TUARASCÁIL ón gComhchoiste Fiosrúcháin i dtaobh na Géarchéime Baincéireachta

An tAcht um Thithe an Oireachtais
(Fiosrúcháin, Pribhléidí agus Nósanna Imeachta), 2013

REPORT of the Joint Committee of Inquiry into the Banking Crisis

Houses of the Oireachtas
(Inquiries, Privileges and Procedures) Act, 2013

Volume 1: Report
Volume 2: Inquiry Framework
Volume 3: Evidence

BOI: Core Book 3

January 2016

Table of contents – by line of inquiry

B1: Effectiveness of banks' board governance, client relationships and business models

B1a: Composition, skills and experience of board and board subcommittees.

Description	Bates Number [Relevant Pages]	Page
Letter from BOI re Gifts & Hospitality	BOI05621 [001,002]	2-3

B1b: Integrity of financial reporting.

Description	Bates Number [Relevant Pages]	Page
Boston Consulting Group - Credit Risk Management Review (Extract)	BOI02106 [013-014, 021-022]	5-8

B1c: Quality of the business model setting process.

Description	Bates Number [Relevant Pages]	Page
RFSI review May 2004 - "Sales culture is embedded (Extract)	BOI00969 [009-010, 035]	10-12
Retail competitor analysis Apr 2005	BOI01169 [001-009]	13-21
David Llewellyn - Academic paper on future of Financial Services (Extract)	BOI01337 [002-006]	22-26
CEO insight and BOI strategy July 2008	BOI01969 [001-002]	27-28
Business Plan Nov 08 - Directors Comments	BOI04044 [001-002]	29-30
Summary of key corrective actions (Extract)	BOI04614 [002-008]	31-37
EU Plan - Analysis of BOI difficulties	BOI02670 [001-002]	38-39
Mercer Oliver Wyman presentation Dec 2005 (Extract)	BOI02802 [008]	40
High risk property lending	BOI02997 [001-002]	41-42

B1d: Adequacy of board oversight over internal controls to ensure risk is properly identified, managed and monitored.

Description	Bates Number [Relevant Pages]	Page
Property concentration report Dec 07	BOI00431 [001-004]	44-47
Oliver Wyman - BOI Risk Governance progress update (Extract)	BOI02103 [004,006,011,013,015,017,022]	48-54
Oliver Wyman recommendations and roadmap of BOI Risk Governance in 2009	BOI02104 [001-009]	55-63
Boston Consulting Group Corporate Governance assessment 2010 (Extract)	BOI02105 [008, 015-016]	64-66
Membership and Discretion levels for GRPC members 2003	BOI02537 [001-002]	67-68
GRPC Membership 2002 – 2008	BOI03045 [001-003]	69-71

B2: Effectiveness of banks' credit strategies and risk management

B2a: Appropriateness of property-related lending strategies and risk appetite.

Description	Bates Number [Relevant Pages]	Page
Group risk review of lending - massive growth - 1999 -2004	BOI00336 [001-011]	73-83
100% LTV FTB product - competition reaction and regulator - Nov 05	BOI00343 [001-006]	84-89
CEO report - Specialists property team (Extract)	BOI01043 [010]	90
Boston Consulting Group review of Group Risk Management 2010 (Extract)	BOI02107 [013,031,033,035,041,043,]	91-96
Quantum change" in Income multiples - protect franchise - Aug 02	BOI02903 [001-005]	97-101
Approval of 100% FTB for professionals - First time seen	BOI02985 [001]	102
Credit size and front-line credit Nov 2003	BOI03113 [001-002]	103-104
Change to multiples, LTV's and reduction in stress test - Sep 02	BOI03013 [001-002]	105-106

B2b: Appropriateness of credit policies, delegated authorities and exception management.

Description	Bates Number [Relevant Pages]	Page
Residential Investment Lending book Nov 04	BOI00335 [001-005]	108-112

Board overview of credit decisions and the level of exceptions seen	BOI03725 [001-010]	113-122
Internal memo from Group Credit to Group Risk Policy Committee 12 August 2002. (Extract)	BOI02903 [001, 004]	123-124

B2c: Analysis of risk concentrations in the base, the adverse economic scenarios and the impact on capital structure.

Description	Bates Number [Relevant Pages]	Page
Group Credit Concentrations Policy June 2008	BOI00269 [001-006]	126-131
BOI response to FR review off Sectoral Concentration framework	BOI01640 [001-009]	132-140
Review of Group Risk Policy Committee - Landbank limits and interest roll ups - July 08 (Extract)	BOI01984 [003]	141
Sensitivity analysis	BOI03786 [001-008]	142-149

B3: Effectiveness of banks' funding, liquidity strategies and risk management

B3a: Appropriateness of funding sources — the mix, maturity profile and cost.

Description	Bates Number [Relevant Pages]	Page
Group plan 04/05 - Growth in lending to be double deposits	BOI00947 [005]	151
Wholesale funding programme - appointment of Non-Equity Credit Committee - Feb 05	BOI01143 [001-003]	152-154
French CP and extendible note programmes - Additional wholesale funding - Sep 2005	BOI01213 [001-002]	155-156
Capital and funding view 2006 - increase in balance sheet and the use of wholesale funding	BOI01358 [001-002]	157-158
Mercer Oliver Wyman presentation - Dec 05	BOI02803 [001-005]	159-163
Bank of Ireland Group Liquidity Committee Minutes, 29 September. (Extract)	BOI00394 [010]	164

B4: Impact of the property valuation methodologies on banks' credit risk management

B4a: Adequacy of the valuation policies and assumptions to accurately assess loan security.

Description	Bates Number [Relevant Pages]	Page
Commercial Property Valuation Policy 2013 (comparative)	BOI05057 [001-007]	166-172
Commercial Property Valuation Policy 2013	BOI05058 [001-002]	173-174

B4b: Independence of the professional advisors in valuing property assets.

Description	Bates Number [Relevant Pages]	Page
Estimate of fees paid to valuation firms in the 2002-2008 period	BOI02508 [001]	176

B4c: Adequacy of internal controls over perfection of security and policy exceptions.

Description	Bates Number [Relevant Pages]	Page
Group credit policy over years - Covers responsibility for security perfection	BOI02680 [001]	178
Book size €106bn and poor training / RMs	BOI03202 [001]	179
Recognition of issues in portfolios and in Legal Services	BOI03206 [001]	180
Training for SBM's - May 2008	BOI03274 [001]	181

B5: Impact of the remuneration arrangements on banks' risk management

B5a: Adequacy of the incentive and remuneration arrangements to promote sound risk governance.

Description	Bates Number [Relevant Pages]	Page
R Boucher - Bonus / Share Allocations 2004 – 2008	BOI02540 [001]	183
Top 10 payments and options 2004 -2008	BOI02690 [001]	184
Group remuneration adjusted for the use of the Guarantee	BOI02820 [001-004]	185-188

C2: Role and effectiveness of the Policy appraisal regime before and during the crisis

C2c: The liquidity versus solvency debate.

Description	Bates Number [Relevant Pages]	Page
Preparation for listing of Euro ECP on ISE and use as ECB collateral a May 2008	BOI01955 [001-002]	190-191
FR Survey on Residential Mortgages & Arrears	BOI01995 [001-003]	192-194

C3: Appropriateness and effectiveness of Department of Finance actions during crisis

C3b: Appropriateness of the bank guarantee decision

Description	Bates Number [Relevant Pages]	Page
Liquidity Committee minutes Sept - Oct 2008 - BOI approach to guarantee included (Extract)	BOI00394 [009-010,012-013]	196-199
Outline of events on night of Sep 30 from BOI perspective	BOI03886 [001-004]	200-203
Court discussion on Government Guarantee Scheme	BOI03888 [001-003]	204-206
Discussion re charges / briefings from Irish Banking Federation - Oct 08	BOI03889 [001-002]	207-208
Ratification of participation in the Government Guarantee Scheme - Oct 08	BOI04042 [001-005]	209-213
Court minutes Oct 08 - covers the options open to BOI	BOI02042 [001-004]	214-217
Court update on events - Feb 2010	BOI04175 [001-008]	218-225
PWC Report on BOI (Extract)	DOF04374 [002,011-013,016]	226-230
Response from BOI to queries re guarantee, charging and CEO report Oct 2008	BOI05657 [001-002]	231-232
Phone discussion re events around guarantee	BOI03972 [001-009]	233-241
Conversation attendees 30/09/08	DOF03362 [001-003]	242-244

C4: Appropriateness and effectiveness of domestic policy responses

C4c: Decision to recapitalise Anglo, AIB, BoI, EBS, PTSB and alternatives available/ considered

Description	Bates Number [Relevant Pages]	Page
Memo to BOI Court, 18 March 2009. (Extract)	BOI04068 [003]	246

R3: Clarity and effectiveness of the nexus of institutional roles and relationships

R3b: Nature and appropriateness of the relationship between the Central Bank (including the Financial Regulator), Department of Finance and the Banking Institutions

Description	Bates Number [Relevant Pages]	Page
Homeloan lending policy	BOI00563 [001-002]	248-249
CB audit - interim questions. Jan 08	BOI02126 [001]	250
BOI viewpoint on IFSRA Review of The Mortgage Business	BOI02982 [001-003]	251-253
Impairment Return. Sept 09	BOI03404 [001-009]	254-262
Return to Central Bank Sept 2008	BOI03538 [001-005]	263-267

THEME: B1

Effectiveness of banks' board governance, client relationships and business models

LINE OF INQUIRY: B1a

Composition, skills and experience of the board and board subcommittees

Group Secretary
Head Office, 40 Mespil Road, Dublin 4
Tel +353 (0)76 623 4710
Fax +353 (0)76 623 4789
www.bankofireland.com

BY HAND
Ciaran Lynch T.D.
Chairman
Joint Committee of Inquiry into the Banking Crisis
Leinster House
Dublin 2

2 March 2015

Re: Direction to give documents pursuant to the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013 dated 15 January 2015

Additional information sought on a voluntary basis

Dear Mr Lynch,

I refer to your letter of 19 February and to our subsequent correspondence in relation to the Joint Committee's request for additional information on a voluntary basis.

The Bank does not maintain a central register of gifts and hospitality for the group as a whole. To deal with your request, and in the time available, we focused on the areas of the Bank, namely, Corporate Banking, Business Banking and Private Banking, which are the most likely sources of the information you have requested relating to customers in the property sector and/or contacts in Government Departments or other State Bodies and organisations, including politicians.

The Bank is in a position to provide you with the following information in response to your request:

1. Extracts from the Bank Staff Code of Conduct on gifts, sponsorship and invitations, as updated between 2004 and 2012.

2. A copy of BOI Private Banking's policy on inducements and gifts.

3. A schedule listing the corporate hospitality given to customers in the property sector by BOI Private Banking in the relevant period, redacted for customer information. We have no record of corporate entertainment given to persons in any of the other sectors mentioned in your letter.

4. A copy of the BOI Private Banking gift register, redacted for customer information.

A number of client events, mainly sporting events, pantomimes and tables at charity events were hosted by BOI Business Banking and BOI Corporate Banking each year, to which customers, including customers in the property sector, were invited. A register is not available for these events.

Bank of Ireland - The Governor and Company of the Bank of Ireland, incorporated by charter in Ireland with limited liability. A tied agent of New Ireland Assurance Company plc, trading as Bank of Ireland Life. Bank of Ireland is regulated by the Central Bank of Ireland.

Registered No. C-1. Registered Office and Head Office, 40 Mespil Road, Dublin 4, Ireland.

10-8.12

Directors: Archie Kane (Governor) (British) • Patrick O'Sullivan (Deputy Governor) • Richie Boucher (Group Chief Executive) • Kent Atkinson (British) • Pat Butler • Tom Considine • Patrick Haren (British) • Andrew Keating • Patrick Kennedy • Davida Marston (British) • Bradley Martin (Can) • Patrick Mulvihill • Group Secretary: Helen Nolan

A member of Bank of Ireland Group

In relation to compliance breaches, we identified one breach of the Bank's policy on the acceptance of gifts from customers which was a subject of a formal internal audit investigation in 2011. The employee was the subject of disciplinary action in respect of the breach. The customer in question was not involved in any of the sectors mentioned in your letter.

Finally, in relation to political donations, we confirm that, for each of the years 2004 to 2010, the Annual Report contained a statement that there were no political donations which required disclosure under the Electoral Acts, 1997 to 2002.

Yours sincerely,

Helen Nolan

THEME: B1

Effectiveness of banks' board governance, client relationships and business models

LINE OF INQUIRY: B1b

Integrity of financial reporting

To fully answer the question we have, below, separately addressed the effectiveness of underwriting, challenged loan management, reporting, and credit MI.

The **credit risk underwriting** process is effective and based on sound financial analysis. Our review of 112 credit risk files indicated that applications contain comprehensive analysis, including concise and informative company and industry profiles, and are well structured and easy to follow. Moreover, and as per section 3(c), the expert senior advisors who conducted our review agreed with 110 of 112 credit decisions. In our view the credit risk management team has extensive experience in the market and in-depth industry knowledge of the portfolio and clients.

While the overall process is strong, our analysis uncovered three areas for improvement:

1. BOI should further enhance its credit analysis by i) more frequent use of down side analysis, including all challenged loans; ii) adding a matrix summarising all group exposures in the credit file[5];
2. Reduce the reliance on external ratings and improve the statistical nature of the internal rating model for banks over time; and
3. Review poorly performing models. Several rating models have seen significant deterioration in their ability to discriminate between good and bad obligors and to estimate the overall level of defaults. Some gradual downward drift in model performance is normal, but exceptionally severe macroeconomic conditions have created a discontinuity. Amendments to most of these models are currently under review and enhancements will be rolled out by the end of June 2011. Upon completion of these enhancements the models should once again perform to market standards. We recommend that remediating the remaining models also be prioritised.

We observe that in other countries with less “landlord friendly” leasing regimes, interest-only property loans are less common than in Ireland and UK, and loans tend to be more conservatively structured. As a result, there is greater attention paid to amortisation in general and the debt service coverage ratio in particular as a measure of borrower payment ability.

In order to adapt quickly during the period’s economic crisis, BOI set up dedicated units managing **challenged loans**, meaning previously performing loans that are progressively deteriorating. The Special Property Group (SPG) is a good example: most challenged loans which have real estate as the underlying security have been moved from the original business unit (e.g. Business Banking or Corporate Banking) to the SPG, which reports directly into Group Credit and Market Risk. In addition to the SPG, BOI decided to spread the management of challenged loans across nine separate units within the business divisions.

This may have potentially led to some inconsistencies in approach and to a lack of regular and consistent reporting at Group level. This issue is currently under review by Group Credit and Market Risk. Going forward we recommend that BOI complete its planned comprehensive review of the challenged loan operating model (organisational set up, policies, accountabilities and reporting) expeditiously. For example, the structure of the challenged loan organisation may benefit from a more unified centre of competency.

---

[5] TGE is always presented in credit applications, and the detail of each individual exposure exists, but it is not as easy to follow as it could be

At the beginning of the period **credit risk reporting** was below industry standards. Information was not always consistent across different levels of the organisation, and reports to the Board had limited drill down. During the period, the Court Risk Report and Blue Book were overhauled and updated, with several overlapping reports merged into the Court Risk Report (CRR). As of today, these reports are now more action-oriented and user friendly, and cover all of the required credit risks in appropriate detail. The CRR can be considered an example of best practice compared to the reports of peer European banks.

Included in the CRR is an analysis of macroeconomic variables showing trends in GDP, unemployment, property prices, inflation, and interest rates. In addition to historical data, the report also includes a red, amber and green (RAG) assessment of the status of each macroeconomic indicator and short term forecasts for GDP and unemployment. This analysis sets the context for the remaining review and assessment of BOI's portfolio and risk profile.

Whilst we found the overall reporting quality to be high, it is our opinion that an additional report should be set up:

- ***A separate report (or section) for Challenged Loans***. At present, BOI has ~€26B in challenged loans. With a portfolio this large, small changes could have significant impact to the overall loan book and P&L. We recommend a monthly report that provides detailed information solely on Challenged Loans. For example, it could report on loan volumes, loan loss provisions (LLP), inflows and outflows, etc. by portfolio (which business unit the loans originated from) and by managerial view (which challenged team the loan is currently with).

Credit Risk MI is currently adequate to produce the above mentioned reports but at the beginning of the period had deficiencies both in the underlying data (e.g. blank fields for some tenancy schedules) and the IT architecture (e.g. multiple data bases across different business units). This meant that there was difficulty answering key questions on BOI's lending book in a timely and accurate manner. BOI recognised these deficiencies and has materially progressed a €5m project to remedy the situation. BOI's proposed solutions to this issue are appropriate and the project management appears on track. However, we do have a concern with the timing.

- ***Timing.*** For the Credit MI Project to complete on schedule, ~370 relationship managers (and 10 central FTEs) in Business Banking need to correctly enter data for a large number of fields. It may be the case that these relationship managers will not view this data entry as a priority, which could cause schedule overruns and/or quality issues. Additionally, due to BIPS's IT architecture, data entry cannot commence until February 2011 when an updated version goes live. To ensure on-time roll-out, BOI senior management should monitor the project very closely to ensure that adequate resources and support are given to data entry and related quality assurance.

f) Balance of authority between risk and business

→ The balance of authority between risk management and the business lending in approving credit decisions

In our view the independence of BOI's risk function from its business function throughout the period is in line with best practice. BOI has:

- Independent lines of reporting for risk and business
- Group Credit Committee in line with applicable best practices guidelines
  - Balance of representation from risk and business
  - Healthy challenge and debate

4. Conclusions

Credit risk management at BOI has been robust during a period of extraordinary stress in the Irish banking sector and the Irish economy more generally. BOI is aligned with best practice with respect to the majority of the issues identified in the CBI letter, including:

- Board oversight of credit extension and risk management
- Executive management stewardship of credit risk
- Balance of authority between risk and business
- Role of Internal Audit
- Adequacy of credit risk management resources and skills to achieve lending targets
- Court risk report

There were four areas where there were gaps between BOI credit risk capabilities and peer best practice:

- Risk appetite framework
- Court Risk Committee
- Risk function organisation structure
- Credit MI

During the period there has been a considerable effort to address these issues, with material progress made.

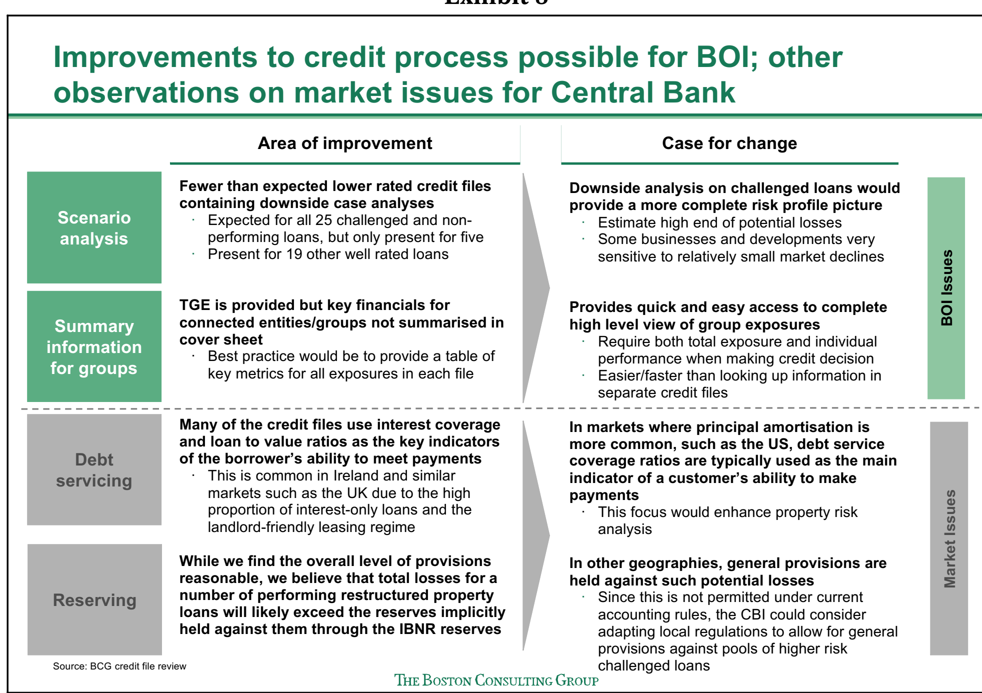
The areas in the CBI letter aside, we have identified four broader areas for improvement:

1. ***Review the challenged loans' operating model***. Currently, BOI has ten units managing challenged loans. A comprehensive review of the operating model is underway. For example, combining several restructuring units into one larger unit would create a centre of competency with a similar approach to restructuring. It would also optimise resource allocation and generate opportunities for career progression.
2. ***Strengthen rating models***. BOI should continue to review and to recalibrate poorly performing rating models, and improve the statistical robustness of its bank rating model. While appropriate capital conservatism applied to poorly performing models, the overall level of model performance is a concern. In addition BOI should consider changing the reporting line of ICU out of Audit.
3. ***Ensure credit MI improvements are delivered on time***. The credit MI improvements appear to be on track to be delivered during the second quarter of 2011. We do not expect any major delay; however, this is a challenge that needs to be managed tightly since thousands of data items will need to be entered manually into the system, and this cannot be started until a new version of Bank Ireland Pricing System (BIPS) goes live.
4. ***Reconsider change membership of GCC to reflect deal flow***. Senior risk executives chaired all but one GCC. Attendance in GCC meetings amongst other senior executives is lower. Delegation of this responsibility is expected given the deal-specific scope of the GCC, and the focus on large tickets naturally emphasises capital markets. Retail risks are primarily dealt with through the risk dashboard and collections meetings. Consequently the membership of GCC could be reconsidered.

In addition, results from our credit file review were positive. We generally found the credit decisions to be based on strong company and industry analysis, and agreed with the vast majority of decisions (110 out of 112 reviews). However, we identified two specific areas of improvement for BOI, and two more general observations on the Irish and UK market for the CBI's consideration:

1. ***Incorporate downside analysis more frequently.*** When downside analysis was present, it was robust, well applied, and aided the final credit decision. However, BOI should incorporate downside analysis in all reviews for loans with low credit ratings and, in general, use this analysis more frequently. This would provide a more complete risk profile picture and a more accurate estimation of the high end of potential losses.
2. ***Provide a summary sheet of all exposures for connected groups.*** BOI should summarise total exposures to connected groups by listing each facility and the associated high-level financial indicators on a single sheet. While this information is already available in the bank, providing this summary view within each credit file for such groups would provide quick and easy access to a complete high-level view of group exposures.
3. ***Add debt service coverage ratio as a main payment coverage ratio for property loans***. Many of the credit files use interest coverage and loan to value ratios as the key indicators of the borrower's ability to meet payments. This is common in Ireland and similar markets such as the UK due to the high proportion of interest-only loans and the landlord-friendly leasing regime. In markets where principal amortisation is more common, such as the US, debt service coverage ratios are typically used as the main indicator of a customer's ability to make payments. We feel that this focus would enhance property risk analysis, especially for borderline and speculative cases.
4. ***Consider the use of general provisions***. While this will require a change in accounting standards, we believe it would be more useful for certain types of challenged loan than the generic IBNR calculation.

Exhibit 8



In-flight initiatives address many of the points above. This effort should be sustained going forward to further improve credit risk management capabilities and bring them more in line with peer best practices.

One area of best practice is worth calling out: BOI senior management strongly encourages staff rotation between risk and the businesses. This has been effective at promoting business awareness in risk and risk awareness in the businesses. We applaud this practice and suggest formalising it as an official BOI policy going forward.

THEME: B1

Effectiveness of banks' board governance, client relationships and business models

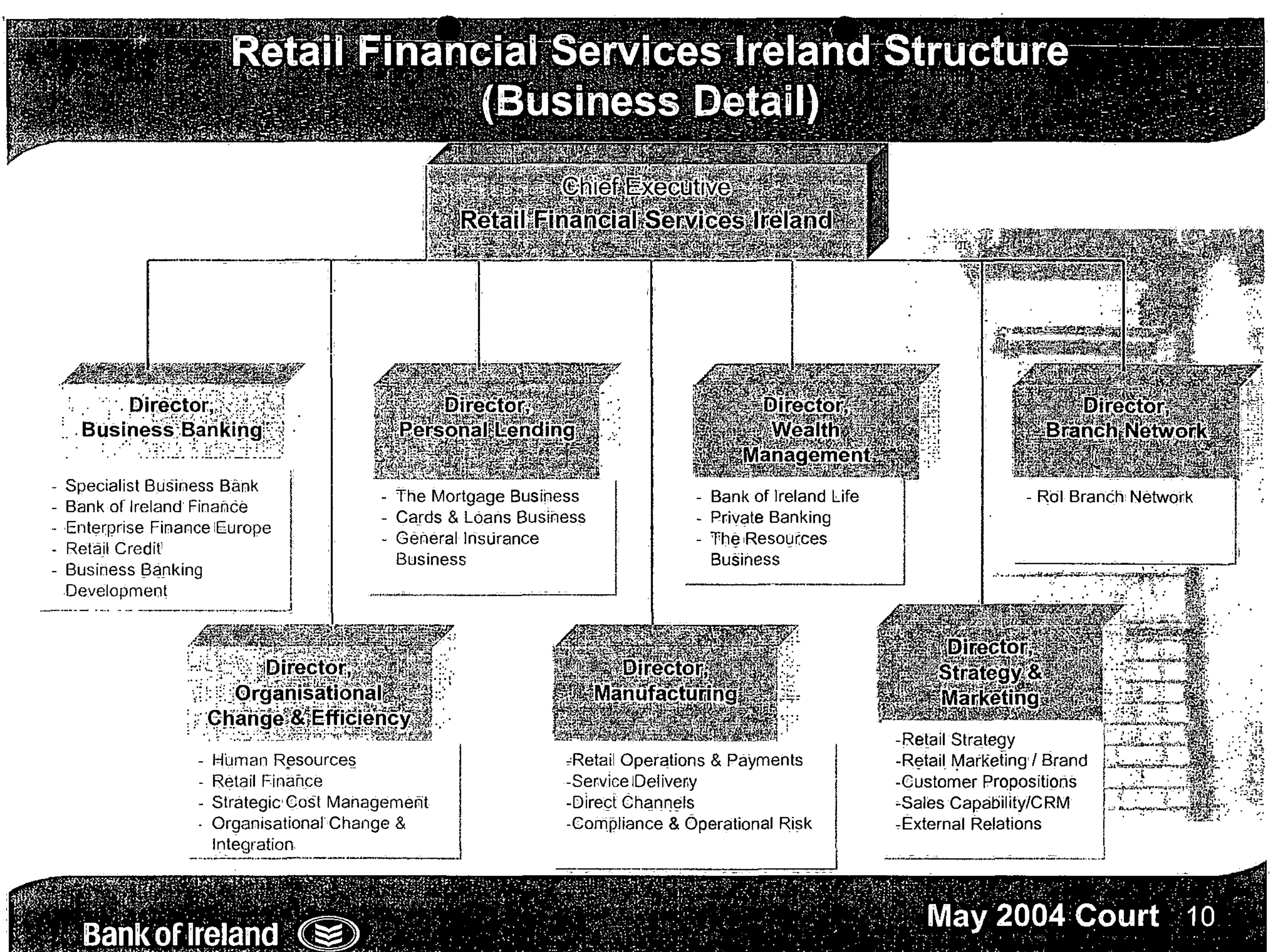
LINE OF INQUIRY: B1c

Quality of business model setting process

Retail Ireland's Structure Is Now Evolving....Align to Strategy, Harness Talent, Remove Duplication...

Retail Financial Services Ireland (effective July 04)

- Chief Executive Officer Retail Financial Services Ireland
  - Director of Business Banking
  - Director of Personal Lending
  - Director of Wealth Management
  - Director of Branch Network - ROI
  - Director of Manufacturing
  - Director of Organisational Change & Efficiency
  - Director of Strategy & Marketing


Retail Financial Services Ireland Structure
(Business Detail)
Chief Executive
Retail Financial Services Ireland
Director, Business Banking
- Specialist Business Bank
- Bank of Ireland Finance
- Enterprise Finance Europe
- Retail Credit
- Business Banking Development
Director, Personal Lending
- The Mortgage Business
- Cards & Loans Business
- General Insurance Business
Director, Wealth Management
- Bank of Ireland Life
- Private Banking
- The Resources Business
Director, Branch Network
- RoI Branch Network
Director, Organisational Change & Efficiency
- Human Resources
- Retail Finance
- Strategic Cost Management
- Organisational Change & Integration
Director, Manufacturing
-Retail Operations & Payments
-Service Delivery
-Direct Channels
-Compliance & Operational Risk
Director, Strategy & Marketing
-Retail Strategy
-Retail Marketing / Brand
-Customer Propositions
-Sales Capability/CRM
-External Relations
Bank of Ireland
May 2004 Court 10

....And This Is What Success Will Look Like in 2007

People Deal	• Top decile of FS Benchmarking Group by 2007 (Engagement 4.0+)
The Customer Deal	• Best Customer experiences, and Improved Satisfaction (80%)
Sales & Revenue	• Sales Culture firmly embedded – profitable market share growth
Cost Breakthrough	• A more efficient and effective cost base: 2% p.a. growth
Business Banking Breakthrough	• Profitable market share growth to > 21%, innovative propositions

Employee Engagement → Customer Satisfaction → PBT >10% CAGR

AGENDA ITEM NO 3.3

PAPER FOR COURT 7 APRIL 2005

DEVELOPMENTS IN RETAIL BANKING IN REPUBLIC OF IRELAND

Purpose of Paper

The objective of this paper is to update the Court on a number of significant competitive developments in retail banking in the Republic of Ireland. It focuses on Danske Bank Group's acquisition of National Irish Bank and Bank of Scotland Ireland's purchase of the ESB's network of shops and consumer loan book. The paper also outlines Retail Ireland's proposed response to these developments.

The Danske Group information in this Paper was obtained through a combination of desk research, a visit to Danske's home market, a meeting with Danske Bank customers and a number of conversations with analysts covering Nordic Banks in general and Danske in particular.

Retail Ireland Strategy - Recap

Retail Ireland's vision is *"to be Ireland's most respected and dynamic Retail Bank, fit by international standards to compete and win".* Five strategic areas for focus have been agreed – Customer Experience, Cost, Human Resource Capability, Business Banking and Revenue Growth. Our multi-channel approach encompasses branch and direct channels (BOI brand) and the use of broker channels in our Life and Mortgage businesses (New Ireland and ICS brands respectively).

The Court will already be aware of recent Retail Ireland developments:

- Excellent earnings growth (c.15% budgeted for 05/06) and market share increases, especially in Life and Mortgages
- Strong Wealth Management positioning
- Increasing levels of Customer recruitment (including current accounts)
- Better Business Banking performance, and Property sector challenges being addressed through establishment of Corporate Property Unit
- Many of these improvements achieved with premium price positioning
- Retail Ireland's Cost Programme, which targets a reduction in the Cost / Income ratio (using Assurance as a Single Line) from 53% in March 05 to 46% by the end of 07/08

Against a background of rapidly intensifying competition and increasing regulatory challenges, Retail Ireland plans to continue to deliver double-digit growth and to substantially enhance the customer experience over the next few years.

Danske Bank Group[1]

Danske Bank Group is the largest bank in Denmark, with PBT to December 2004 of €2bn and a market value of €14bn. It is a 'full service' financial services provider. Like Bank of Ireland, it is also the domestic market leader.

A second Danish Bank (BG Bank) became part of Danske in 2001, giving the Group separately branded retail franchises in Denmark. Danske Bank focuses on higher-value personal and corporate customers, with BG concentrating on the mainstream personal and small business segments. This deal would have given Danske experience of integrating two businesses which, while separately branded, share a common IT and processing platform. Interestingly, speculation at the time suggested that the Danish Government allowed this deal to go ahead (even though it gives Danske a very dominant market position) to ensure that BG was not sold to a foreign bank.

Last November, Danske announced a strategy of withdrawal from international wholesale activities and further international expansion of its retail business. The Group already owns small retail banks

[1] See Appendix 1 for more information on Danske Group

BOI01B01

BOI01169-001

in Norway and Sweden and the purchase of National Irish and Northern Banks is fully consistent with this revised strategy. The purchase transaction was completed in February.

Danske Bank in Ireland – Business Strategy

Danske will adopt a different strategy for each bank[2]. Northern will be managed defensively as a large incumbent in a well-performing economy. National Irish will be managed as a small player with significant potential to grow and take market share from larger competitors in a strongly performing economy. While both names will be retained, the visual corporate identity of Danske will be used in all future branding.

These previously integrated banks have now been separated and independent management teams will be established in each jurisdiction (a new CEO will be appointed to NIB).

Research covering its existing franchises suggests that Danske has a number of key execution biases which need to be addressed by Retail Ireland:

- The Danske IT platform is highly regarded, and is being positioned as the key component of the Irish transaction. Danske will incur integration and IT costs estimated at €202m until 2006. The integration activity is targeted to be complete in April 2006. At current activity levels, Danske expects efficiency gains of 15% to take full effect in 2008.
- The bank's online offering is a key part of its customer proposition and has much greater functionality – e.g. higher level of self-service transactions, wider payment options and share trading - than our core online service (and that of most UK Banks).
- Danske is Denmark's most innovative bank with respect to product design, development and delivery. Recent mortgage examples include offset and interest rate 'cap' products.
- Customer service focus. For example, Danske has a superior ticket-based queuing system that significantly improves the waiting experience compared to Irish practices. Danske's opening hours are also longer than those of Irish banks.
- The Danske brand is aimed at the higher end of the market in both the Business and Personal segments. The separately branded BG Bank is more focused on the mass market and small business segments. It offers a different customer experience. However, both banks are driven by the same processing and IT engines.

The following actions are anticipated in the Republic of Ireland:

2005

- Integrate IT platforms with a completion date of April 2006 targeted
- Increase size of branch network, especially in the southern half of the country
- Recruit customer-facing business and personal bankers, especially those managing portfolios (in Sweden, Danske paid significantly over market rates to attract such staff)
- Stronger promotion of free current account banking offer
- Increased aggressiveness in SME market

2006

- Introduce 'Netbank', the online banking service
- Target mortgage growth, using pricing and innovation (e.g. offset and capped mortgages)
- Launch new SME propositions
- Other innovative and price-led developments (e.g. share trading, flexible deposits)

Our overall view is that a re-vitalised National Irish Bank represents a significant competitive threat. Danske will aggressively target the higher value personal and business Customers. The bank will use price aggressively to win new business. The fact that this is a 'must succeed' acquisition for Danske Group further increases the competitive threat.

[2] Conversation with Bank analyst covering and close to Danske Group.

Bank of Scotland Ireland (BOSI)[3]

Bank of Scotland (Ireland) already competes in the mortgage and motor finance markets, and is a strong business banking competitor. On March 16th the bank purchased 54 retail outlets and a retail loan book from the Electricity Supply Board (ESB), in a deal which gives the bank a nationwide branch network and a broader consumer banking capability here. We estimate that the total cost of this transaction, including refurbishment, staff recruitment / training and IT costs will be close to €200m. The deal is expected to be completed in July and the refurbished units will open from November.

The purchase of the ESB branch network gives BOSI an immediate branch network. The new network is comparable in size to the existing NIB network (59 branches) but has a better geographical spread (see Appendix 2). The new BOSI sites are in good locations with high rates of footfall. The combination of ESB bill-payers and people making ESB loan repayments gives the new BOSI sites instant traffic and an opportunity to cross-sell to these potential customers.

Promising a better branch experience for customers (friendly staff, brighter appearance, etc.), the new BOSI outlets will open 6 days a week, most likely using opening hours appropriate to a wider retail category rather than a traditional bank.

Bank of Scotland (Ireland) plans to launch seven new retail banking products within the next 12 months. The first new product will go to market in the next month with a further three "hero" products in Q3. The launch of these products will support the new BOSI branch openings. According to their Chief Executive, a key characteristic of these "hero" products is that they bring "considerable savings" to consumers.

The products launched are likely to include an enhanced mortgage offer (possibly an offset product), a personal current account, possibly interest bearing or "fee free", and a higher interest savings account (with a possible limit on amount saved). It is not expected that BOSI's proposition to business customers will change significantly.

We believe that the purchase of the ESB shops is a good deal for BOSI, and significantly increases the threat from this competitor, primarily in the consumer market. As Halifax Bank of Scotland competes keenly on price in the UK, we expect that its consumer proposition here will be strongly price-led, and will emphasise a fresh and a heavily retailer-driven branch approach.

Other Competitors

AIB Bank

AIB Bank remains the Group's most significant competitor. Recent growth across main product lines has been strong, and in most cases broadly similar to Bank of Ireland (Mortgages similar, non-Mortgage lending somewhat higher; Life & Pensions lower)

In Ireland, AIB has recently deployed a new customer relationship and sales model, which is similar to the one rolled out by Bank of Ireland a number of years ago. The Bank's customer data / information is of better quality than ours, a shortcoming that we are currently addressing.

AIB is not happy with its performance in the Life and Pensions area, and we believe it will take significant action to address this issue. As over half of AIB's PBT comes from Ireland, it will compete aggressively to protect its franchise. In overall terms, the bank is more price-led than Bank of Ireland and is prepared on occasion to take more business banking risk than us.

Ulster Bank

Ulster Bank continues to be a very strong competitor in the business banking market. Our view is that while the bank is not currently aggressive in the consumer market, this shortcoming is being addressed through a greater sales focus, influenced in part by the central role being played in Ulster by former First Active management.

[3] See Appendix 2 for more details of the transaction

Ulster Bank / First Active will also move onto Royal Bank of Scotland's banking platform later this year. This will give Ulster greater flexibility in terms of its product offerings and customer propositions. The IT platform change will also generate IT and other cost efficiencies for Ulster Bank.

Permanent TSB

Permanent TSB recently announced a major cost programme, targeting a 10% cost reduction. We believe that he bank has struggled to grow revenue from mortgages. In recent months it launched an aggressive free current account product, supported by a very significant marketing spend and the recently introduced Irish Bankers Federation (IBF) Switching Code. The bank has a stated goal of acquiring an additional 50,000 current accounts, and will presumably target these new customers with mortgage and other group products.

Early evidence suggests the Permanent TSB proposition could be effective. In addition, Permanent TSB will regard National Irish Bank and Bank of Scotland as key competitors in the market for new current accounts, and are likely to continue to adopt an aggressive approach to this market.

We expect that Switching will continue to increase in prominence as a feature of the current account market here.

Rabobank

We understand that Rabobank is planning to set up a direct deposit gathering operation in Ireland. We believe they will offer deposits at above current market rates using the online and phone channels. We also expect the proposition to be branded independently to ACC and to use a similar approach to that of Northern Rock, which has been modestly successful to date (total resources gathered c. €1bn).

The threat from the above competitors continues to evolve, with specific and meaningful challenges posed to Bank of Ireland across key segments. These threats are also taken into account by Retail Ireland when responding to the two key threats described earlier.

Vulnerabilities

Summarising the collective impact of existing and new competitors in the Irish market, there are five areas of specific vulnerability:

Margin Impact

- We believe that margin contraction is the main vulnerability facing Retail Ireland. Given the current large profit pool in the market and the small number of incumbents, it is likely new entrants will focus and compete on price, compared to the service focus of existing players.

Products & Pricing

- Strong product innovation has also been observed (e.g. an increase in the number of providers of 'Offset' mortgages, other mortgage innovation and the current account switching proposition from Permanent TSB),
- While it may be too early to fully assess the impact on the market of these initiatives, there is a specific vulnerability with respect to our personal current account offering. Bank of Ireland is increasingly being seen as a premium current account provider in a market that may be beginning to move towards lower price and / or interest bearing accounts.

Online Banking

- The strength of Danske's online consumer offering, "Netbank".
- Danske's entry may increase focus on the quality of the online channel, spurring our competitors to improve their offerings, putting increasing pressure on the Banking 365 online service.

Customer Service

The Danske service focus and the BOSI branch purchase will expose us to strong competition on the customer service dimension. The new entrants to Ireland will increase competition in the following service areas:

- Longer and more flexible opening hours, with some branches opening for 6 days
- Increased branch presence, with more front-line staff

Staff Recruitment

One key impact of the increased competition described above is the vulnerability of our skilled and experienced front-line staff to employment approaches from competitors. Bank of Scotland and National Irish Bank, together with AIB and Permanent TSB, are likely to target such staff in the larger banks. As Bank of Ireland moves into a period of cost containment, our staff may be more vulnerable to such approaches than before.

Retail Ireland Response

Four retail breakthrough strategy areas have been agreed – Customer Experience, Cost, Business Banking and Revenue Growth – with People as a key 'enabler' strategy.

Our strategic focus and the Retail Ireland 05/06 budget anticipate and acknowledge the further intensification of competition in Ireland, and will need to address the challenges presented by specific recent developments. The following is our response to the above developments:

Pricing / Margin Impact

- Retail Ireland's Strategic Cost programme, presented to the February Court, together with the Group's Cost and Capability plan, will deliver efficiencies enabling us to compete more cost effectively in the increasingly competitive domestic market.
- A full review of personal and business product pricing has recently been completed. Follow-up actions include a move to risk based pricing and measures to enhance fee based income
- A rising interest rate environment would also improve endowment income.

Customer Service and Products

The integrated Customer plan for 2005/06, presented to the February Court and developed in the context of significant changes in the competitive environment, focuses on all aspects of the customer experience, including segment propositions, product design and development, and customer communication, delivery and service.

The primary thrust of the plan is the enhancement of the customer experience:

- Customer Service enhancement plan bringing c.500 part-time staff into the branch network front line.
- A proposed programme of accelerated branch refurbishment (which will be the subject of a separate submission to Court), which could see those branches accounting for 80% of network PBT being upgraded. This would significantly enhance the branch experience, but will require investment over and above the 5-Year Plan level.
- The *Service 1st* and *Consumer Sales Model* programmes are designed to build a "customer first" ethos and are driving out better customer service and sales processes and behaviours throughout Retail Ireland.
- Our consumer online offerings are currently being reviewed, with an imminent proposal to increase services and functionality, thereby increasing current levels of satisfaction.
- Product development. For example, we are evaluating options in respect of low-cost and premium personal current accounts. In addition, we have a competitive mortgage tracker product and are developing a proposition for those seeking to switch mortgage providers.
- The maturity of SSIAs affords a unique opportunity to engage with our customers and develop an understanding of their financial needs (such engagement has been ongoing since SSIAs were introduced). Building processes to ensure we maximise this opportunity is a key part of

our plan for the year ahead. Strong follow-on products will be a key element of our proposition.

Human Resources Capability

The commitment and capability of our people are fundamental to the success of Retail Ireland and we are committed to maintaining our high levels of engagement, creating an enduring customer focus and a sustainable performance culture.

A specific business banking staff retention plan is in place and we are, on an ongoing basis, identifying staff that may be approached and are putting appropriate counter measures in place.

In addition, further improvement of the Division's employee engagement scores is an important safeguard against staff departures.

Business Banking

Results to date point to a very strong 2004/05 for Business Banking. As of February last, the Business Banking lending book was €12bn, up 23.5% on February 2004. Lending draw-downs are currently €5.4bn compared to a full year target of just under €4bn. Our strategy to continue this strong performance encompasses:

- Development of local market plans, creating gateway city taskforces, including the recruitment of additional business bankers
- Further improving the speed and quality of local execution
- Development a specific proposition for the small business segment and a strategy for dealing with intermediaries who are ever more important in this market
- Full support for the Corporate Banking Property Unit in meeting the Anglo-Irish and Bank of Scotland threats in this market.

Conclusion

Against the rapidly changing competitive environment described above, Retail Ireland faces a considerable market challenge. National Irish Bank's new owners and Bank of Scotland (Ireland) will both want to achieve market shares of c. 10%, well above their existing levels. AIB Bank, Ulster Bank, Irish Life & Permanent and other companies here will continue to compete aggressively in all parts of the market to protect their existing franchises. The competition in Ireland will intensify and do so at an increasing rate. While overall market growth is expected, there will be winners and losers.

Our current business strategy will deliver double-digit growth in a cost effective manner, while enhancing our customers' experience. Our strategic focus is robust. We have identified specific vulnerabilities and are taking appropriate counter measures, including selective investments, to ensure we maintain our leadership position.

The emerging and very significant threats described will need to be challenged head-on. Ensuring that Bank of Ireland is a winner will require that there is an appropriate balance between the Cost & Capability programme and the need to protect and enhance revenue, specifically the increased investment that this will require.

Effective execution of the integrated Customer Plan, Human Resource and Pricing challenges will help ensure that Bank of Ireland can successfully meet the challenge of new competitors.

Des Crowley
23/03/2005

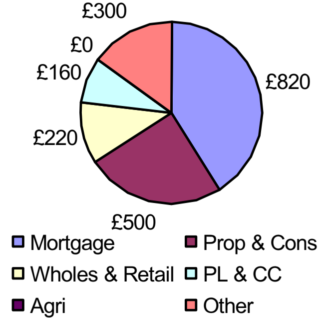
BOI01B01
BOI01169-006

Appendix 1 – Danske Purchase of Northern Bank/National Irish Bank
Danske Bank will pay £967m (€1.4bn) for the holding company *National Europe Holdings (Ireland) Ltd.* This company is the parent of National Irish Bank and Northern Bank.

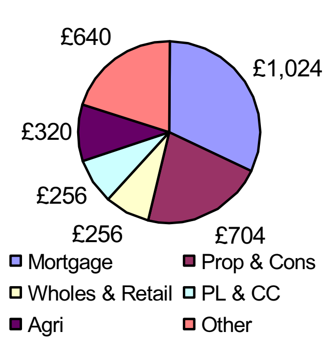
Source: Danske Bank Presentation[4]	*National Irish*	*Northern*	**Total**
Customers			
Retail	134,000	349,000	483,000
Premium	25,000	44,000	69,000
Business	8,000	22,000	30,000
	167,000	415,000	582,000
Branches*	59	95	154
FTE	742	2,101	2,843
Customers per Branch	2,831	4,368	3,779
Customers per FTE	225.1	197.5	204.7
FTE per Branch	12.6	22.1	18.5
P&L Sept 2004 (GBP m)			
Net Interest Income	63.8	134.1	197.9
Other Income	18.6	72.1	90.7
Operating Income	82.4	206.2	288.6
Direct Costs	-35.9	-76.4	-112.3
Bad & Doubtful	-2.7	-4.2	-6.9
Contribution	43.8	125.6	169.4
Op. Inc. per FTE	111.1	98.1	101.5
Contribution per FTE	59.0	59.8	59.6

Lending Portfolio

National Irish £2.0bn



Northern Bank £3.2bn



Danske Group

Danske Bank Group is the largest bank in Denmark, with leading market shares in:

- Retail,
- Wholesale and investment banking,
- Life assurance and
  - Asset management.

The Group appears to have a strong customer orientation, underpinned by high employee satisfaction, innovative product development and online banking platform.

[4] http://www.danskebank.com/ir

Recently announced 2004 results showed a 14% increase in Profit After Tax (to €1.4bn) and a 3% reduction in underlying costs. The Group owns small retail banks in Norway and Sweden. Last November Danske announced a strategy of withdrawal from international wholesale activities and further international expansion of its Retail business. The purchase of National Europe Holdings (Ireland) Ltd. (parent of National Irish and Northern) is fully consistent with this revised strategy.

