to RWA.
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 Annual Report 31 December 2009 and the Group's Form 20-F December 31, 2009) and those compiled using Basel II methodologies. Unless specified otherwise, both sets of data reflect the position as at 31 December 2009, which is the Group's new 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 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 2009 and the Group's Form 20-F December 31, 2009 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 2009.

Comparative Analysis

The primary factors behind movements between 31 March 2009 and 31 December 2009 are outlined below.

Capital Resources

- Total tier 1 capital decreased by €2,998 million, reflecting the loss of €1,469 million in the nine month period ended 31 December 2009 (which includes the benefit of the gain generated from the debt repurchased of €1,037 million) and the reduction of €1,670 million associated with the tier 1 debt repurchase.
- Tier 2 capital increased by 6% or €239 million to €4,310 million. The movement was driven by an increase in IBNR provisions of €465 million offset by a decrease in dated loan capital of €111 million.

Volumes

- The reduction in the "Institutions" exposure class from March 2009 to December 2009 is mainly due to a reduction in liquid assets held by the Group. This decrease is due to a reduction in the overall level of wholesale funding together with an extension of the maturity profile of this lower level of wholesale funding. This has led to a reduction in the Group's requirement for liquid assets.
- The reduction in the "Central Governments or Central Banks" exposure class from March 2009 to December 2009 is due to a reduction in gross collateralised borrowing through the normal monetary operations of the Monetary Authorities as the Group reduced the overall level of wholesale funding. Drawings from Monetary Authorities at 31 December 2009 were €8 billion net, down from €17 billion net at 31 March 2009.
- In January 2009 the Group announced its withdrawal from the intermediary sourced mortgage market in the UK and commenced the process of winding down a series of non-core international lending portfolios in Capital Markets which the Group expects will reduce the size of its balance sheet over time. These deleveraging activities have impacted on volumes since 31 March 2009.
- Volumes were also impacted by movements in exchange rates, and additional loan drawdowns of committed facilities.

Asset Quality

- Asset quality continues to deteriorate on a reducing loan book primarily due to the deterioration in the global and Irish economic environments, resulting in continuing low levels of economic activity across the Group's main markets, impacting upon credit quality. This deterioration is reflected in the sections below on Asset Quality and Securitisation.

Default, Impairment and Provisioning

- The volume of loans in default in accordance with the CRD definition of default (greater than 90 days past due) has increased (this is particularly visible in the Standardised approach "Past Due" exposure class). The volume of impaired loans and provisions has also increased. This reflects the severe deterioration in general economic conditions, weaker consumer sentiment and a sharp slowdown in the property and construction sector.

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 105 of the Group’s Annual Report 31 December 2009 under “Capital Management”.

The Group uses Foundation Internal Ratings Based approach (IRB), IRB Retail and Standardised approaches for the calculation of its credit risk capital requirements. It is anticipated that a number of portfolios currently on the Standardised approach will move in due course to the Internal Ratings Based approach.

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 2009, 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 rate of 8% of RWA set by the CRD.

Table 2.1 – Capital Requirements

		31 December 2009 €m		31 March 2009 €m	
Credit Risk & Counterparty Risk of which			**7,070**		**7,565**
IRB			3,113		3,105
of which	Central Government & Central Banks	-		-	
	Institutions	249		341	
	Corporates	1,953		1,935	
	Retail:				
	Exposures secured by real estate collateral	607		560	
	Qualifying revolving retail exposures	59		49	
	Other retail exposures	155		199	
	Securitisation position	90		21	
Standardised			3,957		4,460
of which	Central Government & Central Banks	-		-	
	Regional Government or Local Authorities	-		-	
	Administrative bodies & non-commercial undertakings	2		2	
	Multilateral Development banks	-		-	
	International Organisations	-		-	
	Institutions	-		-	
	Corporates	3,140		3,915	
	Retail	176		239	
	Secured by real estate property	-		-	
	Past Due items	598		253	
	Items belonging to regulatory high risk categories	3		3	
	Covered Bonds	-		-	
	Short term claims on institutions and corporates	35		45	
	Collective Investment Undertakings	-		-	
	Others items	3		3	
	Securitisation Positions	-		-	
Market Risk			**171**		**201**
of which	FX	14		17	
Operational Risk			**513**		**517**
Other Assets			**113**		**146**
Total Capital Requirements			**7,867**		**8,429**

Breakdown of the Group's Regulatory Capital Requirement

The Group has received further approvals (May 2010) from the Financial Regulator for its IRB models and now has regulatory approval to use the IRB approach to calculate its capital requirement for the majority of its credit exposures by EAD (81%) and by RWA (66%). The Group has further portfolios that will 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 (RWA) and exposure at default (EAD) by risk type.