A key enabler for Danske is its IT platform ('One Group, One System'). The IT system, which is multi-currency and multi-jurisdiction, is used in all of the international locations and has facilitated development of strong online offerings. These offerings have enhanced customer service / satisfaction and enabled fast market penetration especially in Sweden.

Both Nordic expansions were followed by IT rationalisation and cost improvement. In tandem, there were branch openings, recruitment of staff from other banks and some price-led market behaviour, e.g. pricing certain mortgage products 10bps below the next cheapest provider. The Swedish expansion is regarded as moderately successful. Customer satisfaction is the highest of any bank there, and market shares, while still less than 10%, have increased. However, Norway does not appear to have worked as well. Although the strategy was broadly similar, market share gains were not as strong and some analysts suggest an initial lack of meaningful management involvement by Danske have contributed to this underperformance

Danske Bank December 2004[5]	*DKr million*	*€ million*
Market Capitalisation 31-Dec-04	106,900	14,368
PBT	14,565	1,958
Loans & Advances	1,120,046	150,544
Total Assets	2,078,497	279,368
P/E		
Employees (FTE @ 31/Dec)	16,235	

Danske – Summary P&L (DKr m)	**2004**	**2003**	**2002**	**2001**	**2000**
Net Interest & Fee Income	25,604	26,552	25,305	25,289	15,748
Securities & Fx Income	-437	-713	675	1,563	1,785
Other Operating Income	1,785	1,237	1,230	1,260	1,062
Total	26,952	27,076	27,210	28,112	18,595
Op. Exp & Dep	-14,726	-14,964	-15,634	-16,416	-12,599
Loan Loss Prov	18	-1,662	-1,420	-1,752	-454
Operating Income	12,244	10,450	10,156	9,944	5,542
Inc. from assoc and subs	2,321	2,586	1,008	1,446	1,114
PBT	14,565	13,036	11,164	11,390	6,656
Tax	-4,007	-3,750	-2,922	-2,677	-1,940
PAT	10,558	9,286	8,242	8,713	4,716
Cost Income	54.6%	55.3%	57.5%	58.4%	67.8%
Income Growth	-0.5%	-0.5%	-3.2%	51.2%	
Cost Growth	-1.6%	-4.3%	-4.8%	30.3%	
PBT Growth	11.7%	16.8%	-2.0%	71.1%	

Source: Danske 2004 Annual Report

[5] Source: Danske Bank Annual Report 2004, DKr converted to Euro at the rate of €1 = DKr7.44

BOI01B01
BOI01169-008

Appendix 2 – Bank of Scotland Ireland Purchase of ESB Retail

Purchase Price	*€120m*
No. of Retail Sites	54
Staff	400
"*FinancElectric*" Customers	185,000
Transaction Date	1st July 2005
Rebranded Branch Open starting	November 2005
Existing BOSI Customers	100,000

Locations

The ESB shops are well placed, with no geographical bias in the network. In terms of population coverage (based on our catchment allocations) they are "accessible" to 40% of the population.

The sites in Crumlin, Ballyfermot, Blanchardstown, Newcastewest, Carrick on Shannon, Youghal and perhaps 4 or 5 others are unlikely to have the market to sustain a mortgage business. It is likely BOSI will sell 6 or 7 properties fairly quickly and add city locations in Dublin, Cork and Galway.

The branch network will allow BOSI to include branch presence in their Business Banking propositions. This was previously a gap for them and a reason why they were interested in the Northern/NIB.

In all cases, (bar Crumlin – we recently moved out of the shopping centre), we have a branch in the immediate vicinity. Some 37 (of the 53 – 70%) of our proximate branches are Commercial branches. We would have had no interest in the ESB shops as bank branch locations.

Staff Options

There are 400 staff working in the ESB shops and they have 3 options:

- Transfer to another area within the ESB.
- Take ESB redundancy and work with BOSI
- Take redundancy and leave.

CONTENTS

Executive Summary

1 **INTRODUCTION**
Initial Perspectives: The New Economics of Banking

2 **DRIVERS OF CHANGE IN BANKING**
The competitive environment
Globalisation
Impact of technology
Financial innovation
Access and consumer interface
Excess Capacity in the banking industry
Economies of scale imperative
Capital market Pressures
X-efficiency pressures
Capital markets and securitisation
Regulation
De-construction
Efficiency margin
Erosion of cross-subsidies
Consumer trends

3 **CENTRAL SCENARIOS FOR THE INDUSTRY**
Pressures towards consolidation
Securitisation
Implications for Bank of Ireland
Key risks

4 **BANK STRATEGY AND ISSUES OF SIZE AND DIVERSIFICATION**
The size issue

5 **ORGANISATIONAL STRUCTURE**

6 **STRUCTURE OF BANKING SYSTEMS**

7 **STRATEGIC IMPLICATIONS: SUCCESS COMPONENTS**
Shareholder value strategy

8 **THE EUROPEAN DIMENSION: CONVERGENCE OR DIVERSITY?**

9. **ASSESSMENT**

10. **THEMES FOR DISCUSSION**

EXECUTIVE SUMMARY

The main themes of the report are summarised briefly as follows:

- The banking and financial services industries are in a process of substantial structural change which is transforming the underlying economics of banking firms and the structure of the industry.

- The drivers of change may be categorised as *global* (those that apply generally to banks in all countries), *European Integrationist* (those which are related specifically to the EU ambitions for a more integrated financial services industry) and *country-specific* (those special or unique factors that are relevant to particular countries).

- The combined pressures are having a decisive impact on all aspects of banking business: which institutions and types of firms conduct financial services business; the business profile of financial institutions and the type of business undertaken; the way business is conducted; how financial services are delivered; the structure and intensity of competition in particular banking markets, the relative role of institutions and capital markets, and also the organisational structure of banks.

- Business strategy needs to be framed within the context of the combined pressures in the banking industry that are changing its underlying economics.

- Consumers' expectations and demands are changing as a result of the greater competitive pressures in banking and financial services markets. In particular, trust and confidence have become important issues.

- The powerful forces inducing structural change have the effect of widening, rather than closing down, strategic options for banks.

- Banking is not a homogeneous business but a conglomeration of different businesses. Banks are involved with different customers, markets, and products in each market. Competition takes place in sub-markets rather than generically between firms. Because of this, specific business strategy needs to be tailored to the sub-markets in which a bank is operating.

- There is significant "excess capacity" in the European banking: too many banks, excessive banking infrastructure, employment levels are too high, and excess capital. The manner in which excess capacity will be adjusted will be one of the major strategic issues that banks will face in the years ahead.

- No single banking model is likely to emerge and neither is there likely to be a convergence on a single model. There will be no single "winning strategy".

- As a result of different banks adopting different strategies, there will be more diversity among successful firms than in the past with respect to size, product range, business models, and organisational structure.

- There is little conclusive evidence that large banks have lower costs than do smaller banks, and economies of scale seem to be exhausted at comparatively low levels. The overwhelming conclusion from the empirical evidence is that the major determinant of a bank's cost level is not size *per se* but its own internal efficiency.

- There is a viable future for banks of all sizes and business structure. There is scope for small and medium-sized, focussed banks to compete alongside large diversified financial conglomerates in the pluralistic financial systems that are likely to emerge in Europe. This is providing they are efficient and are prepared, if necessary, to change organisational structures to secure the economies of scale externally that they are unable to generate internally.

- While there will be powerful pressures on banks of all sizes to secure economies of scale, these can be achieved in a variety of different ways of which being big is only one. There are different routes to securing necessary economies of scale.

- In securing economies of scale, some banks (depending on their size) may need to radically change organisational structure; in particular, to strike the appropriate balance between internal and external contracts in the area of processing. The central strategic issue is which components are to be supplied internally, which are to be sub-contracted, and which are to be exported.

- A major pressure in the banking industry in the years ahead will be the accentuation of the *deconstruction* process, with institutions concentrating on

those parts of the business, and those processes, in which they have a competitive advantage. This will require some firms to adopt a radical approach to their organisational structure.

- Many of the traditional arguments about the vulnerability of small and medium-sized banks assume a continuation of the traditional structure of the banking firm. This is an unwarranted assumption.

- National financial systems in Europe are likely to become populated by a greater variety of different types of banks applying different models.

- Devising an optimum mix of delivery channels presents a major strategic challenge for banks that will increasingly need to offer consumers a wide range of delivery channels.

- In European banking as a whole, there will be degrees of *convergence* but also of *diversity.* Banks in the EU area will continue to adopt a variety of different business models, will continue to have very different business profiles, and there is likely to remain a variety of institutional structures in national financial systems.

- Banks are likely to face increasing competition from a more dynamic and efficient capital market most especially in the areas of corporate sector business.

- While in some business areas this will become a potential threat, it also offers an opportunity through increased securitisation of existing credit assets of banks. An increasing proportion of both wholesale and retail assets will be securitised with some banks operating as originators and packagers of credit risks that are ultimately carried by others.

- Further consolidation in the European banking industry will certainly occur and, as domestic consolidation reaches national competition limits, this will involve a phase of cross-border mergers and acquisitions within the European banking industry.

- Successful strategy is likely to be dominated by internal considerations (efficiency, and being good at what the bank chooses to do, etc) rather than by following a particular model in the size-business profile mix.

- There will be increasing pressure on banks to pursue strict shareholder value strategies.

Five central themes are included for consideration by Bank of Ireland and might usefully be borne in mind as the report is read. They are repeated at the end of the report:

1.Conventional wisdom suggests that only large diversified financial services groups can compete effectively in the future. What is your view?

2.Where should BoI position itself on the financial system spectrum?

3.What are the implications of the shareholder approach for BoI's future business strategy?

4.What are the main core competencies of BoI and how might these best be applied to competitive advantage?

5.What are the key ingredients for BoI's future strategic success?

Court minute extract
7th July 2008

PRESENT: Mr R Burrows, Governor
Mr BJ Goggin, Group Chief Executive
Mr G Magan, Deputy Governor

Mr R Boucher	Mr D Crowley	Mr D Dilger
Mr D Donovan	Mr P Haran	Mr D Holt
Ms R Hynes	Mr J Kennedy	Mr D McCourt
Ms H A McSharry	Mr T Neill	Mr J O'Donovan

2. Quarterly Risk Review:

Mr Murphy, Group Chief Risk Officer, provided his current assessment of credit, liquidity and the general economic backdrop. He expressed surprise at the rapidity of deterioration on a number of fronts over the previous 6/8 weeks:-

- consumer confidence declining in all our markets (Irl., UK & US) as economic forecasts deteriorate; ESRI indicating potential recession in Ireland while the OECD has predicted a significant downturn in the UK;
- increasing stress evident among property developers – especially in the case of those involved in residential development, where sales have practically dried up.
- liquidity more volatile and availability in wholesale markets largely restricted to terms up to 3 months while the cost of funds continues to increase. Significant upward pressure is now evident on retail deposit rates as all banks increase their focus on this source of funding. This presents a difficult challenge for the Group in RoI where it needs to minimise cannibalisation of its current deposits while defending its c. 25% market share.
  For this reason new retail deposit gathering efforts are being focussed primarily on the UK and the US as well as on Corporate customers in Ireland. It is hoped that POFS may prove particularly effective as a deposit gatherer because of the strength of the P.O. brand.

.

5. Strategy Review:

Mr. Goggin described the context for this review – the significantly changed economic environment and ongoing turmoil in financial markets (resulting in restricted and expensive funding) and low probability of improvement over the next 18/24 months at least.

Against this background, he described the three near-term strategic options, as outlined in his paper, which had been considered by management and outlined the rationale for the preferred option "strengthen for success and position for growth" – which recognises the changed environment and involves least execution risk. He then outlined the near term priorities which flow from this option – funding, capital, asset quality and cost efficiency. These are designed to steer the Group safely through the current turbulence while positioning it to take advantage of the upturn when it arises.

Following probing on the current perception of the Group, and Irish banks generally, in the interbank markets, Mr Goggin reported that the Group was experiencing no resistance to our name but was forced to fund increasingly at the short end (≤ 3 months) in common with most participants. This is likely to be reflected in our published Interims but is also expected to be a feature of all bank's results this year. He commented on some rumours surrounding competitors but emphasised the absolute need to avoid giving any signals whatsoever which might exacerbate a fragile situation. He assured the Court that he keeps in regular contact with the Financial Regulator and expressed

confidence that the Regulator has contingency plans in place (which would be likely to require the Group to play a part) should another entity appear likely to fail. In subsequent discussion, Mr Goggin confirmed that he could not envisage any circumstances where BoI's equity would be put at risk in helping to prevent the collapse of a competitor.

There was full agreement on Mr Goggin's assessment of the economic outlook and unanimous support for the short term priorities outlined – with some questioning as to whether we need to adopt a more prudent stance than proposed, in relation to capital and funding, in view of the deteriorating conditions in term funding markets and the rapid decline in the outlook for the Irish and UK economies. It was acknowledged that the risk of a more severe downturn was increasing and management agreed that a further tightening of credit growth, as well as asset disposals and dividend policy, would be kept under active review in order to achieve the targeted funding and capital metrics.

Court minute extract 20th November 2008

PRESENT:	Mr R Burrows, Governor Mr G Magan, Deputy Governor Mr BJ Goggin, Group Chief Executive		
	Mr R Boucher	Mr D Crowley	Mr D Dilger
	Mr D Donovan	Mr D Holt	Ms R Hynes
	Mr J Kennedy	Mr D McCourt	Ms H A McSharry
	Mr. T Neill	Mr J O'Donovan	
APOLOGIES:	Mr P Haran		

Proposed Business Plan for submission to the Financial Regulator

Management drew attention to:-

- The key assumptions underlying the draft plan – no new capital raised, no extension of the Government Guarantee, no asset disposals, no dividend payment, significant cost savings and a return to normalised funding costs;
- The strategic priorities – strengthen capital ratios and improve funding metrics by de-leveraging, focus available lending capacity on Ireland, actively manage credit risk and the cost base; and
- The financial projections which showed:-
  - Core Tier I ratio remaining at c. 6.3% - well short of the new market expectation;
  - Loan to Deposit ratio (LDR) improving to 125% by 2011;
  - Wholesale funding ratio improving to 30% by 2011.

Mr Goggin expressed the view that, while these ratios would have been very acceptable until recently, they would now be likely to be seen as unsustainable in the absence of the Government Guarantee.

In subsequent discussion, Directors emphasised the need for a sustainable plan and questioned the credibility of the lending growth shown given management's assessment that capital ratios would fall short of market expectations. The sustainability of the LDR at 125% was also questioned in the context of relatively weak capital ratios and the expiry of the Government Guarantee.

Management indicated that it was understood that this draft plan would be subject to discussion with the FR and, therefore, would be capable of amendment. However, the Court concluded that the plan should be amended to clarify that, in the absence of an extension of the Government Guarantee and/or raising new capital, it was likely that a more severe approach to de-leveraging would be required which would constrain the Group's ability to support the Irish economy as it emerges from recession.

Capital raising options

The advisers tabled a paper setting out the current status of capital rising options:-

- **Sale of Group** – no interest from most likely counterparties;
- **Disposal of Parts/Assets** – BoISS only likely prospect in near term – being actively pursued;
- **Deleveraging** – plan agreed and underway;
- **Capital raising** – SWFs – no interest; PE firms – some expression of interest; to be further explored.

The impact in terms of capital ratios and dilution was demonstrated for a number of different potential structures – maximising the preference share element minimises the dilution of existing stockholders.

The principles and messages to guide the next discussion with Government were outlined and agreed:-

- Recapitalisation must be at acceptable cost and risk to BoI, otherwise no option but to 'stay as is';
- Pre-emption rights of existing stockholders must be recognised;
- Flexibility to redeem would be important;
- Systemic issues in Irish Financial services must be addressed and BoI can't risk others getting more favourable deal subsequently.

From the state's perspective, it was recognised that:-

- Recapitalisation must be such as to help the overall economy;
- Recapitalisation terms must be in line with EU norms;
- Private sector involvement may be required to establish market pricing and to minimise the burden on the state.

has happened) and how it would compete and facilitate competition in the markets in which it planned to operate (which is monitored). The Commission endorsed and approved Bank of Ireland's EU Plan in 2010 and an amendment in 2013 agreeing to the retention of Bank of Ireland's New Ireland and sale / closure of its ICS subsidiary as a competition measure.

The EU Plan and documents recording the Board's consideration of the EU Plan have been provided to the Joint Committee in the Bank's response to Category 3.

Bank of Ireland's new strategy was financially endorsed by Private Sector Investors in its successful capital raising exercises in 2010, 2011 and 2013.

The Bank has spent considerable energy and resources to understand its own errors of judgment and the mistakes made, including assessing the background in which they occurred. In its response to Category 3, Bank of Ireland has provided the Joint Committee with a significant amount of background documentation showing:

(i) the factors leading to the challenges faced by Bank of Ireland in late 2008 (*see in particular Part 3 of the EU Plan*); and

(ii) the Bank's response to the banking crisis in the period since September 2008 including the key corrective actions taken and lessons learned (*see further the minutes, board papers, narrative reports and transaction documents provided in response to Category 3 for the period from 2008 to 2013*).

The purpose of this document is to provide to the Joint Committee, as an overview of the background documentation referenced above, a brief summary of the most significant of the corrective actions taken by Bank of Ireland in the prescribed period (2008-2013), including certain key actions which were the Bank's own initiatives and also actions taken by the Bank in conjunction with the State, the Central Bank of Ireland, the European Commission, the ECB, the British Government, the Bank of England and the Federal Reserve Bank in respect of initiatives instigated by those entities and/or requiring consent from those entities.

This document is only a brief summary of the key actions and outcomes therefrom. Further information on the actions taken under each of these categories, together with the other corrective actions taken by the Bank during the prescribed period have been provided to the Joint Committee in the Bank's response to Category 3.

1. **Strategy**

1.1 The Bank acknowledged that it was necessary to adopt a revised strategy which reacted to changed and evolving circumstances in the international and domestic markets. In early 2009, the Group's operating model was restructured to bring greater focus and accountability for identifying, assessing and managing risk, improving infrastructure and reducing costs and for bringing greater focus to medium term sustainable franchises.

1.2 Strategy development and implementation had considerable input from third parties who assessed systemic issues relating to banks operating in or from Ireland and wider European and UK financial systems. In developing the Bank's strategies, management and the Board were determined to put into practice the lessons learned from the causes of the financial crisis and Bank of Ireland's problems.

1.3 Bank of Ireland decided in 2009 that it needed to considerably revise its strategy, strengthening its risk governance, its capital and its funding to enable it focus on core franchises which it could support with robust capital, with stable deposits generated from customers and with a more flexible, efficient infrastructure. Importantly its cost base had to be significantly reduced to conform to this smaller, stronger, more efficient Group and critically it had to manage through a major deterioration in the quality of its risk assets while protecting its capital, its reputation and its standing in its chosen franchises.

2. **Risk Management and Governance Bank of Ireland recognised that its Risk Governance had been flawed and required a significant improvement**

2.1 In March 2009, Bank of Ireland commissioned independent international consultants, Oliver Wyman, to carry out a major review of risk governance at the Bank. Coincidentally and subsequently the ECB chose Oliver Wyman as core advisers for the Comprehensive Assessment of circa 130 banks across Europe in 2014. All of the recommendations of that report were implemented, including the formation of a Board Risk Committee and the development of the necessary framework and management information (including a Risk Appetite Statement), for that committee to consider, approve and monitor risk appetite and policies.. The Bank's management also introduced significant improvements to its structures for assessing and managing risk, including management information regarding risk.

2.2 In December 2010, Boston Consulting ("**BCG**"), an international independent firm reporting to the Central Bank of Ireland, undertook an extensive review of risk management and governance in Bank of Ireland. BCG concluded that the Bank's risk management was broadly aligned with peer best practice, there were no critical gaps, and in some areas the improvement was described as "rapid". The report also notes that Bank of Ireland made substantial progress in risk management initiatives over the previous 18 months. BCG confirmed that they found no evidence that there are any major weaknesses in governance at Bank of Ireland.

2.3 Copies of the reports of Oliver Wyman and of Boston Consulting have been made available to the Joint Committee in its response to Category 3. The management team were continually challenged to improve, both by each other and by the Board. Following the changes implemented as a result of the Oliver Wyman report and the BCG report, the Board has the benefit of considerably enhanced governance standards, knowledge and information which equip it to challenge and assess the recommendations of management. Slide 2 shows the Group's revised current structure for devising, implementing and monitoring Risk strategy. These standards,

processes and policies have been subject to and passed significant due diligence by private sector investors during Bank of Ireland's successful capital raising exercises.

2.4 During 2014, in preparation for the Single Supervisory Mechanism and as part of its Comprehensive Assessment, the ECB thoroughly reviewed Risk governance policies, processes and methodologies in Bank of Ireland against Euro system wide benchmarks. Bank of Ireland has not been required to take any remediation actions following this review.

2.5 Since 2009 there has been considerable change and renewal in Bank of Ireland's Board and Senior Management with all incumbent Board Directors and all incumbent relevant Senior Management having been subject to the Central Bank of Ireland's Fitness & Probity Regime. Slide 3 shows the Group's current Board.

3. **Funding and Liquidity**

3.1 The single biggest strategic mistake the Bank made, in common with a large number of banks throughout the world, was to become over-reliant on wholesale funding to grow its loan assets particularly outside its core franchises.

3.2 The Board and Management prepared a revised strategy embedded in its Risk Appetite Statement which required customer lending to be funded by customer deposits and capital with requirements for a proportion of wholesale funding to be greater than one year. A set of hard ratios were set and communicated to regulators and investors. Aligned with this strategy was the Bank's stated objective of reducing risk to the taxpayers arising from support for and investment in Bank of Ireland, rewarding that risk and investment and reimbursing the investment. From a funding perspective, the risk for the taxpayers primarily arose under the CIFS/ELG guarantees of deposits and the certain other funding instruments. The covered liabilities at 31 March 2009 were €108bn and had reduced to circa €5bn at 31 December 2013 with the Bank holding in excess of €6billion of Irish Government Bonds at that date. Slide 4 demonstrates the evolution of the Group's funding profile since 2008 showing the dramatic reduction in wholesale funding by €69bn between September 2008 and December 2013 with wholesale funding's proportion of Group funding reducing from 46% to c. 20%. Slide 4 also shows the significant increase in Retail customer deposits (as opposed to more volatile corporate deposits) and in particular Sterling£ deposits generated in the UK to fund UK assets. Slide 5 demonstrates Bank of Ireland's ready access to funding markets extending the maturity profile and diversification of the wholesale funding sources while slide 15 shows the improvement in the Group's Loan to Deposit ratio from 159% to 112%.

3.3 The Group achieved this through (i) a dramatic reduction in risk assets, requiring funding, as set out in Slide 6 (ii) the nurturing of its vital relationship as the financial services partner to the British Post Office where in 2012 the principal contract was extended to at least 2023 and which was facilitated by the Group incorporating a wholly owned Bank of England licensed subsidiary into which the bulk of its UK assets and funding were placed and reside. This resulted in the UK deposits and liabilities of the subsidiary being removed from being a risk for the Irish taxpayer under the CIFS/ELG guarantee. This incorporation and contract extension required confidence in Bank of Ireland's new strategy and its governance by the British Government and the Bank of England. (iii) nurturing its retail deposit franchise in Ireland and (iv) obtaining market support for its new strategy and its governance by the wholesale markets and utilising its skill and experience to raise funding through a range of instruments from a very large and diverse investor base as set out in Slide 5.

3.4 Since 2009 the Group's funding and liquidity strategy and ratios have been and remain in full compliance with regulatory requirements as set by the Central Bank of Ireland, the ECB, the SSM, the Bank of England and the Federal Reserve Bank.

4. **Risk Asset Reductions and focus on Chosen Markets**

4.1 The Group recognised that it made strategic errors of judgment in allowing the overall size of its risk assets to grow beyond what it could support in the new environment post 2008. A material reduction in risk assets was required.

4.2 The new strategy required Bank of Ireland to exit from / dispose of a number of businesses and franchises. The lending businesses it exited from were almost exclusively outside Ireland except for the European Commission required disposal of its ICS broker originated residential mortgage business and Property & Construction loans of gross €9.9billion sold to NAMA at a discount of 43% (industry average discount 57%). The reduction in assets and disposals of businesses had to be done with considerable skill and planning across a wide range of complex businesses in different geographies during the difficult international economic conditions of the period 2010 – 2013 whilst preserving capital, protecting customers, managing regulatory requirements and maintaining staff commitment and morale. Slides 12 and 13 show the Group's key businesses as of today following the implementation of this strategy. Slides 6 and 7 show the reduction in Risk Assets which has been achieved and how the geographic and asset class mix of the Group's Risk Assets has evolved. This has been achieved whilst protecting and enhancing the Group's core franchises, particularly in Ireland, as set out in Slides 12,13 and 14, contributing to the economies in which we operate.

4.3 Further details of asset sales (including transfers to NAMA) business disposals and risk asset reduction strategies including the consideration of the options, decisions on same and the governance of the process are included in the documents provided in relation to Category 3.

5. **Capital**

5.1 Bank of Ireland had made a serious strategic error of judgment in following international trends and investor pressure to increase returns on capital in that it overleveraged the Group's capital base and therefore did not have sufficient capital to absorb the inevitable losses which would arise in the very significant economic downturn of 2009 – 2012 and to retain the confidence of funding markets in this new environment as well as satisfying the changed and evolving requirements of regulators.

5.2 The Bank decided that it had to raise and generate new capital so as to meet these requirements and it had to maximise the quantum of the requirement from the private sector so as to reduce the risk to the taxpayers, reward taxpayers' support and investment and reimburse taxpayers' investment.

5.3 Over the period 2009 – 2013 through a series of highly complex, well planned and executed transactions, Bank of Ireland generated and raised over €12.5bn in capital from the private sector (as shown in Slide 8) to strengthen its capital and reduce taxpayers' risk, to reward taxpayers' investment and support and to reimburse taxpayers' investment. Further details on the consideration of options, articulation of strategy and Board governance in relation to capital is contained in documents provided under Category 3. To raise and generate this quantum of capital in a series of transactions during a very challenging economic environment, internationally and for Ireland, required considerable determination, planning and skill, the ability to

meet extremely in depth challenging due diligence requirements and receive financial endorsement by a wide range of diverse, experienced, primarily international investors for Bank of Ireland's strategy, governance, Board and management and of the prospects for Ireland's economic recovery.

5.4 The evolution of the Group's capital ratios between 2008 and June 2014 is set out in Slide 15 with Core Equity Tier 1 improving from 6.3% to 13.2% while Slides 16 and 17 incorporate an update in November 2014 of ratios at 30 September 2014.

5.5 Over the period since 2009 the Group's capital evolution has met the requirements of the Federal Reserve Bank, the Bank of England, the Central Bank of Ireland – specifically under PCAR 2010, PCAR 2011 and AQR 2013 and most recently the ECB/SSM (with Slide 9 showing the outcome of the ECB/SSM's 2014 Comprehensive Assessment).

6. Costs Reduction, Management and Investment

6.1 The Group had made a strategic error of judgment in having a cost base and cost structures to facilitate a significantly larger but less flexible and over-geared Group.

6.2 The necessary re-configuration of the Group's balance sheet and refocus on core franchises supported by a more flexible and efficient infrastructure required major cost reduction programmes involving (i) regrettable but necessary reductions in numbers employed and in employees' remuneration and benefits while preserving industrial relations peace and employees' morale and commitment (ii) significant programmes to achieve infrastructural flexibility and efficiency whilst preserving capacity for investment in franchises and businesses and ensuring continued and improved service from providers of products and services to the Group.

6.3 The Group successfully worked with its employee representative bodies, professionally and transparently, to achieve agreement to: major change programmes; redundancy and employee reduction programmes (circa 5000 less people are now employed in the Group compared to 2008); remuneration reductions and benefit changes. The latter included 100% acceptance by employee members of Group Sponsored Defined Benefit Pension schemes to two separate programmes in 2010/2011 and 2013/2014, on an informed, individualised consent basis (as required under the Trust Deeds), for benefit changes which benefit changes will have benefitted Group capital by > €1.1bn and materially reduced actual and potential costs of pension provision. Infrastructure has been revamped, refreshed and made more efficient whilst accommodating major investments in stabilisation and enhancements. Outsourcing contracts have been restructured, renegotiated and entered into to reduce costs, enhance service and provide capabilities not available within the Group. This has been done whilst protecting and enhancing the Group's core franchises, particularly in Ireland including, inter alia in Ireland, the preservation of its Branch footprint and on the ground presence in centres of commerce, large and small, throughout Ireland.

6.4 Documentation provided with respect to Category 3 provides further information on the deliberations, options considered and governance in relation to the cost and investment components of the new strategy. Slide 10 shows the evolution of the Group's cost base and its reduction by over a quarter (€550m) between September 2008 and December 2013.

7. **Non-Performing Loans and Impairments**

7.1 Bank of Ireland's errors of judgment, the very difficult economic conditions internationally and in Ireland over the relevant period and the precarious position and indeed demise of competitors and other providers of funding over the relevant period put a large quantum of the Bank's risk assets in a challenged position. The Group had to work with personal customers, businesses and corporates involved with a wide range of asset classes and in a number of different geographic locations - supporting viable customers with sustainable solutions, dealing effectively but empathetically with non-viable situations and selling whole asset class portfolios performing and non performing (eg to NAMA) and individual non-performing loans / portfolios. This had to be done in a manner which protected and preserved capital, protected the Group's reputation and presence in its core franchises and complied with regulatory and customer protection requirements in the jurisdictions in which the Group operates.

7.2 The documentation provided with respect to Category 3 provides further information on the deliberations, considerations and governance employed in delivering on these objectives.

7.3 The reduction in non-performing loans, impairment charges and in arrears as the Bank has successfully pursued those objectives are set out in Slides 11 , 16 and 17. Slide 11 covers June 2012 to June 2014 being the period post the transfer of loans, performing and non-performing, to NAMA with the final loans being transferred in 2011. Bank of Ireland transferred gross loans of €9.9bn to NAMA at a total discount of 43%. The average discount for all loans transferred to NAMA from all banks was 57%.

8. **The Consequences of the Actions taken by the Group since 2008**

8.1 Slide 15 as updated by Slide 16 and 17 gives a succinct picture of the improvement in the Group's key financial ratios over the relevant period as it has moved to sustainable viability and profitability.

8.2 Slides 12, 13 and 14 are a snapshot of the strong franchises that the Group has protected and enhanced over the relevant period, underpinning its ability to remain sustainably viable into the future, meeting the financial needs of its customers on a sustainable basis and contributing to the economies and the communities in which the Group operates.

8.3 Slide 9 is a brief synopsis of the outcome for Bank of Ireland of the comprehensive, intensive review (to common, transparent Europe wide benchmark standards) undertaken by the ECB during 2014 of the strength and viability of over 130 banks across Europe in preparation for the SSM.

8.4 Bank of Ireland received extraordinary support and investment from the Irish taxpayer. Bank of Ireland is determined that it will never again be in a position where it will need taxpayers' extraordinary support or investment. Bank of Ireland is very grateful for that support and investment. The documentation provided with respect to Category 3 shows the Board's focus on meeting its obligations to the taxpayer for their support and investment. Its gratitude is demonstrated by (i) it becoming sustainably viable, (ii) serving the financial needs of its Irish customers on a sustainable basis and (iii) reducing the taxpayers' risk, rewarding the taxpayers'

support and investment and reimbursing taxpayers – Slides 18 and 19 demonstrate this.

PART 3: ANALYSIS OF THE REASONS WHY THE INSTITUTION RAN INTO DIFFICULTY

INTRODUCTION

117. Given the commercial sensitivity and candid nature of the matters discussed in this part, this entire part should not be disclosed without the prior written consent of BOI. This is without prejudice to BOI's rights to protect business secrets in this Plan generally.

118. In considering why BOI ran into some difficulties, it is necessary to consider the background factors in BOI's major economies, as well as particular issues, to understand the situation that ultimately unfolded. All of these observations are made with the benefit of hindsight.

119. With respect to the current financial crisis, Ireland, like many countries, was affected by both global economic and financial market factors. This was a crisis which unfolded with great rapidity and in an unprecedented manner. As a small and very open economy, the impact of, and speed of adjustment to these factors was perhaps greater in Ireland than elsewhere.

120. There were a small number of additional specific factors, however, in the Irish banking crisis. In particular, a property bubble in the Irish (and UK) markets saw a very rapid increase in property values followed by a very sharp correction. The situation was compounded by the extremely difficult position of the Irish Government finances, which offered little scope for offsetting fiscal measures to counter these shocks, given the structural imbalance which had built up in spending, financed to a significant extent by VAT and taxes/duties on property and construction activity and transactions.

121. The main markets in which BOI operates, particularly Ireland and the UK, enjoyed strong economic growth and prosperity in the period 2000-2008. Consensus economic forecasts continued to be positive and these forecast informed BOI's strategy.

122. Irish banks, including BOI and a number of international banks rapidly expanded lending into the Irish market, with property and mortgage lending being particular features of this credit expansion.

123. Given that the rate of credit growth significantly outpaced the rate of deposits, there was a greater dependence on wholesale funding (much of which came from overseas).

124. BOI grew its GB mortgages and GB business banking business (primarily property related) quite rapidly in an attempt to diversify from its exposure to the Irish economy. This growth was primarily wholesale funded.

125. Property lending did not become disproportionately large in BOI's balance sheet (21% property lending at March 2005 vs. 26% at March 2009). Nevertheless, the absolute quantum of some €32bn (at March 31st 2009) left BOI heavily exposed to the significant correction in the Irish and UK property markets.

126. BOI's issues have revolved around :-

    - the absolute quantum of property lending on its balance sheet;
    - the greater dependence on wholesale markets rather than deposit gathering;
    - structural defects in financing of mortgage markets leading to greater reliance on securitisation;
    - entering inot some business lines (investment grade lending, ship finance and film finance) which did not have franchise value or generate supporting deposits; and

* increased dependence on funds based income.

127. A very substantial part of the reason why BOI required the assistance at issue relates to external and global factors which have affected almost every bank in the world. In so far as there were factors particular to BOI, BOI has already taken immediate and tangible steps to address those issues.[24]

128. In terms of the external factors, as the Commission itself noted, since "mid-2007, the functioning of the wholesale credit markets has been severely disrupted. The result has been a drying up of liquidity in the banking sector and a reluctance of banks to lend to each other and to the broader economy. As the disruption of credit markets has intensified over the past eighteen months, the financial crisis has intensified and the global economy has entered a severe depression".[25]

129. BOI's strategy in recent years was to grow its business in familiar geographies (primarily, Ireland and the UK) and known product segments (primarily, retail and commercial banking). BOI did not engage in large scale mergers and acquisitions and actively managed its portfolio of businesses to ensure capital efficiency. Similarly, BOI avoided significant exposure to certain high risk assets (e.g. proprietary trading, equity investment, collateralised loan obligations ("CLO")/collateralised debt obligations ("CDO") etc).

130. In summary, BOI's position was due to a combination of:

* the severe downturn in the Irish and UK economies and in particular, a severe correction in the Irish (and, to a lesser extent, UK) property market and the Irish economy generally; and

* a significant dependence on wholesale funding which was exposed as a result of the liquidity crisis.

Background factors

131. Economic forecasts by almost all commentators proved to be too optimistic in the light of the impending financial crisis and the imbalances that were building in BOI's principal markets of Ireland and the UK.

132. In July 2006, BOI developed a five-year plan ("Strategy 2012") which was predicated on the economic outlook for its key geographies in Ireland and the UK being broadly favourable, with strong gross domestic product ("GDP") growth and low unemployment being forecast as follows. The consensus forecasts at the time, drawn from various quarters, painted a different picture than that which ultimately evolved:

Table No.31: Medium Term Forecasts 2006-2011

Medium terms forecasts (2006-2011)				
(Average, unless otherwise stated)	Ireland	UK	US	Eurozone
GDP Growth (%)	5.5	2.7	3.5	2.0
GDP % (*range*)	3.5-7.5	1.5-3.5	1.0-5.5	0.5-3.0
Interest rates (%)	3.5	4.5	4.5	3.5
Inflation (%)	2.5	2.0	2.5	2.0
Unemployment (%)	4.3	4.8	5.5	8.0

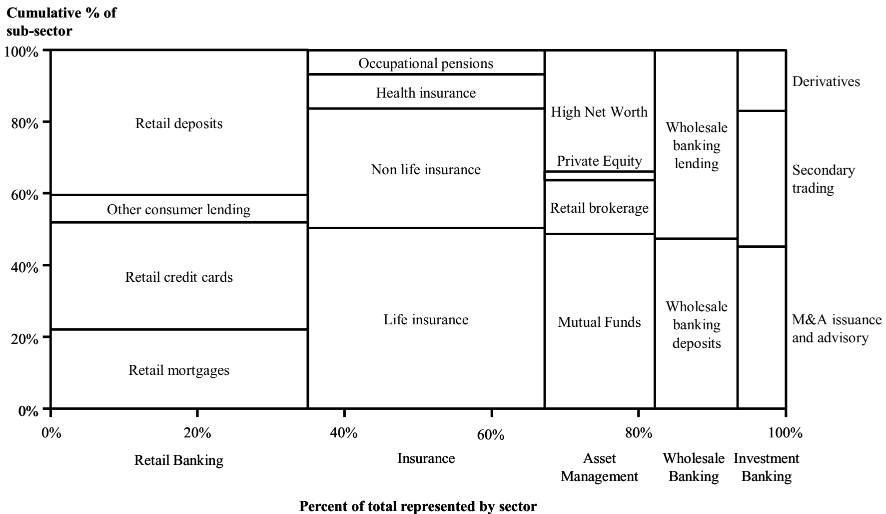
Source: BOI July 2006 – derived from consensus forecasts

133. When the economies deviated from expected performance, the belief initially was that there would be an economic "soft" landing. The actual outcome differed significantly from these

[24] Cf. Restructuring Measures Communication, para.10.
[25] Impaired Assets Communication, Para 1.

Figure 3 shows the composition of expected revenues in 2020 by subsector

Figure 3: Projected revenues by subsector



Retail banking and insurance will constitute almost 70% of all revenues

This chart shows how in 2020 retail banking products and insurance products will still constitute almost 70% of all global financial services revenues.

In Figure 4 we show the revenues and economic profit forecasts for Ireland and the UK, the key markets for the Bank, and for comparison include the rest of the EU, the USA and the fast growing markets of Central and Eastern Europe. We see the Irish market as continuing to be one of the fastest growing in the world, driven by the very rapid GDP growth and the 'leveraging' effect of a growing ratio of financial services industry revenues to GDP. We thus believe that there are good potential growth opportunities for the Bank in its home market. Of course, the fact that Ireland is only one-half of one percent of the global revenues and economic profits poses one of the key strategic questions for the Group: is it enough to be one of the key participants in a very small (but very attractive) market, or does one need to grow outside? And if the answer is to grow outside, what is the most effective way?

GROUP RISK POLICY COMMITTEE MINUTES
27th January 2003

PRESENT: **B.J. Goggin (Chair) M.D. Soden, J. O'Donovan, J.G. Collins, M. Murphy, I. Kennedy (video-link)**
D. Donovan
B. Lillis, D. Flannery
P. Cusack (Item 1), D. Mullen (Item 6), P. McHale (Item 4)

Minute Extract

ITEMS FOR APPROVAL BY GRPC

4. RFS – Business Banking (BB) – Review of "High-Risk" Property Lending

The Committee considered a Paper reviewing progress with this trial initiative to facilitate the Specialised Property Finance Unit within BB (led by Paul McHale) in writing higher risk/higher return property transactions. The Paper recommended that, in view of satisfactory experience, the initiative be established on a permanent basis with a confirmed limit of €100m.

It was explained that this trial initiative had been approved by Group Credit Committee (GCC) in July 2001 to be reviewed when commitments reached €25m. The objective had been to allow BB to compete more effectively – in particular with Anglo-Irish Bank. GC had supported on the basis that all proposals would be graded on the 13-point system and benchmarked against existing credit policy guidelines; with exceptions justified (inter alia) on the basis that they would be:

- Priced for risk
- Managed by high-skill lenders.
- To borrowers who were experienced in the property business.

At the time of approval, GCC had questioned whether it was appropriate to require BB to benchmark its proposals against existing core credit policy. There was a concern that BB business originators would need more clarity about what BOI's exact risk appetite was and that credit policy might have to be relaxed – something which GC did not favour.

Paul McHale made the following points:

- His Unit earned fees of c. €1 million and loan margins of >200bps during the trial period with a loan book that did not materially exceed the €25m initial review point and average bite-size of <€5m.
- There are no credit quality concerns about any of the existing loans.
- The main competitor at present is Bank of Scotland offering loan margins of 100-125bps. This pricing would not pass BOI's RAROC threshold. Anglo-Irish Bank is not competing with his Unit at present as they have moved up to bigger ticket transactions. Neither First Active nor AIB are significant competitors.
- Residual property risk is the area where other banks tend to have more appetite than BOI.
- The approach of keeping core credit policy, benchmarking against it and justifying exceptions is working well and the Unit is able to provide good customer service based on issuing Heads of Terms at an early stage.

PMcH pointed out that deal-flow in the coming 12 months is expected to show a greater emphasis on speculative transactions with larger bite-sizes. To enable the Unit to compete more effectively, it was proposed that the current restriction limiting the number of "significant" speculative transactions on the books at any one time to two in number be clarified as applying to loans > €10m. The Committee agreed to this on the basis that PMcH will agree an appropriate overall limit for such transactions with GC.

GC asked the Committee for guidance as to whether the type of approach – as applied in the BB trial - would be acceptable as a template which could be applied on a wider basis by RFS-BB in meeting intensified competition for a smaller new business pipeline in the year ahead. The Committee agreed that, subject to ongoing review, the general approach was acceptable and approved the recommendation to set the limit at €100m.

THEME: B1

Effectiveness of banks' board governance, client relationships and business models

LINE OF INQUIRY: B1d

Adequacy of board oversight over internal controls to ensure risk is properly identified, managed and monitored

GRPC Strategic Agenda Item No. 2

Bank of Ireland

To: Group Risk Policy Committee
From: Group Risk Office
Date: 13 December 2007
Subject: **Property Concentration in the Group's Loanbook**

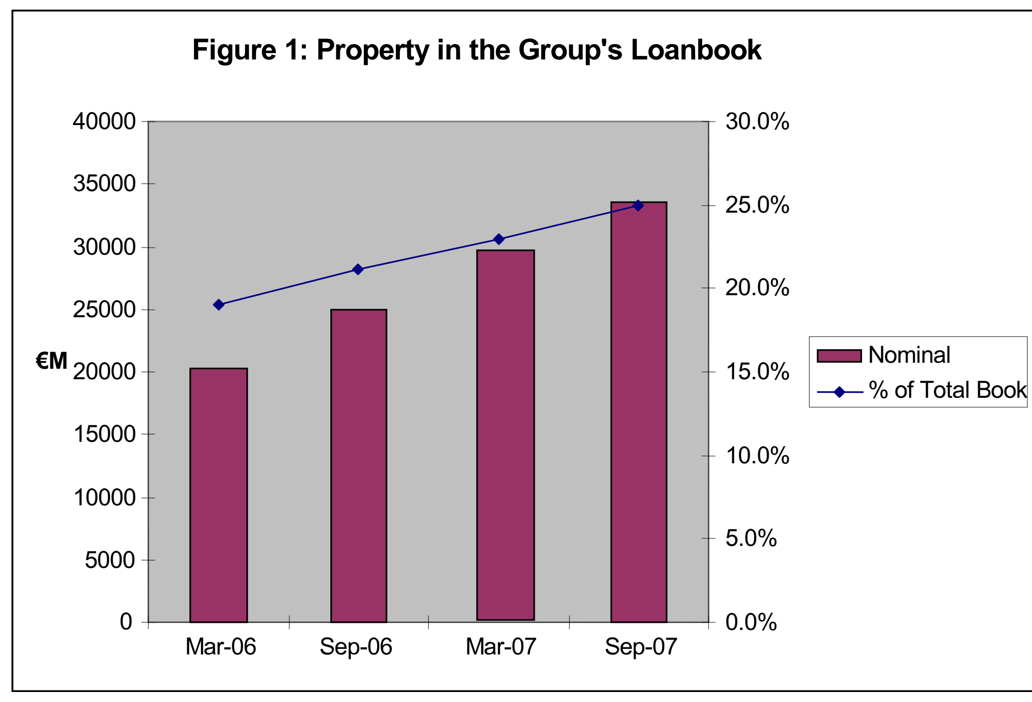
---

1. Purpose:

At its meeting of 28th November 2007, the Portfolio Review Committee considered a paper from the Group Risk Office that contained information on sectoral concentrations in the loan book. The PRC noted the increasing concentrations of exposures in the book. It was recommended that the content of the paper be brought to the attention of GRPC for its consideration and determination of any resulting action it deems appropriate. This paper also updates GRPC on the level of single name concentration in the book and the impact of both measures on our debt rating agency scores.

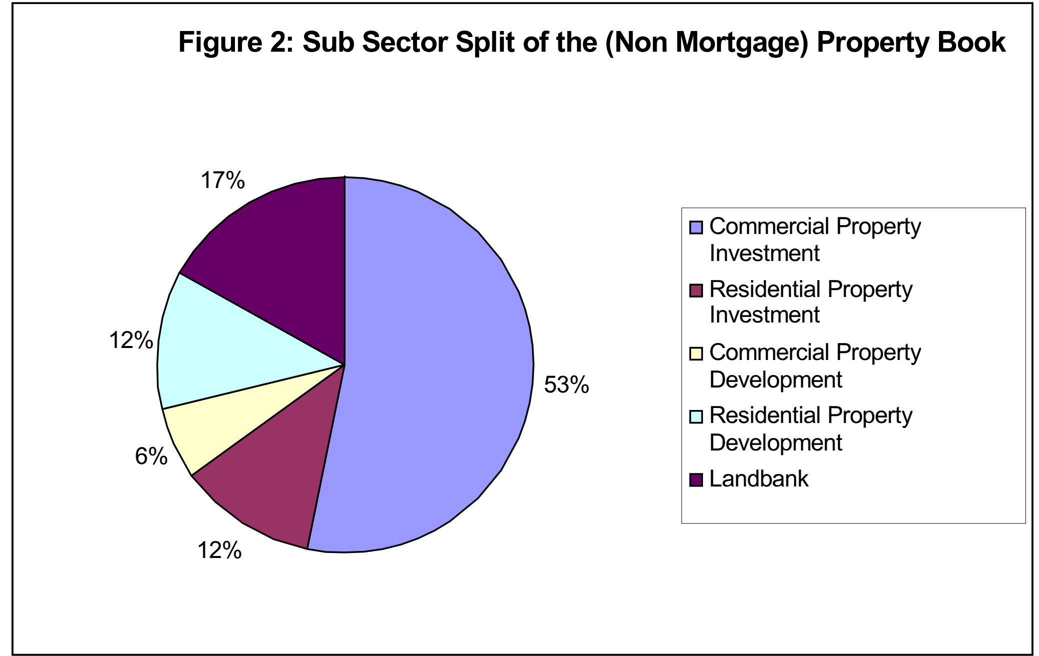
2. BoI Group Property Exposure:

Property now accounts for 44% of all non mortgage lending. The levels of property exposure (excluding mortgages booked in PLROI and PLUK) within our book are increasing at a faster rate than other sectors. Figure 1 below shows, our exposure has grown from €29.5Bn in March 07 to €33.5Bn in September 07 and from 23% of the book to 25%. The corresponding figures for March 06 were €20.2Bn and 19% respectively.