Table 2.2 – Breakdown of the Group's Regulatory Capital Requirement

	31 December 2009			31 March 2009		
Risk Type	**Capital Requirement €m**	**Risk Weighted Assets €m**	**Exposure at Default €m**	**Capital Requirement €m**	**Risk Weighted Assets €m**	**Exposure at Default €m**
Standardised Approach	3,957	49,458	59,633	4,460	55,739	72,490
Retail & Foundation IRB Approach	3,113	38,920	113,936	3,105	38,826	115,940
Market Risk	171	2,133	-	201	2,509	-
Operational Risk	513	6,415	-	517	6,473	-
Other Assets	113	1,407	-	146	1,830	-
Total	**7,867**	**98,333**	**173,569**	**8,429**	**105,377**	**188,430**

Capital Resources

Table 2.3 sets out the Group's capital position as at 31 December 2009. 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 terms and conditions of the main features of the Group's capital resources and components thereof can be found in the Group's Annual Report 31 December 2009 on page 107 "Capital Adequacy Data", in Note 39 "Subordinate liabilities" on page 218 and in Note 45 Capital Stock on page 229. See also "Capital Securities Issued by the Group" below.

Table 2.3 – Capital Resources

		31 December 2009		31 March 2009	
		€m	€m	€m	€m
Share capital and reserves			6,437		6,913
Regulatory retirement benefit obligation adjustments			1,632		1,478
Available-for-sale revaluation reserve and cash flow hedging reserve			1,118		2,124
Goodwill and other intangibles			(488)		(511)
Preference Stock			(59)		(58)
New Preference Stock and Warrants			(3,462)		(3,462)
Other Adjustments			80		22
Equity Tier 1 Capital			**5,258**		**6,506**
Preference Stock			59		58
New Preference Stock			3,462		3,462
Core Tier 1 Capital			**8,779**		**10,026**
Innovative Hybrid Debt			752		1,197
Non-Innovative Hybrid Debt			574		1,798
Supervisory deductions			(454)		(372)
of which:	Regulatory Deduction	(40)		(31)	
	First Loss Deduction	(71)		(69)	
	Expected Loss Deduction	(343)		(272)	
Total Tier 1 Capital			**9,651**		**12,649**
Tier 2 Capital					
Undated loan capital			225		229
Dated loan capital			3,716		3,827
IBNR Provisions			772		307
Revaluation Reserves			40		80
Supervisory deductions			(454)		(372)
of which:	Regulatory Deduction	(40)		(31)	
	First Loss Deduction	(71)		(69)	
	Expected Loss Deduction	(343)		(272)	
Other adjustment			**11**		**-**
Total Tier 2 Capital			**4,310**		**4,071**
Total Tier 1 and Tier 2 Capital			**13,961**		**16,720**
Supervisory deductions			-		-
Life and Pensions businesses			(797)		(749)
Total Capital			**13,164**		**15,971**

For background information on movements in Table 2.3 see the "Comparative Analysis" section above.

Capital Securities Issued by the Group

The main features of the Group's issued capital securities (hybrid capital instruments and subordinated liabilities) are described below. For regulatory purposes, these securities are divided into two categories, tier 1 and tier 2, depending on the degree of subordination, permanency and loss absorbency exhibited. The balances disclosed in the tables below are the accounting balance sheet carrying amounts and are not the amounts that the instruments contribute to regulatory capital. The regulatory treatment of these instruments and the accounting treatment differ, for example, in the treatment of issuance costs or regulatory amortisation. Therefore, the balances disclosed below will not reconcile to the amounts disclosed in Table 2.3.

Tier 1

Certain of the Group's capital securities qualify as tier 1 capital. Preference stock, including the Government's investments in the Group, qualifies as core tier 1 capital and other innovative and non innovative securities issued by the Group qualify as non core tier 1 capital. In June 2009 the Group repurchased certain amounts of non core tier 1 securities as part of its ongoing capital management activities. This explains the decreases in certain issuances in Tables 2.5 and 2.6 below.

Preference Stock

The 2009 Government Preference Stock was issued by the Group to the National Pension Reserve Fund Commission (NPRFC) on 31 March 2009. This stock is perpetual and entitles the NPRFC to receive a non-cumulative cash dividend payable at the discretion of the Group. If the dividend is not paid by the Group in cash it is settled via the issuance of ordinary stock to the NPRFC. The stock ranks ahead of ordinary stock as regards dividends and ranks pari passu as regards dividends with other core tier 1 securities. The stock may be repurchased, in whole or in part, at its nominal value within the first five years from the date of issue and thereafter at a premium of 25% to nominal value.

Table 2.4 – Preference Stock

	31 December 2009 €m	31 March 2009 €m
2009 Government Preference Stock (and Warrants per December 2009)	3,462	3,462
Other Preference Stock	59	58
Total	3,521	3,520

Further information in relation to the above can be found in Note 45 "Capital Stock" and Note 55 "Summary of relations with the Irish Government" of the Group's Annual Report 31 December 2009 and Item 10 "Charter and Bye-Laws" of the Group's Form 20-F December 31, 2009.

Innovative non core Tier 1 securities

Innovative non core tier 1 capital securities are subordinate securities, with some additional equity like features that allows them to be included as tier 1 capital. Innovative non core tier 1 securities have no obligation to pay a coupon (and typically contain a moderate incentive to redeem). Such securities do not generally carry voting rights and rank above ordinary shares for coupon payments and in the event of a winding-up. The securities may be called and redeemed by the issuer, subject to the prior approval of the Financial Regulator. If not redeemed, coupons payable may step-up and become floating rate or, fixed rate thereafter based on the relevant reference security plus a margin. The following table lists the qualifying innovative non core tier 1 securities in issue as at 31 December 2009 along with 31 March 2009 comparatives:

Table 2.5 – Innovative non core Tier 1 securities		
	31 December 2009 €m	31 March 2009 €m
€600 million 7.4% Guaranteed Step-up Callable Perpetual Preferred Securities	499	637
US$800 million Fixed Rate / Variable rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities	272	674
Total	771	1,311

Non Innovative non core Tier 1 securities

Non innovative non core tier 1 capital securities are subordinated securities, with some equity like features that can be included as tier 1 capital. Non innovative non core tier 1 securities have no obligation to pay a coupon. Such securities do not generally carry voting rights and rank higher than ordinary shares for coupon payments and in the event of a winding-up. The securities may be called and redeemed by the issuer, subject to the prior approval of the Financial Regulator. The following table lists the qualifying non innovative non core tier 1 securities in issue as at 31 December 2009 along with 31 March 2009 comparatives:

Table 2.6 – Non Innovative non core Tier 1 securities		
	31 December 2009 €m	31 March 2009 €m
Stg£350 million 6.25% Guaranteed Callable Perpetual Preferred Securities	52	381
€600 million Fixed Rate / Variable rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities	342	592
US$400 million Fixed Rate / Variable rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities	139	345
Stg£500 million Fixed Rate/ Variable Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities	40	587
Total	573	1,905

Tier 2

Tier 2 securities are subordinate instruments but do not have the same loss absorbing and permanency features as tier 1 securities. Tier 2 securities are further classified into upper tier 2 and lower tier 2.

Upper Tier 2 capital

Upper tier 2 securities are subordinated loan capital that do not have a stated maturity date but may be called and redeemed by the issuer, subject to the prior approval of the Financial Regulator. The following table lists the qualifying upper tier 2 securities in issue as at 31 December 2009 along with 31 March 2009 comparatives:

Table 2.7 – Upper Tier 2 instruments		
	31 December 2009 €m	31 March 2009 €m
Stg£75 million 13 3/8% Perpetual Subordinated Bonds	140	134
Stg£32.6 million 8 1/8% Non cumulative Preference Shares	37	35
US $150 million Capital note (Classified as other equity reserves in the Group’s Annual Report 31 December 2009)	114	114
Total	291	283

Lower Tier 2 securities

Lower tier 2 securities comprise dated subordinated loan capital repayable at par on maturity and which have 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 Financial Regulator. If not redeemed, interest coupons payable may step-up or become floating rate related to interbank offer rates. 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. The following table lists the qualifying lower tier 2 securities in issue as at 31 December 2009 along with 31 March 2009 comparatives:

Table 2.8 – Lower Tier 2 instruments		
	31 December 2009 €m	**31 March 2009 €m**
€750 million 6.45% Subordinate Bonds 2010[2]	754	775
CAD$400 million Fixed/Floating Rate Subordinate Notes 2015	229	229
€600 million Subordinate Floating Rate Notes 2017	599	599
€750 million Floating Rate Subordinate Notes 2017	749	749
Stg£400 million Fixed/Floating Rate Subordinate Notes 2018	449	428
US $600 million Subordinate Floating Rate Notes due 2018	416	450
Stg£75 million 10 ¾% Subordinate Bonds 2018	96	95
€650 million Fixed/Floating Rate Subordinate Notes 2019	688	692
Stg£450 million dated callable step-up Fixed/Floating Rate Subordinate Notes September 2020	552	540
Total	**4,532**	**4,557**

Further information on events that have occurred since 31 December 2009 which have had an impact on the Group's issued capital securities can be found in the post balance sheet events note in the Group's Form 20-F December 31, 2009.

[2] The €750m 6.45% Subordinate Bonds mature in 2010 and are fully amortised from a regulatory capital perspective.