Source: Credit MI

Figure 2 shows the split among the different sub sectors of investment and development. It shows that the majority (65%) of the book is income producing investment assets.



Source BIPS extract May 2007 – relates to IRB books only – accounts for >70% of total Group loanbook.

3. Impact:

As an industry, the banking sector has not found a common approach to limit setting for sectoral exposure. As economic capital methodology and data improves, we could look to developing an internal Ecap related guidance measure. In August 2007, GRPC agreed that it was not yet an appropriate time to consider the imposition of Ecap based guidance or limits. There are, however, a couple of external benchmarks that we can look to.

3.1 Rating Agencies

We know that the rating agencies focus on concentrations in their analysis. Given the liquidity risk and funding risk facing the Group in current markets, we recognise the importance of addressing any issues with concentrations that the rating agencies may have in this regard.

When assigning Bank Financial Strength Ratings ('BFSR's), Moody's focus on 5 key rating factors which they believe are critical to understanding the business: 1) Franchise Value, 2) Risk Positioning, 3) Regulatory Environment, 4) Operating Environment and 5) Financial Fundamentals. A key component of factor 2 Risk Positioning is Credit Risk Concentration.

In February 2007 Moody's assigned a BFSR of B- to BOI and a C+ in the Risk Positioning sub-factor. In August 2007, GRPC was advised that the current concentration of borrower exposures within our book was impacting negatively on Moody's view of our "Risk Positioning". Two concentration measures, Borrower and Sector, are scored and the lower of the two scores is fed into our Risk Positioning score. As we scored a D in Borrower concentration and a C in Sector concentration, we received an overall D for concentration.

3.2.1 Borrower Concentration: In August 2007, GRPC focused on the lower of the two scores - Borrower concentration. Group Risk Office advised that if the Group could improve this score to a C it was likely that we could achieve a Risk Positioning score of B (up from C+) which in turn should lead to an overall uplift in our BFSR from B- to B.

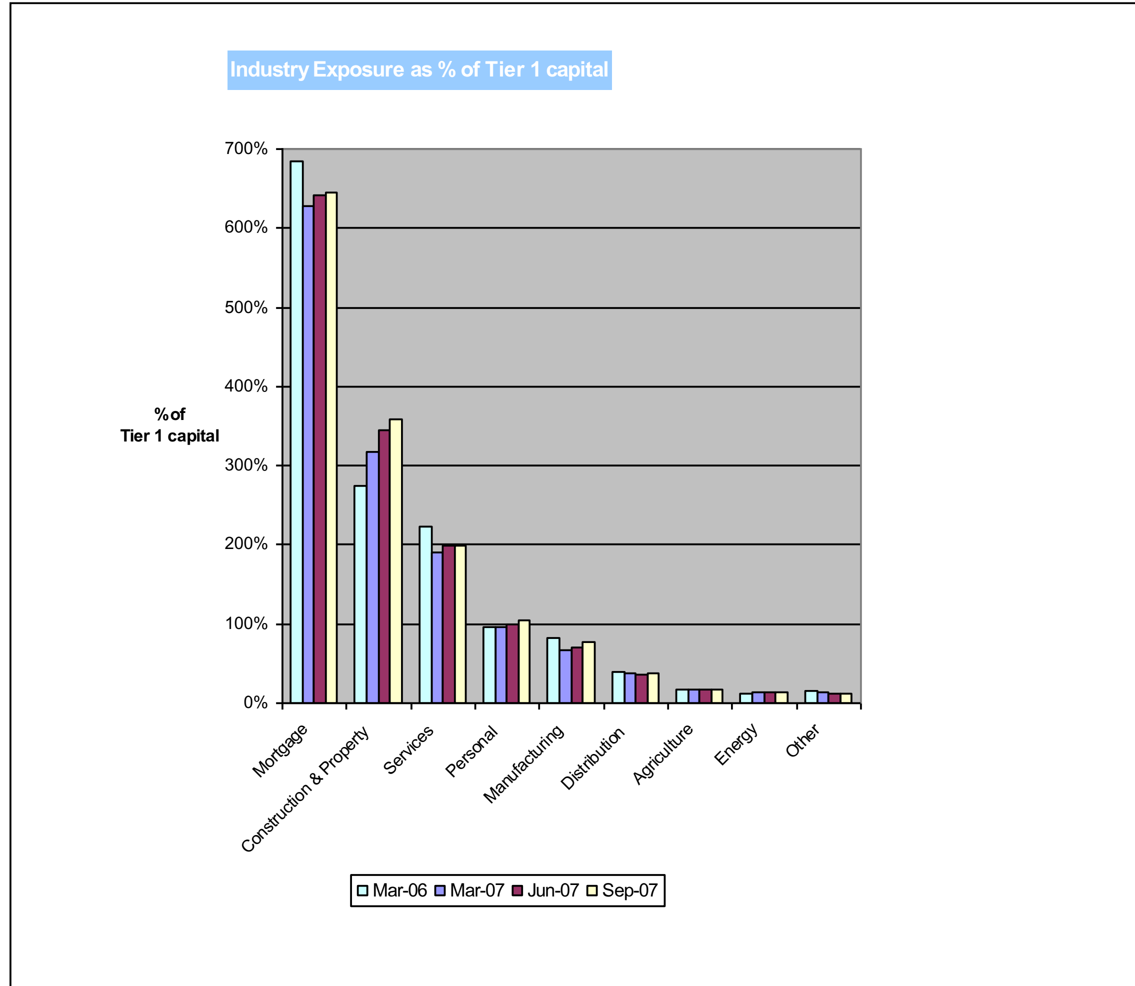
At the time GRPC agreed that it would be appropriate to position the Group to achieve a better concentration score from the rating agencies but only if it can be achieved without major upheaval within the businesses. The members also agreed that it is appropriate to seek

to hold, or opportunistically reduce, the individual exposures currently within the top 20. The most recent quarterly analysis of borrower concentration (as at end of September, just a month after the GRPC decision) showed that our score had deteriorated although it remains within the parameters for achieving a D.

3.2.2 Sectoral Concentration: We have looked at the Moody's sectoral concentration methodology. Moody's consider the percentage of our Tier 1 capital each main sector represents. Under this measure, property and construction is growing in significance more rapidly than other sectors. Based on current run rates, we will exceed a concentration threshold by March 2008 and we would slip into a D score under this measure also. As noted above, as we already score a D in Borrower Concentration, a D under Sectoral Concentration would not have an impact in overall score. However, deterioration in the score for sectoral concentration could prompt negative comment and would make any decision to seek an improvement in our overall risk management score more difficult to achieve.

Construction & Property (excluding mortgages) accounted for 359% of our Tier 1 Capital at end of September 2007, up from 345% three months earlier and 275% at March 06. Figure 3 below shows how this figure has trended since March 06 in Property and other sectors.

Fig 3 Sectoral Exposure as a % of Tier 1 Capital – March 05 to Sept 07



3.2 Peer Banks: AIB's 20-F indicates that their exposure to property and construction was c €34.8Bn at 12/06, which represented 344% of Tier 1, i.e. AIB's relative position was poorer than BoI's at last year end. AIB's construction and property lending represented 43% of all non mortgage lending, which is in line with our 44%.

4. Comment:
When discussing our property exposures in the past the Group has highlighted a number of factors that we view as mitigating the risk:

- The majority of our property exposure relates to income producing assets (65%). This compares favourably with AIB's ratio of 42%.
- Speculative commercial development is not permitted under policy except for speculative retail development (within strict parameters) for Corporate Banking.
- Landbank, which is arguably the more risky element of property lending, is subject to limits on aggregate exposure and is monitored at least half yearly by GRPC.
- Our book is spread evenly between Ireland and the UK giving an element of diversification.
- While property is a feature of most of our commercial portfolios, larger individual property exposures in Ireland are centrally managed by a specialist property team within Corporate Banking and within specialist teams in BBUK.
- The growth that has occurred in property lending in recent years has been planned and resourced for within the Group.

While the above statements remain valid, the level of concentration within the book is increasing and GRPC is asked to consider if the current level is acceptable. GRPC may also give consideration to what level of concentration the committee would not wish to exceed in the future so that this could be fed into the Group's and Business Units' strategic planning.

If the GRPC is of the view that the level of property exposure in the Group's balance sheet is too high, there are relatively few realistic options that could be considered:

- Significantly reduce our property lending and allow its relative significance to fall over time.
- Increase the Tier 1 capital base to improve the capital available to mitigate credit risk with additional benefit of an improved Moody's score.
- International or sectoral diversification. While this would have a risk management benefit it should be noted that this wouldn't necessarily improve our Moody's score as Moody's is not concerned with percentage of book in a particular sector, rather what percentage of Tier 1 Capital that it represents.
- Dispose of some of our property exposures either through CMBS (difficult or impossible in current markets) or targeted sell down of some of our property exposures in bi-lateral transactions with other banks. Approximately €3Bn would need to be sold down to ensure we remained within the Moody's score given current run rates. If some of the loans to be sold down were sourced from our top 20 exposures, we could also achieve an improvement in our Borrower concentration profile.

GRPC is asked to consider the content of this paper.

____
David Kiely/Alex Wolff
Group Risk Office

Run-up to the current situation

- BoI currently finds itself in stress due to the combination of
  - Severe downturn in the Irish and UK economies leading to significant increases in loan losses (particularly in the Business Banking property books)
  - Lack of liquidity in the wholesale market making BoI reliant on central bank funding
- Unless it had taken a very contrarian position relative to its peers, BoI was always going to be exposed to the macro risk of its core markets in the RoI and UK, and thus could not avoid the current problems
- However BoI could have reduced the extent of these problems

Observed limitations

Risk governance	Observed limitations	Significance
A. Board level oversight	▪ Risk appetite statement is considered a derivative of the strategy, not an input/boundary condition to it ▪ Risks inherent in the core business and strategy may not have been fully appreciated	
B. Top-down Guidance	▪ Link between exposure limits and risk appetite is incomplete and heavily dependent on expert judgment	
C. Risk management and control	▪ Risk management and control was not geared towards understanding aggregate risk profile	
D. Risk reporting	▪ Business banking credit especially vulnerable – Oversight hampered by shortcomings in risk information – Risk modelling for stresses and portfolio still under development	

Could have materially influenced the past performance

Valuable going forward

Development of strategy 2012 was extensive, but under-emphasised downside risks

Clear strategy

- Significant out-performance growth in Ireland, particularly in business banking
- Growth in all three UK platforms but particularly business banking
- Accelerated expansion of the corporate banking niche skilled based areas

Extensive development

- Strategy 2012 put in place in July 2006 following a detailed nine month review process involving GEC, Court and external consultants
- External consultants presented to the Court on their view of
  - The shape of the financial services industry over the following 5/10 years
  - Potential options for the group
  - Major risk events
- Overall targeted earnings growth of 15%+ CAGR over a five year period
- Clear acceptance that strategy would result in 17% CAGR in RWA and of the increased risk profile inherent in the strategy

Regular monitoring

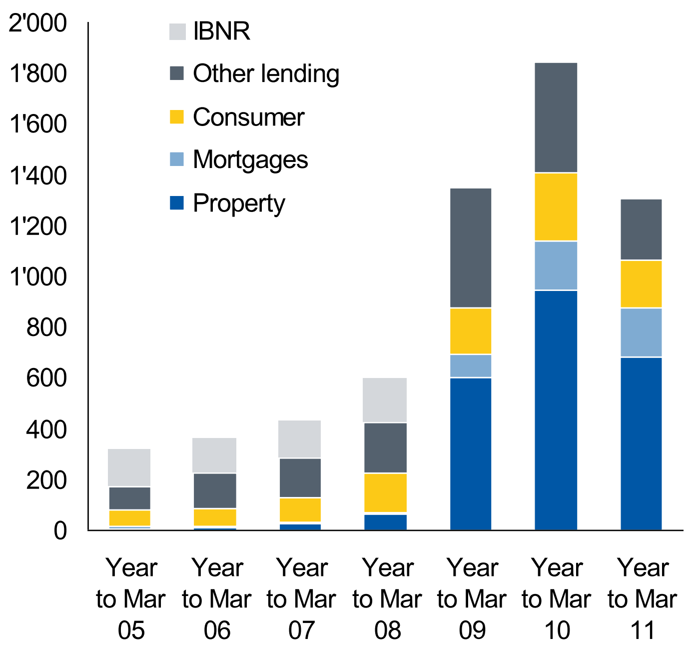
- From November 2006 semi-annual updates were provided to the Court outlining
  - Progress against strategy and key strategic metrics (EPS, TSR, geographic profile of earnings, cost/income ratio and level of non-interest income)
  - Updates on the central planning scenario
- Agreed in November 2007, recognising turmoil in financial markets, to re-visit assumptions underpinning strategy
- March 2008 agreed to look at alternative scenarios and options available to the group, recognising that strategic context too optimistic given market conditions

Source: BoI

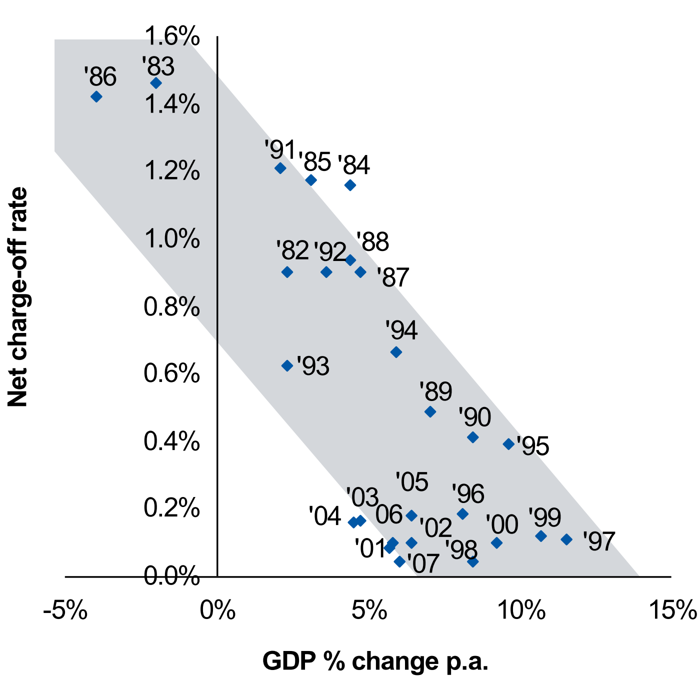
© 2009 Oliver Wyman ■ www.oliverwyman.com

Increases in loan losses directly linked to dependence on Irish (and UK) economy

Loan losses per portfolio
€MM



Systemic Risk No. 1: Irish GDP
Bank of Ireland write-offs vs. the economic cycle



Source: BoI data

There is a relatively weak link between BoI's risk appetite and the derivation of exposure limits

Illustrative

Portfolio	Limit
Landbank	ROI Limit €4.2 BN UK Limit £1.7 BN
Corp. Banking	
Global Project Finance	€4.5 BN
Maritime	$2 BN
REIT	$700 MM
Real Estate Opptty Funds	$1.5 BN
Global Markets	
Trade Finance	€1 BN
Sub. Bank Debt Policy	€250 MM
BB ROI	€1.39 BN
BB UK	£300 MM

- Exposure limits are only weakly linked to risk appetite
  - Limits derived with view to portfolio exposure
  - Risk appetite mainly used as a restrictive condition (1in-10 limit exposure should not breach LTG)
  - No exposure limits for certain portfolio levels
    - Corporate banking (considered unnecessary)
    - BBROI sub-sectors (data not available)
- Portfolio/sector policies not explicitly considered from risk appetite perspective
  - There are few numerical links to risk appetite. Policies are driven by bank's market positioning
  - There is no view of overall exposure by exception type. Exceptions to policy are escalated/tracked as and when they occur

Source: BoI Risk Office

© 2009 Oliver Wyman ■ www.oliverwyman.com

BoI's collaborative culture has reduced dissent in key risk committees

- Dissent in key risk management committees rare
  - Review of GRPC minutes from 2006 to date shows only two cases of clear disagreement among members (see right)
  - Interviews conducted during this review have confirmed the collaborative nature of the meetings and lack of open dissent
  - Possibly GCC is only exception where policy and limit exceptions were debated in detail
- A collaborative company culture and dissent in decision taking are not mutually exclusive
  - Bank of Ireland's culture is perceived to be collaborative avoiding confrontation and dissent
  - By formalising the roles in decision taking, one can augment the culture with more balanced decision taking (e.g. parties can "agree to disagree" – don't agree with decision, but will collaborate)

Case 1 – August 2007 GRPC

- Proposal to increase Landbank limit from EUR 1.7 bn to EUR 2 bn
- Members agreed on a majority basis with two members expressing dissent

Case 2 – April 2008 GRPC

- Further request from Business Banking Ireland to increase their Landbank limit
- Limit increased by further €100 MM on a majority basis with clear dissent noted from one member

Source: BoI

© 2009 Oliver Wyman ■ www.oliverwyman.com

Management Information: In the credit area the information is incomplete, heterogeneous and difficult to collate

BoI systems contain incomplete risk information, and not easily accessible

- Relevance
  - For portfolio/risk management a wide range of information is necessary to identify concentration, systemic risks, etc.
  - Paramount in an era of increased information requirements from the regulator and the NTMA.
  - Particular relevant for business banking as it needs to combine statistical approaches with expert assessments
- Issue: Not readily available
  - Incomplete (see illustration on the right)
  - Not uniform enough and
  - No central control on it
- Examples
  - Right hand side – providing information to external party requires substantial effort
  - In interviews almost all managers pointed out how this limited risk management

Illustration – February 2009 information request by external party covering non-retail

	# of requested items by theme		
	Risk	**Rating**	**Other**
Readily available	8	26	38
In system but ad-hoc query necessary	3	5	0
Combination of assumptions and ad-hoc query necessary	14	12	0
Not readily available (% total)	**68%**	**40%**	**0%**

Source: BoI risk function

OLIVER WYMAN

Financial Services

15 May 2009

Review of risk governance
Recommendations and road map

CONFIDENTIAL | www.oliverwyman.com

LON-BIR03011-015

Five initiatives to implement recommendations

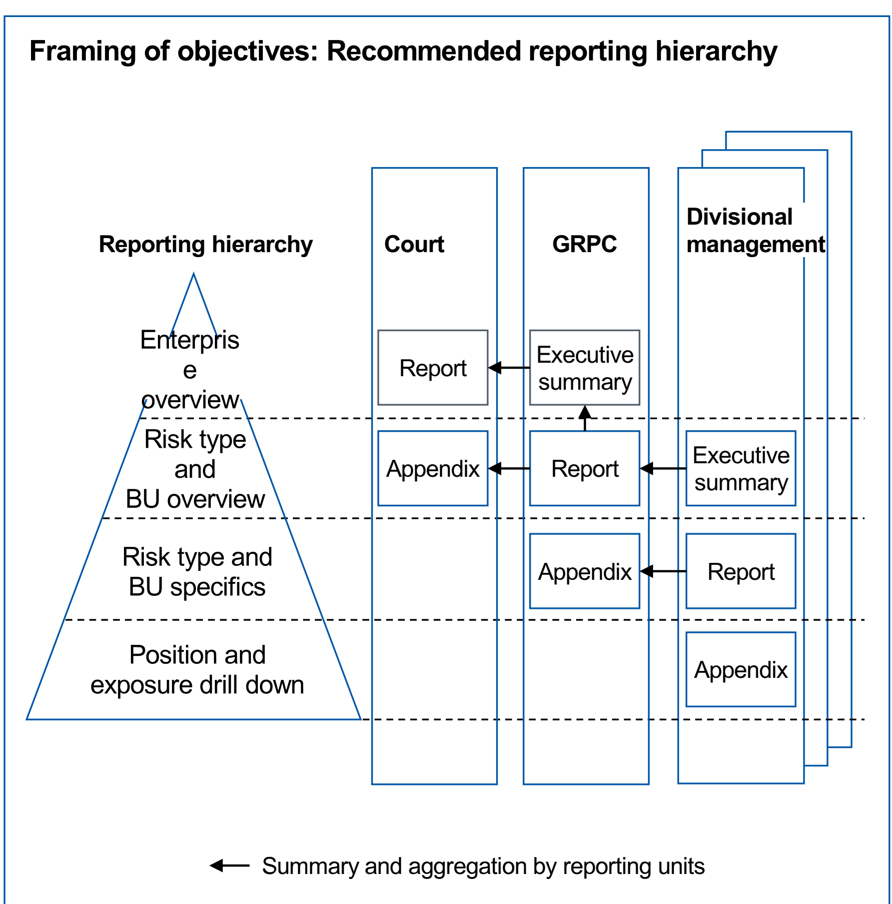
Risk governance	Recommendations	Initiatives
D. Risk measurement and reporting	11. Bring all risk reports into single hierarchical set of reports to the Court	I. Delivery of Court risk report
	9. Set up a uniform MI system across all credit businesses	II. Build-up of credit MI starting in business banking
	10. Embed portfolio and stress models in decision making at group and BU level	III. Deployment of risk modelling
B. Guidance	4. Make objective link between risk appetite and limits	
A. Board level oversight	1. Increase the effectiveness of the Court in risk governance 2. Make risk appetite a boundary condition to strategy 3. Make executive remuneration risk-adjusted	IV. Enablement of Court to guard risk profile
C. Risk Management and control	5. Differentiate GRPC from other governance committees 6. “Force” differentiated dissent 7. Enforce decisions more strictly (in particular limits) 8. Widen the GAC to cover risk governance and strengthen the risk function’s position	V. Adjustments to risk committees

Initiative I – Delivery of Court risk report and introduction of hierarchical reporting

Approach: GRO is up-and-running to implement reporting changes

- Business owner
  - Head of Group Risk Office
- Objective
  - Bring all risk reports into single hierarchical set of reports
- Benefit
  - Enable the Court to form its own opinion on risk and to challenge BoI's risk profile and governance (e.g. by drilling-down through the reporting pack into specifics)
  - Ensure all material risks are appropriately monitored (and managed) from BU level up to Court level
- Priority
  - Provide Court with summary risk report
- Dependencies
  - Adequate resources
  - IT budgets

Framing of objectives: Recommended reporting hierarchy



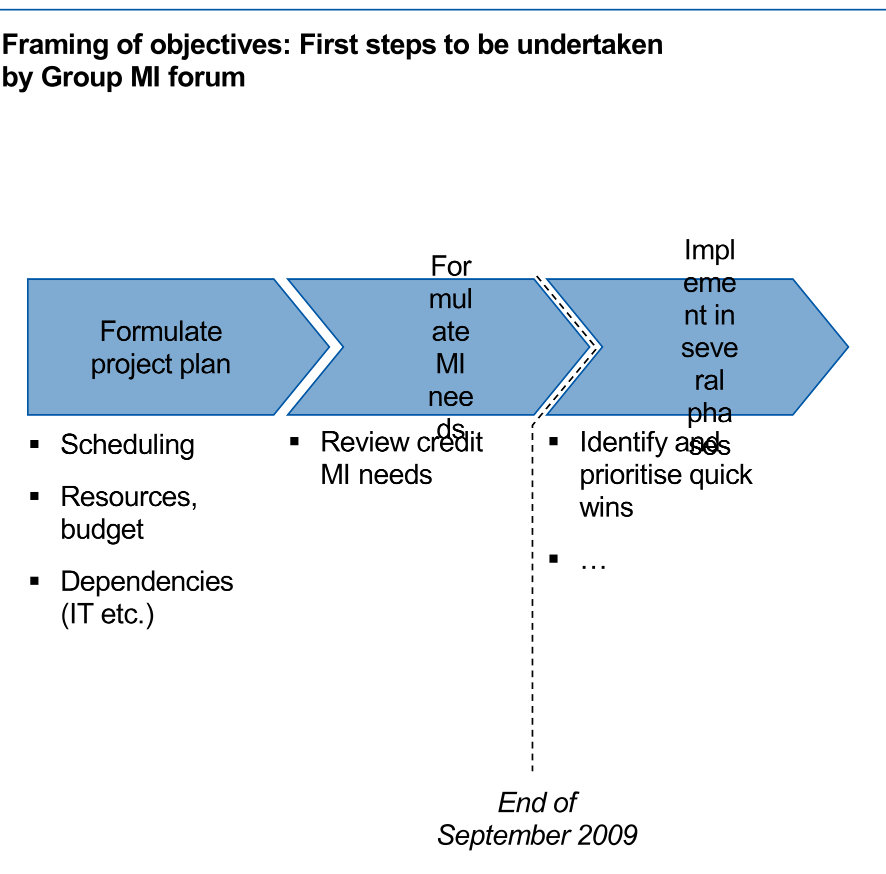
© 2009 Oliver Wyman

Initiative II – Build-up of credit MI (in particular in business banking)

Approach: Group MI Forum was established March 2009 to tackle the issue

- Business owners
  - Director of Group Finance and
  - Head of Group Credit
- Objective
  - Set up uniform credit MI across all businesses
- Benefit
  - BU: Enable more timely decision making – both at individual level (e.g. new lending) and overall portfolio level
  - Group: Enable better understanding of the aggregate risk position
  - Tactical: Assist in meeting Government/ Regulatory requirements in a more consistent and efficient manner
- Dependencies
  - Competing priorities between tactical solutions to meet immediate demands (e.g. NAMA) and longer term solutions
  - Constrained IT budgets/competing demands (budget being scoped)
  - Access to required resources
  - Ownership and buy-in at BU/lender level (needs correct data input at the source)

Framing of objectives: First steps to be undertaken by Group MI forum



Initiative III – Deployment of risk modelling in business decision taking

Approach: Initiative is part of ongoing effort of GRO but additional resources are necessary

- Business owner
  - Head of Group Risk Office (GRO)
- Objective
  - Support specific decision taking with quantitative basis
- Benefits
  - Provide analytical basis for key underwriting and portfolio mgmt decisions
- Priority
  - Introduce analytics for solvency cockpit
  - Aid PRC to identify key pockets of risk
- Dependencies
  - 4 Resources required centrally and approx. 3 in divisions
  - Engagement of business
  - (Quality of available portfolio data)

Framing of objectives: Analytics support will be built up with specific portfolio and underwriting decisions in mind

1. Centralising and improving grading system

2. Build up ability to quantify risks in "sub-portfolios", e.g. fall in prices for un-zoned land

- **2a. Estimating expected losses**
- **2b. Identifying key loss drivers and singling out relevant loans**

3. Deriving risk-adjusted returns on "sub-portfolios"

Initiative IV – Enablement of Court to guard risk profile

Approach: This initiative will be executed with close involvement of the Court

- Business owner
  - CRO
  - CEO/ Remuneration committee
- Objective
  - Reinforce Court's risk skills
  - Form risk appetite as first step in strategy development
  - Make remuneration risk-adjusted
- Benefits
  - Improved Court and GEC control over BoI's risk profile
  - Avoidance of polarisation between risk function and business
- Priority
  - Enable Court to understand and interpret new risk reporting template
- Dependencies
  - Court time constraints

Framing of objectives: Court should take a larger role in managing BoI's risk profile through three recommendations

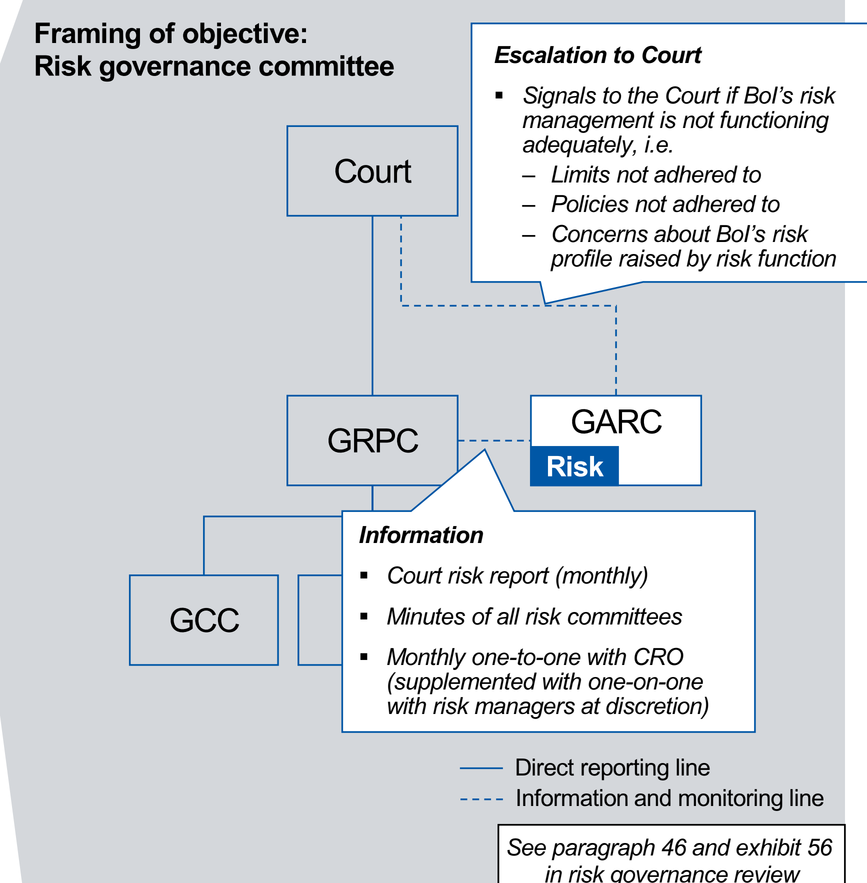
Recommendation	Details
Increase effectiveness of Court in risk governance	▪ Information: Improve quality of risk MI shown to Court and supplement Court risk reports with business area deep drills ▪ Discussion basis – Reinforce risk skills of Court's non-executive members through small group sessions with risk experts – Regular refreshment (e.g. by discussing specific themes in Court meetings) ▪ Decisions: Enforce consequences of Court risk discussions – tracking and follow-up of Court requests to be included as explicit part of risk reporting template
Make (executive) remuneration risk-adjusted	▪ Steer business on risk-adjusted metrics ▪ Introduce same metrics in remuneration structure (safe trial as no variable remuneration currently)
Make risk appetite boundary condition to strategy	▪ BoI should reformulate risk appetite before end of calendar year

© 2009 Oliver Wyman ■ www.oliverwyman.com

Initiative V – Adjustments to risk committees (1/2) – risk governance

Approach: This initiative will be launched with agreement from the Court

- Business owner
  - CRO/ Head of GARC
- Objective
  - Widen GAC to cover risk governance
  - Court responsibility for CRO hiring/firing
  - Differentiate GRPC from other risk committees and "force" dissent
  - Grant risk function a stronger position
- Benefits
  - Increased Court oversight of risk
  - Allows GRPC a fresh, top-down view on BoI risk profile decisions
  - Business concerns less likely to dominate important risk decisions
- Priority
  - Identify non-executive GARC members to be tasked with risk
- Dependencies
  - Court time constraints

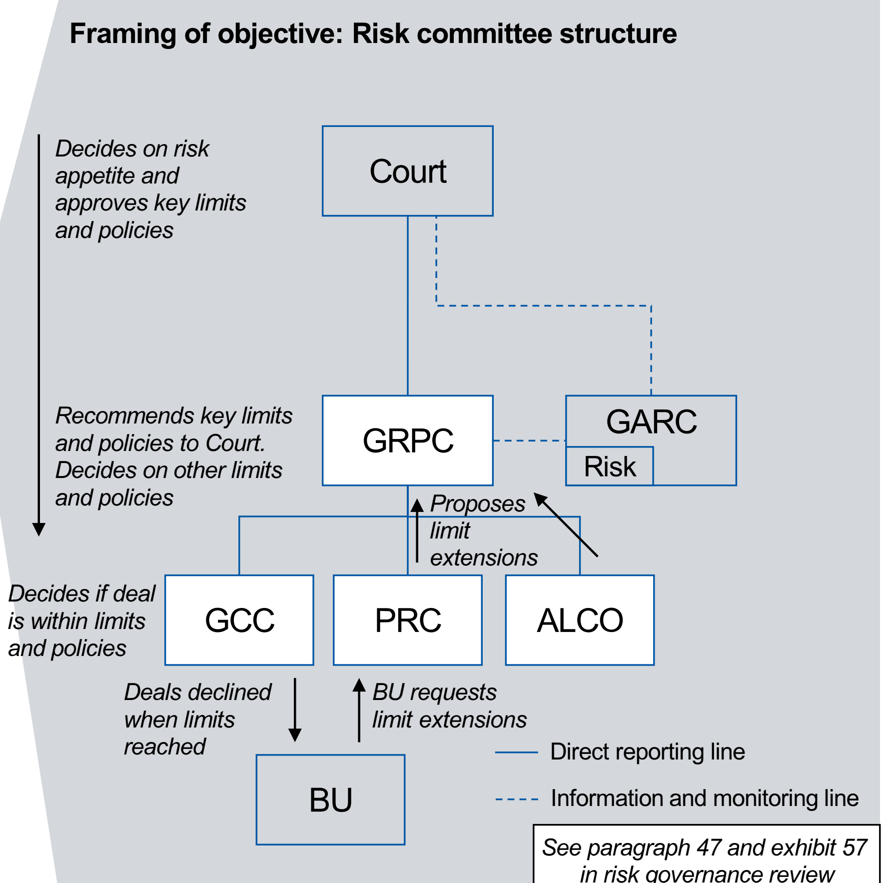


Initiative V – Adjustments to risk committees (2/2) – risk management

Approach: This initiative will be launched with agreement from the Court

- Business owner
  - CRO/ Head of GARC
- Objective
  - Widen GAC to cover risk governance
  - Court responsibility for CRO hiring/firing
  - Differentiate GRPC from other risk committees and "force" dissent
  - Grant risk function a stronger position
- Benefits
  - Increased Court oversight of risk
  - Allows GRPC a fresh, top-down view on BoI risk profile decisions
  - Business concerns less likely to dominate important risk decisions
- Priority
  - Identify non-executive GARC members to be tasked with risk
- Dependencies
  - Court time constraints

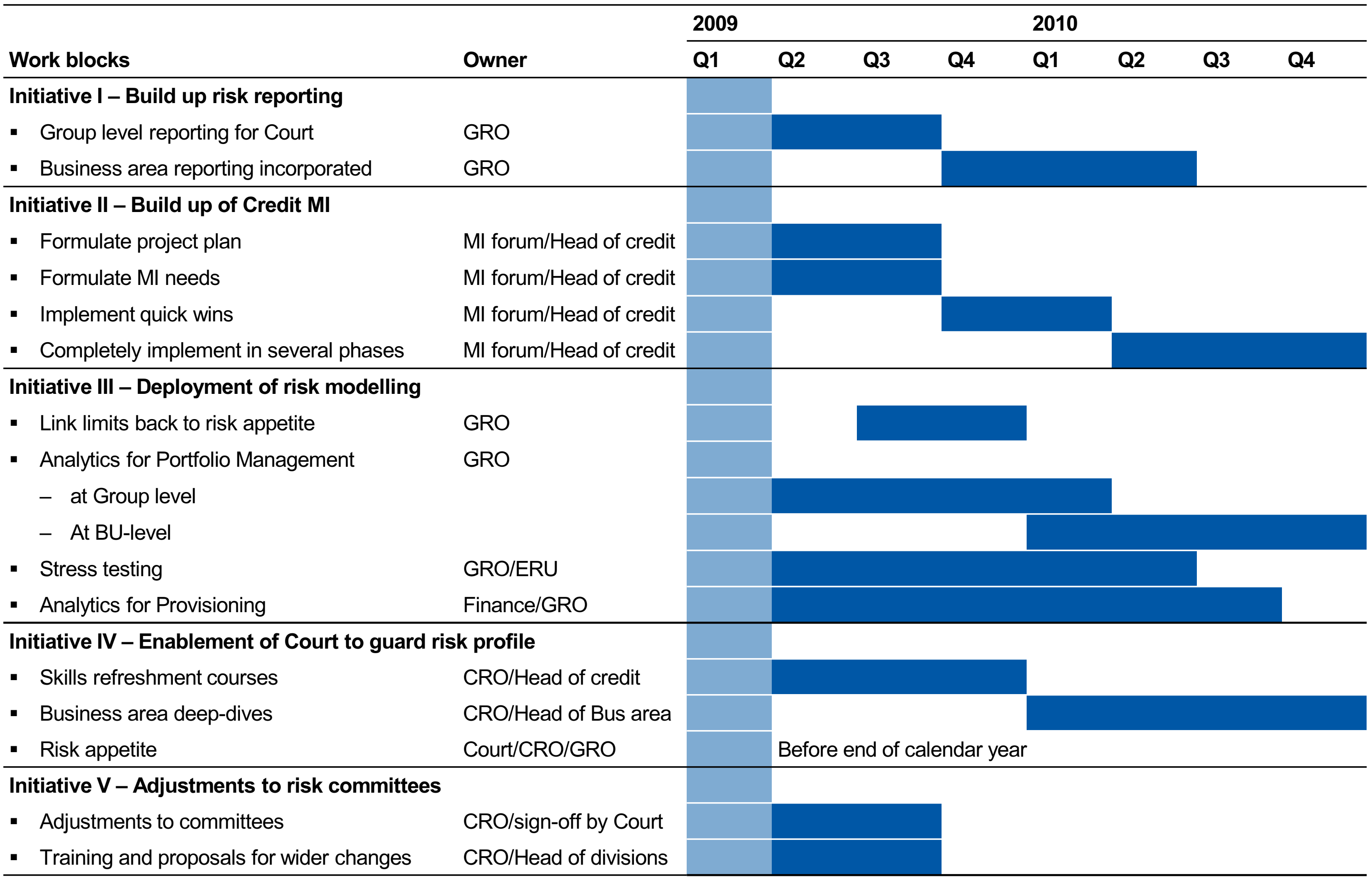
Framing of objective: Risk committee structure



See paragraph 47 and exhibit 57 in risk governance review

© 2009 Oliver Wyman ■ www.oliverwyman.com

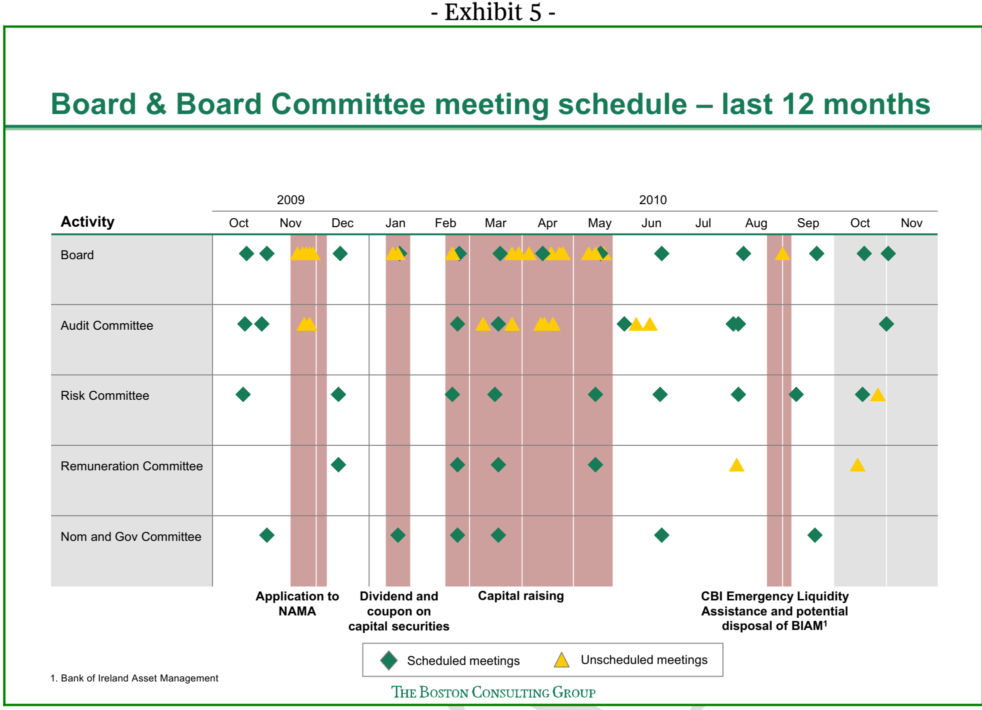
Overall implementation time lines



© 2009 Oliver Wyman

last twelve months to their directorship duties. These have included numerous ad hoc meetings and calls, often at weekend, and a weekly 7.30 am Monday morning call instituted by the Chairman.

- Exhibit 5 -



One area where we found room for improvement was regarding the evaluation process for the Board, its committees and individual directors. Evaluations of the Board and each committee are conducted annually and are managed internally by the Board Office. There is also annual evaluation of the Board members (led by the Chairman), the Chairman (led by the Senior Independent Director), and the CEO (led by the Chairman). However, none of these evaluations are conducted or facilitated by an independent, external, third party.

External party facilitation of Board evaluations is recommended at least every three years as the best practice (UK Combined Code, Walker Review) and this fact is recognised by the BOI Board. The Nomination and Governance committee has discussed this matter, indicating its intention to adopt the practice in due course. The reason put forward for this decision is that the market for third party reviews is relatively under developed. The Court also noted that it would have the benefit of the current BCG review to support of its consideration of its effectiveness this year. We recommend that the committee strive to locate an appropriate third party.

b) Composition of the Board

→ Review the composition of the principal Board and its subcommittees, including the skills, experience and independence of Board members and the balance of skills and experience between executive and non-executive directors

There are several distinct dimensions along which we assessed the composition of the Board:

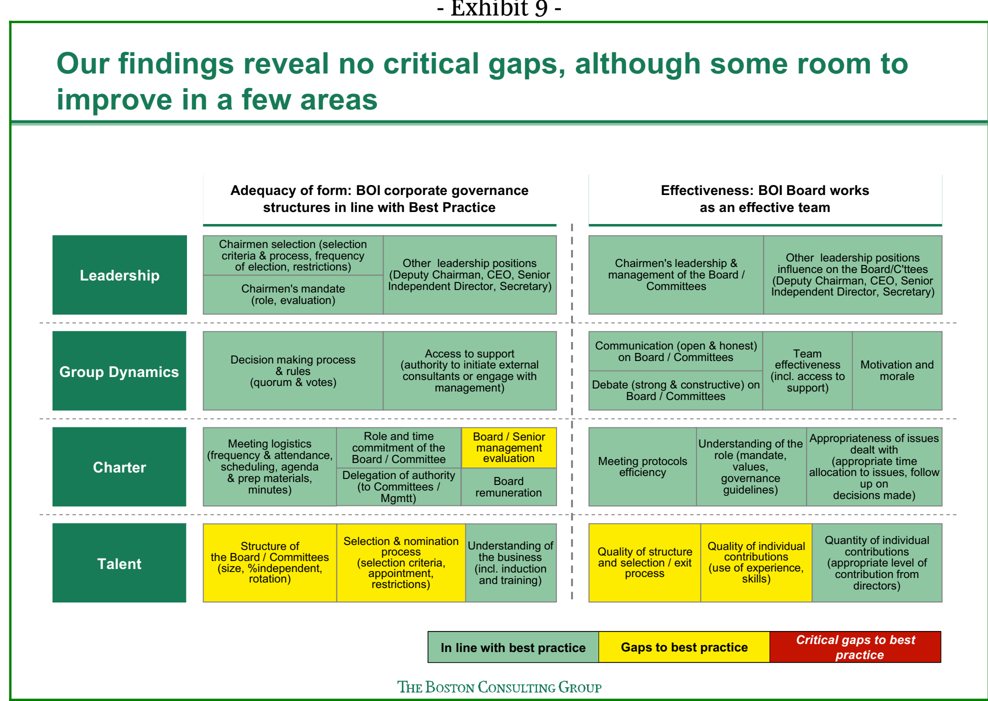
- Separation of Chairman and CEO roles,
- Size, of both the Board and its committees,
- Ratio of executive to non-executive and independent to non-independent directors,

4. Conclusions

BOI is broadly aligned with governance best practices (see - Exhibit 9).

The form of BOI governance complies with best practice guidelines. We have also found no evidence that there are any major weaknesses in terms of how governance is “lived” at BOI. Finally, when comparing BOI with benchmarks, we found its governance to be broadly in line with international banking peers, and Board effectiveness to be better.

- Exhibit 9 -



We have identified five specific areas for improvement.

1. ***Employ an independent third party to evaluate Board performance.*** Evaluations of the Board and Committee members are conducted annually by internal parties (Board Office, Chairmen and Senior Independent Director). External party facilitation of Board evaluations at least every three years is recommended as a best practice (UK Combined Code, Walker Review).
2. ***Address minor anomalies in Board and Committee structure.*** The chairmanship of all committees and membership of the Audit committee should be held by Independent directors. The fact that this is not the case should be a temporary condition and revert when BOI returns to ‘business as usual’. Furthermore, BOI’s Board should conduct and document a discussion of the shared directorships of two Board members.
3. ***Enhance selection and nomination processes.***
    a. Modify selection rules so that the directors are offered for annual re-election, in line with best practice guidelines (FRC, Walker Report).

   b. Explicitly detail how those Board members holding more than five external directorships can fully discharge their duties to BOI.

4. ***Review Board size.*** BOI's Board is probably too large. We are mindful of the fact that with the current two government appointees there is little room to reduce Board size while maintaining a majority of non executive directors. As the bank returns to "business as usual", this should self-correct.
5. ***Raise financial services experience levels.*** While the quality of the individual contributions is not questioned, the Board could benefit from additional members with direct financial services or banking background, as well as with additional international exposure. We note that this is recognised and appears to be taken into account in succession plans.

As a final note, our view is that while the Board has performed well during the crisis over the last two years, transitioning to 'business as usual' will present challenges.

- ***Chairmanship***: Mr Molloy plays a pivotal role in improving Board effectiveness and he has the option to retire in 2012. BOI will need to find the right replacement in due course in order to maintain Board cohesiveness.
- ***Knowledge and institutional memory***: The current, highly effective nature of BOI Board is probably a result of the formative experience of dealing with an extreme situation over the last two years. Each non executive director has had extensive training, especially in the area of risk management, and the Board as a whole had to "think the unthinkable" repeatedly. Board life-cycle planning is needed with an eye to retaining the unique knowledge and experience gained, while adhering to healthy turnover in line with best practices.
- ***Focus and operating mode***: the BOI Board has been operating in "crisis mode" with an extensive focus on risk management and an enormous time commitment. Eventually the Board will need to start focusing on moving on: updating strategic plans, assessing growth alternatives, and understanding market dynamics, for example. The Board needs to ensure that they remain a cohesive, committed and challenging group during and after the transition to a "normal world mode".