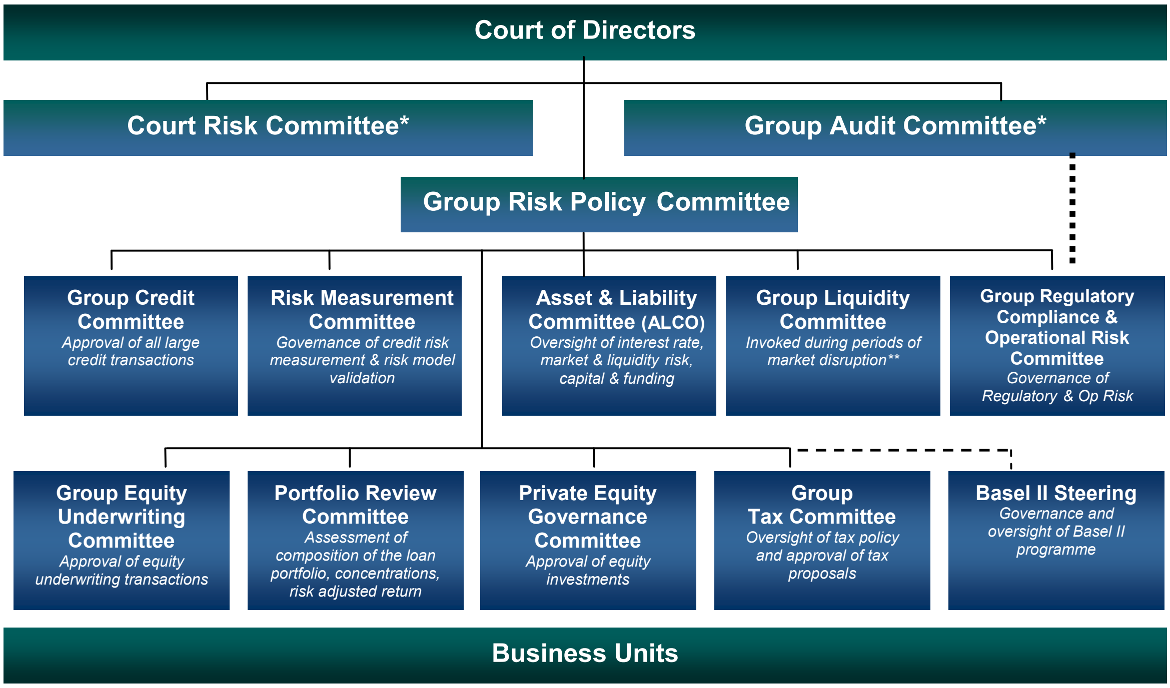
3. Risk Management

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 on page 60 of the Group's Annual Report 31 December 2009.

The Group's risk objectives are set out in the Risk Strategy and Appetite section on page 68 of the Group's Annual Report 31 December 2009.

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 66-68 of the Group's Annual Report 31 December 2009.



* *Membership comprises only non-executive directors*
** *The committee has been invoked and is overseeing the management of funding and liquidity*

The Group completed a review of its risk governance framework in May 2009 taking account of the impact of the global financial crisis on the Group and on the financial services sector. The outcome of the review has resulted in several recommendations that have been or are currently being implemented. These include:

- Establishment of a new non-executive board level committee – the Court Risk Committee (CRC) – with specific responsibility for advising the Court on all risk issues,
- The terms of reference and membership of key risk committees have been refined and updated for emerging best practice recommendations,
- The content of risk reporting has been enhanced and the frequency of reporting to senior management and the Court has increased,
- An internal reorganisation has been implemented, which includes a split of the role of the Chief Risk officer into two functions – Chief Credit & Market Risk Officer (CCMRO) and Chief Governance Risk Officer (CGRO) – both of whom report directly to the Group Chief Executive Officer. The restructure was designed

to enhance the status of risk at executive level and give greater line of sight on accountability and responsibility for risk.

- The responsibilities of the CCMRO include the management of credit and market risk and overall integrated risk reporting to the Group Executive team, the CRC and the Court.
- The CGRO has responsibility for the management of the Group Regulatory, Compliance and Operational Risk function, Group Internal Audit, Group Legal Services, and the Group Secretariat.

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 71 of the Group's Annual Report 31 December 2009.

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 74 of the Group's Annual Report 31 December 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 77 of the Group's Annual Report 31 December 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 78 of the Group's Annual Report 31 December 2009.

Credit Risk Mitigation for Regulatory Capital Calculation

For Retail IRB assets 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 capital requirements.

For non-retail Foundation IRB assets (corporate and commercial lending) Supervisory LGDs are used for capital 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 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.

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 2009 are calculated based on the period from 1 April 2009 to 31 December 2009. The average exposures for 31 March 2009 are calculated based on the period from 1 April 2008 to 31 March 2009.

Table 4.1 – Maximum Exposure to Credit Risk

IRB Exposure Class	31 December 2009		31 March 2009	
	Total Exposure (EAD) €m	Average Exposures over the nine months to 31 Dec 2009 (EAD) €m	Total Exposure (EAD) €m	Average Exposures over the year (EAD) €m
Institutions	23,051	24,375	27,356	29,802
Corporates	28,017	27,546	27,040	24,406
Retail	61,358	61,733	59,970	64,276
Securitisation Positions	1,510	1,512	1,574	1,986
Total	**113,936**	**115,166**	**115,940**	**120,470**

Table 4.2 – Maximum Exposure to Credit Risk : Standardised Approach

Standardised Credit Risk Exposure Class	31 December 2009		31 March 2009	
	Total Exposure (EAD) €m	Average Exposures over the nine months to 31 Dec 2009 (EAD) €m	Total Exposure (EAD) €m	Average Exposures over the year (EAD) €m
Central governments or central banks	10,588	11,623	16,246	6,350
Administrative bodies and non-commercial undertakings	20	21	21	22
Corporates	39,902	44,734	49,367	53,075
Retail	2,948	3,784	3,985	4,834
Past due items	5,665	4,590	2,224	1,501
Items belonging to regulatory high risk categories	25	24	24	25
Short term claims on institutions and corporates	445	556	587	1,142
Other items	40	38	36	34
Total	**59,633**	**65,370**	**72,490**	**66,983**

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 Credit Risk Exposure Class	31 December 2009			31 March 2009		
	Ireland (EAD) €m	UK & Other (EAD) €m	Total (EAD) €m	Ireland (EAD) €m	UK & Other (EAD) €m	Total (EAD) €m
Institutions	23,014	37	23,051	27,346	10	27,356
Corporates	17,617	10,400	28,017	17,554	9,486	27,040
Retail	31,080	30,278	61,358	30,788	29,182	59,970
Securitisation Positions	1,411	99	1,510	1,480	94	1,574
Total	**73,122**	**40,814**	**113,936**	**77,168**	**38,772**	**115,940**

Table 4.4 – Geographic Analysis of Exposure : Standardised Approach

Standardised Credit Risk Exposure Class	31 December 2009			31 March 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	10,588	-	10,588	16,246	-	16,246
Administrative bodies and non-commercial undertakings	20	-	20	21	-	21
Corporates	31,978	7,924	39,902	40,230	9,137	49,367
Retail	1,230	1,718	2,948	2,288	1,697	3,985
Past due items	4,282	1,383	5,665	1,852	372	2,224
Items belonging to regulatory high risk categories	25	-	25	24	-	24
Short term claims on institutions and corporates	417	28	445	503	84	587
Other items	40	-	40	36	-	36
Total	**48,580**	**11,053**	**59,633**	**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 headings to those in the industry analysis contained in the Group's Annual Report 31 December 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 31 December 2009 and exposures are thus classified using a different methodology.

Table 4.5 – Industry Analysis of Exposures : IRB Approach

IRB Exposure Class	31 December 2009											
	Agri-culture (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	Manufac-turing (EAD) €m	Transport (EAD) €m	Personal Other (EAD) €m	Personal Residential Mortgages (EAD) €m	Total (EAD) €m
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**
IRB Exposure Class	**31 March 2009**											
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												
	31 December 2009											
Standardised Credit Risk Exposure Class	**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**	**Manu-facturing (EAD) €m**	**Transport (EAD) €m**	**Personal Other (EAD) €m**	**Personal Residential Mortgages (EAD) €m**	**Total (EAD) €m**
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	**837**	**8,202**	**10,660**	**17,522**	**2,961**	**1,391**	**1,760**	**8,639**	**3,221**	**4,335**	**105**	**59,633**
Standardised Credit Risk Exposure Class	**31 March 2009**											
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	9,973	2,277	2,488	21	49,367
Retail	321	1,838	8	243	197	3	35	158	94	1,063	25	3,985
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 Standardised	**1,447**	**13,102**	**16,314**	**19,453**	**3,441**	**35**	**2,295**	**10,229**	**2,386**	**3,742**	**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 Exposure : IRB Approach

IRB Exposure Class	31 December 2009				31 March 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	7,982	11,186	3,883	23,051	9,746	13,678	3,932	27,356
Corporates	6,648	10,275	11,094	28,017	5,499	10,200	11,341	27,040
Retail	3,269	2,989	55,100	61,358	2,399	3,130	54,441	59,970
Securitisation Positions	-	267	1,243	1,510	7	182	1,385	1,574
Total	**17,899**	**24,717**	**71,320**	**113,936**	**17,651**	**27,190**	**71,099**	**115,940**

Table 4.8 – Maturity Analysis of Exposures : Standardised Approach

Standardised Credit Risk Exposure Class	31 December 2009				31 March 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	6,180	4,206	202	10,588	13,814	2,402	30	16,246
Administrative bodies and non-commercial undertakings	-	-	20	20	-	-	21	21
Corporates	9,226	17,998	12,678	39,902	13,993	21,009	14,365	49,367
Retail	655	2,222	71	2,948	651	3,089	245	3,985
Past due items	3,667	761	1,237	5,665	1,659	262	303	2,224
Items belonging to regulatory high risk categories	-	-	25	25	-	-	24	24
Short term claims on institutions and corporates	445	-	-	445	587	-	-	587
Other items	-	-	40	40	-	-	36	36
Total	**20,173**	**25,187**	**14,273**	**59,633**	**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 66% of its exposures which resulted in 44% 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 "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. Cyclical estimates are estimates of default applicable to the next immediate 12 months. These cyclical 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.