DRAFT

AGENDA ITEM NO. 5.2

PAPER FOR COURT 9TH DECEMBER 2003

1. Membership of the Group Risk Policy Committee (GRPC)
2. Lending Discretions

Purpose:

The purpose of this paper is to recommend the appointment of the new Head of Group Risk Management, Ronan M. Murphy as a Member and Chairman of GRPC effective January 1, 2004. This paper also proposes that he will have a lending discretion. The paper also proposes a lending discretion for Richie Boucher, CEO Designate, Corporate Banking. Finally it is proposed that JV Mulvey, currently an alternate voting member for M. Murphy, be appointed a full member of GRPC.

It is expected that the GRPC, at its December 19 meeting will, in turn appoint R. Murphy as a member of Group Credit Committee (GCC). It is also planned that R. Boucher will be appointed to GCC as an alternate for James J. Ruane and as a full member on J.J. Ruane's retirement in 2004.

Background:

The membership of GRPC was last considered by the Court in March 2003 following management changes at that time.

1. Proposed Change to Membership of GRPC:

Current Membership of GRPC	Proposed Membership of GRPC (New Member in bold type)
B.J. Goggin (Chairman) M.D. Soden* J.G. Collins D.E. Crowley J.R. Warren J. O'Donovan D. Donovan R. Keenan M. Murphy J.B. Clifford* J.V. Mulvey (Alternate for M. Murphy) Secretary: B. Lillis	**R.M. Murphy** (Chairman) M.D. Soden* B.J. Goggin* J.G. Collins D.E. Crowley J. R. Warren J. O'Donovan D. Donovan R. Keenan M. Murphy J.B. Clifford* J.V. Mulvey **(Full Member)** Secretary: B. Lillis

(* Alternate Chairman). The quorum for meetings is four members: to include one of the following: R. M. Murphy, B.J. Goggin, M.D. Soden or J.B. Clifford.

2. Proposed Changes to Lending Discretions:

Credit Grade - 13 Point System (New Discretion in Bold Type) See Notes overleaf					
Discretion Levels € M's	**1**	**2**	**3**	**4**	**5 & Lower** (Note 1)
R. M. Murphy (Note2)	**65**	**60**	**55**	**50**	**30**
B. J. Goggin – No Change	65	60	55	50	30
D. Donovan – No Change	65	60	55	50	30
J. G. Collins – No Change	50	45	35	30	20
J. B. Clifford – No Change	50	45	35	30	20
M. Murphy (Note 3) – No Change	50	45	35	30	20
J. J. Ruane - No Change	40	35	30	25	16
R. Boucher	**40**	**35**	**30**	**25**	**16**

These proposals have the support of the GRPC. The Court is, accordingly, asked to approve.

Brian J. Goggin

Note 1: This discretion level also to apply to credits graded under the 7 point system.
Note 2: These discretions may be exercised by any two credit committee members subject to one of the signatories being MM, JBC or JGC and also subject to usual ratification procedures by the discretion holder.
Note 3: As an aid to operational efficiency in Group Credit, MM currently has discretion to approve up to €5m incremental exposure (25% of base discretion).

GRPC Membership 2002 – 2008

February 2002

B. J. Goggin (Chair)
M. D. Soden*
J. G. Collins
D. Crowley
J. Warren
J. O'Donovan
M. Murphy
J. B. Clifford*
I. Kennedy**
K. M. Holden**

November 2002 (G:\Credit Policy Unit - New\Committees\Group-Risk-Policy-Committee (GRPC)\GRPC Terms of Reference Etc\Establishing GRPC 2002-2003)

B. J. Goggin (Chair)
M. D. Soden*
J. G. Collins
D. Crowley
J. Warren
J. O'Donovan
V. Mulvey**
M. Murphy
J. B. Clifford*
I. Kennedy**

(* Alternate Chairman) (** Alternate member)

2003(Feb 2003)

Current Membership of GRPC	Proposed Membership of GRPC (New Members in bold type)
B.J. Goggin (Chairman) M.D. Soden* J.G. Collins D. Crowley J.F. Warren J. O'Donovan M. Murphy J .B. Clifford* I. Kennedy (Alternate for J. Warren) V. Mulvey (Alternate for M. Murphy)	B.J. Goggin (Chairman) M.D. Soden* J.G. Collins D. Crowley J.F. Warren J. O'Donovan D. Donovan R. Keenan M. Murphy J .B. Clifford* V. Mulvey (Alternate for M. Murphy)

December 2003 (G:\Credit Policy Unit - New\Committees\Group-Risk-Policy-Committee (GRPC)\Court and CRC Papers\2003 Court Papers\Dec 2003 Court)

Current Membership of GRPC	Proposed Membership of GRPC (New Member in bold type)
B.J. Goggin (Chairman) M.D. Soden* J.G. Collins D.E. Crowley J.Warren J. O'Donovan D. Donovan R. Keenan M. Murphy J.B. Clifford* J.V. Mulvey (Alternate member for M. Murphy	**R.M. Murphy** (Chairman) M.D. Soden* B.J. Goggin* J.G. Collins D.E. Crowley J. Warren J. O'Donovan D. Donovan R. Keenan M. Murphy J.B. Clifford* J.V. Mulvey **(Full Member)**

2004 – December 20014

Current Membership of GRPC	Proposed Membership of GRPC (New Member in bold type)
R.M. Murphy (Chairman) B.J. Goggin* J.G. Collins D.E. Crowley J. O'Donovan D. Donovan R. Keenan M. Murphy J.B. Clifford* J.V. Mulvey	R.M. Murphy (Chairman) B.J. Goggin* J.G. Collins D.E. Crowley J. O'Donovan D. Donovan R. Keenan M. Murphy J.B. Clifford* J.V. Mulvey

2005 (G:\Credit Policy Unit - New\Committees\Group-Risk-Policy-Committee (GRPC)\GRPC Terms of Reference Etc\GRPC Members)

R.M. Murphy (Chairman)
B.J. Goggin*
J.G. Collins
D.E. Crowley
J. O'Donovan
D. Donovan
R. Keenan
J.B. Clifford*
J.V. Mulvey

February 2006 (G:\Credit Policy Unit - New\Committees\Group-Risk-Policy-Committee (GRPC)\Court and CRC Papers\2006 Court Papers\Feb 2006)

Current Membership of GRPC	Proposed Membership of GRPC (New Members in bold type)
R.M. Murphy (Chairman)	R.M. Murphy (Chairman)
B.J. Goggin*	B.J. Goggin*
D.E. Crowley	D.E. Crowley
J. O'Donovan	J. O'Donovan
D. Donovan	D. Donovan
R. Keenan	R. Keenan
J.B. Clifford*	J.B. Clifford*
J.V. Mulvey	J.V. Mulvey
	R. Boucher
	B. Lillis
	M. Sweeney

2007

2008

30th September 2009

Current Membership of GRPC	Proposed Membership of GRPC (Changes in bold type)
J.V. Mulvey (Chairman)	J.V. Mulvey (Chairman)
R.M. Murphy (alternate Chairman)	R.M. Murphy (alternate Chairman)
R. Boucher (alternate Chairman)	**R. Boucher (alternate Chairman)**
J.B. Clifford (alternate Chairman)	D.E. Crowley
D.E. Crowley	J. O'Donovan
J. O'Donovan	D. Donovan
D. Donovan	M. Sweeney
M. Sweeney	**L. McLoughlin**
	H. Nolan
	S. Casey
	D. Murray

THEME: B2

Effectiveness of banks' credit strategies and risk management

LINE OF INQUIRY: B2a

Appropriateness of property-related lending strategies and risk appetite

GRPC Agenda No. 4

AGENDA ITEM NO. X.X

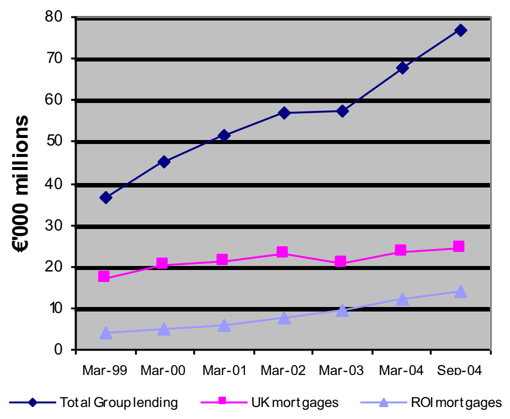
PAPER FOR COURT ON DECEMBER 14th, 2004

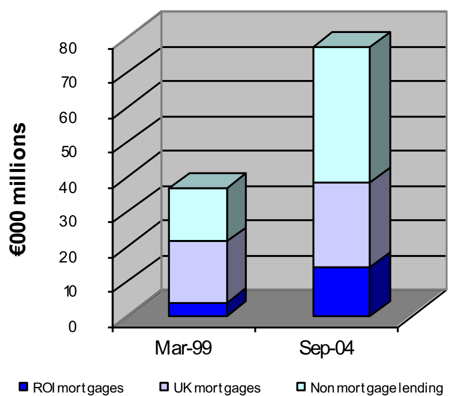
ANNUAL REVIEW OF MORTGAGE LENDING
GROUP CREDIT PERSPECTIVE

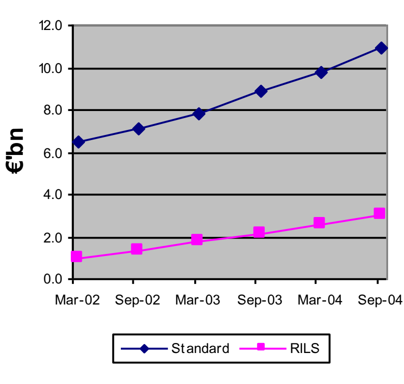
Background

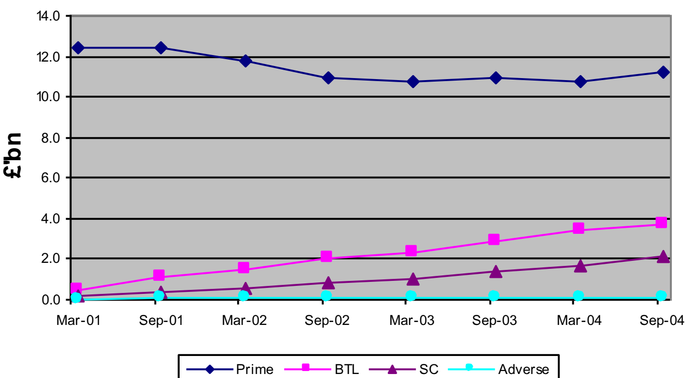
This paper draws on internal and external sources (including publications by the Council of Mortgage Lenders in the UK and the Central Bank in ROI) to update the Court on developments in both the ROI and UK housing and mortgage markets over the past year. It also sets out Group Credit's (GC) assessment of the risk issues facing our mortgage businesses in the medium term.

Book Profile/ Lending Trends









Portfolio Overview

- Total BOI Group Lending has increased from €36.5bn in 1999 to €77bn in 2004.
- Mortgage lending has increased from €21.4bn in 1999 to €38.6bn in 2004, €19bn of which has been written in the last 18 months.
- Residential mortgages have fallen from 59% to 52% of Total Group lending over this period with ROI mortgage lending increasing from 11% to 18%. The Group is less dependent on UK mortgage lending which has fallen from 48% to 34% since 1999.
- Mortgage lending continues to account for more than half of the Group's loan book but only about 14% of risk as estimated by our Economic Capital (ECAP) model. The main driver of

the increase in ECAP used by mortgages since last year is the impact of high LTV new business on expected loss.

- As a result of the levels of growth achieved in recent years (50% of the total book was written in the last 12-18 months) the mortgage book has become relatively unseasoned. In addition, the profile of new business has been changing with a significantly higher proportion of loans written at higher LTV's, larger loan sizes and interest only. Risk models for the ROI and UK markets show that higher LTV's drive a higher probability of default (PD). In an environment of strong growth in capital values / house prices this is of less concern as loans season faster (i.e. the LTV and therefore the potential loss given default (LGD) reduce very quickly). If however, the rate of house price growth is lower / negative then the LTV / LGD remains high. Going forward, the risk for the Bank is that we may be building up a higher risk portfolio the full extent of which will not emerge for 3-5 years as these loans mature. We continue to monitor and evaluate developments through forward looking quarterly trigger reviews to mitigate these risks as far as possible.

Market Overview

Strong income growth, demographic changes and lower interest rates as a result of euro entry mean that the house price boom in Ireland over the last decade seems to have been underpinned, to a large degree, by economic fundamentals. In common with ROI, the UK also experienced strong income growth and historically low interest rates but chronic undersupply replaces demographic change as one of the main drivers of growth.

In the medium term, the risks to the mortgage market appear manageable given the benign outlook for interest rates and unemployment. Beyond the next 12 – 18 months however, the outlook is less certain in the context of higher oil prices, a weak dollar and the outlook for interest rates. Longer-term concerns about the sustainability of the high US budget and trade deficits and the continuing threat of terrorist attack also remain.

Relaxation of policy parameters in recent years reflects the shift in economic fundamentals. The application of higher multiples in our ROI mortgage business during the year was considered in the context of improved affordability, stressed to allow for higher rates and non-discretionary outgoings. Looking forward however, given uncertainty about the medium to long term global economic outlook and mortgage market developments (i.e. ROI – supply demand equilibrium and the near certainty that the next interest rate movement will be upwards / UK – slowdown in house price growth), the potential for further relaxation in policy parameters is limited. In addition, a risk workgroup (which looked at concerns raised by the Irish Central Bank in its recent Financial Stability report)[1] concluded that if house prices continue to rise while supply and demand remain in broad equilibrium, the Group may need to adjust down its appetite for mortgage lending (e.g. by applying lower LTVs, tightening repayment capacity requirements, reducing multiples etc).
Mortgage fraud has become an unwelcome but increasing feature of our markets over the last year. We remain vigilant to the threats posed to Group earnings and have to date incurred minimal losses.

ROI Market and Exposures

- ***Positive economic outlook –*** The Irish economy has proved resilient throughout the difficult 2001-2002 period with no significant increases in unemployment levels. Growth has now picked up (the latest CSO figures showed that the economy grew at an annual rate of 4.2% in the second quarter of 2004) and unemployment is expected to decline to 4% over the next year. While we are unlikely to see a return to double-digits, growth is expected to remain above the EU average with forecasts of up to 6% growth for 2004 and a similar figure in 2005.
- ***House prices forecast to grow but at a slower rate –*** In relation to house prices, in its recent Financial Stability Report 2004, the Central Bank states that *'our key concern is with a*

[1] The workgroup comprised representatives from GC, TMB, Economic Research Unit and Corporate.

continuation of the current strong rate of price increase which is less strongly underpinned by fundamentals. If this continues, the risk of a sharp correction in prices in the future will increase'. Record levels of completions in recent years have produced a level of equilibrium in the supply and demand balance triggering a slowdown in the rate of growth. The slowdown has been gradual and the rate of house price growth is expected to reduce to c. 10% by the end of this year[2]. Most commentators expect continued moderation in the rate of increase during 2005. The real rate of growth may dip into negative territory in the second half of the year but the positive economic outlook, low levels of unemployment and benign interest rate environment reduces the likelihood of outright house price falls.

- ***Affordability remains acceptable by international standards –*** Interest rates, at a record low of 2% for over a year have supported affordability in the face of continuing house price growth. BOI's Economic Research Unit (ERU) measures affordability on the basis of annual repayment cost of a new mortgage relative to average earnings and the figure for 2003 was 29% against a historic range of 20% to 40%. The ERU expects affordability to deteriorate to c. 35% in 2005/06 as interest rates rise. At this level, the measure will be approaching its long run peak, however, it remains acceptable by international standards as debt levels in Ireland "catch-up" with the Eurozone norm.
- ***Low yields in the rental sector likely to affect investor appetite –*** Falling rental yields and continued increases in supply have impacted on apartment prices, with annual price inflation down to c. 8%. Outputs from the ERU model put current rental yields at only 2.8%. It would appear that the implications for investor appetite should drive the emergence of some combination of higher rents / lower prices. However, the impact on existing investors is less dramatic than the headline figures would suggest. Investors are focusing on the investment they have made, which is significantly lower than the full cost of the property by virtue of the extent to which their investment is leveraged. This makes the return look much more attractive than would appear from the headline figures. Provided the investor is taking a longer-term view (5-10 years) and can afford the monthly repayments then they are unlikely to rush into selling. Therefore, a repayment problem should not arise except in the context of prolonged rental voids, insufficient resources to supplement repayments etc, resulting in a forced sale situation.
- ***Recent policy changes tightened policy parameters for more vulnerable investor borrowers*** – A recent review of the RIL portfolio has identified first time / amateur RIL customers with high LTV and tight repayment capacity levels as the most marginal sector of the RIL portfolio. The level of 'amateur' business has been falling steadily in the context of previous credit policy changes, which tightened the criteria for newer (more marginal) entrants to the residential investment market, and TMB's focus on professional investors. As a result the percentage of marginal loans identified by TMB is low – 1.5% of new business for the last 12 months.

Downside risks – what could cause a sharper correction to house prices?

- In its recent Financial Stability Report 2004, the Central Bank states that *'the risk of an unanticipated and sudden fall in residential property prices, accompanied by an increase in the default rate among mortgage holders…is the risk that poses the greatest threat to the health of the banking system'*.
- ***Oil prices*** – Most commentators view large increases in interest rates and unemployment levels as the biggest risks for the mortgage market. Currently, the outlook for both appears benign but one commentator has warned that Central Banks could be making the same mistakes as in the 1970's when the risk of inflation was underestimated and interest rates were kept low in response to a surge in oil prices. Emerging inflationary pressures could trigger faster and more significant increases in interest rates than most forecasters expect.
- ***Interest rates –*** Given the significant increase in debt in recent years (private-sector credit increased to c. €178 billion in the second quarter of this year), even a relatively small increase in interest rates would take a significant amount of extra money out of the economy (e.g. a 1%

[2] ROI house price inflation has moderated to an annualised rate of c. 12% in Sept 2004 (Sept 2003: 13.8%). This compares to growth in excess of 20% p.a. between 1995 and 2000 and c. 15% over the last 2 years.

increase in rates could in effect take up to €1.8bn out of the economy). The current repayment burden is still below the levels recorded in the early 1990's but if interest rates were to rise to the equilibrium mortgage interest rate (estimated by the Central Bank to be approximately 6%) then this would be significantly increased.

- ***Employment*** – The Central Bank has also voiced concerns over the domestic labour market, particularly in the construction sector pointing out that some 30,000 workers are currently engaged in building houses, noting that these workers will need to be employed elsewhere when the house-building boom concludes. While the Bank is expecting a "soft landing" in this regard the economic effect of this outflow of jobs remains uncertain. If higher interest rates were to coincide with higher unemployment levels the impact on consumer and business confidence could trigger a wider downturn.
- ***Continued house price inflation*** – most commentators continue to expect house price growth to slow significantly in 2005/2006. However, the slowdown has taken longer than expected with growth of 10% now expected in 2004 versus previous forecasts of 6%. If the expected slowdown does not emerge over the next 12 – 18 months and house price inflation remains strong or accelerates, the likelihood of a sharper correction must increase.

Central Bank View – The Central Bank concluded that the shock absorption capacity of the banking system is currently adequate and the system could absorb a modest fall in house prices even if it were to coincide with a modest increase in defaults.

GC View – Both portfolio and market focused triggers have been agreed with TMB to prompt reviews of the appropriateness of policy criteria, risk appetite limits and provisions in the light of any stresses emerging. In the absence of breaches of these triggers or of other specific concerns emerging, GC continues to believe that a blanket tightening of credit policy which might have a material opportunity cost in terms of lost business, would be questionable in risk/return terms[3] at this stage. However, we must beware complacency and a change in the outlook for interest rates or unemployment may need to be acted upon quickly to minimise damage to shareholder value.

UK Market and Exposures

- ***Continued growth in house prices*** – Until last month, the high growth rate for house prices in the UK had persisted despite recent interest rate increases[4]. This had further fuelled the debate over whether these increases were sustainable or whether house prices had become so overvalued that a sharp downward correction was now unavoidable. It was generally agreed that sustained growth in house prices, 15% or more, would make a property crash more likely.
- ***Evidence that the market is slowing*** – recent interest rate increases[5] and continued deterioration in affordability[6] appear to be driving a slowdown in mortgage lending with the level of approvals moderating in the third quarter. House prices fell by 1.1% in October bringing the annual change in house prices to 18.5% (Halifax Index). On a three monthly basis, July to October, the impact was a 0.4% fall in prices, the first quarterly fall since 2000.
- ***Could another housing market crisis occur?*** If the recent fall in house prices signals a gradual slowdown then this is to be welcomed as the levels of growth experienced in recent years are unsustainable. However, the extent of any correction remains uncertain and the concern must be that it turns into a sharper downturn, which could undermine business and consumer confidence and trigger a housing market downturn and more significant house price reductions. On balance however, given the positive outlook for the broader economy, the tightness of the labour market and the continued problems of undersupply and with interest

---

[3] Particularly given the long-term "relationship" spinoff and cross sales from new ROI mortgages.
[4] The annual change in house prices was 20.5% (Halifax index) at September 2004.
[5] A further increase in August, following four earlier quarter point rises between November and June, brought UK interest rates to 4.75%.
[6] House prices are now c. 6x average earnings and initial mortgage payments have increased to 15% of disposable income. While this measure is still well below the peak of the last housing boom, when it reached 25%, it appears to have contributed to the moderation in loan demand.

rates likely to be at or near peak levels, most commentators continue to expect a gradual slowdown, "soft landing".

- ***How would PLUK be placed in the event of a housing market downturn?*** – Under 10% of the UK mortgage book comprises loans with LTV's of 90% and above and only 2% of new business is for High LTV (95% +) lending. As a result, PLUK has relatively modest exposure to High LTV FTB's who are perceived to be the most vulnerable in the event of a housing market downturn. Exposure to specialised lending products (self-cert and BTL) has increased. These products have not been tested through a full property cycle and it is uncertain how they would perform in a market downturn. However, the combination of lower average LTV's and improved underwriting standards (including the use of credit scoring) should mean that PLUK is better positioned today to weather a housing market downturn than was the case in the late '80's / early '90's. As for ROI, triggers to measure possible downside risks, have been agreed with UKFS in order to prompt reviews of the appropriateness of policy criteria, risk appetite limits and provisions in the light of stresses emerging – particularly if stresses arise from a more pronounced downturn in the market. GC and UKFS will review the appropriateness of these triggers periodically to ensure that they continue to provide a forward-looking and proactive tool for highlighting developments in the market and/or the mortgage book.
- ***Buy-to-Let*** – The *Rental Cover Test*[7] for BTL applications is designed to act as a "self - correcting" mechanism (as rents or yields fall, either *new* business levels or average LTVs on *new* business should also fall). Over the last year, the test has acted to reduce the LTV on new business in the BTL market showing that the rent cover requirement is working by forcing up the size of deposit required to get a BTL loan as prices rise and rental yields fall. As a result new business volumes are significantly lower than in the same period last year.

Basel II Implications for Mortgage Lending

- Mortgages receive favourable treatment under the Basel II Standardised approach and the implementation of IRB should reduce the Capital required further.
- Risk models for the UK and ROI mortgage markets are showing a reduction in the proportion of regulatory capital used by mortgages of 20-25bps in year 1 (2007). Further reductions will be possible over time (e.g. additional reduction of c. 45bps is expected in year 2).

Ronan M Murphy

[7] Minimum Gross Rental cover of 125%. Test is applied to gross rents whereby rents from property must cover mortgage payments by 125% to provide some allowance for rental voids and expenses.

ADDITIONAL INFORMATION FOR GRPC

Summary of Statistics on UK and ROI Economies and Housing Markets

	UK	ROI
General Economic Data		
Avg. Unemployment – forecast 2004	2.8%	4.5%
Avg. Unemployment – forecast 2005	2.7%	4.1%
GDP – forecast 2004	3.5%	6%
GDP – forecast 2005	2.5% - 3%	6%
Inflation – forecast 2004	1.5%	2.3%
Inflation – forecast 2005	2%	2.7%
Base Rates	4.75%	2%
Housing Market Data		
House Price Growth y/y	(HBOS National) 18.5%	(National) 10.7% / 12.7%[8]
	(HBOS London Area) 8.1%	(Dublin Area) 11.6% / 8.8%
Average House Price	£161k[9]	€246k - €400k[10]
Price / Average Income Ratio	5.98	n/a
Housing completions 2003	183,000	69,000
Housing completions 2004 (forecast)	c. 165,000	80,000
Re-mortgaging[11] %	42%	n/a
Household Debt to income[12]	119% (2003)	90% (2002)
Proportion of first time buyers	28% (2001: 43%)	n/a
FTB's: % of income used for initial mortgage payment	15%	29%

Note: A direct comparison of statistics between the 2 markets is not necessarily valid because they may have been calculated on different bases – e.g. Affordability measures are based on different definitions of income.

[8] DOE figures are for the year to June 2004 – new / second-hand.
[9] Halifax House Price Index – Standardised average price (seasonally adjusted).
[10] DOE, Housing Statistics Bulletin, Mar 2004 – New house prices nationally €246k, Dublin area €323k. Second-hand house prices nationally €302k, Dublin area €400k.
[11] The level of remortgaging in the UK has moderated to 42% in Q3 from 45% in 2003.
[12] BOI Irish Property Review August 2003.

Additional Detail on ROI Portfolio

	BBR	ICS
Total mortgage book @ September 2004	€10bn	€4bn
Standard Owner Occupier	€7.8bn	€€3.2bn
RIL's	€2.2bn	€0.8bn
LTV Split		
< 75%	64%	54%
75% - 90%	28%	37%
90% - 95%	6%	8%
95% +	2%	1%
New Business LTV Split		
< 75%	46%	36%
75% - 90%	31%	34%
90% - 95%	19%	28%
95% +	4%	2%
QP	99.43%	98.84%
Average Margin Sep 2004	1.23%	1.09%

Mortgage Lending Growth.

- ***Book.*** Total ROI book grew by €1.6bn (13%) in the six months to September 2004, of which c. €450m is attributable to the increase in the RIL book.
- ***New Business.*** BBR and ICS showed continued growth with a €479m (22%) increase in new business compared to the same period last year.

BOI Market Share.

- Market share of new business at September 2004 was 7.6% ICS / 19.4% BBR. At present c.**80**% of new mortgage business is branch originated, with the remaining **20**% sourced from the ICS intermediary channel.

Residential Investment Lending (RILS)

- See separate RIL portfolio review.

Margins

- New business margins in ROI continued to tighten due to higher funding costs and the availability of lower rates for new business.
- In addition, customers opting for lower margin tracker variable and fixed products have impacted on existing book margins.

Loan Size and LTV.

- In line with house price growth, loan sizes have increased markedly in recent years.
- 27% of new business in ICS and 25% of new business in BBR is for loan sizes in excess of €300k.
- There is a similar trend for LTV's with 1 in 6 new mortgages in BBR and 1 in 4 new mortgages in ICS having LTV's in excess of 90%.

Asset Quality.

- The level of arrears in ROI is stable and, as a percentage of the mortgage book, continues to decrease as the book grows.
- The main reasons for arrears are reduction in income, marital breakdown and health.

Competitive Environment

- TMB homeloan income multiples are broadly in line with the market, with most other lenders adopting a '% of net income' approach to determining borrowing capacity.
- However, in the homeloan market both Ulster Bank and AIB are aggressively cherry picking young, professional borrowers in particular with 100% finance, often at income multiples on the basis of perceived earning potential.
- Also, interest-only for the first 1-3 years of the term is increasingly requested, a standard product feature available from IIB Homeloans.
- In the RIL market, 80% interest-only and 85 / 90% repayment loans are widely available, with up to 90% interest-only from First Active.

Key Policy Changes During the Last 12 Months – ROI

Standard Homeloan Lending

The principle policy changes related to income multiples, LTV's and stress testing adjustments.

Income Multiple Policy Changes

	Old Multiples	**New Multiples**
Single	<30k @ 3.25 Times	<30k @ 4 Times
	30-45k @ 4 Times	30-45k @ 4.5 Times
	45-60k @ 4 Times	45-60k @ 4.75 Times
	>60k @ 4.5 Times	>60k @ 5 Times
Joint – 2 or 1 Income Applicants	<50k @ 3 Times	4.5 Times Income
	>50k @ 3.75 Times	

LTV Policy Changes

Previous Levels	**New LTV Levels**
92% up to €400k	92% Loans up to €550k
80% €400 – €550k	80% €550 - €750k
70% > €550k	70% > €750k

"First Start" Mortgages

Aimed at enabling more FTBs to get onto the 'property ladder' by allowing lending jointly to parent and 'child' based on their combined income. TMB received approval 'in principle' from GRPC for this proposal.

Affordable Housing Proposal

The GRPC approved a mortgage product targeted at individuals purchasing 'affordable housing' from ROI Local Authorities. The scheme, which excludes social housing, is targeted at those who have been excluded from the private housing market by the exceptional escalation in "starter house" prices and provides for house purchase generally at prices 15-30% below the Open Market Value (OMV). This product has a higher maximum LTV but will operate within the standard income multiples set out above.

Residential Investment Lending (RIL)

The Committee considered a proposal from TMB to amend RIL policy, involving the tightening of criteria for newer entrants to the residential investment market and affording some additional flexibility to the more seasoned, multi-property borrowers.

Additional Detail on UK Portfolio

	B&W £'m	BIM £'m
Total mortgage book @ September 2004	11,607	5,018
Standard	7,092	3,459
BTL	2,792	989
Specialised (Self-Cert and 1st Start)	1,723	570
LTV Split		
< 75%	54%	58%
75% - 90%	36%	34%
90% - 95%	6%	7%
95% +	4%	1%
New Business LTV Split		
< 75%	54%	59%
75% - 90%	40%	32%
90% - 95%	4%	9%
95% +	2%	0%
Average Margin (includes redemption fees)	0.85%	0.51%

Additional Information

Mortgage Lending Growth.

- ***Book.*** Total UK book grew by £1.1bn (7%) in the six months to September 2004, of which £300m is attributable to the increase in the BTL book.
- ***New Business.*** Total new business in BIM and B&W is 4% higher than in the same period last year. However, new BTL business is significantly lower in the first six months of the year (£477k) than in the same period last year (£747k).

Market Share.

- CML data for 2003 shows that the top 10 lenders account for over **80%** of both mortgage stock and gross lending. The top 5 lenders account for c. **60%** of both stock and flow, demonstrating the degree of concentration within the market. The top 2 lenders (HBOS and Abbey National) account for c. **35%** of the market. Banks dominate the market, with Nationwide the only remaining mutual with significant market share (c. **9%**). In 2003, B&W ranked 11th with a market share of c. 2%.
- As a niche player, PLUK has a higher (6-8%) market share in BTL. 'Niche' in this case does not equate to a small market – the BTL niche market is currently estimated as being £30bn in size.

Margin and product profitability and sustainability

- PLUK has advised that new business margins are being sustained in the standard market due to an increasing focus on flexible lending – flexible loans generally offer lifetime tracking rates, the impact of which is to broadly flatten the earnings profile of these mortgages.
- BTL margins are coming under pressure due to increased competition on both margin and lending criteria in the market place.

- Self-Cert margins are remaining steady as products are priced up on an LTV basis, with LTV bands less than 75% exhibiting near standard margins, but the 85% to 90% loans attracting a significant premium.
- Overall, however, book margin is under pressure as older mortgages currently on standard variable rate redeem or seek to convert to new products.
- Average margin has also been impacted recently due to rises in bank base rate. The increase impacts immediately on cost of funds but must be communicated to borrowers before the increase can be applied to their account. For this reason each 0.25% rise in base rate costs PLUK £1.4m which feeds through to the calculation of book margin.

Asset quality.

- UK mortgage lenders are currently experiencing historically low levels of problem loans and repossessions – though this was also the case during the property boom of the 1980's.
- Of concern is the fact that mortgage books have become relatively unseasoned given the high level of re-mortgaging / churn in recent years – with the average life of a mortgage now below 5 years.
- Lower house price growth in future will have implications for asset quality in that it will take longer for new business to become 'seasoned'; instead of only being concerned with one years new business in a stressed scenario, four or five years may have to be taken into account.

Exceptions.

- 10% of completions in B&W and BIM in the six months to September 2004 were done as exceptions to policy. The single biggest factor for exceptions is income multiples.
- The level of BTL exceptions is higher, B&W 20% / BIM 13%, and the main reason is insufficient rental income. These figures relate to gross exceptions at transaction level. The B&W tracking system does not recognise cases that are approved on a portfolio basis, recording them as exceptions of they breach transaction level policy parameters. This artificicially increases For individual borrowers with portfolios it is possible to offset surplus income within the portfolio against individual shortfalls. Figures are also absolute so a case failing by £1 is still an exception. If exceptions are sub-divided then some 80% are within 5% of the actual rental required i.e. an advance requiring a rent of £400p.m. would probably be accepted if the valuer estimated the rental income at £380 as the monthly shortfall is only £20.

UKFS Strategic Focus

- UKFS strategy for mortgage lending remains to offer products across the spectrum but with the ability to concentrate on new and existing niche areas.
- *Buy-to-Let* – There is some evidence that rental levels have stabilised or are rising as people are renting pending an entry into the property market. This will continue to support the BTL market and the UKFS BTL proposition where volumes have fallen below plan. The LTV spread of new BTL lending is showing a positive variance to the total BTL book as the rental cover model continues to reduce LTV availability although this will change as rents start to rise[13]. Should the expected rise in rental levels occur then property investment could become more attractive again so UKFS would expect to increase BTL lending in such a scenario.
- *Self-cert* – Demand for self-certification products is expected to remain strong as most lenders continue to restrict the acceptance of certain types of income when applying affordability/income multiple calculations. PLUK had intended to dispose of tranches of higher LTV self-cert mortgages as part of a risk mitigation strategy. However, a decision was taken at Group level that the planned disposal should not proceed during the current

[13] % of book > 75% LTV 44%, % of new business >75% c. 32% in July and August.

financial year. In October, GRPC approved an increase in the limits for high LTV self-cert pending a wider review to be presented to the Committee before March.

- *Islamic Mortgages* – B&W has recently launched an Islamic Mortgage product and there will be some emphasis on marketing this during the latter part of Q3 and into Q4[14].
- *Equity Release* – An equity release scheme (interest roll up for older customers) is being actively investigated with, subject to full approval, an initial product being launched early in the next financial year.
- *Adverse* – There also appear to be opportunities to review criteria currently in place for the Adverse credit product to attract larger (but not substantial) volumes of new business[15].
- *Prime* – Prime lending still continues to be a target market with completions year to date running ahead of plan. However, this remains a very competitive area. The BIM 1st Start product continues to attract new business[16] and it is planned to extend distribution to BWFS branches and to replicate the BIM product under the B&WM brand.

Key Policy Changes During the Last 12 Months – UK

Buy to Let (BTL) and Self Cert:

- Approval of a £300m per annum rolling tranche of higher Loan-To-Value (LTV) (85%to 90%) Self-Cert mortgages (within an overall rolling €900m limit for this specialised mortgage product).

- Removal of the requirement for MIG on self-cert mortgages >75% and approval of the proposal to 'warehouse' higher LTV loans for sale subject to the balance of loans >85% LTV being retained in the portfolio not exceeding £500m.

- Increase in portfolio limits for self-cert mortgages >75% to £400m for annual flow and £700m for the book pending a full review of this of high LTV Self Cert before March 2005.

- Revised triggers were put in place for the PLUK mortgage book as follows:

Islamic Mortgages (Home Loans and Buy-to-Let Loans)

- GRPC approved a paper by GC recommending entry into the Islamic mortgage market (€150m initially) by PLUK in partnership with Arab Banking Corporation International Bank.

[14] Full marketing is being delayed while a new bank, The Islamic Bank of Britain, is being launched and which is taking significant media coverage.
[15] Current criteria have not been changed since launch and are now out of line with the market. It should be possible to focus on the virtual prime/marginal sub-prime cases through minor adjustments to policy with the risk priced appropriately. Current arrears rates on this type of business are substantially below those modelled in the original proposal.
[16] BIM was recently awarded 'Most Innovative Lender' award for this product.

Bank of Ireland

To: GROUP RISK POLICY COMMITTEE
From: GROUP CREDIT
Date: NOVEMBER 18, 2005
Subject: Personal Lending (PL) - 100% First Time Buyer (FTB) Mortgage Product Review

Purpose
In July 2005, GRPC approved a PL proposal to make the 100% LTV mortgage product available to all FTB borrowers (previously only available to 'professionals'), subject to a formal review by November 2005. Herein attached is the review as requested.

Overview
PL has performed a full review of the 100% FTB mortgage product addressing the areas raised by GRPC when the product was initially approved. The key highlights of which are as follows:

- ***Market Reaction (Competitors, Regulator, Rating agencies, Analysts etc.)***
  - The product is now fairly well established in the market, with most BOI competitors now offering a similar product either 'officially' (Permanent TSB, EBS, Ulster Bank and First Active) or 'unofficially' i.e. no formal product but appear to be offering on a selective basis (AIB).
  - Overall reaction to the product has been subdued, with some indications of discomfort from the Regulator, however no action has been taken to date.

- ***Customer / Broker behaviour***
  - The product has proven popular with certain customers, representing c. 40% of all FTB applications however; the 92% FTB product remains the lead product to the FTB sector. Brokers have welcomed the expansion of the market with the 100% product but there remains a degree of frustration at the fact that eligibility criteria are stringent and rigidly enforced.

- ***Volumes to Date / Trends***
  - 38% of all FTB new business relates to 100% FTB product (33% in volume terms, i.e. number of cases).
  - €331m of applications have been sanctioned to date however, only €41m[1] has actually been drawn down. As this product has only recently been launched the rate at which approvals converts to drawdowns has not yet emerged (historically, the conversion rate for FTB business has been c. 54%)
  - Application decline rate is running at 40% and the quality of applications approved is high.

- ***Borrower Profile***
  - Main applicant's age profile is young, with c. 54% aged 30 or below. 43% of applications are from single applicants with a median salary level of €50k- €60k (Joint: €60k-€75k).

- ***Property Profile***
  - 33% of applications have been for properties located in Dublin, 20% for Dublin commuter counties, 20% for Cork, Limerick and Galway and the remainder for rest of Ireland. Analysis of postal codes provided for Dublin City and County show no particular location concentrations apart from Dublin 15[2]. 50% of applications have been for semi-detached houses and only 16%

[1] Based on drawdowns for the 100% FTB 'new' product only. Weekly returns to IFRSA include all 100% FTB buyer lending i.e. 100% FTB 'professional product' and 100% FTB 'new' product.
[2] Approximately 13% of FTB applications to date have been for properties located in Dublin 15 (Blanchardstown, Coolmine, Mulhuddart, Castleknock etc.).

for apartments. The restriction that no single bedroom properties would qualify for the 100% product appears to be impacting on the number of apartments.

GC View

As the 100% FTB product was only launched in August 2005 our experience to date is limited (3 months), and therefore it is too early to identify the emergence of any specific trends or to draw any firm conclusions on the performance of the product/portfolio. However, GC will continue to actively monitor the portfolio going forward to ensure the associated risks remain acceptable, with a full review in April 2006, based on 31 March figures.

____

Group Credit
Maria Coyle

INTERNAL MEMORANDUM

To: Group Risk Policy Committee (GRPC)

From: Lynda Carragher, Joe Larkin, Lorcan O'Tighearnaigh
Personal Lending (PL)

Date: 11th November 2005

Re: **Review of 100% First Time Buyer Mortgage Product**

Background

Last July, in response to moves by key competitors First Active, Ulster Bank and PTSB, BOI launched a 100% LTV FTB product. Since then, other competitors have also followed suit, either on a formal basis (EBS) or informal basis (AIB).

Previously, BOI had provided a 100% LTV product to professionals (a list of qualifying professions was developed), and an annual limit of €150M applied to such loans. This tranche was fully used in the year ended 31/03/2005, and an increase in the limit was likely to be sought.

The new 100% product was launched in early August 2005 for both BOI and ICS, and as agreed we are now completing a review on the basis of experience to date (3 months). In line with minute from GRPC 26th July 2005, this review is structured as follows:

(1) Market reaction (Competitors, Regulator, Rating agencies, analysts etc.)
(2) Customer / Broker behaviour
(3) Volumes to date / Trends
(4) Borrower profile
(5) Pricing achieved
(6) Property profile
(7) Comprehensive scenario analysis[3]

Our recommendation is to retain the product on an unchanged basis.

---

[3] GRPC minute requested the November review to contain comprehensive scenario analysis however, due to the small book size and limited experience to date this has been deferred until the next review (April 2006).

(1) Market reaction (Competitors, Regulator, Rating agencies, analysts etc.)

Competitors
As indicated above, EBS followed BOI by formally launching a 100% product. AIB have not formally launched, however they are providing the product to targeted sectors (higher income / potential).

As such, all of the larger lenders in the market have a 100% product available. Some second-tier lenders do not seem to have the product, namely IIB, BOS, and INBS.

Credit criteria from all providers would seem to be quite restrictive. Feedback being received from mortgage brokers is that the decline level for the product is very high, from all lenders. The decline levels seem to reflect the restrictive criteria, together will the fact that exceptions to policy are not being tolerated.

The product is now fairly well established in the market, albeit that it is reserved for higher income earners.

Regulator
BOI did not receive a formal response to the letter that we sent to IFSRA advising them of our new 100% product. We have received requests for weekly data on the level and proportion of applications / approvals for 100%, which we are providing. To date we have not had any other contact from IFSRA on this matter.

We are aware from media commentary that the Regulator has expressed concern at the product, and has suggested that capital allocation levels may be higher for the product. No specifics have emerged from IFSRA in this regard, and Basel II would seem to restrict such a reaction, unless it was justified by actual risk.

Rating Agencies
There has been no specific reaction to date from the rating agencies or investment banks to this product.
An opportunity did arise in a recent mortgage bond conference call, but it was not taken up by any of the participating investment banks / agencies.

Analysts
The product did initially create a degree of noise within the analyst community, with the media driving this noise.
Recent analysis has largely ignored the 100% product, but instead focussed upon the overall level of consumer indebtedness in Ireland, and in general the conclusions drawn are that there are no real problems in this regard.

(2) Customer / Broker Behaviour

The product has proven popular with certain customers, and it is representing approx. 40% of all of our FTB applications. Notwithstanding this, our 92% FTB product remains our lead product to the FTB sector, in particular to the mass market.

The 100% product is ideally suited to young graduates / professionals, whose salaries can support the mortgage required but who do not have sufficient savings accumulated to purchase property with a 92% mortgage.

A detailed statistical analysis of product experience to date is provided in this paper.

Intermediaries have given mixed feedback on the development of the 100% product in the market. Whilst they welcome the fact that the market has been expanded, there is a degree of frustration at the fact that criteria are stringent and rigidly enforced.

(3) Volumes to Date / Trends

Key figures / trends evident following the first three months (01/08 → 31/10) with the product are as follows:

- 2,026 applications received, totalling €553M. This represents approx 40% of all FTB applications
- €331M / 60% of the applications have been sanctioned, with the balance being declined / cancelled
- Drawdowns to date have been €41M. It is too early to predict conversion levels, as cases may remain in the pipeline for up to a year prior to drawdown. There is no reason, at this stage, to suggest that conversion levels will differ from the 54% norm in our business
- If conversion level for the new product is 54%, then we expect drawdowns to amount to €715M p.a. (12% of all completions). The initial paper to GRPC anticipated that volumes at their maximum could reach up to €1,500M p.a., but or best estimate was €800M p.a. This latter estimate is more likely
- A very low level (2.5%) of applications has been approved as exceptions to policy. These exceptions are typically for professional borrowers, where slight flexibility on income multiple has been shown. In general, however, no flexibility on policy is permitted, resulting in the very high decline level. The message that policy exceptions will not be approved has been re-iterated to sales staff in order to tackle this problem
- Principle reasons for declines have been repayment capacity not meeting criteria (45% of declines), insufficient income multiple (26%), and poor record on previous loans (10%)
- Average application amount for the 100% product has been €273K. This compares to €231K average FTB application size prior to the introduction of the 100% product
- 67% of applicants have sought maximum 35 year term, with 22% seeking 30 – 35 years

(4) Borrower Profile

- In overall terms, 33% of applications are from non-BOI customers, compared to normal level of 30%
- Main applicant's age profile is young, with 15.7% aged 18-25, 38.6% aged 25-30, and 27.6% aged 30-35
- 42% of applications are from single applicants, 58% from joint applicants
- Median salary level for applicants is €50K - €60K (single), and €60K - €75K (joint). This is the area where there is the greatest difference between the 100% applicant profile and the profile of other FTB applicants
- It is too early to identify if there are any particular credit quality trends with the 100% product. We are aware that delinquency levels with the forerunner professional product have been immaterial

(5) Pricing achieved

All pricing has been on-matrix, either variable, tracker or fixed rates.

(6) Property Profile

- Property types have been semi-d houses (50%), other houses (27%), and apartments (16%). The restriction that no single bedroom properties would qualify for the 100% product is impacting the number of apartments
- 33% of applications have been for properties located in Dublin, 20% for Dublin commuter counties, 20% for Cork, Limerick Galway, and 27% for Rest of Ireland

Conclusions and Recommendation

Launch of the product was necessary in order to protect our franchise in the key FTB sector. In this regard, it has been successful, as we have maintained our market share.

Volumes written have been significant, albeit that the rigid criteria have meant that the product has not replaced the 92% FTB product as our key offering to the sector. As we expect that the conversion level will be in line with normal, over time up to 12% of drawdowns will be of the 100% product.

Overall reaction to the product has been subdued, with some indications of discomfort from the Regulator, however no action taken to date.

The property sector remains underpinned by strong fundamentals, and consequently the outlook for the sector remains positive. This is despite the anticipated interest rate rises, and the recent negative observations from the OECD. Dr. Dan's most recent property review (Nov 2005) anticipates 9% increase in house prices in 2005, and a further 5% forecast for 2006. This prognosis provides comfort that negative equity is most unlikely. Coupled with the stringent criteria on borrower quality, we remain of the view that risks associated with the 100% product remain acceptable.

We are therefore recommending continuation of the product on an unchanged basis.

9 BUSINESS BANKING – ROI

In pursuit of our Group Goal to be the No.1 Financial Services Provider in the Republic of Ireland, we have reviewed some elements of governance and structure in relation to Business and Corporate Banking.

9.2 DEDICATED PROPERTY UNIT

The Property Market in the Republic is shaped and controlled by <100 key players. In the past 5 years we have under performed in this top end market, which has been dominated by Banks with specialist property units, most notably Anglo Irish Bank. This is the sole area where we are falling substantially short of our natural market footprint (market share estimates are circa 15% compared with circa 23% in non property). A dedicated property unit is being established in Corporate that will be responsible for managing relationships with total group exposure in excess of €30m. The Retail Property Team will transfer into this unit. This move will give us the specialisation and focus necessary to seriously compete in this arena. This unit will also develop close working relationships with Private Banking, which has a strong property dimension in their portfolio.

The operational risk partners are also involved in the ex-post reporting, analysis and remediation of losses.