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) and Credit Conversion Factor (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 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, but typically include:

For non-retail exposure:

- Internal Reporting
- Credit Management
- Calculation of risk adjusted return on economic capital (RARoC)
- 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.

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

Table 4.9 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 IFRS 7 classifications, however there is a defined relationship between both sets of grades. Further information on obligor grades can be found on page 81 of the Group's Annual Report 31 December 2009.

Table 4.9 – Association of PD Grades with External Ratings

PD Grade	PD	S&P type ratings
1 – 4	0% ≤ PD < 0.26%	AAA, AA+, AA, AA-, A+, A, A-, BBB+
5 – 7	0.26% ≤ PD < 1.45%	BBB, BBB-, BB+, BB
8 – 9	1.45% ≤ PD < 3.6%	BB-, B+
10 – 11	3.60% ≤ 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) which is part of Group Internal Audit and which 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, 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. The model development and the ICU functions are independently audited on an annual basis by GIA.

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**
  Capital requirements are calculated on the basis of the Standardised approach.
- **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.
- **Equities**
  Capital requirements are calculated on the basis of the Standardised approach.

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

Loan Loss Experience in the nine months to 31 December 2009

A discussion on the factors which impacted the loan loss experience in the nine months to 31 December 2009 is included in the Risk Management Section of the Group's Annual Report 31 December 2009: Challenging Economic Environment on page 60, Credit Risk on page 62 and Asset Quality – Financial Assets on page 81.

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 exposure classes by PD Grade.

Table 4.10 – Analysis of Credit Quality for certain IRB exposure classes

PD Grade	31 December 2009				31 March 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	22,880	13	3,972	24	26,833	15	3,535	26
5-7	127	84	9,135	83	417	54	11,635	82
8-9	20	121	8,377	112	18	128	7,915	111
10-11	13	223	3,893	163	17	229	3,180	154
Default	11	-	2,640	-	71	-	775	-
Total	**23,051**	**14**	**28,017**	**87**	**27,356**	**16**	**27,040**	**89**

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 2009					31 March 2009				
	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 %
Qualifying Revolving										
1-4	216	9	68	502	33	135	5	53	225	59
5-7	733	19	62	1,685	23	705	14	44	1,824	23
8-9	307	43	59	302	27	353	31	41	407	26
10-11	347	131	59	298	19	460	86	41	395	24
Default	143	-	62	13	37	105	-	41	14	32
Total	**1,746**	**43**	**62**	**2,800**	**25**	**1,758**	**35**	**43**	**2,865**	**27**
Real Estate										
1-4	11,517	3	10	589	39	10,944	4	11	762	48
5-7	27,840	11	10	796	38	32,464	11	11	983	44
8-9	11,648	21	10	40	25	6,100	25	11	37	42
10-11	3,665	43	10	23	61	4,116	53	12	31	63
Default	2,011	-	10	1	70	1,340	-	12	-	2
Total	**56,681**	**13**	**10**	**1,449**	**38**	**54,964**	**14**	**11**	**1,813**	**44**
Other Retail										
1-4	62	15	36	94	64	167	14	41	237	67
5-7	474	38	43	324	69	731	42	41	218	73
8-9	1,128	80	56	76	79	1,381	60	44	45	80
10-11	806	104	56	50	82	658	84	44	48	83
Default	461	-	54	5	79	311	-	44	2	80
Total	**2,931**	**66**	**53**	**549**	**71**	**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 exposure 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 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 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 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**

31 March 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%	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 €1 million and are therefore 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 – Financial Assets section on page 81 of the Group's Annual Report 31 December 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

Industry Class	31 December 2009			31 March 2009		
	Past Due Exposures €m	Impaired Exposures €m	Total €m	Past Due Exposures €m	Impaired Exposures €m	Total €m
Personal	3,622	897	4,519	3,096	597	3,693
- Residential Mortgages	3,369	471	3,840	2,782	229	3,011
- Other	253	426	679	314	368	682
Property & Construction	1,183	9,648	10,831	1,892	3,538	5,430
Business & Other Services	376	1,394	1,770	384	615	999
Manufacturing	31	660	691	33	187	220
Distribution	141	435	576	273	174	447
Transport	6	63	69	9	40	49
Financial	9	115	124	2	60	62
Agriculture	63	130	193	70	68	138
Energy	1	9	10	2	43	45
Total	**5,432**	**13,351**	**18,783**	**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 Exposure by Geography

Geographic Breakdown	31 December 2009			31 March 2009		
	Past Due Exposures €m	Impaired Exposures €m	Total €m	Past Due Exposures €m	Impaired Exposures €m	Total €m
Ireland	2,736	10,182	12,918	3,008	4,143	7,151
United Kingdom & Other	2,696	3,169	5,865	2,753	1,179	3,932
Total	**5,432**	**13,351**	**18,783**	**5,761**	**5,322**	**11,083**

Provisioning

The Loan Loss provisioning methodology used by the Group is set out on page 79 of the Group's Annual Report 31 December 2009. This includes:

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

The following items are not included in the tables below:

- Loans and advances to banks – an impairment charge of €0.6 million (€2 million at 31 March 2009) and specific provisions of €2 million (€2 million at 31 March 2009); and
- Available for sale assets – an impairment charge of €2 million (€76 million at 31 March 2009). These impairment charges are charged directly against the relevant asset rather than being separately held as a provision.

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

Industry Analysis	31 December 2009			31 March 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	473	280	105	312	227	96
- Residential Mortgages	*167*	*118*	*29*	*76*	*66*	*10*
- Other	*306*	*162*	*76*	*236*	*161*	*86*
Property & Construction	3,177	2,562	1	593	581	15
Business & Other Services	493	306	24	190	154	122
Manufacturing	250	159	1	54	40	6
Distribution	179	141	14	44	30	4
Agriculture	30	16	-	14	7	2
Energy	10	-	-	11	11	-
Total	**4,612**	**3,464**	**145**	**1,218**	**1,050**	**245**

Table 4.16 shows the Group provision 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 2009		31 March 2009	
	Specific Provisions €m	IBNR Provisions €m	Specific Provisions €m	IBNR Provisions €m
Ireland	3,517	777	897	423
United Kingdom & Other	1,095	386	321	140
Total	**4,612**	**1,163**	**1,218**	**563**

Provisions by Provision Type

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

Table 4.17 – Provision by provision type

	31 December 2009		31 March 2009	
	Total Balance Sheet Provisions €m	**Provision Charges €m**	**Total Balance Sheet Provisions €m**	**Provision Charges €m**
Total Specific Provisions	4,612	3,464	1,218	1,050
Total IBNR Provisions	1,163	591	563	385
Total Group Provisions	5,775	4,055	1,781	1,435

Provisioning Charges during the Period

Table 4.18 below shows the movement in the provision on loans and advances to customers during the nine months to 31 December 2009. It is based on financial statement information.

Table 4.18 – Provisioning charges during the Period

Reconciliation	31 December 2009 Provisions (€m)	31 March 2009 Provisions (€m)
Opening Balance	1,781	596
Amount charged during the period	4,055	1,435
Amounts reversed, set aside and other adjustments	(61)	(250)
Of which recoveries recorded directly to income statement	*3*	*8*
Closing Balance	5,775	1,781

Credit Risk Mitigation

Credit Risk Mitigation for Risk Management

The Credit Risk Mitigation section on page 78 of the Group's Annual Report 31 December 2009 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 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

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 information in tables 4.19 and 4.20 is based on EAD.

Table 4.19 – Credit Risk Mitigation : IRB Approach

IRB Exposure Class	31 December 2009				31 March 2009			
	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 Exposure after netting covered by Guarantees / Credit Derivatives (EAD) €m	Total (EAD) €m	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 Exposure after netting covered by Guarantees / Credit Derivatives (EAD) €m	Total (EAD) €m
Institutions	-	3	-	3	-	5	-	5
Corporates	8	2,129	-	2,137	7	5,786	-	5,793
Retail	Advanced IRB	Advanced IRB	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-
Securitisation Positions	-	-	-	-	-	-	-	-
Total	**8**	**2,132**	**-**	**2,140**	**7**	**5,791**	**-**	**5,798**

Table 4.20 – Credit Risk Mitigation : Standardised Approach		
Standardised Exposure Class	**Total Exposure after netting covered by Guarantees / Credit Derivatives (EAD) €m**	**Total Exposure after netting covered by Guarantees / Credit Derivatives (EAD) €m**
Central governments or	-	-
Administrative bodies and non-commercial undertakings	-	-
Corporates	40	70
Retail	15	-
Past due items	1	-
Items belonging to regulatory high risk categories	-	-
Short term claims on	-	-
Other items	-	-
Total	**56**	**70**

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 March 2009 with Actual Loss (specific provision charge) in the nine month period to 31 December 2009.

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 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 : Foundation IRB Approach				
IRB Exposure Class	**Expected Loss calculated on 31 Mar 2009 €m**	**Specific Provision Charge 9 months to 31 Dec 2009 €m**	**Expected Loss calculated on 31 Mar 2008 €m**	**Specific Provision Charge year to 31 Mar 2009 €m**
Institutions	7	1	11	64
Corporates	242	447	195	74
Securitisation Positions	-	4	-	83
Total	**249**	**452**	**206**	**221**

Table 4.22 – Expected versus Actual Loss : IRB Retail Approach					
Retail IRB Exposure Class		**Expected Loss calculated on 31 Mar 09 €m**	**Specific Provision Charge 9 months to 31 Dec 09 €m**	**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	190	118	115	79
	Qualifying revolving and other retail	94	179	120	145
Total		**284**	**297**	**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

Details on how counterparty credit risk is managed is contained on page 75 of the Group's Annual Report 31 December 2009.