Our analysis uncovered three potential structural improvements:

- **Independent reporting for operational risk management and internal audit.** Currently the Head of Group Compliance & Operational Risk has the same line of reporting as the Head of Group Internal Audit. In best practice the second and third line of defence are separated, meaning that operational risk management and internal audit should be independent up to the Executive Committee. The current structure was put in place during the crisis to focus efforts on credit and market risk, the top priorities at the time. Going forward, BOI should consider separating the reporting lines of operational risk and Group Internal Audit.
- **Challenged loans operating model.** Currently there are ten different units tackling challenged loans across BOI. This reflects decisions to adapt quickly during the economic crisis. However it may have led to inconsistencies in approach and reporting challenges at group level, and lack of scale. Going forward BOI should take a comprehensive, top down view of the challenged loan operating model (organisational structure, policies, accountabilities, career path, and reporting). For example, challenged loan organisations can benefit from a more unified centre of competency. This issue is currently under review by Group Credit and Market Risk.
- **Reporting of ICU.** Currently ICU and the audit team that audits ICU both report to the head of Audit. In best practice the second and third line of defence are separated, meaning that BOI should consider changing the reporting line of ICU out of Audit. (see section e) below).

b) Adequacy of resources

→ The adequacy of resources available to risk management

In our view, BOI has adequate risk FTEs both at the business unit level and overall.

The Group has 440 FTEs reporting to the CCMRO. This represents approximately 3% of total FTEs in the BOI Group. The Group also employs 177 FTEs in Group Regulatory, Compliance & Operational Risk and 65 FTEs in Group Internal Audit. Furthermore, BOI has 68 FTEs, reporting to Group Customer Operations, dealing with underwriting Business Banking files under €300k. The total amount of resources in second and third line of defence is therefore approximately 5% of total FTEs in the Group. This is in line with resource levels at peer banks.

BOI also employs an unofficial policy of rotating staff between risk and business which ensures that these two parts of the business are well integrated and understand each other's concerns. This practice is best practice and should be both encouraged and formalised.

Combined with the skills and experience that we discuss below, we believe that BOI has adequate risk management resources overall.

c) Skills and experience

→ The skills and experience of staff performing risk management roles

Overall, we find the skills and backgrounds of risk management staff suitable for the challenges BOI faces.

We used three separate sources to assess the skills and experience of the risk staff:

- Senior directors' background;

to the Bank. In our view, the content of the report is strong with well thought out and reasoned arguments as well mitigating actions. One small criticism is that the report can sometimes lack supporting data: for example under Geo-political Risk, it would be useful to have data on BOI's exposures to various countries[7].

The **Divisional Quarterly Risk Report** is based on the Quarterly Court Risk Report but focuses on each division. This report is live for Capital Markets and Retail. These reports have the same format as the Quarterly Court Risk Report and comments above apply here too.

There are several other reports that are presented to the GRPC on an annual, semi-annual or quarterly basis (e.g. Group regulatory and operational risk review, asset quality report, Group equity underwriting commitments, Capital targets and buffers, Life insurance risk review, etc).

We have also reviewed a number of business unit reports – outside Risk Management - and find that they contain sufficient information given the risks run and their audience.

While we found the overall reporting quality to be high, we recommend that an additional report be set up:

- ***A separate report (or section) for Challenged Loans***. At present, BOI has ~€26B in challenged loans. With a portfolio this large, small changes could have a significant impact on the overall loan book and P&L. We recommend a monthly report that provides detailed information solely on challenged loans. For example, it would report on loan volumes, loan loss provisions (LLP), inflows and outflows, etc. by portfolio (which business unit the loans originated from) and by managerial view (which business unit the loan is currently managed by).

The overall quality of the reporting will be further improved with the implementation of the credit MI project, as noted below in section h).

g) Risk management integration

→ The level of risk management integration into strategic and commercial decision making

Overall, risk management is well integrated into the strategic and commercial decision making process at BOI. This integration is created by both Board and executive engagement into the risk management process and empowerment of the risk function. However, since these processes are relatively new they will require ongoing development.

BOI plans to use the new risk appetite statement to integrate risk management into strategic planning. In particular, the risk appetite statement is designed to act as a boundary condition to strategy, ensuring that growth and funding remain aligned with appetite. Risk Management has worked closely with the Business Units, Finance, Capital Management, and Treasury to develop a risk appetite statement and process that satisfies all stakeholders. However, as only the Retail Division has reviewed its strategy at this point and many Risk Appetite limits only address Group-wide metrics, a full strategy refresh cycle will be required in order to ensure that the views of risk management and the business are appropriately balanced.

Risk management is also directly integrated into lending decisions in Corporate and Business Banking UK through its involvement in risk adjusted return on capital (RAROC) calculations in the underwriting process. For these businesses each loan application must contain a

[7] It is noted that the Report states that "BOI has no sovereign exposure to Greece" but non-sovereign exposure is not mentioned

RAROC based on the BIPS model and proposed price, and if the RAROC is below the minimum required hurdle (15% in most cases), the application must include a justification. This process ensures that loan pricing reflects risk and that any exceptions are justified.

While these processes are broadly in line with industry standard practices, we have identified two areas for improvement:

- **This process is not in place for Business Banking ROI for loans <€ 5m and is driven centrally for BBROI loans greater than €5m.** Pricing in BBROI takes ratings into account but is not directly driven by them. There have been discussions regarding the roll-out of risk adjusted pricing in this business but timelines and action plans have not been set. This is a clear area of opportunity to increase the integration of credit risk into commercial decision making.
- **Further development is required to bring this process in line with industry best practice.** While the process in place for Corporate Banking and Business Banking UK does represent adequate integration of credit risk and commercial decision making there is room for improvement compared to industry best practices. In a best practice process risk adjusted pricing incorporates a relationship-wide, multi-year view of profitability rather than a subjective exception process based on snapshot loan profitability. We recommend that BOI enhance its pricing processes in due course.

h) Quality of risk MI

→ The quality of reports and other information risk management produces

Risk MI is adequate and improving rapidly.

Current MI allows appropriate and up-to-date views of market and liquidity risk and tracks operational risks. However, there are some issues in Credit MI which need improvement. BOI has recognised this, and is currently embarking on a €5m programme led by Risk and IT.

At present BOI Credit MI has difficulty answering key questions regarding BOI's lending book in a timely and accurate manner. For example, it is not possible to easily access horizontal views across all business units such as exposure by sector or geography, or to see important transaction-level detail such as the rent-roll of an investment property. For example, if a major tenant went bankrupt (as happened to Woolworths in the UK) BOI would, at present, only be able to identify which of its landlords had exposure to Woolworths with a slow, manual cross referencing exercise using Outlook and Excel.

These issues are caused by four main inadequacies in Credit MI:

1. **There is no centralised storage of BIPS data fields**
   BIPS[8] is the main source of data for non-retail loans. BIPS' output, a PD[9] rating, feeds into SAP Bank Analyzer but SAP Bank Analyzer cannot read any of the underlying BIPS fields used to calculate the PD rating, as their respective account numbers are not matched. This means that information such as underlying guarantees or borrower turnover is not directly available to SAP Bank Analyzer. This limits the ability of Credit MI both to aggregate and to dive deep.
2. **Some key data is on Excel sheets which are not linked to SAP**
   Some key Credit MI data are stored on Excel sheets within divisions and business units. When these data are needed for Credit MI they cannot be read by SAP Bank Analyzer and have to be separately reviewed or input. For example, details of tenancy schedules of the pledged properties are kept in local spreadsheets.

---

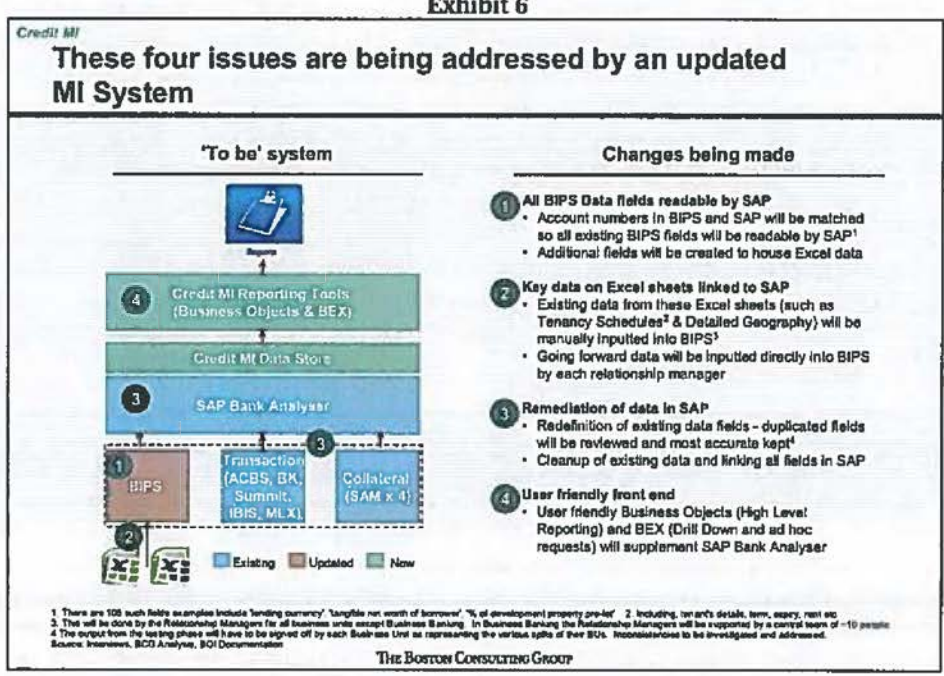
[8] Bank of Ireland Pricing System.

[9] Probability of Default

3. **Inconsistent data within SAP**
   Within SAP, there are similar fields coming from different databases. This means that there are sometimes 'multiple versions of the truth' and there can be inaccuracies in the Credit MI data. As the fields do not always correspond, it is difficult to take horizontal views across business units.
4. **Lack of a user friendly front end**
   SAP Bank Analyzer is a useful tool but it is not user friendly for non experts, and is thus not widely used outside Risk and MI Reporting.

As can be seen in Exhibit 6, these four issues have been recognised by BOI and are being addressed in the new Credit MI Project, due for completion in the second quarter of 2011.

Exhibit 6



Our view is that BOI's proposed solutions to these four issues are appropriate and their project management team is managing the project well. However, we do have a concern with the timing.

- *Timing.* For the Credit MI Project to complete on schedule, ~370 relationship managers (and 10 central FTEs) in Business Banking need to correctly enter data for a large number of fields. It may be the case that these relationship managers will not view this data entry as a priority, which could cause schedule overruns and/or quality issues. Additionally, due to BIPS's IT architecture, data entry cannot commence until February 2011 when an updated version goes live. To ensure on-time roll-out, BOI senior management should monitor the project very closely to ensure that adequate resources and support are given to data entry and related quality assurance.

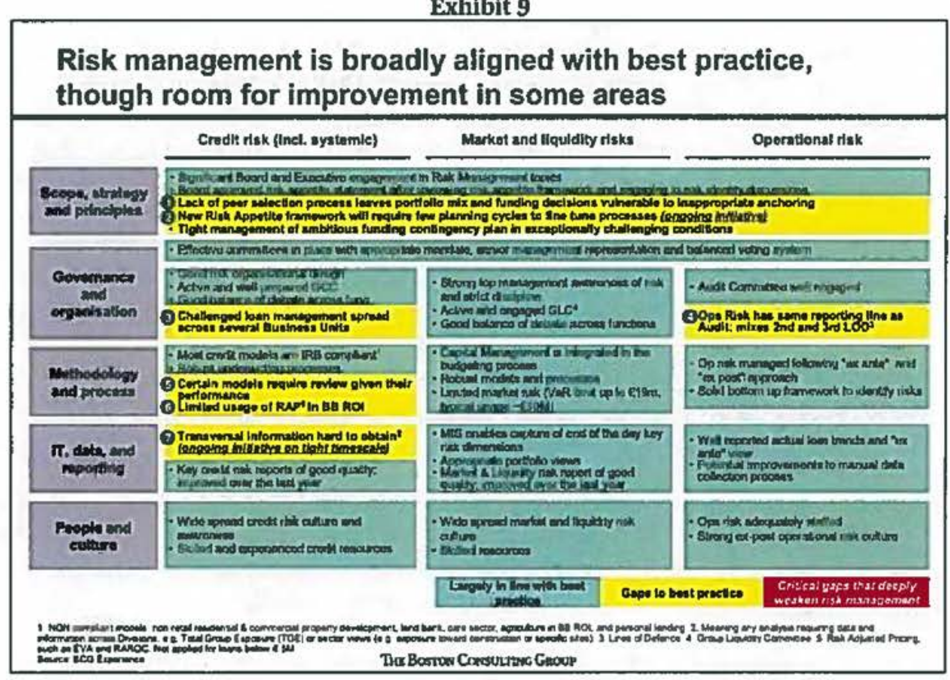
Moving forward, we have one additional suggestion:

- ***Link MI to relationship manager's tools.*** The changes being made are beneficial to Risk MI and Reporting and the senior managers who receive these reports. Best practice would leverage this information into systems and processes used by relationship managers. It is these relationship managers who will often be responsible for the ongoing data entry into BIPS and updating the data of the

4. Conclusions

BOI's risk management is broadly aligned with peer best practice. There are no critical gaps and in some areas there is rapid improvement. There are opportunities to improve.

Exhibit 9



We have identified seven specific areas for improvement (listed in order of their appearance in our risk management framework per exhibit 9):

1. ***Embed broader peer group into risk appetite definition and risk management.*** BOI would benefit from using a broader peer group as a reference point to create additional boundaries in terms of risk appetite, and a more formal process for generating the peer group. The peer group should consist of large domestic retail banks in concentrated banking markets in small, rich, developed countries. Monitoring trends in peer key metrics such as wholesale funding would enhance bank navigation, through both early identification of patterns and outliers and principled rejection of intellectual fads.
2. ***Fine tune risk appetite framework over a few planning cycles.*** The new risk appetite framework is robust and will be a boundary condition to strategic plan and BU budgets. However the way it will be "lived in practice" is still unproven given that it was only approved very recently. BOI will need a couple of planning cycles to appropriately calibrate the tensions between the risk appetite and the business targets.
3. ***Review challenged loans operating model.*** Currently there are too many units managing challenged loans at BOI. A comprehensive, first-principles review of the operating model would benefit the bank. For example, combining several restructuring units into one larger unit could create a centre of excellence for restructuring, optimise resource allocation, and generate opportunities for career progression. In addition, BOI should develop dedicated reports for challenged loans.

4. ***Review reporting lines of Operational risk and Audit.*** At present audit and operational risk report to CGRO. The second and third lines of defence should have independent reports, so we suggest moving operational risk into a different reporting line.
5. ***Strengthen rating models and continue validation.*** BOI should continue to review, recalibrate and redevelop poorly performing rating models, and improve the statistical robustness of its bank rating model. Where remediation plans are not in place they should be prioritised. While appropriate capital conservatism applied to poorly performing models, the current overall level of model performance is a concern. In addition, BOI should consider changing the reporting line of ICU out of Audit.
6. ***Embed loan RAROC in BBROI front line.*** In BBUK, RAROC is part of the underwriting process. In BBROI, loans under €5m do not require RAROC. To have a well calibrated risk adjusted pricing model is quite complex as it requires a relationship-wide multi-year profitability, among other things. However, calculating simple loan-level RAROC tends to impact RM behaviour positively so we suggest that, as a starting point, BOI extends RAROC usage to the frontline in ROI.
7. ***Ensure credit MI improvements are delivered on time.*** Many useful credit MI improvements are on track to be delivered during the second quarter of 2011. However the challenges created by extensive manual data entry and a dependency on a new version of Bank Ireland Pricing System (BIPS), mean that BOI must monitor and manage the process carefully. Going forward, we recommend extending the functionality of credit MI to deliver benefits to relationship managers, such that they have a stake in maintaining data quality.

One area of best practice is worth calling out: BOI senior management strongly encourages staff rotation between risk and the businesses. This has been effective at promoting strengthen business awareness in risk and risk awareness in the businesses. We applaud this practice and suggest formalising it as an official policy going forward.

BOI has made substantial progress in enhancing its risk management practices over the 18 months. In-flight initiatives address many of the points above. This effort should be sustained going forward to further improve risk management capabilities and bring them more in line with peer best practices.

Bank of Ireland

INTERNAL MEMORANDUM *Group Credit*

To:	**Group Risk Policy Committee**
From:	**Group Credit**
Date:	**August 28, 2002**
Subject:	**Policy Changes to ROI Mortgage Policy**

Purpose

To obtain approval for changes to ROI Homeloan Policy, chiefly relating to increases in Income Multiples, extension of the 92% LTV product to First Time Buyers (FTB's) and a reduction in the stress test rate to 2% (from 3%) above standard variable rate (see below).

GC Overview

The proposed changes involve a quantum leap in Income Multiples and are hard to justify from a credit risk perspective alone. However, GC recognises that the changes may be merited/ required in the interests of protecting our "franchise"/ market share and in this context, we are prepared to support on the basis that :

- TMB continues to be selective in its approach to the application of higher income multiples to new business and that this selectivity will be "formalised" upon the rollout of credit scoring for homeloan lending;
- MIG cover applies to all lending with LTV's > 80% (back to 75% LTV); and
- the credit quality of business written under the revised Policy is closely monitored and reviewed in 6 months time for any undue risk concentrations in High LTV, High Multiple borrowers.

We support the increases in LTV's as proposed and the reduction in the interest rate stress test to 2%.

Background

The changes are recommended by TMB to make our product offering for the mortgage market, particularly FTB's more competitive. Since March 2001, FTB's as a % of new business has fallen from **37%** to **29%**[1]. While this reduction has been off-set to a certain extent by significant growth in Residential Investor Loans (RILs up from **14%** to c.**26%** of new business), there is a concern that the trend in RIL's is unsustainable and that we are losing homeloan market share to our competitors.

Our chief competitors, Permanent TSB, First Active and EBS employ "after-tax income" approaches for mortgage lending which permit borrowings of amounts up to levels on which repayments are max. **35%/40%** of borrowers' after tax incomes (see Appendix 1 – overview of competitor offerings).

The proposed changes to Policy are designed to approximate this result. However, TMB is retaining the Income Multiple approach (combined with the repayment capacity test[2]) in

---

[1] FTB as a % of new business for BBR has fallen from 37% (Mar 01) to 29% of new business. ICS comparatives are 37% and 25% respectively.

[2] Repayment capacity test assesses borrower's ability to service loan at stressed interest rate (SVR plus stress factor (currently 3% - proposed to reduce to 2%)) from after tax income, after deduction(s) for

preference to moving to an after-tax income approach on the basis that it affords TMB more flexibility/ control in the underwriting process[3].

To a certain extent, the proposed changes may be viewed as effectively regularising existing lending practice insofar as exceptions (currently running at c. **20%**) chiefly relate to Income Multiples exceptions. (TMB note that the QP of exceptions is 99.5%.)

Overview of principal changes

Income Multiples

	Current Multiple	Proposed Multiple
Single/ Sole	3x 3.75x professionals	3.25x income < €30k 4x income >=€30k < €60k 4.5x income > = €60k
Joint (2 incomes)	3x + 1.25x second income 2.5x combined incomes	3x combined < €50k 3.75x combined > = €50k
Joint (1 income)	3x	3.25x income >= €50k < €60k 3.5x income >= €60k
Staff (non pref. Rate)	4x (+ 1.25x 2nd income, if applicable)	4.75x income (sole) 4x combined

- The above increases are proposed/ justified by TMB on the basis of :
  - Competitive Pressures.
  - Macro economic factors : - low interest rate environment and the relatively benign outlook for the residential property market which appears to have reached a broad equilibrium between demand and supply.
  - Socio economic trends – joint borrowers now account for 65% of mortgage business and given the changes in social structure, the trend indicates that it is acceptable to rely on the second income as much as the first and underpins the proposed increase in the combined multiples.
  - TMB belief that the combination of proposed min. income criteria, increases in Net Disposable Income (NDI) thresholds and the continuation of the repayment capacity test at stressed interest rates (see below) should ensure adequate borrower repayment capacity.
  - Quality of existing ROI mortgage book – 99.35% QP (BBR) and 98.43% QP (ICS).
  - Good experience of Higher Income Multiple lending (3.75x) to Professionals - €222m book with QP of 99.5% supports roll-out of higher multiples on a wider basis.

LTV's

Existing	**Proposed**
90% up to €325k	92% up to €400k
80% €325k - €450k	80% €400k - €550k
65% €450k +	70% €550k +

Changes recommended by TMB on basis of :

---

other financial commitments and subject to minimum Net Disposable Income (NDI) thresholds which vary in accordance with the borrower's circumstances - single, married, dependent children, etc.

[3] The Income Multiple / repayment capacity approach is favoured by TMB over the after-tax income approach as the repayment capacity test affords Underwriters a certain amount of flexibility because TMB doesn't publish NDI thresholds, etc.

- Competitor pressures;
- Good experience on limited tranche of 92% LTV lending – initially in '98 in ICS channel and in '01 in BBR. Current book aggregates €143m – QP 98.2%. Majority of book is ICS at €118m – 37% more than 2 years old.
- Overall LTV profile of book and new business is very acceptable with 72% < 75% LTV (BBR) and 62% < 75% LTV (ICS). New business < 75% LTV is 56% and 50% for BBR and ICS respectively. Average LTV for FTB is 72% for Dublin and and 69% for ROI.

GC supports the introduction of higher LTV's as proposed on the basis that MIG cover (via captive) continues to be in place for all lending > 80% LTV, back to 75% LTV.

Stress Testing

TMB proposes to reduce the rate of stress testing to **2%** (from 3%) over Standard Variable Rate[4] for purposes of repayment capacity test. 2% is in line with CB guidelines, although a number of competitors use lower or no stress testing.

GC supports reduction in stress test rate to 2%, subject to the level of the stress test being kept under review in light of the outlook for interest rates and Central Bank guidelines.

<u>GC View</u>

- While we support the principle of placing greater reliance on the second income in joint applications, the quantum effect of the proposed increases in Income Multiples is difficult to justify on credit grounds alone. For example, increasing the *combined* multiple for joint borrowers[5] with combined incomes > €50k (essentially 2 earners on approximately the average industrial wage) from **2.5x** to **3.75x** represents a **50%** increase in the loan amount and will result in mortgage payments amounting to some **35%** of combined after tax income (compared to c.**22%** under current Multiples).

- While a partial *quid pro quo* is the associated increases in the NDI thresholds (increases range from 10% to over 50%), the increases are being applied to relatively low bases and the absolute levels of minimum NDI remain quite low, e.g. as low as €250 per week for sole borrowers[6] to cover all outgoings other than mortgage payments and other financial commitments. However, TMB regards the proposed NDI thresholds as the absolute minimum and will generally look for higher NDI levels in new business applications[7]. Further, the average income profile of the FTB segment of the Bank's mortgage book is relatively high – e.g. for the FTB 92% product, the average incomes are €43k for sole borrowers and €68k for joint borrowers, indicating that we are attracting higher earning FTB's.

- While the increase in income multiples may be justified by the current low interest rate environment and the expectation that rates will remain low for the medium term due to our membership of the euro, there is no requirement for borrowers to fix interest rates. Indeed, our current pricing policy which offers a significant discount on the variable rate

---

[4] If borrower fixes for 5 years or longer, then the fixed rate is used for purposes of repayment capacity test.
[5] Account for c. 65% of all borrowers.
[6] Examples of revised NDI thresholds are €900 pm for sole borrower earning less than €30k; €1000 if earnings > €30k < €45k. For joint borrowers (2 incomes) revised NDI threshold is €1800 pm if combined earnings < €50k and €2000 pm if combined earnings > €50k < €65k.
[7] TMB will apply a 1.15x loading to NDI for FTB's availing of 92% LTV

for new business arguably encourages borrowers to opt for variable rate lending. This is evidenced by the relatively low level of fixed new business in BBR – just 37%. GC would prefer if the higher income multiples were tied in with a fixed rate product offering to protect borrowers against potential increases in interest rates.

- Notwithstanding that the rate of house price inflation has moderated and the consensus view is that the market is in broad equilibrium, house prices remain very high relative to earnings – c. 7.7x[8]. Affordability[9] shows a less worrying picture than a comparison of house prices to income and is underpinned by low mortgage rates. However, as a result of rising mortgage levels, the trend in the affordability measure is showing some signs of pressure – 31.7% estimated for '01 compared to an average of c. 25% in the previous 6 years. This leaves borrowers potentially exposed to the effects of higher interest rates, lower income, etc. While an off-setting factor may be the relatively low level of household debt in Ireland (c. 75% of household income) compared to other European countries (e.g. UK : 117%), this reflects the average position and GC is concerned about potential affordability problems for FTB's, particularly in the context of the risks of higher interest rates, higher taxes (direct or indirect) and an uncertain economic outlook.

- On this basis, we are concerned that the proposal to significantly relax Income Multiples may result in an unacceptable level of exposure to High LTV, High Income Multiple FTB's and it will be important that TMB monitors the quality of new business written under the revised Policy. We recommend that the credit quality of new business is reviewed in 6 months time but as an analysis of arrears development over such a short period of time will not be particularly meaningful, we recommend that the review should focus on :

  - the level of incidence of High LTV, High Multiple borrowers;
  - the potential exposure of high multiple borrowers to interest rate shocks as evidenced by the mix of variable vs. fixed rate lending;
  - the general outlook for interest rates and the economy.

  In the light of emerging trends, we will keep the appropriate NDSP weightings under review.

Group Credit

[8] As measured by average house price to average male industrial wage – source BOI Quarterly Irish Property Review.
[9] As measured by the cost of a new mortgage to manufacturing earnings – source BOI Quarterly Irish Property Review.

Overview of Competitors Offerings   Appendix 1

Permanent TSB	**35% After Tax income** **40% + After tax income of higher earners** **No stress testing** **No LTV restrictions**
First Active	**40% After tax income for single borrowers** **35% after tax income for joint borrowers** **Also, 3.7x combined whichever is lower** **Stress test at 1%** **LTV restrictions** **92% up to €300k** **90% from €300k – 450k** **85% from €450k – 550k** **80% from €550k – 650k**
EBS	**40% after tax income** **45% for certain income groups** **No stress test**

Source : TMB

Note : All of above allow Room Rental allowance (€7.6k) in calculation of income.

GROUP RISK POLICY COMMITTEE MINUTES
25th July 2003

PRESENT: **M.D. Soden (Item 1), J.B. Clifford (Chair), B.J. Goggin (Telephone), D. Donovan, R. Keenan (Videolink) M. Murphy B. Lillis, D. Whelan D. Hannigan (Item 1), P. Carey (Items 1 & 12), R. Murphy, T. Hayes, D. Walsh (Items 2, 3 & 6), M. Maher (Item 6) F. Murphy (Item 5)**

Minute Extract

ITEMS FOR NOTIFICATION/ INFORMATION/ RATIFICATION

9. Credit Policy Matters Approved Within GC Discretion

The Committee noted the following policy matters approved within GC discretion:

- PLUK Proof of income: A proposal from PLUK to drop the mandatory requirement for proof of income for lower scoring Band 'C' applicants where LTV <75%.

Redacted for Relevance Redacted for Relevance

- 100% FTB Professionals mortgage in NI: BIM proposal to reinstate 100% LTV mortgages for specified professionals. STG£5m per annum approved.
- 100% FTB Professionals mortgage in ROI: 'In principle' approval given by GRPC at May 27, 2003 meeting for €100m tranche. GC/TMB agreement on specific product criteria.
- RIL's Early Warning Scorecard: GC/TMB agreement on addition of new triggers, primarily drawn from Retail Business Credit Risk Early Warning Scorecard, to assess consumer confidence and economic competitiveness.

BOI01B01
BOI02985-001

GRPC Agenda No. 4(a)

AGENDA ITEM NO X.X

PAPER FOR COURT
November 11, 2003

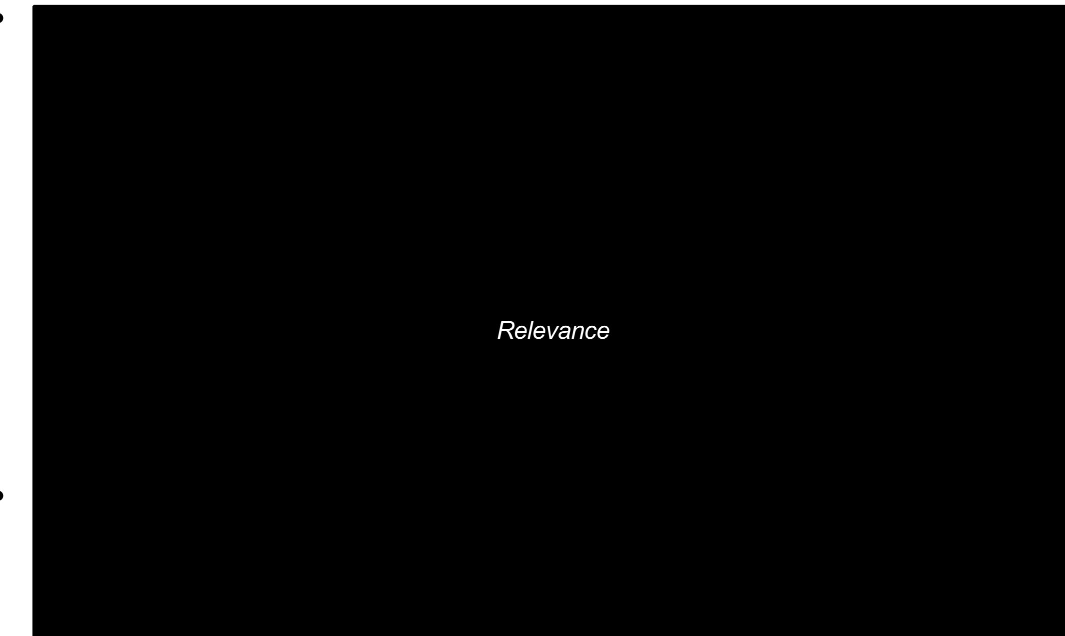
QUARTERLY RISK OVERVIEW – OCTOBER 2003.

1. KEY CREDIT RISK TRENDS & ISSUES:

- The overall quality of the loan book has improved marginally over the last quarter and stands at a satisfactory 97.6%.
- However, while the overall profile remains satisfactory there has been some deterioration in Wholesale Financial Services (WFS) Division, where the quality profile has reduced from 97.8% at March to 97.2%, still a satisfactory position.
- The reasons for the deterioration relate to a number of accounts, particularly in the Electric Power, Project Finance and Aircraft Securitisation portfolios. These will be referred to in more detail in the "Hot Spots" section below.
- A specific provision of €12.5m has also been created in respect of Relevance (Corporate Banking) to reflect the vulnerability of our exposure of €29.3m to that connection. While a provision has been created it has been made clear to the shareholders that the Bank will not accept a loss in this case.
- The bad debt charge for the half-year will come in at c.15bps annualised (18bps to March 2003). The 15bps is after a drawing of €20.6m (6bps annualised) from the NDSP pool which was triggered mainly by the need for increased provisions on accounts in WFS, previously referred to.
- The NDSP at September 2003 will have reduced to €113m from a peak of €178m as at September 2002. The likelihood is that it will continue to be utilised as the problems in particular sectors continue to manifest themselves.
- In Banking ROI and in UKFS, credit quality, bad debts, arrears, etc, are generally satisfactory, supported to a considerable extent by continuing low interest rates and a benign economic climate in both jurisdictions.

Hot Spots
No new Hot Spots have emerged but there are continuing difficulties in:

-
-



2. ASSET QUALITY SUMMARY (GROUP CREDIT REVIEW)

Book increased by €2,727m to €64,117m. Quality remains satisfactory at 98%.

Retail ROI

- Growth of €1bn to €21.5bn is mainly attributable to Commercial (+€216m) and to Residential Mortgages (+€784m). Quality remains satisfactory at 96%.

- As highlighted in previous papers, a shortage of front-line credit skills is evident at Branch/BRM level and the number of Commercial Branches rated unsatisfactory has increased to 9. Additional support/assistance will be required in these locations to ensure a return to satisfactory standards and regional management must ensure this happens. Relationship Managers continue to be under pressure due to portfolio-size, quality of support and inadequate credit skills. Overdraft excess levels remain unacceptable. A detailed inventory of the training needs of all Relationship Managers has been completed and coaching/training plans are being put in place where required. A review of portfolios for size and complexity is currently underway in all regions. CLB and the two Network Directors need to address the issue of compliance by Branches with terms and conditions of sanction by CLB.

- Given the current pace of the implementation of the new credit process/technology and the credit skills shortage, it seems clear that the underwriting and coaching/support structure needs to be continued for a further period. This issue needs to be urgently addressed as a number of these underwriters/coaches are due to leave the bank by December.

- Direct visible ownership by Network Directors for the resolution of these issues and for re-establishment of credit competence as a valued currency needs to be ensured.

- Credit Management and Loan Quality are satisfactory at all non-Branch Retail Units, with the exception of BICF where quality remains C rated.

Financial Services U.K.

- Book grew by £980m to £20.4bn. Quality remains satisfactory at 99%.

- Loan Quality and Credit Management are satisfactory in all Units, with the exception of Midlands and P.I.F.S. (Personal Injury Funding Solutions) are C rated. There is some evidence to suggest that the very high standards set at UK are slipping.

Wholesale

- Book grew by €265m to €13.2bn. Quality has fallen by 2%, but remains satisfactory at 97%.

- Quality and Credit Management are good at all Units. Credit management standards at Private Banking have returned to a satisfactory B rating - rated C at last review.

BJG

GROUP RISK POLICY COMMITTEE MINUTES
2nd September 2002

PRESENT: **B.J. Goggin (Chair) J. Collins, D. Crowley (Items 3-10)**
J.O'Donovan, J. R. Warren, M. Murphy, J.B. Clifford

B. Lillis
Ian Kennedy (Items 1-3), Lynda Carragher (Items 1-3)
V. Mulvey, D. Flannery

Minute Extract

FOR APPROVAL

3. Retail Businesses – The Mortgage Business (TMB) – Proposed Revision of Homeloan Credit Policy

TMB presented a paper recommending a number of proposed changes to ROI Homeloan Policy, chiefly relating to increases in Income Multiples - up to 4.5x for single incomes > €60k, up to 3.75x joint incomes > €50k, extension of the 92% LTV product to First Time Buyers and a reduction in the stress test rate to 2% (from 3%) above standard variable rate.

It was explained that all BOI's major competitors have relaxed their lending criteria by moving to a per cent of after-tax income approach, resulting in relatively high effective income multiples. While BOI's market share at c. 26% is in line with Permanent TSB, the strategic plan calls for us to be the undisputed leader. BOI's market share in the important FTB segment has dropped from 37% to 29% and the trading-up share is down by 5-6 percentage points. These negative trends have been offset by RIL growth which may not be sustainable. Credit policy exceptions deemed acceptable by underwriters, at running at c. 20% (mostly relating to income multiples).

The following points arose in discussion:

- BJG questioned the stress case reduction. TMB explained that it will have only a modest impact per month and reverts to the position pertaining prior to last September.
- BJG remarked on the very dramatic increases being proposed in income multiples and inquired as to the likely reaction of the Regulator. TMB explained that it is not intended to reveal the multiple provided that this will not be a difficulty under the CCA. Nevertheless the new income multiples are likely to become public through "mystery shopping". The Central Bank has been made aware that BOI is planning to relax income multiples and further such communication is planned when GRPC has approved the changes.
- It was also questioned whether it would be better to simply move to a percent of after-tax income approach. TMB explained that this would be too blunt an approach. It was felt that it was preferable to retain the net disposable income (NDI) approach with stress testing - leaving us in a position to compete more effectively but with a more robust underwriting process than competitors.
- In GC's view, the income multiple change was difficult to justify from a credit risk perspective alone, but is seen as necessary to protect BOI domestic franchise/ market share. It would be undesirable if a lot of new business was to be written at the full new multiples but it was accepted that TMB intends to continue to be conservative at individual underwriting level and that there is no intention to compete aggressively on the new terms in the mass market. While giving credit

for a full second income was to be welcomed, the proposed NDI "living allowances" were seen as relatively tight.

- JBC expressed the view that market leadership requires us to give careful consideration to how we lead but took comfort from the approach outlined by TMB. JC pointed out that BOI has been more cautious than the market in terms of loan criteria and the proposed changes are merely allowing us to retain customers. While we will continue to do the right thing, we cannot be guardians of the market. TMB pointed out that even after the proposed changes, BOI will still be more conservative than competitors.

The changes were approved by the Committee on the basis that a selective approach will be taken at individual underwriting level. Also that the credit quality of all business written under the revised policy is closely monitored and reviewed in six months' time for any undue risk concentrations.

THEME: B2

Effectiveness of banks’ credit strategies and risk management

LINE OF INQUIRY: B2b

Appropriateness of credit policies, delegated authorities and exception management

DISCUSSION DRAFT

Bank of Ireland

To:	**Group Risk Policy Committee**
From:	**Group Credit**
Date:	**22 November 2004**
Subject:	**TMB – Review of Residential Investment Lending (RIL) Portfolio**

Purpose

This paper provides an analysis of the TMB RIL portfolio as requested at April GRPC, reviews developments in the ROI residential investment market and recommends further tightening of the policy criteria for 'amateur' investors[1].

Background

When GRPC last discussed RILS in April, the key concerns related to:

1. The significant increase in rental property supply.
2. Falling rental yields primarily due to increased capital values.
3. The fact that RILS are not self-financing except at low LTVs; and
4. That the book is relatively unseasoned.

At that time, GRPC approved a number of portfolio and policy changes, tightening criteria for newer entrants to the RIL market but affording additional flexibility to more seasoned, multi-property borrowers and higher value business customers. While portfolio changes were implemented, due to the pressure in the network caused by the set-up of the Bank of Ireland Mortgage Bank[2] and the need to resolve the implications for RIL customers and security held, the changes to underwriting policy were deferred.

The policy changes have now been implemented and, following an analysis of portfolio and market trends, TMB is recommending further tightening of the criteria for amateur investors.

Portfolio Review Highlights

- *Book* – from a low base, the RIL book has more than doubled over the last year and a half to c. €3bn at September 2004 with the result that 50% of the RIL book is less than 12 months old. As a result, the book is relatively unseasoned and untested through a full business cycle, however comfort can be taken from the fact that 70% of our RIL customer base are existing good customers of Bank of Ireland. The Committee has previously discussed the drivers of this growth[3], in both the ROI RILs market and BOI's own RIL portfolio, in detail and the analysis is not repeated here.
- *New Business* – data from the Irish Mortgage Council shows growth in TMB RIL completions of 20% in the first six months of the year compared to market growth of 30%.
- *Payment type* – There has been significant growth in the percentage of interest only business since this product was launched but repayment mortgages remain the dominant product with 60% of amateurs continuing to opt for repayment mortgages. Increasing take-up of interest only is being driven by the downward trend in rental yields, which mean that new RILS are not self-financing on an amortising basis. TMB adopts a cautious approach to assessing interest only applications, treating the loan as amortising and stressing repayment capacity on this basis. The primary target market for the interest only product is the professional investor.

---

[1] Professional – mid-corporate and commercial portfolio managed customers or investors with 3 or more properties. Amateur – all other RIL investors.

[2] The position with regard to the cross impact of BOIMB and existing RIL customers has been clarified, the main issues being the transfer of Gov and Co customer security to BOIMB over and above the actual security required for the RIL. A project team is being assembled to address the retransfer of relevant security without causing major disruption in the network or to customers.

[3] Budgetary changes – reintroduction of mortgage interest relief for investors in the December 2001 budget and the perceived attraction of 'bricks and mortar' over equity and other similar investment products.

- *Property Type and Location* – 63% of the book is concentrated in Dublin and commuter counties. Previous GC concerns have focused on the potential for the development of rental 'hotspots' e.g. Dublin city centre apartments, primarily due to the huge level of supply that is due to come onto the market in the short-medium term, and poorly located properties – e.g. in outer suburban areas or in areas where there is not a significant tenant base. TMB analysis shows that the book is not overly exposed to properties in Dublin city centre (current exposure 8% of ytd completions, €18m) where the biggest increases in stock are likely to arise.
- *Customer Type* – TMB analysis of new business ytd shows that in general terms, our exposure to amateurs tends to be in the ABC1 category and the majority (81%) have salaries greater than €50k. Comfort can also be taken from the strength of repayment capacity (over half of our customers have > 1.5 times cover) and LTV spread (42% of loans < 75% LTV). Our exposure to professionals is similarly in the ABC1 category. Professionals also tend to borrow significantly lower LTV's with 70% of all professionals borrowing less than 75% LTV. The average LTV for new RIL business (62%) remains lower than for Homeloans.
- *Exceptions* – As a result of deferring the implementation of previous policy changes the level of exceptions has remained at c. 14%. However, TMB expects this to decrease to 10% of applications as the more flexible criteria for professional investors are implemented. While this may appear high, it does contain a number of more technical exceptions, which TMB and GC will work together to quantify and identify separately in the future. We can take comfort from the performance of cases approved as exceptions to date, which has been very good.
- *Margins* – the fact that the Group does not offer discount rates to RIL borrowers gives a higher average margin (90bps) on new business.
- *Arrears* – The RIL portfolio has continued to perform strongly with no evidence of significant arrears emerging or of any other quality issues in the Group's portfolio despite difficult market conditions for investors over the past 2-3 years due to factors such as falling rental yields and voids.

Market Outlook

The wider market outlook is discussed in detail in the Annual Review of Mortgage Lending. On the whole, most commentators do not foresee a significant price correction in the short-medium term, primarily due to the favourable employment outlook and expectations for interest rates to remain relatively low. In addition, recent data suggests that rents have stopped falling.

Marginal loans

TMB has analysed first time / amateur RIL business with high LTV and tight repayment capacity levels, having identified this as the most marginal sector of the RIL portfolio. This segment represents 1.5% of new business for the last 12 months.

The level of exposure to amateur business has been falling steadily, down from 50% in 02/03 to 25% ytd, in the context of previous credit policy changes and TMB's focus on professional investors. As a result the percentage of marginal loans in the book identified by TMB is low.

Policy Proposals

Having identified the most marginal segment of the RIL portfolio, TMB has proposed the following amendments to credit policy for amateur investors to further reduce our exposure in this area:

- Reduce LTV for repayment loans from 85% to 80%
- Reduce LTV for interest only loans from 75% to 70%
- Reduce maximum interest only term from 10 years to 3 years

Competitors' standard interest only term is 3 – 5 years and BOI has been leading the market with its 10-year interest only product. TMB has proposed the term reduction in addition to lower LTV's to support its strategy of moving away from the more marginal amateur segment. It is estimated that the net effect of these changes will be to reduce the amateur component of RIL business by a further €100m on a full year basis. This will reduce our exposure to amateur business from c. €350m (25% of RIL completions) to c. €250m (18% of RIL completions). No policy changes are proposed to the professional product.

There has been a significant decrease in Dublin rental values since the market peaked in 2003 (outputs from BOI's Economic Research Unit (ERU) model put current yields at only 2.8%) and the implications for investor appetite mean that some combination of higher rents / lower prices may emerge over time. While it appears that rental levels have stabilised since the beginning of this year, it is difficult to see what could drive significant increases over the next 12 – 18 months, particularly if the rate of house completions remains strong as forecast.

However, the fact that many RIL properties are not self-financing and many borrowers are currently supporting their RIL debt in some form (e.g. other income, salary etc) supports the view that the typical RIL borrower is motivated primarily by medium-term capital gains i.e. most RIL borrowers see their property as akin to a savings / investment vehicle and are therefore more interested in medium / long term capital appreciation than cash flow generation. As such the likelihood of default due to short-term market developments is arguably lower.

As identified by TMB, it is the more recent marginal amateur RIL investors and investors with high LTV's / limited repayment capacity who are most exposed to increases in interest rates or longer rental voids, that are most at risk. However, the extent to which BOI's portfolio is at risk is reduced by the fact that the maximum LTV[4] provides a good cushion for recovery of the debt even in the event of a forced sale. In addition, the ability to repossess a rented property is significantly better than repossession of an owner-occupied property. Also as mentioned above, the marginal loans identified by TMB only account for 1.5% of new business in the last 12 months[5].

GC view

Both portfolio and market focused triggers have been agreed with TMB to prompt reviews of the appropriateness of policy criteria, risk appetite limits and provisions in the light of any stresses emerging. The proposed changes are estimated by TMB to reduce the volume of RILs by €100m or c.7% of completions in a full year. Further tightening beyond that against a generally satisfactory existing book profile could damage the BOI franchise. The option to go further is available and could include any or all of the following:

- Raising the threshold for the definition of 'professional' – currently defined as investors with 3 or more properties.
- Further reducing the maximum LTV for amateurs and/or professionals.
- Tightening repayment cover parameters for professional investors.

Although the RIL book is relatively unseasoned, as a result of the strong growth in recent years, TMB analysis shows that the credit quality remains satisfactory with a limited number of marginal loans identified. In this context, GC is satisfied that the approach proposed by TMB is reasonable in the current environment and the proposed policy changes tightening the criteria for amateurs are recommended to the Committee for approval. GC and TMB will continue to monitor the triggers quarterly and will review the appropriateness of the triggers periodically to ensure that they continue to provide a forward-looking and proactive tool for highlighting developments in the market and/or the TMB mortgage book.

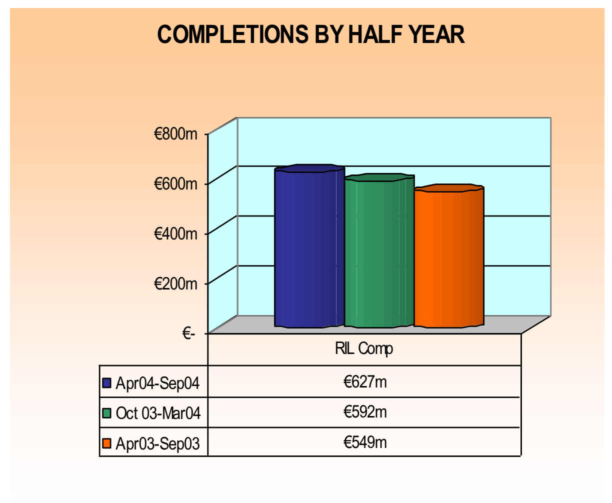
____

Group Credit
Carol O'Gorman

[4] Amortising loans 85% (proposed reduction to 80% for amateurs); interest only loans – professional 80%/ amateur 75% (70% proposed).

[5] It is assumed that loans > 12 months old, with the benefit of capital growth in the interim, are seasoned.

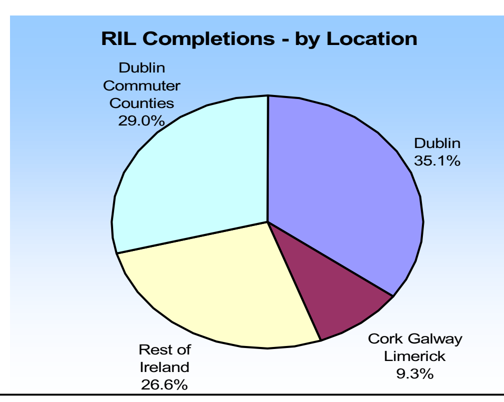
APPENDIX 1 TMB ANALYSIS OF RIL PORTFOLIO - HIGHLIGHTS

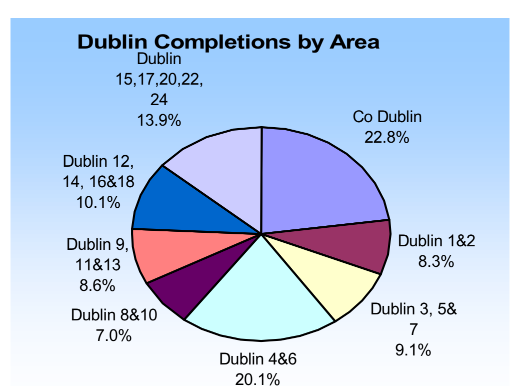


	Completions 2003/04	Completions H1 2004/05
Professional	55%	75%
Amateur	45%	25%

The level of amateur business has been falling steadily from 50% in 02/03 to 25% year to date. This trend is a direct result of credit policy changes we have implemented which has facilitated our exit from elements of the amateur market without damaging our franchise overall.