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

When Collateral 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 c.50% 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 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. 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 2009, 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 an additional €250 million in collateral (€200 million as at 31 March 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 replacement cost of contracts together with potential future credit exposure.

Table 5.1 – Contract Values		
	Balance as at 31 Dec 2009 €m	Balance as at 31 Mar 2009 €m
Gross Positive Fair Value of Contracts	5,590	6,761
Potential Future Credit Exposure	2,732	2,663
Total Current Credit Exposure	8,322	9,424
Netting Benefits	(5,087)	(5,999)
Netted Current Credit Exposures	3,235	3,425
Collateral Held	-	-
Net Derivative Credit Exposure	3,235	3,425

Table 5.2 – Current Credit Exposure		
	Current Credit Exposure as at 31 Dec 2009 €m	Current Credit Exposure as at 31 Mar 2009 €m
Interest Rate	1,146	1,547
FX	115	150
Equity	96	144
Netted agreements Credit Exposure	1,875	1,584
Credit Derivatives	-	-
Commodity Contracts	3	-
Total	**3,235**	**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 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 as at 31 December 2009 of €65.1 million (€60.6 million at 31 March 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 Profit and Loss account 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

Role and Objectives in the Securitisation Process

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 the 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 to the above, the Group has transacted 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 Group 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 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 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 securitisation positions. The following ECAIs are used: Fitch Ratings, Moody's Investors Service and Standard & Poor's. These are used for all exposure types, though the securitisations may not have been rated by all three agencies.

Total Outstanding Amount of Exposures Securitised

Table 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 2009 €m**	**Traditional Outstanding Exposures 31 March 2009 €m**
Residential Mortgages	5,043	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 Securities Exposures						
Exposure Type	**Past Due Exposures 31 Dec 2009 €m**	**Impaired Exposures 31 Dec 2009 €m**	**Losses Recognised 31 Dec 2009 €m**	**Past Due Exposures 31 Mar 2009 €m**	**Impaired Exposures 31 Mar 2009 €m**	**Losses Recognised 31 Mar 2009 €m**
Residential Mortgages	197	15	2	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 Securitised Positions by Exposure Type		
Exposure Type	**Retained or Purchased 31 December 2009 (EAD) €m**	**Retained or Purchased 31 March 2009 (EAD) €m**
Residential Mortgages	585	598
Commercial Mortgages	529	556
Credit Card Receivables	-	-
Leasing	1	7
Loans to Corporates or SMEs	204	192
Consumer Loans	106	133
Trade Receivables	8	8
Other Assets	77	80
Total	1,510	1,574

Securitisation Positions Retained and Purchased by Risk Weight

This table is also based on EAD.

Table 7.4 – Retained and Purchased Securitised Positions by Risk Weight

Risk Weight Band	Retained or Purchased 31 December 2009 (EAD) €m	Retained or Purchased 31 March 2009 (EAD) €m
10%	655	760
18%	85	100
35%	379	459
75%	92	112
100%	57	-
250%	17	-
425%	11	2
650%	-	1
1250%	56	-
Deducted	158	140
Total	**1,510**	**1,574**

Summary of Securitisation Activity

There have been no new securitisations originated by the Group which qualify for derecognition under Pillar 1 in the nine months to 31 December 2009.

8. Market Risk

Market Risk

The Group's approach to the measurement, management and control of market risk is set out in pages 97 to 100 of the Group's Annual Report 31 December 2009. This section also outlines the extent to which the Group assumes market risk to generate earnings.

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

Customer and Structural Risk

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. 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

The strategies and processes by which Operational Risk is managed are set out in the Regulatory and Operational Risk section on page 101 of the Group's Annual Report 31 December 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 31 December 2009 (page 101). 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 103 of the Group's Annual Report 31 December 2009.

The Group uses the Standardised approach for the calculation of its capital 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 for credit risk for their retail and wholesale portfolios 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.
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.
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)	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.
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)	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 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 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 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, 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 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.

Financial Regulator — The Irish Financial Services Regulatory Authority.

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.

IBNR — Incurred but not reported.

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* Residential mortgages.
- *Qualifying revolving* 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.
- *Securitisation positions* Exposures belonging to a pool - as defined below under securitisation.

ISDA — ISDA is the International Swaps and Derivatives Association. ISDA Agreements are standard industry agreements issued by ISDA which permit the netting of derivative transactions.

Internal Ratings Based Approach (IRB) — Approach to credit risk under which a bank may use internal estimates to generate risk components for use in the calculation of their credit risk regulatory capital requirements. There are two approaches: Foundation and Advanced (including Retail).

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 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.
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 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.
- *Administrative Bodies:* Exposures to Administrative bodies and non-commercial 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.