Property Location





63% of our total RIL book is concentrated in Dublin and surrounding counties. In terms of potentially vulnerable sectors within Dublin, 8% of completions are in Dublin 1 and 2 (€18m). This represents 3% of overall residential mortgage completions.

Property Type

	Book Sept 04	Comp Sept 04
Apartment	25%	29%
Bungalow	6%	9%
House terraced	16%	19%
House Semi-detached	23%	27%
House Detached	12%	16%
Info not available	18%	0%

Apartments and semi-detached properties comprise the largest portion of completions at 29% and 27% respectively. In general, the property type concentration is well spread.

Marginal RIL Sectors

Segment of Book	*Value €*	Comment
First Time RIL High LTV (>80%) Interest Only <Minimum RIL cover	4.2m	1.2% of total First Time RILS completed in last 12 months
Subsequent RIL High LTV (>80%) Interest Only <Minimum RIL cover	4.2m	2.3% of total subsequent RIL purchases completed in last 12 months
RIL Switcher High LTV (>80%) Interest Only <Minimum RIL Cover	2.2m	2.1% of total RIL switchers completed in last 12 months
Total	13.2	1.5% of total BOIM underwritten RIL completions in last 12 months

Comment

Marginal sectors are deemed to be First Time Amateur with high LTV and minimal repayment capacity levels. A combination of factors of interest rate rises and increase in unemployment would be required to render this segment more potentially vulnerable. This is unlikely to occur in the short to medium term. In all, the volume in this sector represents 1.5% of total RIL completion(s) in the last 12 months.

Purpose:

This paper represents the Bank of Ireland's ("the Group") response to the request for documents under Categories 16, 17 and 18 of the Direction submitted to the Bank of Ireland on 15 January 2015 by the Joint Committee of Inquiry into the Banking Crisis ("the Joint Committee"). The first part of the paper responds to Categories 16 & 17 and the second part addresses Category 18.

Part 1 – Categories 16 & 17

Category 16: *Board approved exceptions to credit policy for commercial real estate and residential real estate loans - number and aggregate amount for the period 2001 to 2008. If necessary, and if not otherwise identified in existing documents, please create a document containing this information.*

Category 17: *Board approved exceptions to credit policy in respect of commercial real estate and residential real estate loans rejected by the board - number and aggregate amount for the period 2001 to 2008. If necessary, and if not otherwise identified in existing documents, please create a document containing this information.*

The Court (board) of the Bank of Ireland did not have a role in the approval or rejection of applications in the period 2001 - 2008 unless such loans were an exception with regard to large exposure guidelines. In the period, there were no Court approved or declined exceptions to credit policy for commercial real estate and/or residential real estate loans which exceeded large exposure guidelines.

The remainder of this section outlines an overview of the policies and procedures applicable during the period 2001 - 2008 for:

- Credit Authority in the Bank of Ireland Group
- Approval of Policy Exceptions
- Authority to approve Policy Exceptions
- Reporting of Policy Exceptions

The policies and procedures set out in this memo related to all loans approved in the Group, including those that were ultimately acquired by the National Asset Management Agency.

Credit Authority in the Bank of Ireland Group:

The Group Credit Policy 1994 as approved by the Court in January 1994 which was refreshed annually from 2006 onwards stated that Credit authority had been delegated by the Court

of Directors to a Group level credit committee, i.e. the Group Credit Committee ("GCC") and to named members thereto and was also sub-delegated to other individuals.

Personal lending discretions over €20m were subject to Court approval and were reserved for senior Group executives. These discretions were approved on a tiered basis depending on the credit grade of the borrower and were only exercisable on the positive recommendation of an independent credit unit. The maximum cash lending discretion (exercisable on the positive recommendation of an independent credit unit) was €65m in the period and this was reserved for the highest quality (Grade 1) loans. Property loans, in general, would have been subject to a lower discretion (typically max €20m to €40m, depending on the seniority of the discretion holder).

Papers detailing the Court approval of these discretions have been returned under Category 2.

Exposures in excess of individual senior executive lending discretions were subject to approval of the GCC. The GCC was the most senior credit transaction approval authority in the Group. It had authority to approve any credit transaction subject to the aggregate exposure (net of any cash collateral) not exceeding 15% of the Group's Tier One Capital. It is to be noted that the Group adopted a conservative approach to the aggregation of exposures such that where individuals had exposures to joint ventures via 50% or greater shareholdings, the Group's full exposure to that joint venture was included in calculating the Group's exposure to an individual. This practice was also applied where two Group customers had a 50:50 joint venture, i.e. the joint venture debt would have been included in full in each of the calculations of the exposure for each individual.

The GCC comprised senior executive management of the Group, deemed to have relevant experience, with a minimum of three members required for a valid quorum. Listings of the membership of the Committee for the period 2001 to 2008 are attached at Appendix 1.

Approval of Policy Exceptions:

The Group Credit Policy stated that

> "Allowance has been made for exceptions to Credit Policy. Any such exceptions must be reasonably justified and their extent monitored and controlled. Exceptions can only be approved in accordance with the procedures set out [in this policy]"

That policy document stated that the Group Credit Policy, together with the Credit Policy Statements of individual Business Units, was expected to accommodate the great majority of lending opportunities available to the Group. However, it was acknowledged there may have been occasions where there were exceptions to one or more of the policy criteria but appropriate mitigants supported approval of the transaction. The individual policies reflecting relevant business/product criteria were more granular in nature than the Group

Credit Policy. For commercial property investment lending, for example, the policy parameters included, inter alia, criteria relating to advance rate (Loan to Value), interest cover, residual risk, maximum term, and maximum interest only period. An exception to any one of these guideline criteria required consideration of mitigants to support approval. It is important to note that, irrespective of the mitigant (e.g. LTV at 77% vs 75% policy max for a high quality building with an investment grade tenant on a long lease), the transaction was recorded as a policy exception. In other words, no qualitative consideration influenced whether or not the overall transaction was recorded as a policy exception case or not. Such a transaction, as described above, would consequently contribute to an overall gross policy exception level that had no netting out of transactions with mitigants.

The Credit Functions of the Business Units were required to maintain adequate procedures and controls to monitor the level and quality of exceptions approved in respect of the relevant Business Unit and these were also monitored by the Group Credit Policy Unit.

Authority to approve policy exceptions:

In situations where a transaction was considered acceptable but where it represented an exception to Group, Business or Sectoral policy, it was a requirement to refer the credit proposal to, at least, the next higher level of credit authority for decision with the rationale for recommending the exception explained (a process known as "one up"). All individuals who held a lending discretion could approve such transactions on a "one up" basis. For example, if a proposed transaction had exposure of €1m and was considered by a credit underwriter with discretion of €2m, they could approve if compliant. If not compliant, the underwriter could recommend it to a more senior individual with a larger lending discretion (e.g. €5m) for approval on a "one up" basis.

Court approved lending discretion holders had discretion to approve cases with exceptions within their discretion but only on the positive recommendation of an independent Credit Unit. Certain approved independent credit personnel also had discretion to approve cases with exceptions. GCC, as the most senior transactional credit authority, also had discretion to approve cases with exceptions within its mandate.

Reporting of Policy Exceptions:

During the period 2001 to 2008, the Group Credit Policy Unit, prepared reports, based on credit underwriting unit returns, detailing the level of policy exceptions. These reports were submitted to Group Credit Committee in 2001 and from 2002 onwards to the Head of Credit Policy.

From 2004, exception data for ROI Mortgages was submitted to Group Risk Policy Committee for ROI mortgage lending on a monthly basis. These have been returned under Category 2 (f).

Quantification of exceptions:

To assist the Joint Committee, the Group carried out a review of listings of transactions considered by the GCC in the period to try to identify property loans in the relevant period that included cases with exceptions to credit policy. These listings were submitted to the Court (2001/02) and to the Group Risk Policy Committee thereafter and have been produced under Category 2 (f).

The review of the listings provided a basis for an estimation of the number and value of property related loans with policy exceptions approved in the period. There are a number of caveats attaching to this estimate:

- The listings show only net movements in exposures.
- Where multiple loans were approved as part of a single application for a connection and one loan had an exception, there is no way from the reports of distinguishing the number and value of the loans with and without policy exceptions attaching, i.e. an over estimation of exceptions may result.
- The report did not include a property/non-property indicator. While every effort has been made in the timeframe available to accurately identify connections that were property related, there is potential for over or under statement, particularly where connections had both property and non-property related loans.

The analysis indicates that in the period 2001 to 2008, the GCC approved 1,181 applications in respect of property related connections. The aggregate change in exposure approved in the period was €47.9bn. Of these applications, 70% by number and 64% by value had some level of exceptions to the granular policy guidelines when considered as previously outlined, i.e. calculated on a gross basis where there was an exception to any one individual lending guideline, however minor, and irrespective of mitigants and other considerations which supported the approval of the transaction.

As the GCC did not consider home mortgages, due to their size, Bank of Ireland has prepared analysis of the level and value of exceptions for Irish mortgages completions (which include mortgage loans booked in Governor & Company of the Bank of Ireland, Bank of Ireland Mortgages and the ICS Building Society) in the period 2001 to 2008. Data is available for owner occupied mortgages for the entire period. Data for Residential Investment Property/Buy to Let is available for the period 2004 to 2008. This analysis is based on a review of business unit data from the period and shows that:

Owner Occupier cases including policy exceptions (based on completions) ranged from 19% in 2002 to 5% in 2008 based on number of exceptions as a percentage of number of completions. The average exception rate over the period was 11% (See Table 1 below).

Table 1: Policy Exceptions for Owner Occupied Mortgages 2001 – 2008

Owner Occupied	2001	2002	2003	2004	2005	2006	2007	2008	Total
No. of Completions	17,608	19,386	23,366	25,777	27,925	27,106	19,913	14,676	175,757
No. of Exceptions	2,529	3,666	2,408	3,177	2,672	2,328	1,361	740	18,881
Exception rate by number	14%	19%	10%	12%	10%	9%	7%	5%	11%

Residential Investment Property/Buy to Let cases including policy exceptions (based on completions), for the period 2004 to 2008, ranged from 19% in 2004 to 13% in 2008 based on number of exceptions as a percentage of number of completions. The average exception rate in the period was 17% (see Table 2 below).

Table 2: Policy Exceptions for Buy to Let Mortgages 2004 – 2008

Buy to Let	2004	2005	2006	2007	2008	Total
No. of Completions	5,115	6,635	7,653	5,187	3,265	27,855
No. of Exceptions	970	1,243	1,273	842	411	4,739
Exception rate by number	19%	19%	17%	16%	13%	17%

Part 2 – Category 18

Category 18: *Any other exceptions to credit policy in respect of any loan that was subsequently acquired by National Asset Management Agency, whether the exception required board approval or not – number and aggregate amount for the period 2001 to 2008. If this information is not readily available, please create a document setting out how credit policy exceptions could be approved, who was authorised to approve them and any related reports to the board on the matter of credit policy exceptions for the period 2001 to 2008. For clarity, this request applies solely to any loans that were subsequently acquired by the National Asset Managemengt Agency.*

This information was not available but in an effort to assist the Joint Committee, the Group carried out a review to estimate the level of loans including policy exceptions in this category.

Bank of Ireland transferred 191 connections to NAMA with aggregate nominal value of €9,760m. Cases including policy exceptions have been identified in 139 out of 191

connections (73%) with aggregated exposure of €8,782m of total €9,760m (90%). As noted above, exception levels are calculated on a gross basis to include connections where there was an exception to any one individual lending guideline and irrespective of mitigants and other considerations which supported the approval of the transaction.

As information on these loans is only available at connection level, rather than at loan level, the estimation is most likely overstated. For example, if a connection had five loans with aggregate value of €100m and one of the loans (value of €20m) was approved as an exception, it is not possible to segregate that loan. As a result the total exposure of the connection (€100m) would be classified as an exception in the analysis as opposed to the actual €20m exception. Similarly if a policy exception was approved on a loan that was repaid before a connection transferred to NAMA, the analysis includes it.

The process for the approval and reporting of policy exceptions is outlined in Part 1 of this document and did not differ between loans that were and were not subsequently acquired by NAMA.

Appendix 1

Group Credit Committee Membership 2001 to 2008[1]

2001

M. Keane (Chairman)
B.J. Goggin (Chairman)
M. Murphy (Chairman)
P. M. D'Alton
D. Hanrahan
L. C. Madden

Alternate Member
J.G. Collins
J.B. Clifford

2002

B.J. Goggin (Chairman)
J.B. Clifford (Alternate Chairman)
M. Murphy (Alternate Chairman)
J.G. Collins (Alternate Chairman)
J. O'Donovan
D. Donovan
K. M. Holden
L. C. Madden
J.V. Mulvey
J.J. Ruane

Alternate Member
B.P. Lillis

2003

B.J. Goggin (Chairman)
M. Murphy (Chairman)
J.B. Clifford (Chairman)
J.G. Collins (Chairman)
J. O'Donovan
D. E. Crowley
D. Donovan
R. Keenan
M. King
J.V. Mulvey
J.J. Ruane
G. Stokes

[1] Membership lists reflects individuals who were members of the GCC during a stated year.

Alternate Members
T. Comerford
D. Flannery
B.P. Lillis
D. McGowan
P. Morris

2004
M. Murphy (Chairman)
J.B. Clifford (Chairman)
J.G. Collins (Chairman)
R. M. Murphy (Chairman)
B.J. Goggin (Chairman)
J. O'Donovan
D. E. Crowley
D. Donovan
R. Boucher
V. Fennelly
M.King
D. McGowan
P. Morris
J.V. Mulvey
J.J. Ruane
G. Stokes

Alternate Members
D. Flannery
T. Comerford
B.P. Lillis

2005
R. M. Murphy (Chairman)
J. V. Mulvey (Chairman)
J.B. Clifford (Chairman)
J. Collins (Chairman)
B.J. Goggin (Chairman)
J. O'Donovan
D. E. Crowley
D. Donovan
R. Boucher
M. Cunningham
J.E. Davidson
V. Fennelly
D. Flannery
S. Kirkpatrick
B.P. Lillis

H. McDaid
D. McGowan
P. Morris
D. Murray
G. Stokes
M.J. Woulfe

2006
R. M. Murphy (Chairman)
J. V. Mulvey (Chairman)
J.B. Clifford (Chairman)
B.J. Goggin (Chairman)
J. O'Donovan
D. E. Crowley
D. Donovan
R. Boucher
M. Cunningham
J.E. Davidson (Alternate Chairman)
V. Fennelly
D. Flannery
T. Hayes
S. Kirkpatrick
B.P. Lillis (Alternate Chairman)
H. McDaid (Alternate Chairman)
D. McGowan
P. Morris (Alternate Chairman)
D. Murray (Alternate Chairman)
G. Stokes
M.J. Woulfe

2007
R. M. Murphy (Chairman)
J. V. Mulvey (Chairman)
J.B. Clifford (Chairman)
B.J. Goggin (Chairman)
J. O'Donovan
D. E. Crowley
D. Donovan
R. Boucher
M. Cunningham
J.E. Davidson (Alternate Chairman)
V. Fennelly
D. Flannery
T. Hayes
S. Kirkpatrick
B.P. Lillis (Alternate Chairman)

H. McDaid (Alternate Chairman)
T. McGivney
D. McGowan
P. Morris (Alternate Chairman)
D. Murray (Alternate Chairman)
G. Stokes
M.J. Woulfe

2008
R. M. Murphy (Chairman)
J. V. Mulvey (Chairman)
J.B. Clifford Chairman)
B.J. Goggin (Chairman)
J. O'Donovan
D. E. Crowley
D. Donovan
R. Boucher
M. Cunningham
J.E. Davidson (Alternate Chairman)
V. Fennelly (Alternate Chairman)
D. Flannery
P. Gaynor
T. Hayes
S. Kirkpatrick
H. McDaid (Alternate Chairman)
D. McGowan
T. McGivney (Alternate Chairman)
P. Morris (Alternate Chairman)
D. Murray (Alternate Chairman)
G. Stokes
K. Strecker
G. Younger

Bank of Ireland

INTERNAL MEMORANDUM *Group Credit*

To:	**Group Risk Policy Committee**
From:	**Group Credit**
Date:	**August 28, 2002**
Subject:	**Policy Changes to ROI Mortgage Policy**

Purpose

To obtain approval for changes to ROI Homeloan Policy, chiefly relating to increases in Income Multiples, extension of the 92% LTV product to First Time Buyers (FTB's) and a reduction in the stress test rate to 2% (from 3%) above standard variable rate (see below).

GC Overview

The proposed changes involve a quantum leap in Income Multiples and are hard to justify from a credit risk perspective alone. However, GC recognises that the changes may be merited/ required in the interests of protecting our "franchise"/ market share and in this context, we are prepared to support on the basis that :

- TMB continues to be selective in its approach to the application of higher income multiples to new business and that this selectivity will be "formalised" upon the rollout of credit scoring for homeloan lending;
- MIG cover applies to all lending with LTV's > 80% (back to 75% LTV); and
- the credit quality of business written under the revised Policy is closely monitored and reviewed in 6 months time for any undue risk concentrations in High LTV, High Multiple borrowers.

We support the increases in LTV's as proposed and the reduction in the interest rate stress test to 2%.

Background

The changes are recommended by TMB to make our product offering for the mortgage market, particularly FTB's more competitive. Since March 2001, FTB's as a % of new business has fallen from **37%** to **29%**[1]. While this reduction has been off-set to a certain extent by significant growth in Residential Investor Loans (RILs up from **14%** to c.**26%** of new business), there is a concern that the trend in RIL's is unsustainable and that we are losing homeloan market share to our competitors.

Our chief competitors, Permanent TSB, First Active and EBS employ "after-tax income" approaches for mortgage lending which permit borrowings of amounts up to levels on which repayments are max. **35%/40%** of borrowers' after tax incomes (see Appendix 1 – overview of competitor offerings).

The proposed changes to Policy are designed to approximate this result. However, TMB is retaining the Income Multiple approach (combined with the repayment capacity test[2]) in

[1] FTB as a % of new business for BBR has fallen from 37% (Mar 01) to 29% of new business. ICS comparatives are 37% and 25% respectively.

[2] Repayment capacity test assesses borrower's ability to service loan at stressed interest rate (SVR plus stress factor (currently 3% - proposed to reduce to 2%)) from after tax income, after deduction(s) for

for new business arguably encourages borrowers to opt for variable rate lending. This is evidenced by the relatively low level of fixed new business in BBR – just 37%. GC would prefer if the higher income multiples were tied in with a fixed rate product offering to protect borrowers against potential increases in interest rates.

- Notwithstanding that the rate of house price inflation has moderated and the consensus view is that the market is in broad equilibrium, house prices remain very high relative to earnings – c. 7.7x[8]. Affordability[9] shows a less worrying picture than a comparison of house prices to income and is underpinned by low mortgage rates. However, as a result of rising mortgage levels, the trend in the affordability measure is showing some signs of pressure – 31.7% estimated for '01 compared to an average of c. 25% in the previous 6 years. This leaves borrowers potentially exposed to the effects of higher interest rates, lower income, etc. While an off-setting factor may be the relatively low level of household debt in Ireland (c. 75% of household income) compared to other European countries (e.g. UK : 117%), this reflects the average position and GC is concerned about potential affordability problems for FTB's, particularly in the context of the risks of higher interest rates, higher taxes (direct or indirect) and an uncertain economic outlook.

- On this basis, we are concerned that the proposal to significantly relax Income Multiples may result in an unacceptable level of exposure to High LTV, High Income Multiple FTB's and it will be important that TMB monitors the quality of new business written under the revised Policy. We recommend that the credit quality of new business is reviewed in 6 months time but as an analysis of arrears development over such a short period of time will not be particularly meaningful, we recommend that the review should focus on :

  - the level of incidence of High LTV, High Multiple borrowers;
  - the potential exposure of high multiple borrowers to interest rate shocks as evidenced by the mix of variable vs. fixed rate lending;
  - the general outlook for interest rates and the economy.

  In the light of emerging trends, we will keep the appropriate NDSP weightings under review.

Group Credit

[8] As measured by average house price to average male industrial wage – source BOI Quarterly Irish Property Review.
[9] As measured by the cost of a new mortgage to manufacturing earnings – source BOI Quarterly Irish Property Review.

THEME: B2

Effectiveness of banks' credit strategies and risk management

LINE OF INQUIRY: B2c

Analysis of risk concentration in the base, the adverse economic scenarios and the impact on capital structure

Bank of Ireland

To: Group Risk Policy Committee
From: Group Credit Policy and Strategy
Date: 26th June 2008
Subject: Group Credit Concentrations Policy

GRPC is asked to approve the attached Group Credit Concentrations Policy, as recommended by the Policy Review Committee (PRC).

The Group Risk Office has developed this policy statement, which documents the Groups approach to managing concentration risk, as already referenced in Group Credit Policy and the Terms of Reference for both PRC and GCC.

The BoI Group Approach is twofold;

- Portfolio/Group Level; focus is on senior management oversight of the Group's loan book across a number of dimensions – Sector, Single Name and Geography.

- Business Unit Level; through the imposition of limits on Single Name Exposures (10% of TOC[1]), Specific Portfolios (e.g. maritime), Product (e.g. interest only mortgages) and Geography (Maximum exposure and tenor limits for specific country risk).

At portfolio/Group level, there are clear concentrations as a result of our geographic focus (Ireland and the UK) and strategic approach (selected asset classes). The policy approach is not to impose hard limits on concentration at Group level but to monitor the level of risk and ensure management is comfortable with that level. This is done through regular reporting to PRC on the composition and trends. Specific ad hoc reports on property and single name concentrations in the book may be prepared for consideration, at the behest of senior management. This approach is in line with our understanding of how concentration risk is managed in peer banks.

The attached Policy Paper sets out in detail, the risk management approach within the Group, and the reporting/oversight framework in operation.

Having reviewed same, GC hereby recommends approval of the Concentrations Policy by GRPC (Appendix 1).

____
Sean Neville/Katrina Strecker
Group Credit Policy & Strategy

[1] Tier One Capital

Bank of Ireland

Group Credit Concentrations Policy

Document Name	Group Credit Concentration Policy
Version Number	0.2
Issue Date	June 2008
Document Owner - Name and Role	Alex Wolff, Head of Group Risk Office
Document Location	K:\Group Risk - OCRO\01. Group Risk Management\Credit Concentration Policy
Group Function	**Group Risk Office**
This document is for recommendation by the Portfolio Review Committee and approval by the Group Risk Policy Committee. Any material amendments to this document should have the approval of these authorities.	

Group Credit Concentrations Policy

1. Definition of Concentration Risk:

Concentration risk is defined in the Group Risk Framework as *"the risk of loss due to exposures to a single entity or group of entities engaged in similar activities and having similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions."* While concentration risk can arise in most risk classes, as a lending institution Bank of Ireland focuses on the concentration risk arising within credit risk as the most significant.

2. Management of Credit Concentration Risk in Bank of Ireland

It is the policy of the Group to avoid undue risk concentrations of Counterparty/Name level, Industry/Sector, Credit Grade, Product, Geography or other forms of significant connected risk in its credit risk positions.

The Group measures portfolio concentrations across these key variables to enable the setting of appropriate risk mitigation & transfer mechanisms and to assess risk capital requirements. Currently the Group imposes, as appropriate, a range of risk control limits and guide-points on individual borrowers ('bite-size limits'), loan products and sectors to mitigate significant concentration risk. These limits are imposed through the Credit Policy structure governing lending in Bank of Ireland. The limits and guidepoints are informed, where possible, by the Group's/Business Units' Loss Tolerance Guidepoints. [2]

Portfolio Review Committee (PRC) is a sub-committee of the Group Risk Policy Committee and is concerned, inter alia, with the consideration of credit concentrations in the Group's loan book at a portfolio level.

PRC has two key functions in relation to Credit Concentrations:

1. Review concentrations in the loan book.
2. Annual review and recommendation of the Group Credit Concentrations Policy to the GRPC.

The Group continues to develop methodologies to measure and monitor undue risk concentrations more effectively.

[2] As detailed in the Group Risk Framework

3. Group Credit Policy and Concentration Risk

Group Credit Policy is the overarching governing document outlining the treatment of credit risk and credit policies in the Group. The policy sets out a number of areas where guidelines and policy apply in respect of concentrations:

3. 1 Single Name Concentrations: Counterparty risk concentrations are managed across the Group through the application of a 10% Tier One Capital ('TOC') individual credit limit whereby clean credit commitments to any individual borrower or related groups of borrowers should not exceed 10% of the Group's TOC (by exception >10% on GCC approval subject to Court ratification) at the time of approval. Individual counterparties are risk graded on the basis of each counterparty's credit worthiness.

The Group monitors and reviews its large banking book exposures through the Group Large Exposures Listing, which is collated and reported to the Financial Regulator on a quarterly basis and includes:

- Top 50 exposures to clients and groups of connected clients (other than Credit Institutions and Specified Investment Institutions) by gross exposure (TGE), Net exposure (clean credit commitments) and as a % of total own funds (Tier 1 and Tier 2 capital).
- Top 30 exposures to Credit Institutions and Specified Investment Institutions by Gross exposure, Net weighted amount and as a % of total own funds.
- Certain exposures to Central Governments, Central Banks and European Communities.

A bite-size policy is applied to establish guidepoints for individual exposures in specific loan portfolios by reference to face value of exposure taking account of the borrower's credit grade rating which incorporates both Probability of Default ('PD') and Expected Loss ('EL') ratings.

3. 2 Sectoral Concentrations: Sectoral concentrations are monitored and analysed by Group Credit, the Group Risk Policy Committee and Portfolio Review Committee in the course of:

- Sectoral Credit Policy and portfolio reviews;
- Business Unit Credit Policy reviews;
- Product Credit Policy and portfolio reviews; and
- Monitoring Market Developments.

These reviews consider the level of risk in any one sector/ related sectors or in any one product to total Group and/or Unit exposure, trends in that exposure, the Group's/Unit's loss experience in the sector or product and the potential impact of market conditions/economic trends. Decisions on whether to increase, reduce or maintain existing levels of exposure are informed by this analysis. Where appropriate, recommendations on sectoral or product exposures/policies include

specific guidepoints/portfolio limits. Factors that aid in determining these guidepoints/portfolio limits include:

- % of Tier 1 Capital represented by the sector;
- Degree of correlation within sector/ with the rest of the loan book;
- Complexity of the sector (and/or the degree to which lending standards could be eroded by competitive pressures);
- Expected loss and the structure of lending within the sector;
- Riskiness of the Sector/Product - including estimates of PD, EL, Loss Given Default (LGD) and Economic Capital usage;
- Existing relationships and exposures;
- Compatibility with the Group's risk appetite and loss tolerance; and
- Risk-adjusted returns available on transactions/portfolio.

3.3 Product Concentration: In view of the significant concentration in mortgage products in the Group's assets, Group exposure to the mortgage sector is reviewed by Group Credit on a semi-annual basis. A full Portfolio and Policy review is submitted by Group Credit Policy & Strategy to GRPC for approval/information, as appropriate.

This review includes commentary on trends in housing markets and on the appropriateness of any concentrations by product and jurisdiction and the overall level of Group exposure to mortgages.

3.4 Country Concentration: Countries are risk-graded on the basis of an assessment of each country's economic, financial and political strength and stability using a risk scoring model and Moody's / Standard & Poor's country sovereign ratings. The Group ensures that unacceptable levels of concentration risk to higher risk countries do not occur through a series of maximum maturities and Maximum Exposure Limits (MELs) based on these risk grades.

Lending in Eurozone countries rated AA- or above and in other countries rated AAA/AA+ is not restricted under country limits.

BOIGM has responsibility for recommending, approving within MEL and monitoring country limits. Limits used for BOIGM business are monitored on a daily basis within BOIGM. Limit usage outside of BOIGM, is managed through a sub-allocation of lines to the relevant Business Unit. Overall usage is measured and reported to Group Credit semi-annually.

4. Reporting and Monitoring of Concentration Risk at Group Balance Sheet Level

4.1 Single Name Concentration

Quarterly, PRC reviews a listing of the Group's 50 largest non-bank credit exposures and 30 largest bank exposures. This report is produced by Group Credit and is based on the quarterly report on Large Exposures to the Financial Regulator and details, inter alia:

- The name of the credit counterparty
- The Total Group Exposure of the counterparty
- The Grade for each name.

In addition, a more detailed analysis of the Group's Top 20 non bank counterparties is provided to include:

- Aggregate of Top 20 and Average Exposure of Top 20
- The sector of each of the Top 20.
- Average size as a ratio of Tier 1
- Largest Exposure as a ratio of Tier 1.
- Aggregate Top 20 as a percentage of Tier 1.
- Aggregate Top 20 as a percentage of Pre-Provision Income.

Trend analysis is provided on the above.

4.2 Sector Concentration:
Half yearly PRC reviews a breakdown of the Group's loan book based on market classifications. This data and analysis is provided by Group Credit Risk Information and the Group Risk Office. Sectoral concentration is expressed as a percentage of Tier One Capital.

4.3 Geographic Concentration:
Half yearly PRC reviews a breakdown of the Group's loan book based on geography. This data and analysis is provided by Group Credit Risk Information and the Group Risk Office.

5. Mitigating Credit Concentration Risk:

Where the risk concentration review process indicates the possible emergence of undue risk concentrations, the Group Chief Risk Officer, in consultation with Asset and Liability Management ("ALM") and the Asset and Liability Committee, will recommend appropriate risk transfer and mitigation options to PRC. PRC may approve the execution of credit portfolio management initiatives (including associated spend) to manage concentration within the book.

In respect of specific concentration concerns, PRC may direct Group Credit or the Business Units to take appropriate action.

The Group's calculation of Credit Economic Capital ('Ecap'), which is held to mitigate credit risk, takes into consideration the extent to which concentration exists in respect of single name, sector and geography. Our calculation includes an assessment of the correlations of loan losses based on these factors.

6. Governance of Concentration Risk:

Half yearly, PRC will formally confirm its satisfaction or otherwise with the level of concentration in the Group's balance sheet. GRPC oversees the decisions of PRC through the review of the committee's minutes.

The Group Concentration Risk Policy is reviewed by PRC annually and approved by GRPC on the recommendation of PRC.

301

Bank of Ireland Group

Ms. Mary Burke
Head of Banking Supervision
Prudential Policy Unit
Banking Supervision Department
Financial Regulator
PO Box No 9138
College Green
Dublin 2

Group Credit
Head Office
Lower Baggot Street, Dublin 2
Tel +353 (0)1 661 5933
Fax +353 (0)1 661 5995/604 3087
www.bankofireland.ie

29 March 2007

Bank of Ireland
02 APR 2007
Group Regulatory Risk & Compliance

Review of Sectoral Concentration Framework

Dear Ms. Burke

Your letter dated 23 February 2007 to John Murphy, Group Regulatory Risk & Compliance refers.

The attached appendix sets out Bank of Ireland's approach to the management of concentration risk and includes, as requested, details of diversification strategies, policies, procedures and limits used to monitor and manage those concentrations.

In relation to the Sectoral Concentration Framework, Bank of Ireland has no issues concerning single name concentrations. Bank of Ireland approaches policy limits on a conservative basis relative to the regulatory maxima, setting limits by reference to Tier One Capital rather than Total Own Funds. Bank of Ireland's calculation of total exposure also includes settlement and other risk limits for non-Bank counter parties.

Bank of Ireland would, however, highlight that the regulatory limits and the reporting of the single name concentrations do not take into account the risk profile of the actual loans (with the exception of an allowance for netting of certain collateral).

The regulations impose an additional concentration limit that a credit institution "shall not have risk assets amounting to more than 200% of own funds concentrated in any one sector or business or economic activity which is subject to a predominant risk factor; where a common risk could be considered to apply to two or more separate sectors ... not more than 250% of own funds shall be employed with such sectors in aggregate." *("Licensing and Supervision Requirements and Standards for Credit Institutions" (1995)).*

As your letter notes, Bank of Ireland exceeds the 200% limit in Real Estate, Renting and Business category. Bank of Ireland remains comfortable with the exposure in this category because of the diversification of the loan book, in terms of both lending type and geographical spread, and the underlying quality of the individual transactions. Bank of Ireland undertakes an annual review of the commercial real estate portfolio and, where appropriate, sets limits or caps on individual sub-sectors. In the past twelve months,

Bank of Ireland has imposed a cap on exposure to landbank transactions, and monitors and reviews the loan book and market developments in this area closely.

Bank of Ireland would highlight that, from a practical perspective, sector, business or economic activity limits can prove more difficult, given the subjective approach required to determine which sectors are subject to a predominant risk factor. The requirement also does not reflect the relative risk profiles of the individual sectors and applies a single limit regardless of those individual sector risk factors.

Bank of Ireland's belief is that internal bank risk management techniques are better placed to determine the appropriate sectoral risk profile of a loan book. Bank of Ireland would suggest that, while reporting of sectoral exposures could continue for information purposes, the imposition of hard limits is inappropriate and should be reconsidered.

Should you have any queries on our response, please do not hesitate to contact the undersigned.

Yours sincerely.

Vincent Mulvey
Head of Group Credit
Bank of Ireland

APPENDIX

Bank of Ireland - Approach to Concentration Risk

1. General

A concentration of credit risk is an exposure to a single entity, or group of entities engaged in similar activities, and having similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

For internal purposes, Bank of Ireland adopts an approach to concentration that is closely aligned to the regulatory framework, i.e. both single name and sectoral concentrations. The approach is to adopt a conservative calculation of Total Exposures (such as the inclusion of non-bank counterparty settlement risk in gross exposure calculations). These concentrations (by sector and by name) are measured against the required regulatory maximum limits.

Country risk concentration limits are operated for some countries. Other concentration limits may be applied for individual types of exposure (such as Collateral Debt Obligations (CDOs), investment trusts, Leverage Finance, Project Finance). Single name concentration (bitesize) limits exist in a number of specific policies (such as Leverage Finance, Asset Finance).

In setting concentration limits, Bank of Ireland seeks to avoid large unexpected credit losses, which may or may not pose a threat to compliance with regulatory capital ratios or solvency, but which would be beyond the point at which external perceptions of risk management competencies could lead to unacceptable impacts on funding, capital-raising ability and share price.

When dealing with single name concentrations, Bank of Ireland manages the risk of credit events leading to default that would leave a counterparty unable to meet its obligations. In managing this risk, the probability of default of the counterparty, as measured by reference to statistically based models that consider financial, business and economic factors, is considered.

With regard to country risk, Bank of Ireland seeks to manage large concentrations of exposures to countries where the political or economic risks are significantly higher than in our core markets (Western Europe, specifically Ireland and the UK, and US). This risk is managed by reference to external ratings and internal assessment of default probability.

In setting sectoral limits, Bank of Ireland seeks to manage the risk of industry wide credit events giving rise to simultaneous difficulties across a range of counterparties, e.g. a sectoral limit may be applied to an industry that carries significant regulatory risk or market demand risk.

Regular calculation of Economic Capital (ECap) for the entire loan book takes into account single name and country risk concentrations and associated correlations.

2. Counterparties and relationships between counterparties for single-name concentration risk

Bank of Ireland Group Credit Policy defines a Connected Risk Group (CRG) as two or more natural or legal persons, who unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly has ***control*** over the others or they are so ***interconnected*** that if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties.

In this context 'control' includes a Parent, Subsidiary or Associated company relationship. The definition/meaning of 'interconnected' is more open to interpretation and requires lenders to apply internal subjective judgement based on available information.

A material inter-dependence exists if the default of one borrower would materially impact the on-going viability of the other borrowers. Material inter-dependence is assumed if any of the following apply:

- There are inter-company or inter-borrower (in the event that the borrowers are individuals rather than legal entities) loans or trading;
- The borrowers are members of a group of companies

In the case of invoice discounting products where there is exposure to entities by way of an assignment or charge on their debts, limits are established for the amount of exposure Bank of Ireland will take and these are aggregated with our direct exposures.

For transactions such as Real Estate Opportunity Funds (REOFs), when lending money to an investment fund secured by its uncalled capital commitments, exposures to investors across different obligors are aggregated. However, no aggregation of exposures to borrowers/entities where the exposure is by way of a participation in a Collateral Debt Obligations (CDO) or other entity that buys debt instruments is undertaken, but limits on aggregate exposures to CDOs/Investment trust etc. are set.

3. Measurement of exposures - Total Group Exposure (TGE) and Potential Future Exposure (PFE)

Bank of Ireland measures amounts at risk as TGE, which is in effect the aggregate of all approved (drawn and undrawn) facilities (committed or uncommitted). Guarantees are typically included under their nominal amounts but may be increased to cover the max amount that could be due under them (such as guarantees that can be called more than once e.g. Custom & Excise). Intra-day transactions are not typically included in TGE. Settlement exposure is typically included (except in interbank exposures).

Derivative exposures with future volatility such as interest rate or currency swaps are added to TGE on a Risk Weighted Basis. The approach to measuring exposure under a derivative contract is to define it as the sum of the current market value of the contract (mark to market) plus an estimate of the Potential Future Exposure (PFE) that could arise over the remaining life. The PFE is estimated by looking at each specific type of derivative and defining a "worst case" outcome to 95% confidence level. Following industry benchmarking, 50% of the "worst case" weighting is used as a reasonable

estimate of the PFE on each deal to reflect portfolio considerations. The Group Market Risk team calculates the "worst case" weightings, using standard statistical techniques.

Single Name, Sectoral and Country concentrations are measured on a Group basis using the TGE method outlined above. The basis of this is a conservative one that applies limited deductions (through risk weightings) to nominal exposures in selective exposure types where loss on default is a function of rewriting risk.

TGE is integral to the decision-making process and forms the basis for determining the appropriate level for approval of lending decisions (along with Probability of Default (PD) / Loss Given Default (LGD)). Deliberate or approved breaches of internal sectoral limits are treated as policy exceptions.

In Securities Lending transactions, Bank of Ireland sets limits on both the direct exposure to Borrowers and to the collateral held. Borrower limits are risk weighted in a manner similar to the PFE method used for derivative exposures. Borrowers in Securities Lending transactions are typically large banking counterparties for whom Bank of Ireland has overall limits in place. The risk weighted lines for Securities Lending must be allocated from these Group Limits.

Collateral limits are in place to limit reliance on security from any one Borrower. These seek to limit exposures to single issuers of security and to single issues of securities (with the latter limit in place to address liquidity risk on a single issue – e.g. 5 year bond)

4. Monitoring and Managing Concentration Risk

Single name concentrations are monitored at Group Level. Country concentrations limits are set at Group level and monitored centrally. Regulatory imposed sector limits are also monitored at Group level. Compliance with product or sub sector policy limits is monitored at divisional level with deliberate or approved breaches of such limits treated as policy exceptions and reported to Group level.

4.1. Single Name Concentration Risk

Single name concentration risk is managed centrally, with all large exposures approved by Group Credit Committee.

Factors considered in determining the level of exposure taken on a counterparty include:

- The sector
- Geographical location (higher concentrations taken on counterparties in our core markets)
- Relationship – whether a corporate borrower has a relationship with the Bank or whether the provision of debt is merely as a participant in a syndicate.
- The role of Bank of Ireland in provision of debt – e.g. Lead Arranger and Underwriter vs syndicate participant
- The Risk profile (PD) of the borrower – Higher concentrations accepted in lower credit risk borrowers.

- The Security held – e.g. larger concentrations taken on debt secured by cash than debt secured by enterprise value.
- The size of the counterparty – e.g. Bank limits are set with reference to rating but also the size of the counterparty bank's equity base.

Individual requests for large exposures are considered on a case-by-case basis by the appropriate sanctioning authority. Policy limits are in place limiting the single name concentration that can be approved by Group Credit Committee. This is expressed as a percentage of Tier One Capital. Requests for single name concentrations above this amount have to be sent to the Board for approval or ratification. This "internal limit" on the management's ability to take single concentration risk is significantly lower than the limit imposed by the Financial Regulator.

Certain maximum counterparty exposure policy guidelines are set for sector or product. However these are typically quite low and even at maximum amounts, the single name concentrations would not approach the % of Tier One Capital internal limit or the Financial Regulator limit.

A RAROC analysis is adopted for all large exposures. The approach is relatively standard and uses a combination of PD, LGD and operational risk inputs to determine the capital usage of individual loans/connections.

4.2 Sectoral Concentration Risk

Decisions on whether to increase, reduce or maintain existing levels of exposure are based on sectoral concentration risk analysis. Where appropriate, recommendations in sectoral or product exposures include specific guidepoints on exposures. Factors that determine these guidepoints will include:

- Riskiness of the Sector - including PD, Expected Loss (EL), LGD and ECap.
- Expected loss and Structure of lending within the sector.
- Compatibility with Group risk appetite.
- Existing relationships.
- Risk-adjusted returns available on transactions/portfolio.
- Complexity of the sector (and/or the degree to which lending standards could be eroded by competitive pressures).
- Degree of correlation within sector/ within the rest of the loan book.
- % of Tier One Capital represented by the sector.

4.3. Country Concentration Risk

Bank of Ireland controls exposure to specific country risks in all countries outside the Eurozone, United States and other higher rated countries through a series of maximum maturities and maximum exposure limits (MEL's) based on country sovereign ratings.

Appropriate MEL's / maturity limits are approved annually by our senior risk committee, for lending in countries apart from Eurozone countries rated AA- or

above and in other countries rated AAA/AA+, on the recommendation of Global Markets division through the Group Credit Risk function.

Countries are risk-graded on the basis of an assessment of each country's economic, financial and political strength and stability using a risk scoring model and Moodys / Standard & Poors ratings. Maximum Exposure Limits (MEL's) and maximum maturity limits are set for each grade of country within the overall policy for country risk and individual specific country limits are set within our Global Markets division's discretion. Limit usage is reviewed annually by Global Markets and advised to the Group Credit Risk function.

Some regional limits are also set for particular regions where political instability may be more strongly correlated.

4.4. Bank Guarantee Risk (Collateral Risk)

Limits on Bank guarantee risk (collateral risk) are operated, with all bank guarantees taken as collateral allocated from overall Bank counterparty limits.

5. Stress Testing

Bank of Ireland takes account of concentration risk in its stress testing process. This process is part of the Internal Capital Adequacy Assessment Process (ICAAP). Concentration risk is stressed in the context of understanding the macro economic drivers that cause credit losses i.e. stress scenarios are designed that will stretch different segments of the book. Consideration is given to the impact on niche sectors within a suite of stressed scenarios. In addition, sector specific stresses are conducted covering areas such as property, maritime, project finance etc.

The stresses are based on a nested approach. On the top level, the macro economic impact is assessed. In addition, sensitivity analyses for specific sectors and risk profiles are conducted. The ICAAP stresses are conducted at least half yearly, and run more frequently as required. The process is designed to identify threats to capital adequacy and to structure action plans to mitigate these threats. Therefore if the process as a threat identifies an explicit concentration risk, a management response will be triggered. Tests on specific segments are run as needed, to facilitate business decision-making.

Concentration risk is actively measured in ECap quantification and will be evidenced by spikes in ECap usage. This is monitored quarterly. The ICAAP process facilitates a continued systematic focus on this area of concentration and includes formalised governance.

6. Intra-Group Exposures

Intra-group exposures are not treated as credit risk where companies are 100% subsidiaries of Bank of Ireland. Where lending is provided to less than 100% subsidiary companies, standard lending principles and any applicable limits apply on a strictly arm's length basis.

7. Credit Risk Mitigation Techniques and Concentration Risk

Credit Risk Mitigation techniques are predominantly based on the taking of security. Bank of Ireland Group Credit Policy states that repayment capacity is the primary criterion in credit assessment, but it is the norm that security will also be required. Where security is a material consideration, it is Group policy that Bank of Ireland ranks on at least an equal basis with other secured lenders providing similar facilities. The nature and level of security required depends upon the extent of the exposure, type of facility being provided, the term of the facility, the borrower's own cash input and the lender's evaluation of the level of risk involved in the proposal.

Bank of Ireland adopts an approach whereby single name concentrations can be mitigated by the adoption of a clean risk approach where both TGE and Clean Risk are quoted. Clean Risk is a netting approach that nets off the value of cash collateral or bank guarantees held. Netting is provided against bank guarantees to prevent double counting of exposures as bank guarantees are only accepted as collateral mitigation where there are lines in place for the issuing bank.

Where permitted, netting of certain collateral (called "exemptions") against gross commitments is adopted for the purposes of Single Name exposure reporting. Typically, these 'exemptions' would be in line with the netting applied internally to deliver clean risk. Where Bank of Ireland provides a defeased lease, exemption is claimed only where the cash taken in support of the defeased lease is retained in cash or invested in specified investments (typically zone A government securities).

Netting in derivative contracts is typically achieved through the usage of standard ISDA agreements that provide for legally enforceable netting.

Where there is extensive dealing with specific bank counterparties and there are single name concentration issues, it is policy to put in place a collateral agreement ('CSA'). A threshold amount is agreed with each counterparty, and if the net Mark To Market ('MTM') exceeds the threshold, collateral is exchanged

Exposure to a collateralised counterparty is defined as the sum of the net MTM position, plus a one month add-on set by the market risk unit. It is policy to net the collateral balances held or received against the Pre-settlement limit for the counterparty. This is because trades are netted which means line utilisation is lowered if the trades have a negative MTM. However, to the extent that a cash collateral payment is made to the counterparty, the line utilisation will reflect this.

Credit derivatives are primarily used on the credit trading desk for the purpose of taking proprietary risk rather than for mitigating credit risk on counterparties. Exposure to derivative counterparties are included in our inter bank lines.

8. Indirect Concentration Risk

Concentration issues to issuers of collateral and providers of unfunded credit protection can arise in respect of Bank counterparties. Such exposures are recorded under TGE and concentration risk is managed in the same way as direct risk. Where exposure arises as a

result of facilities being 'wrapped' by monoline insurers, the aggregate exposure to individual insurers is tracked and reported.

9. Governance and Reporting

Compliance with internal limits is monitored by Credit Departments with independent audit check by a Group Credit Audit function. Internal limits are soft, in that the appropriate credit authority may approve exceptions. Exceptions are reported centrally. Regulator limits are hard.

Single Name Concentrations are monitored and reviewed through the Group Large Exposures Listing, which is collated and reported to The Financial Regulator on a quarterly basis and includes:

- Top 50 exposures to clients and groups of connected clients (other than Credit Institutions and Specified Investment Institutions) by gross exposure (TGE), Net exposure (clean credit commitments) and as a % of total own funds (Tier 1 and Tier 2 capital).
- Top 20 exposures to Credit Institutions and Specified Investment Institutions by Gross exposure, Net weighted amount and as a % of total own funds.
- Certain exposures to Central Governments, Central Banks and European Communities.

A summarised version of this report including Tier One Capital analysis is sent to the senior Risk Policy Committee on a quarterly basis.

Compliance with regulator sector concentration limits is monitored through Regulator returns. Sectoral and product exposures and concentrations are monitored and analysed by Group Credit Risk and the senior Risk Policy Committee in the course of:

- Sectoral Policy Reviews
- Business Unit Credit Policy Reviews
- Product Policy Reviews
- Monitoring of Market Developments

Frequency of sectoral monitoring is a function of the following:

- The extent of previously identified concentrations
- The complexity of a sector
- The perceived risk factors of a sector
- The Bank's experience of the sector

Bank of Ireland has a Portfolio Review Group of Senior management tasked, inter alia, with the identification of emerging risk concentrations and unused risk appetite growth opportunities.

Senior Management is therefore provided with single name concentration information at least quarterly. Sectoral information is provided at different times but information about the main sectoral concentrations is provided at least annually.

In light of market conditions the existing Landbank and Residential Development books are being tightly managed. Significant resources have been committed to micro managing the portfolios with initial focus on the Development book.

The BBRoI Landbank book is approaching its limit and, without any new deals, is generating an additional €50m in exposure every six months as interest roll up facilities accumulate into principal balances.

BBRoI highlighted that customers are seeing significant opportunities to acquire land at relatively good prices and the Group needs to be positioned to support the better clients. BBRoI and CB argued that credit management standards in the book have been good. Both businesses expressed the view that the Group franchise would be damaged if we were to exit these market segments.

Credit argued against an increase in the portfolio given that the limits have worked well in terms of managing the quantum and quality of the Groups exposure.

The members considered a number of potential options and the following was proposed for decision:

- Increase the BBRoI limit by €100m.
- Distribution of this €100m to be overseen by the Chief Executive, RFSI.
- The utilisation of the extra limit to be incorporated in the next review of Landbank and Residential Development in October 2008.

The proposal was approved on a majority basis with the Head of Group Credit declining to support.

Review of UK Landbank Policy/ Portfolio

The UK Landbank Policy/Portfolio is also reviewed on a six month cycle in tandem with the RoI portfolio. The Business Banking Northern Ireland ("BBNI") Landbank is £800m. However, the book has reached its limit and new business is not being written at present.

The book profile reflects large experienced players with good site locations and reasonable deal structures.

The UK book is more modestly sized, £597m, and is predominantly located in London and South East England. The members considered the scale and quality of the book to be acceptable in risk terms.

The Review of the UK Landbank Policy/Portfolio was approved as submitted.

03 April 2006

Mr. Liam Barron,
Director General,
Monetary Policy & Financial Stability Department,
Central Bank and Financial Services Authority of Ireland,
PO Box No 559,
Dame Street,
Dublin 2.

Re Sensitivity Analysis Assuming Hypothetical Scenarios

Dear Sir or Madam:

I refer to your letter dated 28 February 2006. The Bank has carried out the sensitivity analysis as requested, following the assumptions proposed in your letter.

Attached are 2 appendices. Appendix 1 (Stress Test Template) contains the following:

Tables 1 to 3: Projections for 2006, 2007 & 2008 under the proposed scenarios;
Table 4: Matrix of Interbank Exposures as at December 2005;
Table 5: Distribution of Loan-to-Value ratios for Outstanding Stock of Residential Mortgages (Republic of Ireland Loans only).

Appendix 1 has been completed on two bases:

Appendix 1a: This shows the Irish operations of the Group. However, these tables do not include Earnings Per Share, a full balance sheet nor capital adequacy figures as these are relevant only at the overall Group level. Republic of Ireland lending to Irish clients is shown.

A number of the Group's Divisions have both Irish and International aspects to their operations; in such cases we have attempted to differentiate between these two elements in arriving at the Irish component by excluding business & lending deals with non-Irish clients.

Appendix 1b: This shows the overall Group projections and includes Earnings Per Share and Capital Adequacy projections together with a consolidated balance sheet.

Appendix 2: This sets out the economic assumptions underlying the preparation of the Bank's Original Base Case. These assumptions are compared to those used for the Baseline and the two Shock scenarios

BOI01B01
BOI03786-001

The accompanying disc includes all the material listed above.

Systems and methodologies used in the analysis.

The Group has just completed its budgets for 2006/07 (year to March 2007). Financial projections for the following two financial years have been centrally updated to reflect the changes in momentum implied by the finalised 2006/07 budget. These projections constitute the Bank's "Original Base Case".

For the purposes of this exercise we have used the following financial years and year-end positions:

Tables	BOI – Financial Year	BOI – year-end
2006	2006-07	March 2007
2007	2007-08	March 2008
2008	2008-09	March 2009

The 2006 projections used in Appendix 1a and Appendix 1b reflect business unit budget projections for the 2006-07 financial year. The following two years projections are extrapolated from current and expected trends. The projections take account of a number of items:

- They include the acquisition of Customer Confidentiality in February 2006.
- The projections assume capital raising in the years 2006/07, 2007/08 and 2008/09 of €1.4bn/€1.5bn per annum, (equating to circa €4.3bn in total). If this funding was not raised and the conditions set out in the *Shock 1 Scenario* were to occur as projected, the total capital ratio would still be close to 8.5% (Group minimum regulatory capital requirement) by March 2009. Capital funds are expected to be raised evenly over the 3 years. Given the absence of an immediate deterioration, which would almost certainly further reduce the actual capital requirement due to slower RWA growth, at least a portion of the planned capital issuance would take place. The capital figures in the shock scenarios assume no incremental capital over that to be raised in the Original Base Case projections.
- The Bank's own projections take account of its minimum capital ratio targets for each year end, namely a Tier 1 ratio of between 6.5% and 7.0% and a total capital (solvency) ratio of between 10.0% and 10.5%. The latter target is assumed to be exceeded at each year-end in the Bank's projections due to the assumption that Tier 2 capital requirements may be pre-funded in part.
- Risk weighted asset and capital projections have been completed on the basis that Basel I rules still apply.
- Projections are on an IFRS basis.

For the purposes of this submission, business volumes are assumed to be lower and loan losses higher for the Baseline scenario when compared with the Original Base Case projections. In general, margins, other income and costs are assumed to be similar.

In the following pages a brief commentary on the impact of the scenarios on each of the areas requested is presented.

1. Lending Levels

The planned growth in lending for Republic of Ireland is set out below. In comparing our Original Base Case projections with the Baseline Scenario, we would expect lending volumes to grow at a slightly slower pace in the case of the latter through the time horizon. This reflects the different economic assumptions.

It is projected that a significant slowdown in growth would occur in *Shock 1 Scenario* and a lesser slowdown in *Shock Scenario 2*. The economic stresses in *Shock 1 Scenario* reduce projected growth across the lending book, although positive growth is still projected in 2008/09. In the event that lending and hence risk weighted asset growth was lower than projected in 2008/09, this would be positive for capital ratios since loan losses would not be as high and the impact on income would be limited.

The decreases in house completions implied in both shock scenarios will reduce the new mortgage lending pool. However, the levels of new mortgage lending relative to the existing mortgage lending will still produce levels of growth in the portfolio.

The scenarios were applied to lending exposures based in the Republic of Ireland. It does not include international corporate lending, which whilst booked in Ireland is advanced to non-Irish clients.

The following table shows the projected growth for mortgage and non-mortgage lending under each of the scenarios:

% Change – Average Volumes	2006/07	200708	2008/09
ROI Mortgage Volume growth			
Original	22.5%	20.0%	17.0%
Baseline	20.1%	19.1%	17.2%
Shock 1 Scenario	16.0%	11.0%	7.0%
Shock 2 Scenario	18.0%	13.0%	10.0%
ROI Non Mortgage Volume growth			
Original	20.4%	18.0%	17.0%
Baseline	17.2%	15.7%	13.2%
Shock 1Scenario	14.8%	7.8%	1.7%
Shock 2 Scenario	16.4%	11.9%	6.9%
ROI Total Volume growth*			
Original	21.3%	18.9%	16.5%
Baseline	18.5%	17.2%	15.0%
Shock 1 Scenario	15.3%	9.2%	4.2%
Shock 2 Scenario	17.1%	12.4%	8.2%

* Mortgage plus non-Mortgage lending

BOI01B01
BOI03786-003

2. Key Segment: Residential Mortgages

The Bank's Republic of Ireland loan book is well diversified and carries a low risk profile. At December '05, approximately 43% of the Republic of Ireland loan book comprised residential mortgages. The loan to value profile as at December '05 is presented in Table 5 of the submission. It is summarised below, using the 'mixed' LTV approach, where original property values are compared to current mortgage balances. Note that on current property valuations, the 'current' LTV profile is significantly better than is represented in Table 5, where the 'mixed' LTV approach is applied.

ROI Mortgage 'Mixed' Loan To Value Bands	
<60%	44%
>=60% & <75%	18%
75% - 92%	33%
>92%	5%

3. Recoverability of Loans

3.1 Macroeconomic Stress Testing

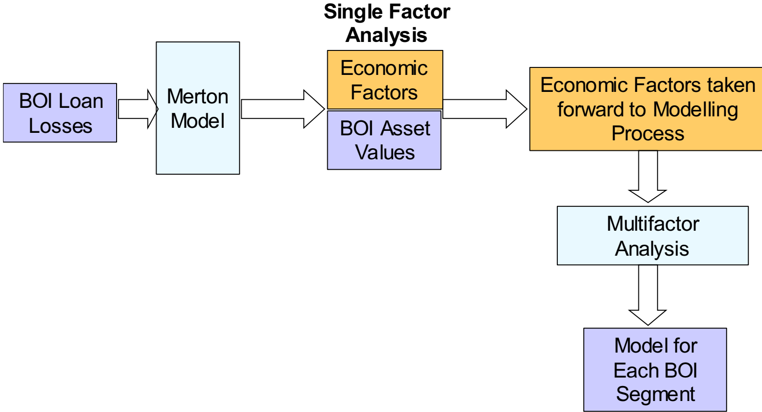
The following loan loss projections for each of the scenarios are based on outputs from the Group Loan Portfolio Model Stress Test Engine. The Stress Test Engine incorporates macroeconomic stress test models across product and geographic lines. Its purpose is to estimate loan losses under different economic conditions. It should be noted that Bank of Ireland are in the process of refining their approach to stress testing in preparation for their initial ICAAP submission. The refined approach that will be implemented for ICAAP may produce different outcomes for *Shock 1 Scenario* and *Shock 2 Scenario.*

The main drivers considered are GDP growth, inflation, unemployment, house price changes and interest rates. For this exercise macroeconomic stress test models were applied to the following portfolio segments:

- Irish Corporate Lending
- Irish Business Lending
- Irish Mortgage Lending
- Irish Consumer Lending

The model approach employs the Merton Model to determine historic asset quality in the portfolios. Individual macroeconomic variables demonstrating strong historic relationships with asset quality were identified through Single Factor Analysis. The optimal combination of relationships were selected and blended (Multi Factor Analysis) to produce the macroeconomic models. The changes in asset quality, as dictated by the model, are applied to the PD's and used to estimate losses (PD*EAD*LGD).

Macroeconomic Stress Test Modelling Process



3.1.1 *Non Linearity*

The use of the Merton Model, which assumes that poor quality lending performance deteriorates more in economic downturns, caters for some of the non-linearity that characterises the relationship between losses and deteriorations in the economy.

3.1.2 *Endogeniety*

The scenarios presented evolve over a three-year horizon so the concept of risk evolution must be considered. The model methodology employed by Bank of Ireland captures the concept that loan losses will compound and accelerate in a three year scenario. Therefore we have not explicitly compounded losses, since the compounding effect is implicitly captured in the model methodology

From a technical perspective, the modelling methodology incorporates the relationship between historic loan losses and macroeconomic variables. It forecasts loan losses that reflect a given macroeconomic environment. If the projected losses are 'compounded' by taking one projected outcome as the base on which to determine the next projected outcome, the relationship between these loan losses and the macroeconomic variables will be adversely distorted as the macroeconomic influence will be applied in duplicate.

From a business perspective, the compounded loss effect will be mitigated by the stricter credit policy which Bank of Ireland would employ, in the evolution of such a scenario.

3.1.3 *Mortgage LGD Estimation*

In terms of mortgage losses in a downturn such as *Shock 1 Scenario* and *Shock 2 Scenario*, it must be recognised that the collateral value will decrease leading to an increase in the LGD parameter. This reduction in collateral value has been accounted for in the LGD model methodology. The LGD model used for the loss projection is built along Basel II guidelines. Given the lack of downturn experience in the Irish market, the methodology employed incorporates the Group's adverse experience in the UK housing downturn in the early nineties, to account for house price volatility.

The Stress Test Engine was employed to generate projected loan losses under the Base Case, *Shock Scenario* 1 and *Shock Scenario* 2. The projected loan losses are reflected in the Asset Quality and Provisioning sections of Appendix 1a and Appendix 1b.

3.1.4 *Asset Quality & Provisioning*

The projected impact on loan loss charges for Republic of Ireland lending is as follows:

Basis points annual charge / Average Volumes

Mortgages	**2006/07**	**2007/08**	**2008/09**
Shock 1 (bps)	6	8	17
Losses €m	11	18	42
Average Loans €m	19,992	22,794	24,906
Shock 2 (bps)	5	7	13
Losses €m	11	17	35
Average Loans €m	20,115	23,355	26,103

Non-Mortgages	**2006/07**	**2007/08**	**2008/09**
Shock 1 (bps)	66	136	361
Losses €m	172	396	1,101
Average Loans €m	25,965	29,058	30,492
Shock 2 (bps)	64	108	104
Losses €m	167	323	343
Average Loans €m	26,100	29,932	32,849

Shock 1 Scenario and *Shock 2 Scenario* are projected to have a minor impact on the loan loss levels for the mortgage book compared with other Irish based lending. Deteriorating economic conditions may trigger a large increase in the projected loan loss levels for non-mortgage lending. The asset quality of Non-Republic of Ireland based lending has not been stressed so the provisioning levels for this lending used are the group's original projections.

As noted above, historically loan losses in respect of mortgages have been minimal and interest rates have been a major driver of mortgage losses. Under the stressed scenarios, it is anticipated that mortgage losses would be higher in new lending where equity has not been built up. The impact on mortgage losses of *Shock 1 Scenario* and *Shock 2 Scenario* is dampened by static interest rates.

Cumulative loan losses 2006/07 through to 2008/09 inclusive of Republic of Ireland

(€m)	Loan Loss		
Mortgage Lending	**2006/07**	**2007/08**	**2008/09**
Original	1	2	3
Baseline	1	2	3
Shock 1	11	29	71
Shock 2	11	28	63
Non Mortgage lending			
Original	75	167	279
Baseline	88	231	392
Shock 1	172	568	1669
Shock 2	167	490	833

4. Liquidity

The projections assume that the liquidity ratio is maintained in excess of 25% at all times. Under the *Shock 1 Scenario* the percentage of funding provided from wholesale sources (which include debt securities in issue) is expected to be lower than would have been the case for the other scenarios, given the reduction in Republic of Ireland lending. In March 2009 the wholesale funding percentage is expected to be 45.5% under the S*hock 1 Scenario* compared to 49.4% under the original projections. The absolute reduction in the wholesale funding requirement in March 2009 is approximately €19bn or 16% by comparison with the Original Base Case projections.

5. Earnings, Profits and Capital

Our analysis suggests the following reductions in profits (versus the profits planned):

Bank of Ireland Group

€m	**2006/07**	**2007/08**	**2008/09**
Profit before tax			
Original base case	**1557**	**1820**	**2130**
Baseline	**1533**	**1750**	**2047**
Change	(24)	(70)	(83)
% Change	(1.5%)	(3.8%)	(3.9%)
Shock 1 Scenario	**1434**	**1402**	**865**
Change vs Original Base Case	(123)	(418)	(1264)
% change	(7.9%)	(23.0%)	(59.4%)
Shock 2 scenario	**1444**	**1522**	**1742**
Change vs Original Base Case	*(113)*	*(298)*	*(388)*
% change	*(7.3%)*	*(16.4%)*	*(18.2%)*

Whilst total own funds, net of deductions, are projected to reduce in comparison with the Original Base Case, the solvency ratio is projected to improve due to the predicted reduction in the growth of risk-weighted assets.

Republic of Ireland only

€m	**2006/07**	**2007/08**	**2008/09**
Profit before tax			
Original Base Case	**865**	**999**	**1143**
Baseline	**841**	**929**	**1061**
Change *vs Original Base Case*	(24)	(70)	(82)
% Change	(2.8%)	(7.0%)	(7.2%)
Shock 1 Scenario	**742**	**588**	**(88)**
Change *vs Original Base Case*	(123)	(430)	(1264)
% change	(14.2%)	(43.0%)	(110.6%)
Shock 2 Scenario	**776**	**706**	**789**
Change vs Original Base Case	*(113)*	*(312)*	*(388)*
% change	*(14.6%)*	*(31.2%)*	*(33.9%)*

Notwithstanding the severity of the assumptions, the Group will continue to make significant profits in the given scenarios. In the case of the ROI business, *Shock 1 Scenario* would make a small loss in 2008/09.

March	**2007**	**2008**	**2009**
Solvency (Total Capital) ratio %			
Original Base Case	**10.9%**	**10.9%**	**10.9%**
Baseline	**11.0%**	**11.1%**	**10.9%**
Change vs Original Base Case	0.1%	0.2%	-

Shock 1 scenario	**11.0%**	**11.3%**	**11.3%**
Change vs Original Base Case	0.1%	0.4%	0.4%
Volume reduction versus Original base case %			
Total own funds (net of deductions)	(0.4%)	(1.7%)	(5.9%)
Risk weighted assets	(1.8%)	(4.8%)	(8.6%)

Shock 2 scenario	**11.0%**	**11.2%**	**11.3%**
Change vs Original Base Case	0.1%	0.3%	0.4%
Volume reduction versus Original base case %			
Total own funds (net of deductions)	(0.4%)	(1.2%)	(2.7%)
Risk weighted assets	(1.3%)	(3.3%)	(5.9%)

Should you require any further information or wish to discuss this in more detail please do not hesitate to contact Brian Kealy.

Yours sincerely,

THEME: B3

Effectiveness of banks' funding, liquidity strategies and risk management

LINE OF INQUIRY: B3a

Appropriateness of funding sources - the mix, maturity profile and cost

- We have included first year losses for the Post Office J/V of €41m (includes opportunity cost of funds), which is in line with the original business case.

- In Ireland we have set challenging targets for market share growth for our major products.

	PIT Volume Growth	**Market Share Growth**
Resources	+10%	+0.5%
New Mortgages	+14%	+2.00%
Mortgage Balances	+21%	+0.30%
Personal Lending	+10%	+0.40%
Business Banking	+24%	+0.40%
BOI Life	+12 to 18%	+1.00%
Corporate Lending	+9%	N/A

- The loan book in UKFS will continue to grow with the non-standard mortgage book comprising 37% of all residential lending by March 05, up from 33% in March 04.

Standard Mortgages	+6%
Non-Standard	+28%
Business Banking	+23%
Resources	+10%

AGENDA ITEM NO: 2.6

Paper for Court on 8th February 2005

Wholesale Funding Programmes

Purpose of the Paper

The Court is requested to approve the following:

1. Issue of Asset Covered Securities (ACS) on a stand-alone basis up to a maximum of €3Bln and the establishment of a €10Bln ACS programme;
2. Annual renewal of the Euro Note Programme documentation;
3. An increase in the USD Commercial Paper Programme from $10 to $15Bln;
4. Reaffirmation of EUR and USD London Certificates of Deposit (CDs) issuing and paying through JPMorgan (formerly Bank One) (renewal of existing approval);

and to appoint the Non-Equity Committee to approve the respective programme documentation.

Background

The Group's Wholesale Funding Requirement (Interbank Borrowing plus Senior Debt Securities Issued) has increased significantly in recent years. This growth is forecast to continue, as shown in Table 1 below:

Table 1 – Growth in Wholesale Funding

	March 2004 *Actual*	March 2005 *F'cast*	Mar 2006 *F'cast*
Balance Sheet (€Bln)	106.2	123.0	144.5
Wholesale Funding (€Bln)	30.0	42.7	58.8

The increased volume of Wholesale Funding will continue to be funded through a combination of: ACS, Interbank Borrowing, Euro Note Programme, US$ Commercial Paper (CP), Euro Commercial Paper (ECP) and London Certificates of Deposit (CDs). To aid this process, the following is required:

1. Establishment of a €10Bln ACS Programme

- The inaugural ACS issue in September 2004 was issued as a standalone deal. It is now proposed to establish an ACS Issuance Programme for Bank of Ireland Mortgage Bank. Such a programme will be similar to the Bank of Ireland Euro Note Programme. Benefits of a programme include:
  - Speed & Flexibility – A programme sets out the broad terms and conditions of issuance and thus allows the bank to respond quickly to market demand and to tailor bond issues to individual investor requirements.
  - The programme will be updated once per year at the same time as the Bank of Ireland Euro Note Programme.

BOI01B01

BOI01143-001

- ➢ A programme allows for smaller bonds issuance. Such deals typically produce funding about 2 bps cheaper than a benchmark deal.
- ➢ The establishment of a programme provides evidence to investors of the Bank's commitment to future ACS issuance.

Approval requested

- The Court is requested to approve the establishment of, and participation by the Bank in, a €10Bln programme for the issue of Asset Covered Securities by Bank of Ireland Mortgage Bank and/or a stand-alone issue of Asset Covered Securities by Bank of Ireland Mortgage Bank up to a limit of € 3Bln and to authorise the Non-Equity Capital Committee to deal with all matters concerning the participation by the Bank in such stand-alone issue and such programme together with all related documentation.

2. Annual renewal of Bank of Ireland €15Bln Euro Note Programme

- The Bank of Ireland Euro Note Programme is currently approved at €15Bln, with just over €7.6Bln outstanding – made up of Senior Debt, Structured Euro Medium Term Note (EMTN) and Capital Issues. We would expect to be approaching €10Bln in issuance by March 06.
- Issuance of Senior Debt under the Programme is used by the Bank to lengthen the maturity profile of wholesale funding and the Programme is also used for Debt Capital Issues.
- The programme was originally established in 1995 at Stg£500m and has steadily increased over the years to €15Bln last year. The increase has been driven by growth in the balance sheet and demand for the paper.

Approval Requested

The Court is requested to approve the annual renewal of the €15Bln programme ("EMTN Programme") and confirm that the Non-Equity Capital Committee be authorised to deal with all matters concerning the annual update of, and any necessary or consequential amendments to, the Bank's EMTN Programme.

3. Increase in USD Commercial Paper (CP) Programme from $10Bln to $15Bln

- Global Markets commenced issuing under the US Dollar CP programme in 2002.
- Demand for Bank of Ireland CP from the US Market has been very strong, and the programme has made a major and cost-effective contribution to the Group's wholesale funding. In addition, the programme allows material diversification of the Group's funding sources, as much of our CP is bought by investors who would not otherwise place funds with the Group or purchase other Group paper.
- In recent times, Global Markets (GM) has been unable to satisfy investor demand as the programme is close to being fully utilised.
- The programme is currently supported by "Swingline" or "Backstop" facilities, which provide assurance to investors in the event of market disruption, and are essential for maintaining the Credit Rating assigned to the programme.
- Rating agencies require us to have 15% of our total issuance covered by swinglines (provided by bank counterparties).
- As part of the proposed increase, further Swingline/Backstop facilities amounting to $400 mln are being negotiated in order to meet this requirement.

- With the proposed increase in the programme from $10Bln to $15Bln, GM will be able to continue the diversification of the Wholesale Funding Requirement at a favourable cost of funds.

Approval Requested

- The Court is requested to approve the increase in size of the US Commercial Paper programme (the "Programme") from US$10Bln to US$15Bln and the extension and increase of the associated Swingline/Backstop facilities and to confirm that the Non-Equity Capital Committee of the Court be authorised to deal with all matters necessary to give effect to the decision, including the appointment of new suppliers of Swingline or Backstop facilities and any other necessary or consequential amendments to the Programme and Swingline/Backstop documentation.

4. Reaffirming Court approval for the expansion of Bank of Ireland Sterling London Certificates of Deposit

- The long established Sterling Certificate of Deposit (CD) programme, issued out of Bristol, has been successful to date, accessing a range of mainly UK accounts at competitive pricing.
- The Court approved a proposal in February 2003 to issue Euro and US Dollar denominated CDs (EUR and USD CDs issued out of Dublin), with an internal limit of €8Bln issuance across all currencies and with Bank One as Issuing and Paying Agent.
- The implementation of this proposal has been delayed to date due to the following factors:

  - The legislative changes following the Finance Act 2003 and resulting consultations with Revenue Commissioners to ensure the sale of the CDs would be compliant.
  - Detailed evaluation of potential of selling CDs direct to US investors.

These issues have now been resolved and we are seeking renewal of this approval.

Approval Requested

The Court is requested to authorise the Non-Equity Capital Committee to take all steps required to establish a Programme for the issuance of EUR and USD certificates of deposit in the London market with an internal limit of €8Bln across all three currencies (EUR, USD & Sterling).

John O'Donovan
1 February 2005

BOI01B01

BOI01143-003

AGENDA ITEM 6.4

PAPER FOR COURT
13 SEPTEMBER 2005

WHOLESALE FUNDING:
(i) Commercial Paper Programme for domestic French market; and
(ii) Issuance of Extendible Notes

Purpose

This paper requests the approval of the Court to add a Domestic French Commercial Paper Programme to the suite of funding programmes available to Bank of Ireland Global Markets. The Court is further requested to approve issuance of Senior Debt in the form of Extendible Notes[1]. In both cases the Court is requested to delegate to the Non-Equity Capital Committee, authority to approve the respective programme and transaction documentation.

Background

The Group's wholesale funding requirement has increased significantly in recent years and is forecast to increase further following the decision to sell the B&W branch network.

Table 1 – Growth in Wholesale Funding

€bn	March 2004 *Actual*	March 2005 *Actual*	Mar 2006 *Forecast*
Balance Sheet	106.2	126.5	153.4
Wholesale Funding	30.0	41.5	62.7
%	30%	35%	44%

The higher level of wholesale funding increases the necessity for prudent diversification of funding across a range of investor types and funding instruments. This is presently achieved by sourcing funds from a combination of: Interbank borrowing, Euro Note Programme, US$ Commercial Paper, Euro Commercial Paper, Certificates of Deposit and Asset Covered Security issuance. In July 2005 the Court also approved the establishment of a Canadian Dollar commercial paper programme.

Global Markets now propose to add the following instruments to this list, which will further diversify the Groups funding options;

Domestic French Commercial Paper Programme

A commercial paper programme issued under French law and targeted at domestic French investors. The domestic French Commercial Paper market accounts for c. 40% of commercial paper issuance in Europe and gives unrestricted access to French investors.

[1] The initial Extendible Note transaction is likely to be no greater than $1.75bn and will be lead managed by Goldman Sachs and Morgan Stanley. The final size of this Extendible Note transaction and any future such transaction will be subject to the approval of Group ALCO. Issuance of Extendible Notes will form part of Group ALCO's internal €15bn limit on "senior debt issued outside of issuance programmes."

Extendible Notes

Extendible Notes are Callable Floating Rate Notes sold to U.S domestic investors with an initial maturity of 13 months but with the option to continuously extend the maturity on a monthly basis subject to a maximum of 5 years.

These proposals are supported by Group ALCO.

Approval Requested

The Court is requested to approve the establishment of a €5bn French Domestic Commercial Paper programme with Société Générale as Arranger and dealer alongside four other banks and to delegate to the Non-Equity Capital Committee, authority to take all decisions, do all acts and approve all documentation to give effect to this decision.

The Court is requested to approve the issuance of Senior debt in the form of Extendible Notes and to delegate to the Non-Equity Capital Committee, authority to take all decisions, do all acts and approve all documentation to give effect to this decision.

John O'Donovan
6 September 2005

Paper for Court – Tuesday 21 March 2006 **Agenda Item No: 3.1 (i)**

Capital and Balance Sheet Management and Trends

1. Purpose

The purpose of this paper, largely in slide format, is to share with the Court an overview of the Bank's capital and funding outlook and to describe managements' approach to addressing the related issues.

2. Overview

The Group has achieved strong growth in its balance sheet over the last number of years largely driven by buoyant customer lending across all its businesses operating in strong economies and following material investment by the Group. The success of the Group in growing its assets, at acceptable margins and good quality, places it in a strong position in terms of growth momentum.

The level of asset growth delivered and expected creates a requirement to provide material amounts of funding at a time when customer deposits are growing more slowly and hence has led to a major increase in funding from the wholesale markets. This lending growth has also led to a need to significantly add to the Group's capital base as required by regulators, rating agencies and debt investors. The Group's internally generated capital is able to support growth in risk-weighted assets of 15/16% per annum from retained profits but as recent growth has exceeded this rate additional non-equity Tier 1 debt capital raising has been required.

3. High level messages

Asset growth

- The Group's assets excluding life assurance are expected to grow by approximately 25% during 2005/06 and by a further 18% during 2006/07
- From March 2000 to March 2006 non-life assets will have increased by €86bn to €150bn with €57bn of this rise due to lending (balance mainly reflects required holdings of liquid assets).

Funding

- Since 2001 the ratio of customer loans to deposits has moved from 112% to a forecast 168% at March 2006 - wholesale funding has filled the gap.
- In the 2 years between March 2004 and March 2006 wholesale funding is expected to increase by c.125% to €68bn – the Group has diversified the sources of funding with the use of 4 new funding programmes in the last two years. In addition the average maturity of wholesale funding has been extended.
- At September 2005 customer deposits comprised 42% of non-life liabilities with wholesale funding (deposits by banks and debt securities issued) equalling 45% - the first time wholesale funding had exceeded customer deposits.
- During 2006/07 of the €26.5bn increased funding required to support expected growth in assets 56% is projected to come from wholesale funding with 32% from customer deposits.

Capital

- At March 2006 the Group will have €11bn of capital and a Tier 1 ratio of 7.4%.
- The Equity Tier 1 ratio, which is closely watched by rating agencies, will have declined from 6.2% (pre 2003 & 2004 stock buybacks) to 4.8% at March 2006 (the regulatory minimum is 4%). The amount of Equity Tier 1 held by the Group is the key constraint on providing capital to support asset growth.
- During 2005/06 Tier 1 capital is projected to rise by €1.5bn (with retained earnings adding €0.7bn and non-equity Tier 1 debt issuance €0.9bn).
- All banks maintain Tier 1 above regulatory minima levels so as to deliver capital levels to allow for earnings volatility and to satisfy rating agency and market expectations.
- Basel II is expected to deliver capital savings although these are likely to be principally through lower Tier 2 capital requirements. However with ongoing mix changes in the Group's loan portfolio the level of savings remains uncertain.
- In this strong growth environment returns on equity have remained above 20% although asset returns have declined with equity returns maintained as lower margins have been offset by lower loan losses and ongoing reductions in the costs to asset ratio.

- With strong growth in assets capital has become more of a scarce resource. Organic growth is the most immediate destination of capital generated given the marginal returns currently achievable. Whilst dividends reduce the capital available for organic growth there is a market expectation that dividends will be in a certain range compared to peers.
- With strong organic growth acquisition capacity is limited absent new equity – in addition with modest initial returns from acquisitions organic growth returns will typically be higher.
- Current momentum, if continued would see the balance sheet increase circa 60% from €161bn at March 2006 to circa €254bn by March 2009 with capital growing from €11bn to €17bn requiring the raising of circa €5bn of new capital (allowing for refinancing of €1bn).

4. Issues arising and possible approaches to address them

Increased reliance on wholesale funding

- The strong growth in assets combined with slower growth in deposits has resulted in a significant increase in the Group's reliance on wholesale funding.
- In recognition of this trend the Group will need to consider, for example, increasing its focus on customer deposit gathering, reducing asset growth, the sale or securitisation of assets including originating assets with the intention of on selling, the further diversification of funding sources and lengthening the maturity profile of its funding.

Increased stretch in capital structure

- Given that retained earnings are sufficient to provide capital support for 15/16% annual growth in risk weighted assets (RWA) level the Group's capital structure has become increasingly dependent on debt capital.
- Options to reconcile the capacity of the Group to originate RWA growth to the level supportable from retained earnings are broadly similar to those options appropriate to managing wholesale funding including reduced asset growth and securitisation although other levers such as dividend policy are also available.

Reducing returns on assets

- Lower net interest margins have led to a reduction in return on assets although returns on equity have been maintained due to lower costs and loan losses as a percentage of assets. Loan losses however will not remain so low in the medium term whilst the debt to equity ratio in capital has limitations.
- Options to deal with these trends include a more selective origination approach, the sale of lower yielding assets, an increased emphasis on lower capital consumption business (largely fee based) and the aggressive implementation of the Strategic Transformation Programme to reduce the cost income and cost to assets ratios

5. Appendices

For information four appendices have been included covering the following:

1. The components of Regulatory Capital
2. Detailed Balance Sheet explanations
3. Basel II
4. Ratings and Rating Agencies

6. Summary

In the attached slide presentation the various topics relating to managing the balance sheet, funding and the capital of the Group are elaborated upon. In addition return on assets and capital is briefly referred to. Finally a menu of possible future approaches to these topics are highlighted some of which are at various degrees of development and consideration by management with a view to optimising the management of the Group's balance sheet and capital.

As part of the ICAAP Basel II process (see Paper 3.1(ii)) a capital plan (minimum 3 year horizon) will be presented to the Court in July 2006 with a final ICAAP to be presented for Court approval in September 2006 prior to its submission to the Financial Regulator. Management will update the Court on the development of the various initiatives currently being considered when making these submissions and also when presenting a paper on 2006/07 capital requirements in May 2006.

John O'Donovan
21 March 2006

MERCER OLIVER WYMAN

13 December 2005

Future Growth Prospects and Challenges

FINANCIAL SERVICES CONSULTING

CONFIDENTIAL

LON-MOWGN1MKT-019

Principal driving forces

'Megatrends'		Key effects
■ Globalisation ■ Demographic shifts ■ Technology ■ Regulatory initiatives ■ Consolidation ■ Securitisation and disintermediation ■ Excess capital ■ Competitive intensity	→	■ Attractive overall growth in revenues (6% per annum) and economic profits (5% per annum) ■ Aggressive competition, both bank and non-bank ■ Requirement for innovation and fast response ■ Need to choose growth opportunities selectively ■ Requirement for effective quantification and management of risk

Copyright © 2005 Mercer Oliver Wyman

Skill in quantifying and managing risk will be essential for growth

- Many of the lowest risk areas tend to commoditise
- New geographies, products and markets provide good potential growth but unfamiliar risk profiles
- Financial risks will demand more quantification and precision regarding risk appetite
- Operational risks are likely to increase due to the dynamic nature of the environment
- Competitive risks will be higher because of lower barriers to entry in various parts of the value chain
- …Recognising that some of the best rewards for the Bank, its competitors, and international peers have historically been in apparently high risk businesses

Copyright © 2005 Mercer Oliver Wyman

Questions

1. What new risks are the megatrends driving?

2. Do you understand the risk-adjusted returns and how they relate to sources of competitive advantage in:
   - Your current portfolio?
   - Your target portfolio?

3. What are the implications of Basel II for future growth/portfolio shape and composition?

4. How do you organise for growth:
   - Role of centre?
   - Role of business units?

Copyright © 2005 Mercer Oliver Wyman

Questions cont'd

5. Will deep customer 'wallet' penetration be more important in driving growth than will product innovation? Should the Group organise around customer segments rather than products?

6. What is your risk appetite and how is this articulated?

Copyright © 2005 Mercer Oliver Wyman

understood that Robbie Kelleher had issue a sell advice on all Irish Banks to Davy's private clients.

2. Use of Contingency Liquidity

PF outlined the chart which showed the level of eligible assets which could be used current availability of contingent liquidity to the Group from the various central bank facilities. The Group was currently positioning all of its eligible assets so that they would be available for use and it was expected that this work would be completed by close of business on the 30 September.

JB explained that based on the current proposed borrowing from the ECB and the collateral required for the Goldman Sachs transaction the level of collateral at the 3/10/2008 would be circa €23bn. However it should be noted that there is a significant risk to non-GM deposits over the next few days (say €2bn per day) together with further risk (say €1bn per day) of GM deposits falling – if these risks materialise collateral at 3/10/2008 would be €11bn. The following week the estimate based on upon the unwinding of the Goldman Sachs transaction and the continued forecast in customer deposits the balance would be €21bn. However, if one builds in the further risks to both the GM and non-GM deposits as set out above, the collateral balance would be €9bn.

BJG joined the meeting at this point.

JOD gave a recap of the points discussed to date.

3. Government Guarantee

BJG informed the Committee that a meeting had been arranged with the Taoiseach for later than evening at which a group of senior bankers would discuss the possibility of a Government guarantee being provided for all borrowings by Irish institutions (customer deposits, interbank borrowings and debt securities issued). The Committee were of the view that while the issue of such a guarantee would be helpful it would not remove the need for action to address any fundamental issues in any single institution. The Committee prepared a draft of such a guarantee and the list of institutions that it should cover for use by the BJG in his meeting later that evening.

The meeting concluded.

THEME: B4

Impact of the property valuation methodologies on banks' credit risk management

LINE OF INQUIRY: B4a

Adequacy of the valuation policies and assumptions to accurately assess loan security

Bank of Ireland

Commercial Property Valuation Policy

Document Owner: Head of Risk Strategy, Analysis & Reporting

Approved By: Court, on recommendation of CRC and GRPC

Approval Date: 28th June 2013

Author: Credit Policy Unit

Review: Annual

1.0 Introduction

Bank of Ireland Group's (the 'Group') approach to credit risk is outlined in the Group Credit Policy & Group Credit Framework. That document identifies the Group's formal governance process around credit risk, sets out the broad parameters within which the Group wishes to carry on its credit risk business and outlines the core principles that govern the manner in which credit services and facilities are structured, approved, delivered and managed.

Although repayment capacity is the primary criterion in credit assessment, it is the norm that security will also be required in the majority of circumstances except in the case of non-mortgage consumer type businesses. The nature and level of security required depends, among other factors, upon the extent of the exposure, type of facility being provided, the term of the facility, the borrower's own cash input and the lender's evaluation of the level of risk involved in the proposal.

In line with the Group Credit Framework, responsibility for the valuation of commercial property collateral at origination and its periodic revaluation lies with designated lenders/business units.

The **Commercial Property Valuation Policy** ('the Policy) sets out the Group's approach to the valuation of commercial property held as collateral.

The Policy applies to commercial property lending (excluding residential mortgage lending) where the gross loan exposure[1] is in excess of €1m. The Policy will also have application to SME credit exposures, where commercial property assets form a material element of the loan collateral.

2.0 Governance

The Policy is approved by the Court of Directors on the recommendation of GRPC and CRC. The Credit Policy Unit reviews the document annually in conjunction with the document owner, the Head of Risk Strategy, Analysis & Reporting.

The Policy and subsequent updates are cascaded to relevant senior management and are also published on **in**site.

[1] Gross loan exposure is loan exposure before impairment provisions.

3.0 Property Valuation Principles

3.1 Types of Valuations

External Market Valuations

External Market Valuations are valuations carried out by independent third party professional valuers, in line with the criteria set out in the External Market Valuation Standards (see Section 4.0 below).

Internally Assessed Valuations

Internally Assessed Valuations are valuations which are appropriately determined by lending Business Units in line with the guidance set out in the Commercial Property Valuation Metrics (see below) and which have been subject to review and challenge by the independent credit underwriting function and formally approved as part of the normal credit process[2].

Internally Assessed Valuations are informed by the most appropriate sources available for the assets in question. This may include property specific information/characteristics, local market knowledge, comparable transactions, professional advice (e.g. asset management reports) or a combination thereof, in line with the guidance set out in the Commercial Property Valuation Metrics.

The Commercial Property Valuation Metrics set out in more detail the guidelines and methodologies to be adopted across the Group by business units/lenders in assessing commercial property collateral values. The Commercial Property Valuation Metrics are approved at least annually by GRPC.

The Policy and the Commercial Property Valuation Metrics have both benefited from input from the independent Real Estate Advisory Unit, which is part of the Challenged Assets Group in the Credit & Market Risk function. In conjunction with the implementation of the new Policy and formalised Commercial Property Valuation Metrics, it is also planned to enhance the existing internal value assessment process through the further recruitment of additional qualified Chartered Surveyors into the Credit & Market Risk function to provide support to lenders/underwriters in their assessment of collateral values, enhance the provision of appropriate training, as required, and support the centralised assurance of the Commercial Property Valuation Metrics.

3.2 Frequency & Timing of Valuations

Loan Origination - Valuation Requirements

For new property loans between €1m and €50m, an External Market Valuation should be obtained prior to drawdown.

For new property loans in excess of €50m, two External Market Valuations should be obtained prior to drawdown. In the event of material variances between the valuations, an analysis of the inputs / assumptions should be carried out to understand the reasons behind such variances, with the proposed applicable valuation to be subject to formal credit approval.

[2] consistent with the Group's approach to valuing commercial property collateral in accordance with the requirements of the Capital Requirements Directive.

Loan Review – Valuation Requirements

The Group's approach to the formal review of credit relationships is set out in the Group Credit Framework. The frequency and nature of formal reviews of credit relationships reflects the scale of exposure, the PD and / or credit grade assigned, terms of the approval, the existence of financial covenants, the borrower's circumstances, the operation of the facility, the likely cost-effectiveness of such reviews and, in certain circumstances, the ability of the Group to automate the borrower review.

Where commercial property collateral is held, the value of the collateral should be reassessed at least annually as part of the credit review process.

At a minimum, such assessments should take the form of an Internally Assessed Valuation to be carried out in accordance with the guidelines and methodologies set out in the Commercial Property Valuation Metrics, and be subject to independent review and challenge by the relevant credit underwriting function, and formally approved as part of the normal credit approval process.

Loan Review – Impairment Assessment Triggers and Impaired Loans Valuation Requirements

The value of the underlying property collateral should be re-assessed on the occurrence of an 'Impairment Assessment Trigger' or on migration to 'Impaired Loans' status.

'Impairment Assessment Trigger' and 'Impaired Loans' are defined in Group Impairment Policy, as follows;.

> *An **"Impairment Assessment Trigger"** is an event which of itself is a direct representation of a loss event, and that event is likely to have a negative impact on the estimated future cash flows (and/ or collateral values) of the loan asset, giving rise to the requirement to test for impairment by completion of a Discounted Cash Flow Analysis ("DCF"). Examples of portfolio specific impairment assessment triggers are outlined in Group Impairment Policy.*
>
> ***'Impaired Loans'** are loans that carry a specific impairment provision as a result of either individual or collective assessment for impairment, together with loans (excluding residential mortgages) which are more than 90 days in arrears.*

For loans in excess of €20m, an External Market Valuation[3] should be obtained at 'Impairment Assessment Trigger' or on migration to 'Impaired Loans' status, whichever is earlier.

However, where the value of individual commercial properties held as collateral for loans in excess of €20m are individually estimated to be less than €2m, such individual properties may be assessed using an Internally Assessed Valuation.

For loans between €1m and €20m, an Internally Assessed Valuation should be carried out at 'Impairment Assessment Trigger' or on migration to 'Impaired Loans' status.

[3] Where applicable, External Market Valuations should be obtained as soon as practicable following credit approval and a Valuation Summary sheet submitted to the relevant Credit Unit in line with Section 4.0 below.

4.0 External Market Valuation Standards

In order to ensure consistency across the Group, each relevant Business Unit should implement appropriate processes and procedures to ensure that the instruction and utilisation of external property valuations is carried out in line with these External Market Valuation Standards.

The areas covered by the External Market Valuation Standards are;

- Valuer Panel Management & Performance Management
- Letters of Instruction & Letters of Engagement
- Conflicts of Interest
- Valuation Report Content & Internal Review of Valuations

Valuer Panel Management & Performance Management

Each relevant Business Unit should have an approved panel of valuers using appropriate selection criteria consistent with the characteristics of the loan portfolio at risk. Group Procurement should be advised of the final panel. The key criteria for assessing inclusion on an approved valuer panel are;

- The valuer should be appropriately qualified and capable of providing a Market Valuation in accordance with relevant professional valuation standards i.e. Red Book, Blue Book or White Book[4]. For larger properties, it would be preferable that the valuer is registered under an appropriate 'Valuer Registration' scheme in ROI or UK.

- Valuer experience should be commensurate with the value, location, type of the property being valued e.g. large shopping centre, office block, residential development, etc.

- The valuer should have PI insurance cover appropriate to the value of the underlying assets they will be valuing[5]. While valuers may seek to introduce a liability cap (e.g. based on a percentage of the reported value), Business Units should seek to obtain the highest level of cover having regard to the underlying asset being valued.

Valuer panels should be reviewed annually. The Real Estate Advisory Unit (part of the Challenged Assets Group) will act as a co-ordination point for annual panel reviews (with the panel decisions remaining with the business units). Where a Business Unit has experienced material performance issues with a particular valuer or firm, and proposes to remove them from their panel, this should be advised to the Real Estate Advisory Unit which will communicate panel management issues to other relevant Business Units.

[4] The Royal Institute of Chartered Surveyors ('RICS') Valuation Professional Standards "Red Book" is a framework for best practice in the execution and delivery of valuations and sets out procedural rules and guidance for valuers ensuring valuations are undertaken in compliance with the highest professional standards. The European Group of Valuers Association "Blue book" and the International Valuation Standards Council's "White Book" are acceptable alternative international valuation standards.

[5] PI cover across valuation firms in the ROI market typically ranges from €5m - €15m (on a 'per asset' basis) for the smaller firms to €15m – €25m for the larger firms.

Property Valuation Policy

Each Business Unit should maintain management information ('MI') in respect of external market valuation instructions issued, to include details of each instruction such as:

- Firm instructed
- Relationship Manager who issued the instruction
- Level of Fees
- Asset Name / Location and quantum of valuation

This MI will facilitate a Business Unit review of volumes of business being directed to individual firms and other patterns that may merit further consideration. Each Business Unit should have appropriate governance in this area including an MI review and sign-off protocol.

Letters of Instruction & Letters of Engagement

The objective in obtaining an External Market Valuation is to determine the "market value" of the collateral underpinning the loan. In order for the Group to be able to place reliance on a valuation provided, clear written instructions should be provided to valuers and their reports addressed to the Bank.

To achieve consistency in this regard, a Group standard Letter of Instruction has been developed which should be adopted when engaging an external market valuation of commercial property collateral in line with this Policy.

The Standard Letter of Instruction should be reviewed annually (and updated where appropriate) by the Head of the Real Estate Advisory Unit.

In relation to the formal engagement process, two documents are executed by the Bank and the valuer: (i) Group standard Letter of Instruction, and (ii) Valuers Letter of Engagement

The Group standard Letter of Instruction requires the valuer to submit their Letter of Engagement once they have accepted the instruction. The terms of the Letter of Engagement should be reviewed by the lender prior to acceptance on behalf of the Bank to ensure that it is compatible with the Letter of Instruction issued, and that any material deviations or exclusions are reviewed and signed off in accordance with the relevant Business Unit processes and procedures.

Conflicts of Interest

All valuations incorporate professional judgement. In order to ensure the highest standard of reliability / robustness in the valuation process, valuer conflicts of interest should be avoided. Potential conflicts would include valuer firms who acted for the borrower in the acquisition of the property or are involved in the asset management of the property being valued on behalf of the borrower.

Both the standard Letter of Instruction and RICS standards require disclosure in respect of conflicts of interest, and the valuers duty of care to the bank is emphasised in the Letter of Instruction.

Additionally, fees payable to the valuer for the relevant instruction will also be set out in the Letter of Instruction and the fees should be discharged by the Bank.

Valuation Report Content & Internal Review of Valuations

Valuation inputs and assumptions are critical components in the loan origination and credit decision process. This is relevant to both the qualitative analysis and quantitative calculations of the value.

It is important to ensure that the key aspects of the valuation are robust and, to allow for consistency across the Group, two standardised templates that been developed to support each Business Unit's processes and procedures:

- A standard "**Minimum Report Content**" checklist has been incorporated into the Group standard Letter of Instruction pack.

  The "Minimum Report Content" checklist outlines both (i) Standard Content (common on all property valuations) and (ii) additional content specific to key asset types. The content of the standard checklist can be added to by lending teams as relevant in specific cases. Similar to the Letter of Instruction, the Minimum Report Content checklist should be reviewed annually by the Head of the Real Estate Advisory Unit.

- A standard "**Valuation Summary Sheet**" to be completed upon receipt of final valuation and submitted to the relevant Credit Unit, with copies retained on file.

  The Valuation Summary Sheet requires confirmation of key aspects of the valuation process including; engagement, basis of valuation, assumptions used, actual valuation vs. expectations, comparables/yields used etc. The Valuation Summary Sheet should be signed in accordance with existing Business Unit Credit submission sign-off protocols and submitted to Credit prior to drawdown of the new transaction, completion of a restructure or post recognition of an Impairment Assessment Indicator/Impairment (as relevant).

5.0 Training

Relevant Business and Credit Units should ensure that staff are trained in the appropriate methods and tools such that they can execute their roles in accordance with this policy.

CRC Agenda Item No. 6

PAPER FOR CRC
27TH JUNE, 2013

COMMERCIAL PROPERTY VALUATION POLICY

Introduction

The attached new Commercial Property Valuation Policy has been developed to formalise existing practices in relation to commercial property collateral valuations and as part of the Group's implementation of the regulatory guidance issued by the Central Bank of Ireland ('CBI'). The Policy has been considered by GRPC and is recommended to CRC, for onward recommendation to the Court for its approval.

Background

The CBI published the following guidance: "Valuation Processes in the Banking Crisis – Lessons Learned – Guiding the Future - December 2012".

The paper details perceived overriding areas of weakness and lessons learned in respect of valuations from the banking crisis, and provides guidance on recommended practice as a means of ensuring credit risk management standards are appropriate for future demands. Credit institutions are required to review their valuation processes and ensure they are appropriately documented and implemented.

While the CBI paper has guidance status, it states that the guidelines and recommendations contained therein represent appropriate process and procedures for credit institutions in considering property security valuations. As such, it "would consider material deviations from this guidance as contrary to good practice".

The guidance also complements the CBI paper 'Impairment Provisioning and Disclosures Guidelines – December 2011' as valuation of collateral is a key consideration in determining impairment provisions. These guidelines were fully implemented by the Group in 2012.

BoI Group Approach & Governance

In line with the Group Credit Framework, responsibility for the valuation of commercial property collateral at origination and its periodic re-assessment lies with designated lenders/business units.

The Group has developed a **Commercial Property Valuation Policy (the 'Policy')** which formalises existing practices in relation to commercial property collateral valuations and which is consistent with regulatory guidance.

The Policy sets out the Group's approach to the valuation of commercial property collateral and the key principles applying in respect of the type and frequency of valuation required. The Policy also sets out the Group's approach to valuer panel management; the issuance of letters of instruction / engagement; managing of conflicts of interest; and valuation report content.

The Policy will be approved annually by the Court on the recommendation of the Court Risk Committee and the Group Risk Policy Committee.

The Policy is supported by the ***Commercial Property Valuation Metrics*** which sets out in more detail the guidelines and valuation methodologies to be adopted across the Group by business units/lenders in assessing commercial property collateral values. Such valuations ('Internally Assessed Valuations') are subject to review and challenge by the independent credit underwriting function and formally approved as part of the normal credit process. This is consistent with the Group's approach to independently valuing property collateral in accordance with the requirements of the Capital Requirements Directive.

A key objective of the Commercial Property Valuation Metrics is to ensure that a consistent approach to internally assessed valuations continues to be adopted across the Group, and its recent approval by GRPC (11th June) applies formal governance to what are existing established practices within the Group. A copy of the Commercial Property Valuation Metrics approved by GRPC is attached for information / reference. It will be subject to at least annual review by GRPC.

The Policy and the Commercial Property Valuation Metrics have both benefited from input from the independent Real Estate Advisory Unit, which is part of the Challenged Assets Group in the Credit & Market Risk function. In conjunction with the implementation of the new Policy and formalised Commercial Property Valuation Metrics, it is also planned to enhance the existing internal value assessment process through the further recruitment of additional qualified Chartered Surveyors into the Credit & Market Risk function to provide support to lenders/underwriters in their assessment of collateral values, enhance the provision of appropriate training, as required, and support the centralised assurance of the Commercial Property Valuation Metrics.

The governance for approval of this Commercial Property Valuation Policy and the Commercial Property Valuation Metrics is consistent with the Group's approach to impairment whereby the annually reviewed Group Impairment Policy is approved by the Court, and the more granular and more frequently reviewed impairment methodologies are approved by GRPC.

Conclusion

The CRC is asked to recommend to the Court the approval of the Commercial Property Valuation Policy which is consistent with regulatory guidance, and which has been reviewed by and carries the recommendation of GRPC.

Declan Murray
Head of Risk Strategy, Analysis & Reporting

Vincent Mulvey
Chief Credit & Market Risk Officer

THEME: B4

Impact of the property valuation methodologies on banks' credit risk management

LINE OF INQUIRY: B4b

Independence of the professional advisors in valuing property assets

Bank of Ireland (BOI) worked with a wide range of property valuation firms across the Republic of Ireland (ROI) during the period 2001 to 2008 in relation to property valuation services on properties in ROI financed by BOI.

BOI has conducted a best efforts review of its available records (which we believe would cover the majority of payments) and can confirm, from the reviewed records, that BOI did not make aggregate payments which exceeded €25 million to any individual property valuation firm during the relevant period.

From the available records, a table is provided below of the aggregate fees paid by BOI to the 'Top 5' property valuation firms, whose aggregate fees could include payments for services such as searches, landlord services, etc, i.e. not only valuation services on properties in ROI financed by BOI.

This table demonstrates that the value of payments made by BOI to property valuation firms in ROI during the relevant period is significantly under the €25m threshold with the highest aggregate payment being c. €1.2m.

	Property Valuation Firm	€'m
1	Jones Lang LaSalle	c. 1.2
2	Lisney	c. 0.7
3	Sherry Fitzgerald	c. 0.2
4	Quirke Estate Agents	c. 0.2
5	Lambert Smith Hampton	c. 0.1

In most cases during the relevant period, the valuation fee was paid by the borrower and BOI does not have a record of the fees paid by the borrower in respect of such valuations.

THEME: B4

Impact of the property valuation methodologies on banks' credit risk management

LINE OF INQUIRY: B4c

Adequacy of internal controls over perfection of security and policy exceptions

Extract from Group Credit Policy as approved January 1994

Responsibility for the proper completion and regular revaluation of the security lies with the designated loan officer. The guidance of Area/Division/Group Legal Advisers should be sought where appropriate.

Extract from Group Credit Policy as approved July 2006

Responsibility for the proper completion and regular revaluation of the security lies with the designated loan officer. The guidance of Area/Division/Group Legal Advisers should be sought where appropriate – Business Unit Credit Risk Mitigation policies contain detailed parameters of how security types should be valued / revalued.

Extract from Group Credit Policy as approved June 2007

"Responsibility for the proper completion and regular revaluation of the security lies with the designated loan officer. The guidance of Area/Division/Group Legal Advisers should be sought where appropriate. Business Unit Security/Credit Procedures Manuals should contain detailed parameters of how security types should be valued / revalued and frequency of such. Business Units that avail of Credit Risk Mitigation (CRM) should be cognisant of the valuation requirements under their Credit Risk Mitigation Policies/Procedures which may vary from those required operationally."

Extract from Group Credit Policy as approved June 2008

Responsibility for the proper completion and regular revaluation of the security lies with the designated lender. The guidance of Area/Division/Group Legal Advisers should be sought where appropriate. Business Unit Security/Credit Procedures Manuals should contain detailed parameters of how security types should be valued / revalued and frequency of such. Business Units that avail of "Use of Collateral in Minimising Capital" should be cognisant of the valuation requirements under their "Use of Collateral in Minimising Capital" policy which may vary from those required operationally.

GROUP RISK POLICY COMMITTEE
OPERATIONAL MEETING MINUTES
25th April, 2006

PRESENT: **R.M. Murphy (Chair), B.J Goggin (for item 2), J.B. Clifford, J.V. Mulvey, D. Donovan, R. Boucher, B. Lillis, J. O'Donovan. J. Davidson, Pat O'Donnell (item 1), Tom Keating (item 6).**

APOLOGIES: **D. Crowley**

FOR DISCUSSION

EXTRACT

1. Asset Quality Report

The quarterly review of credit quality presented to the committee outlined a 28% increase in the loan book to €105.8bn with Quality remaining satisfactory at 98%.

However, the report highlights a number of issues, which the members determined need close attention. The level of unsatisfactory SBM and BM reviews doubled in the year to end March 2006. The underlying reasons for many of the unsatisfactory reviews are considered to be quite basic covering areas such as:

- Management of excesses.
- Drawdown of facilities in accordance with the terms of sanction.
- Reporting of accounts to Business Banking Credit.

Initial discussions have already taken place between RFSI and GCR and it is accepted that there are training and disciplinary issues to be addressed. A thirty day remedial plan is to be produced within two weeks and will be actioned by RFSI.

The members were advised that an action plan is being implemented to resolve the previously advised problems within the Legal Services Unit. However, RB advised that his preference is to outsource all security taking and he intended to agree this course of action with the Head of Group Legal within two weeks.

Deficiencies with Credit Management Information within Retail have been to some degree caused by poor coding within the bookkeeping system. A specific incident within a branch was outlined to the members and PO'D was asked to provide more detail to the members separately. The related need to improve portfolio allocation data is now the subject of a specific project with a dedicated resource.

A number of control issues were also identified within the Tele Media team within Corporate Banking. Mainly attributed to this team being new to the Bank and not familiar with the credit culture of the Group. The recent restructure within Corporate has led to a repositioning of the team, which it is hoped will better support its integration.

GROUP RISK POLICY COMMITTEE
OPERATIONAL MEETING MINUTES
26th January, 2006

PRESENT:	**R. M. Murphy (Chair), J.V. Mulvey, D. Donovan, J. O' Donovan, R. Keenan, R. Boucher (non voting)** **J. Davidson** **P. O'Donnell (Item 1)**
APOLOGIES:	**B. J. Goggin, J. B. Clifford, D. Crowley.**

EXTRACT

FOR DISCUSSION

1. Asset Quality Report

POD presented the Review of Credit Quality for the quarter ended December 2005. Report outlines a 7% increase in the book to €102bn with quality remaining satisfactory at 98%.

The key issues highlighted relate to an increase in the number of unsatisfactory portfolio ratings and serious deficiencies within the Legal Services Unit.

Within Retail six Senior Business Manager portfolios and twenty one Business Manager portfolios were rated unsatisfactory. The number of unsatisfactory BM reviews has almost doubled since March 2005 and the report emphasises a need for a structured credit training programme at Business Manager level. RB undertook to take forward the training requirement with Accenture.

A review of the Legal Services Unit identified a backlog of files, some with serious issues, which could expose the Bank to significant risks. An external legal firm has been brought in to rectify the key legal deficiencies and to support the rehabilitation of the Unit. RB undertook to deal with this issue also and to circulate the members with detail of the rectification plan and progress, prior to the next meeting.

The Committee was advised that the Burdale book has been graded and that the data will be included in the next review.

GROUP RISK POLICY COMMITTEE
OPERATIONAL MEETING MINUTES
1st May, 2008

PRESENT: **R.M. Murphy (Chair), J. O'Donovan, D. Crowley, M. Sweeney, J.V. Mulvey, J.B. Clifford and D. Donovan.**
J. Davidson (Secretary, non voting), B. Peters and L. Joyce (for item 1), T. McGivney (for item 2), A. Wolff, L. Clooney and C. Munro (for item 3), P. Carey (for items 3 and 6) and T. Hayes, D. Walsh and G. Hannon (for items 4 and 5).
APOLOGIES: **B.J. Goggin and R. Boucher.**

EXTRACT

FOR APPROVAL:

2. Update on BBRoI Asset Quality Action Plan

- This is the third update on the BBRoI Asset Quality Action Plan presented to GRPC and it outlined the progress achieved since the plan was first presented in early 2007.
    - The number of unsatisfactory portfolio reviews reduced significantly from 29 to 10 at the end of March 2008.
    - Overdue reviews reduced to 3.4% (7.3%) and are now within the 5% tolerance level.
    - Excesses reduced from €68m to €45m and are now also within the 5% tolerance level.
    - Excesses are being tightly managed with direct interaction between the Regional Business Managers, the Credit Quality Managers and the Head of Credit BBRoI.
- There has been an emphasis on upskilling the lender population with 60 SBMs put through a tailored, one day lending programme during the year.
- As the credit environment has evolved in recent months the Risk Management Unit ("RMU") in Mespil Road has become an important feature of BB management of the potentially difficult cases.
    - The RMU is supporting the line in attempting to achieve early identification of issues and to manage those situations proactively.
- The members commended the progress to date and approved the continuation of the Action Plan.

THEME: B5

Impact of the remuneration arrangements on banks' risk management

LINE OF INQUIRY: B5a

Adequacy of the incentive and remuneration arrangements to promote sound risk governance

Ref – Category 1 r – 10 highest bonus and shares / share options allocations – each year

The Group has set out a schedule of the 10 highest bonus and shares / share options allocations each year. This schedule separately identifies the amount of any cash award each year and the economic value to the individual of any shares / options allocated each year.

In respect of share options that vested under the Executive Stock Option Scheme and therefore allocated in any particular period, the decision to exercise or otherwise and the timing of any such exercise clearly rested with each individual. In arriving at the economic value included in the attached schedule, the Group has quantified the economic value of options granted under the Executive Stock Option Scheme by reference to the difference between the share price that pertained on the date that the options vested with the individual and the exercise price embedded in the share option allocated. In order to do determine this economic value, we have had to make an assumption that all participants exercised on the date that the award of share options vested.

We have also quantified the value of conditional share awards under the Long Term Performance Stock Plan and its successor, the Long Term Incentive Plan, by reference to the share price that pertained on the date of vesting. This is consistent with the value that would be used by the tax authorities in determining any tax liability for an individual who exercised such share options at that time.

For the years 2001 – 2003 inclusive, the Group operated different payroll systems and the Group had a number of subsidiaries that were sold in the intervening period. As a consequence the requested information is not currently available for these 3 years. The Group is using its best efforts to recover the relevant information from these periods and will forward this to the Committee as it becomes available.

In addition to the information requested at Category 1(r) the Group Chief Executive voluntarily decided to include below the same details in respect of any bonus and shares / share options allocations that were awarded to him in respect of each year. Ordinarily these amounts fell outside of the top 10 allocations each year but are they are set out below:

	RB Data Over Years				
	Year	EE Name	Total Cash Award	Economic Value of Stock award vested in year*	Assumed Total Variable Value
	2004	Mr Richie Boucher	175,000	-	175,000
	2005	Mr Richie Boucher	171,000	-	171,000
	2006	Mr Richie Boucher	431,017	75,000	506,017
	2007	Mr Richie Boucher	630,053	113,729	743,782
	2008	Mr Richie Boucher	553,793	-	553,793

Notes

- Based on the assumption that the option was exercised on the date that the share options vested

2004

#	EE Name	Total Cash Award	Economic Value of Stock award vested in year*	Total Assumed Value (Cash plus stock)
1	Oireachtas-P			
2	Mr Michael Soden	623,603	-	623,603
3	Mr Brian Goggin	525,000	67,808	592,808
4	Oireachtas-P			
5				
6				
7				
8				
⅂				
10	Mr Denis Donovan	288,000	46,170	334,170

2005

#	EE Name	Total Cash Award	Economic Value of Stock award vested in year*	Total Assumed Value (Cash plus stock)
1	Oireachtas-P			
2	Mr Brian Goggin	814,632	14,500	829,132
3	Oireachtas-P			
4	Mr Des Crowley	726,360	-	726,360
5	Oireachtas-P			
6				
7	Mr Denis Donovan	356,000	17,400	373,400
8	Oireachtas-P			
9				
10				

2006

EE Name	Total Cash Award	Economic Value of Stock award vested in year*	Total Assumed Value (Cash plus stock)
Mr Brian Goggin	1,841,853	176,000	2,017,853
Oireachtas-P			
Mr Denis Donovan	796,449	176,000	972,449
Oireachtas-P			
Mr John O'Donovan	668,533	176,000	844,533
Oireachtas-P			
Mr Cyril Dunne	418,862	176,000	594,862
Mr Des Crowley	393,693	176,000	569,693

2007

EE Name	Total Cash Award	Economic Value of Stock award vested in year*	Total Assumed Value (Cash plus stock)
Oireachtas-P			
Mr Brian Goggin	2,619,443	426,194	3,045,637
Oireachtas-P			
Mr Cyril Dunne	986,400	175,298	1,161,698
Oireachtas-P			
Mr Denis Donovan	831,803	175,298	1,007,100
Oireachtas-P			
Mr Des Crowley	762,005	175,298	937,302
Oireachtas-P			

2008

EE Name	Total Cash Award	Economic Value of Stock award vested in year*	Total Assumed Value (Cash plus stock)
Oireachtas-P			
Mr Brian Goggin	1,224,222	-	1,224,222
Oireachtas-P			
Mr Denis Donovan	723,040	-	723,040
Oireachtas-P			

Notes:
Top 10 listing has been developed by combining the Cash Variable Payments PLUS Assumed Value of Stock if vested in year.
Stock schemes vested/were allocated three years post award, subject to the achievement of 3 year performance conditions
Stock Awards in 2005-2008 did not vest as performance conditions were not achieved
* Under the LTPSP & LTIP this is the actual value of the award at vesting (the taxable value), if vested. Under ESOS, this is an **assumed** value **assuming** the individual exercised all options on date of vesting (which would be the tax value if exercised).

Example: An award made in 2004 vested in 2007, therefore the value of this award is displayed in the 2007 table as this is when economic value transferred to the participant.

Group Remuneration Committee

Terms of Reference

Approved by the Court in November 2008

Group Remuneration Committee

Terms of Reference

1. Objectives

This is the Committee of the Court responsible for ensuring that the Group's overall reward philosophy is consistent with achievement of the Group's strategic objectives and with the Group's values.

In addition, the Committee is responsible for ensuring that the reward structure for GEC members supports the objectives of the Credit Institutions (Financial Support) Scheme 2008, which are:

- Maintaining financial stability in the best interests of the public and the economy of the State
- Remedying a serious disturbance in the economy by safeguarding the financial system and economy of the State from the threat caused by the unprecedented turmoil in the international financial markets and the particular macro-economic conditions in the State
- Providing lasting systemic stability in the banking system and ensuring its long-term sustainability
- Preventing abuse of the guarantee
- Ensuring compliance with the requirements of the EU State aid and competition law
- Minimising the potential cost to the Exchequer and taxpayers

It is responsible for considering and making recommendations to the Court in respect of remuneration policy for Directors, senior management and top earners across the Group.

In framing remuneration policies, the Committee shall give full consideration to the principles and provisions of the Combined Code on Corporate Governance and to Schedule A to that Code.

The resultant policies will be reviewed by the Committee and will be ratified regularly by the Court.

2. Membership

2.1 The Committee will comprise a minimum of three independent non-Executive Directors. Membership and chairmanship of the Committee will be reviewed by the Court each year on the recommendation of the Group Nomination and Governance Committee in consultation with the Chairman of the Remuneration Committee. While there is no fixed term of membership, no more than three consecutive years would be expected from members. The general aim is to change the membership from time to time to ensure an appropriate balance between continuity and fresh perspectives.

2.2 The Group Chief Executive shall not be a member of the Committee but shall be in attendance as required. The Group Secretary shall be secretary of the Committee.

2.3 Each year the membership of the Committee will be displayed in the Annual Report and Accounts. When a Director, who is a member of the Committee, stands for re-election at the Annual General Court ("AGC"), his/her membership of the Committee will be noted on the proxy forms issued to stockholders.

3. Meetings and Quorum

3.1 The Committee will meet as often as it deems necessary for the discharge of its responsibilities.

3.2 The quorum for meetings shall be three members.

3.3 Any member of the Committee who has any personal interest in the matters to be considered by the Committee must so declare that interest and must absent himself/herself from any meeting while such issue is being considered.

4. Duties

Without limiting the generality of the Committee's objectives and given that neither the members of the Court nor the Committee participate in discussions or decisions relating to their own remuneration, the Committee shall;

4.1 Determine, after consultation with the Court, the Group Chief Executive's annual performance assessment and remuneration terms.

4.2 Determine the total remuneration package of each Executive Director and members of Senior Management, as defined from time to time by the Court including salary, bonus payments, all incentive payments, stock options, stock awards under the Group's Long Term Incentive Plan, service contracts and pension rights. In their deliberations, the Committee will have regard to the ongoing appropriateness and relevance of the remuneration policy, relevant market comparisons and practice together with any other relevant guidance.

4.3 Consider the implications of compensation policy/commitments for Executive Directors and senior management in the event of early termination, in order to ensure that any such payments are fair to all parties.

4.4 The remuneration of Non-Executive Directors of the Court shall be a matter for the Governor in consultation with the Group Chief Executive, the Group Secretary and the Head of Group HR. Such fees to be determined by the Court itself (non-Executives not participating in the decision).

4.5 Review annually the level of Board fees paid by subsidiary Boards and recommend to the Court, increases (if any), to be proposed to the Board of that subsidiary.

4.6 Review annually;

(1) all long term incentive arrangements and employee share schemes operated in the Group

(2) the level of Staff Stock Issue (SSI) in ROI and Stock Incentive Plan (UK)
(3) general pension increase applicable to all pensioners.

4.7 Determine the powers delegated to the Senior Executive Performance and Reward Management Committee and other Management Committees and consider the minutes of their deliberations.

4.8 Periodically review the remuneration policy for all Group staff and in particular review the basis of the overall remuneration of the top earners within the Group each year.

4.9 Approve any contract of employment or related contract, and any proposed amendments to these (including salary changes), with any Executive Director or with the Governor.

4.10 Consider and recommend to the Court policy on stockholder disclosure and related matters for all remuneration issues including the contents of the Directors' Remuneration Report contained in the Annual Report and Accounts. Ensure that such disclosure is clear and transparent.

4.11 Perform any other duties or responsibilities relating to remuneration issues delegated to the Committee by the Court from time to time.

5. Authority

5.1 The Committee will operate under delegated authority from the Court and the Chairman will report to the Court on the Committee's proceedings after each meeting. Committee minutes will also be circulated to the Court.

5.2 As and when required the Committee may access professional advice and may commission both informal and formal remuneration studies to assist its formulation of remuneration policy.

5.3 The Committee may invite any Director, Executive or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objectives.

The Committee is authorised to seek any information it requires from any employee of the Group to enable it discharge its responsibilities.

6. Performance Evaluation

6.1 The Committee shall, at least once a year, review its own performance and terms of reference and shall report its conclusions and recommend any changes it considers necessary to the Court for its approval.

THEME: C2

Role and effectiveness of the Policy appraisal regime before and during the crisis
Pre Crisis phase

LINE OF INQUIRY: C2c

The liquidity versus solvency debate

Court minute extract
19th MAY 2008

PRESENT: Mr R Burrows, Governor
Mr BJ Goggin, Group Chief Executive
Mr G Magan, Deputy Governor

Mr R Boucher	Mr D Crowley	Mr D Dilger
Mr D Donovan	Mr P Haran	Mr D Holt
Ms R Hynes	Mr J Kennedy	Mr D McCourt
Ms H A McSharry	Mr T Neill	Mr J O'Donovan

2. Risk Update on Credit & Liquidity

Mr. Murphy provided an update on the overall risk environment which was showing adverse trends in terms of economic growth, unemployment and consumer sentiment and, as a result, growth in retail sales, property prices and lending demand was in decline.

Meanwhile, liquidity in financial markets remained scarce, expensive and essentially restricted to terms of up to three months. This was putting pressure on Group balance sheet metrics – with 70% of wholesale funding now of 1 year duration or less compared with 60% pre-turmoil.

Arising from these pressures the Group is putting increased focus on customer deposit gathering, preparation for a bond issue and organising collateral to ensure ready access to ECB funding, should the need arise.

Mr. Murphy reported that, meanwhile, lending was being re-priced whenever possible and credit criteria were being tightened.

He reported some grade slippage especially in the landbank, construction and leveraged portfolios.

In subsequent discussion directors sought clarity on the progress of the Group's deposit gathering and it was explained that good progress was being achieved within UKFS and Capital Markets where cannibalisation of lower cost deposits was not a significant issue due to the low base involved. The Group's market share of deposits in RoI were reported to have increased but credit balances had declined in line with general economic conditions.

In conclusion, it was reported that the loan loss charge would be likely to exceed budget if there was any material increase in unemployment.

The Court noted Mr. Murphy's report.

5. Group Chief Executive's Report – April & May 2008

Group Liquidity & Funding:

As part of the Group's ongoing contingent liquidity management strategy the Court approved a second internal securitisation of up to £6bn of UK mortgage assets for the purpose of converting such assets into collateral for secured financing in the Capital Markets and, in the interim, by way of contingent liquidity measure, as collateral anticipated to be eligible for secured funding at the European Central Bank (ECB). The Court delegated authority to the Non Equity Capital Committee (NECC) to carry out all actions necessary to conclude the transaction including approval of the costs, size and timing of Colston 2 (the securitisation vehicle).

The Court also delegated authority to the NECC to carry out all actions necessary in respect of any future internal securitisations (typically involving a structure whereby Notes are held, at least initially by GovCo or another member of the Group; “Internal Securitisation”) as may, in the opinion of the Chief Financial Officer, be necessary or appropriate to support the liquidity position of the Group. The Court was advised that the residential mortgage portfolio of Bank of Ireland Home Mortgages (UK home mortgage provider) is currently being considered as the possible source of a further Internal Securitisation- ‘Colston 3’.

The Court also approved:

- an increase in size of the US Commercial Paper Programme (USCP) from $15bn to $20 billion
- the proposed listing of the Euro Commercial Paper Programme (ECP) on the Irish Stock Exchange. This listing is required to qualify as eligible collateral with the ECB; a pre-requisite to access to ECB funding.
- for the avoidance of doubt, that the delegation of authority to the NECC on 13 September 2005 in respect of the “…execution of funding”, includes all matters relating to the management and maintenance of the Group’s funding programmes (including, but not limited to, such matters as annual renewals, adding further currencies or adding dealers to the programmes), or any actions as may be considered by the Chief Financial Officer to be reasonably necessary or conducive to the effective management of the Group’s funding initiatives.

Bank of Ireland Group

Helena Mitchell
Consumer Protection Codes
Financial Regulator
PO Box 9138
College Green
Dublin 2

Group Regulatory & Operational Risk
Head Office, Lower Baggot Street, Dublin 2
Tel +353 (0)1 661 5933
Fax +353 (0)1 604 4048
www.bankofireland.ie

7/8/08
8/8/08
12/8/08

5 ~~July~~ Aug 2008

Re: Survey on Residential Mortgage Arrears and Repossessions

Dear Helena,

I refer to your letters to the Governor and Company of the Bank of Ireland (the "Bank"), Bank of Ireland Mortgage Bank ("BOIM") and ICS Building Society ("ICS") dated 1 July 2008 re the above.

Residential mortgages within Bank of Ireland Group are booked and managed mainly in both BOIM and ICS. There is a book of mortgages booked and managed in the Bank by either Private Banking or Business Banking but as these are predominately residential investment lending for companies, trusts or high net worth individuals these have been excluded for the purpose of this survey. The decision to exclude was further strengthened as no repossessions have taken place on this book.

The Arrears Handling procedures sent to the Financial Regulator on 18 July relate to both BOIM and ICS as does the response to Appendix 1 of the survey attached.

Schedule 1 of the survey is attached but both BOIM and ICS are detailed separately. Unfortunately due to the level of detail required in Schedule 2 of the survey it is not yet fully completed but I should be able to forward this early next week.

Jacky Mayne of this office will contact Miriam to discuss the most appropriate way to send the attachments to you electronically.

If you require any further information don't hesitate in contacting me.

Yours sincerely,

John Murphy
Head of Group Regulatory and Operational Risk

Bank of Ireland - The Governor and Company of the Bank of Ireland, incorporated by charter in Ireland with limited liability. A tied agent of New Ireland Assurance Company plc. trading as Bank of Ireland Life. Bank of Ireland is regulated by the Financial Regulator.

Registered No. C-1.
Head Office, Lower Baggot Street,
Dublin 2, Ireland

Directors: Richard Burrows (Governor) • George Magan (UK) (Deputy Governor) • Brian J. Goggin (Group Chief Executive) • Richie Boucher • Des Crowley • David Dilger • Denis Donovan • Paul Haran • Dennis Holt (UK) • Rose Hynes • Jerome Kennedy • Declan McCourt • Heather Ann McSharry • Terry Neill • John O'Donovan • John B. Clifford (Group Secretary)

Schedule 1

RESIDENTIAL MORTGAGE ARREARS AND REPOSSESSIONS SURVEY 2008

A. GENERAL - Bank of Ireland Mortgage Bank

Size of Residential Mortgage Loan Book as at End 2005	Total	Owner Occupier First Time Buyers	Owner Occupier Subsequent Buyers	Residential Investment Properties
Value €m	€ 12,706	€4,021	€5,659	€3,026
Number of Mortgage Accounts	128,802	37,776	69,224	21,802

Size of Residential Mortgage Loan Book as at End 2006	Total	Owner Occupier First Time Buyers	Owner Occupier Subsequent Buyers	Residential Investment Properties
Value €m	€ 17,043	€5,084	€7,529	€4,430
Number of Mortgage Accounts	143,866	39,974	77,037	26,855

Size of Residential Mortgage Loan Book as at End 2007	Total	Owner Occupier First Time Buyers	Owner Occupier Subsequent Buyers	Residential Investment Properties
Value €m	€ 19,230	€5,550	€8,444	€5,236
Number of Mortgage Accounts	148,982	40,380	79,699	28,903

Size of Residential Mortgage Loan Book as at End June 2008	Total	Owner Occupier First Time Buyers	Owner Occupier Subsequent Buyers	Residential Investment Properties
Value €m	€ 19,961	€5,673	€8,765	€5,523
Number of Mortgage Accounts	150,608	40,251	80,703	29,654

Source of Business End June 2008 % of Residential Mortgage Loan Book	Total	Owner Occupier First Time Buyers	Owner Occupier Subsequent Buyers	Residential Investment Properties
Direct Sales	89%	87%	90%	88%
Mortgage Intermediary	11%	13%	10%	12%

B. ARREARS - Bank of Ireland Mortgage Bank

Residential Mortage Arrears Levels at End December 2006	Total	Owner Occupier First Time Buyers	Owner Occupier Subsequent Buyers	Residential Investment Properties
3-6 months				
Value	€ 1,036,253	€411,029	€415,038	€210,186
Number of Mortgage Accounts	388	138	192	58
6-12 months				
Value	€ 1,699,023	€656,750	€837,540	€204,733
Number of Mortgage Accounts	316	103	185	28
Over 1 Year				
Value	€ 3,789,031	€1,257,682	€2,036,097	€495,252
Number of Mortgage Accounts	273	100	151	22

Residential Mortage Arrears Levels at End June 2008	Total	Owner Occupier First Time Buyers	Owner Occupier Subsequent Buyers	Residential Investment Properties
3-6 months				
Value	€ 2,034,736	€684,561	€772,937	€577,238
Number of Mortgage Accounts	440	136	207	97
6-12 months				
Value	€ 2,339,407	€693,288	€1,257,400	€388,719
Number of Mortgage Accounts	364	110	204	50

Schedule 1

RESIDENTIAL MORTGAGE ARREARS AND REPOSSESSIONS SURVEY 2008

A. GENERAL - ICS Building Society

Size of Residential Mortgage Loan Book as at End 2005	Total	Owner Occupier		Residential Investment Properties
		First Time Buyers	Subsequent Buyers	
Value €m	€ 4,868	€1,541	€2,376	€951
Number of Mortgage Accounts	42,962	10,430	26,210	6,322

Size of Residential Mortgage Loan Book as at End 2006	Total	Owner Occupier		Residential Investment Properties
		First Time Buyers	Subsequent Buyers	
Value €m	€ 6,198	€1,856	€2,878	€1,464
Number of Mortgage Accounts	45,127	10,741	26,453	7,933

Size of Residential Mortgage Loan Book as at End 2007	Total	Owner Occupier		Residential Investment Properties
		First Time Buyers	Subsequent Buyers	
Value €m	€ 6.429	€1.855	€2,976	€1,598
Number of Mortgage Accounts	43,697	10,215	25,330	8,152

Size of Residential Mortgage Loan Book as at End June 2008	Total	Owner Occupier		Residential Investment Properties
		First Time Buyers	Subsequent Buyers	
Value €m	€ 6,534	€1,853	€3.034	€1.647
Number of Mortgage Accounts	43,109	9,997	24,883	8,229

Source of Business End June 2008 % of Residential Mortgage Loan Book	Total	Owner Occupier		Residential Investment Properties
		First Time Buyers	Subsequent Buyers	
Direct Sales	26%	21%	32%	19%
Mortgage Intermediary	74%	79%	68%	81%

B. ARREARS - ICS Building Society

Residential Mortage Arrears Levels at End December 2006	Total	Owner Occupier		Residential Investment Properties
		First Time Buyers	Subsequent Buyers	
3-6 months				
Value	€ 688,961	€192,369	€431,229	€65,363
Number of Mortgage Accounts	229	47	168	14
6-12 months				
Value	€ 803,694	€245,332	€499,216	€59,146
Number of Mortgage Accounts	187	43	135	9
Over 1 Year				
Value	€ 2,855,693	€720,957	€1,974,857	€159,879
Number of Mortgage Accounts	223	59	154	10

Residential Mortage Arrears Levels at End June 2008	Total	Owner Occupier		Residential Investment Properties
		First Time Buyers	Subsequent Buyers	
3-6 months				
Value	€ 864,093	€239,482	€412,196	€212,415
Number of Mortgage Accounts	215	48	133	34
6-12 months				
Value	€ 1,467,210	€424,369	€745,839	€297,002
Number of Mortgage Accounts	189	47	115	27

THEME: C3

Appropriateness and effectiveness of the Department of Finance actions during crisis

LINE OF INQUIRY: C3b

Appropriateness of the bank guarantee decision

Group Liquidity Committee Minutes

29th September 2008

Present	**B. Goggin, R Boucher, Des Crowley (by telephone), J O' Donovan (Chair), D Donovan, A Jennings, L Love (by telephone), R Murphy, L. Mc Loughlin.**
Attending	**Tony Wyatt, Kevin Twomey, Paul Flynn, John Barry, Dan Loughery, Geraldine Deighan**
Minutes	**L Clooney**

---

1. Current Group Position

JB circulated a wholesale maturities table up to the 3 October 2008. The table assumed that total wholesale funding of €3.4bn would not be renewed and that a further net €4bn of customer deposits would be withdrawn from Global Markets. The result of these movements was a requirement for €6.3bn additional funding from the official facilities of Central Banks bringing the total of such borrowing to €11bn by close of business on the 3/10/2008. The borrowing facilities to be used were outlined in the paper. JB noted that the Group could also use the overnight marginal facility with the ECB which was currently drawn by the market for €7bn, so the stigma associated with drawings under this facility would appear to have diminished.

On deposits RB noted that Retail Ireland was currently retaining deposits but given the news today there was concern about the reaction tomorrow. DC stated that the while PCB and Offshore had lost £60m, the growth in the POFS instant access account was compensating for this. DC noted that he would discuss with TW the processing of these applications. PF explained that in BOIGM there had been a drop of €2bn in customer deposits over the day. A large depositor withdrew €790m as they were reviewing all Irish interbank lines. There were also outflows from other institutions that required the cash for their own reasons. Therefore the expected outturn on customer deposits would be €24.4bn. PF noted that work was still ongoing to gather tactical deposits which would amount to €600m. In addition the potential transactions with Merrill Lynch (€600M) and Goldman Sachs (€3bn) were still under discussion.

In the case of the Goldman Sachs transaction LL noted that the company was currently seeking collateral of €5bn with the transaction to be outstanding for two weeks. After due consideration the Committee agreed that the transaction could proceed provided that it would be unwound on Monday the 6 October 2008.

DL informed the meeting that there was a lot of noise in the market, with comments that Anglo had a serious problem. In addition there was a suggestion by some journalists that the Government would create a liquidity pool funded by the National Pension Fund. GD observed that the ISEQ had its worse day ever with no buying support and she

understood that Robbie Kelleher had issue a sell advice on all Irish Banks to Davy's private clients.

2. Use of Contingency Liquidity

PF outlined the chart which showed the level of eligible assets which could be used current availability of contingent liquidity to the Group from the various central bank facilities. The Group was currently positioning all of its eligible assets so that they would be available for use and it was expected that this work would be completed by close of business on the 30 September.

JB explained that based on the current proposed borrowing from the ECB and the collateral required for the Goldman Sachs transaction the level of collateral at the 3/10/2008 would be circa €23bn. However it should be noted that there is a significant risk to non-GM deposits over the next few days (say €2bn per day) together with further risk (say €1bn per day) of GM deposits falling – if these risks materialise collateral at 3/10/2008 would be €11bn. The following week the estimate based on upon the unwinding of the Goldman Sachs transaction and the continued forecast in customer deposits the balance would be €21bn. However, if one builds in the further risks to both the GM and non-GM deposits as set out above, the collateral balance would be €9bn.

BJG joined the meeting at this point.

JOD gave a recap of the points discussed to date.

3. Government Guarantee

BJG informed the Committee that a meeting had been arranged with the Taoiseach for later than evening at which a group of senior bankers would discuss the possibility of a Government guarantee being provided for all borrowings by Irish institutions (customer deposits, interbank borrowings and debt securities issued). The Committee were of the view that while the issue of such a guarantee would be helpful it would not remove the need for action to address any fundamental issues in any single institution. The Committee prepared a draft of such a guarantee and the list of institutions that it should cover for use by the BJG in his meeting later that evening.

The meeting concluded.

3. AOB

RMM informed the meeting that S&P had just reaffirmed the ratings of the four independently rated banks, including the Bank. The statement did make a distinction between Bank of Ireland and AIB and the two other banks, Anglo and ILP, which it noted were on negative outlook. In the latter case the external support provided by the guarantee was seen as balancing the deterioration in the credit profiles of these two institutions.

JOD noted that the cost of the guarantee could be very significant and we should ensure that we were actively involved in the development of the charging mechanism. BJG stated that he had a project underway working with Goldman Sachs to develop possible charging mechanisms which would take into account the risk profile of the institutions, drawing on the approach under Basel II. RB stated that the Group should make the point, when every possible, that it did not request the guarantee and did not require it.

The meeting concluded

Draft Group Liquidity Committee Minutes

8th October 2008

Present	**J O' Donovan (Chair), R Boucher, Des Crowley (by telephone), D Donovan, A Jennings, R Murphy, L. Mc Loughlin.**
Attending	**Tony Wyatt, Kevin Twomey, Paul Flynn, John Barry, Katrina Strecker**
Apologies:	**Brian Goggin**
Minutes	**L Clooney**

---

1. Current Group Position

AJ outlined the general market background as one in which the wholesale market was not functioning and where the Group was not achieving its normal refinancing activity. An example of this was that the BOIGM had issued a one month USD Yankee cd at 5% which swapped back to euro at 130 below. In addition the announcements by the authorities in the US and UK in the past two days showed that both these markets were now focused on resolving the issues for their domestic operators but this had a possible negative impact on the ability of external participants such as the Group to operated in such markets. An example of this was the announcement by the FED that it would purchase domestically issued cp, which left the Group, which has a major program in the US which is used to fund its sterling operations, at a major competitive disadvantage. AJ also noted that the deposit base in BoIGM remained stable at circa €29bn since the introduction of the guarantee. PF noted that the newspaper report that the Irish Government was considering restricting the guarantee to funds raised in Ireland had resulted in a fiduciary depositor breaking a deposit. This highlighted the need to ensure that all funding irrespective of the jurisdiction of issuance was covered. JOD confirmed that this point was clearly made to the relevant authorities and they were aware of the implications.

AJ outlined the implications of the announcement by the UK authorities on the operations of the Group.

- UK Government will guarantee new short and medium term debt issued to refinance existing debt for a period of 36 months for eligible institutions. The Group would appear to be excluded as it is not UK incorporated.

- UK Government Guaranteed debt will be eligible for use in the Bank of England operations. The Group would be excluded as debt it issued would not be guaranteed by the UK Government.
- The Group's issuance of cd's would no longer be competing on an equal footing as it will not be eligible at the Bank of England.

Court minute extract 3rd October 2008

PRESENT:	Mr R Burrows, Governor Mr BJ Goggin, Group Chief Executive Mr G Magan, Deputy Governor		
	Mr R Boucher	Mr D Crowley	Mr D Dilger
	Mr D Donovan	Mr D Holt	Ms R Hynes
	Mr D McCourt	Ms HA McSharry	Mr R Neill
	Mr J O'Donovan		
APOLOGIES:	Mr P Haran	Mr J Kennedy	

Introduction:

He then invited Mr. Goggin to update the Court on **recent market developments including the introduction of the Government Guarantee,** as a lead-in to Item 3 on the Agenda which he proposed to prioritise.

Mr. Goggin drew the Court's attention to the major developments in international financial markets since the last meeting including the failure of Lehman Brothers, the sale/rescue of Merrill Lynch, the near collapse of AIG, the acquisition by Lloyds TSB of HBOS and the 'breaking of the buck' by America's oldest money market fund. Individually, any of these events was capable of shaking confidence in already fragile financial markets; collectively, they had practically paralysed interbank lending. The $ CP and CD markets had effectively frozen and interbank borrowing was confined largely to overnight. C. $20bn of Group borrowings in $CP was due to mature over the next 60 to 90 days and was considered unlikely to roll over. It was understood that AIB's experience was similar.

Moving to events earlier in the week, Mr. Goggin described the extreme stress evident in all equity markets, following the failure/bail outs of Fortis, Dexia, Hypo Real Estate and the vulnerability of Wachovia, which saw **Irish bank share values drop dramatically on Monday, 29th September**. This in turn frightened wholesale lending markets and corporate depositors.

Against this background, the CBI had invited the CEO and CFO to a meeting to discuss the situation and to share their major concerns for the stability of two Irish entities (Anglo and IL&P) – for whom the CBI was seeking liquidity support from BoI and AIB. BoI explained its own liquidity profile – which could see eligible collateral exhausted in 30 days if markets remained closed – and made the point that its capacity to support others is, therefore, extremely limited unless the criteria for eligible collateral is re-defined by ECB. On this point, the CEO and CFO sensed a marked reluctance on the part of the CBI to approach the ECB and also formed the impression that the CBI was less well informed on market developments and their implications for all Irish banks than would have been expected.

Mr. Goggin recalled the conclusion at the previous Court in relation to INBS, that the Governor and Group CEO should open channels of communication directly with Government, at political as well as official level, and confirmed that this had been done and remains active.

During the course of the discussions during the preceding week and on that day (Monday, 29th September) it emerged that the Minister for Finance regarded three banks as being in trouble (Anglo, INBS and IL&P) – the latter not because of poor quality assets but because of liquidity strain and profitability drag arising from persistent negative margins on its tracker mortgages, which represent a large proportion of its total portfolio.

Rather than witness sequential Irish bank failures, BoI had been asked by the CB and FR at a meeting on the morning of September 29th to consider acquiring IL&P. This scenario envisaged that Anglo and INBS would have failed already and the objective was to inject some stability by preventing the failure of IL&P through an arranged acquisition and the implementation of the Guarantee for all surviving banks.

The Governor then described a visit he and Group CEO had on Monday, 29th September, from the Chairman and CEO of Anglo at which they requested BoI to consider the acquisition of Anglo. They indicated that they would be making a similar approach to AIB that day. The immediate trigger for the approach was the imminent maturity of a facility, on the following day, which Anglo was unable to repay or rollover. The Governor and CEO indicated that such a transaction would have little strategic appeal for BoI and would pose significant, if not insurmountable, funding challenges in current circumstances.

The Governor reported that he had a pre-arranged appointment with the Governor of the CBI (JH) later that day to discuss the need for more flexibility from the ECB on collateral eligibility criteria. When he advised JH of Anglo's approach and the reason for it, JH (who may have been out of touch through illness) seemed surprised. Regarding ECB collateral criteria, he informed the Governor that the CBI and the Financial Regulator (FR) had done all they could to achieve a change in ECB rules, but without success. While they were due to attend a further ECB meeting later in the week, JH advised that only political action would be likely to have any impact at this stage.

Following this exchange, and in light of a significant outflow of deposits during that afternoon, the Governor and Group CEO concluded that a meeting directly with Government was required and, as the official side had initiated some previous discussions on a joint basis, it was felt appropriate to establish whether AIB would be interested in a joint approach.

DG readily agreed to a joint meeting as, based on their own bi-lateral contacts, AIB had concluded that Government had not been well briefed until the previous week but that the Minister for Finance was now well on top of the situation. They had also formed the view that Anglo and INBS had been lobbying very strongly for Government support in the form of a Guarantee of liabilities of all Irish banks to see them through this period.

The joint meeting was arranged with Government for 9.30 p.m., by which time the US House of Representatives had rejected the TARP, thereby increasing the risk of a serious run on bank deposits on the following day.

Each bank was represented by its Chairman and Group CEO and on the Government side were the Taoiseach, MoF, Attorney General, Secretaries General of Department of Finance and Government together with K. Cardiff, a Deputy Secretary General of DoF, JH, and E. McCague from A. Cox & Co.

It was reported that the banks' case had received a good hearing but no engagement from the other side except for JH who enquired whether AIB and BoI would provide liquidity support for Anglo until the weekend if a Guarantee were given.

Mr. Goggin explained that a Government Guarantee would address the credit risk but, in view of the fragile funding position of all banks, it would be necessary to understand how any cash support would be recovered after the weekend.

At that point the meeting adjourned to enable AIB and BoI consider the request for liquidity support for Anglo. Each bank, having consulted with its Treasury team, established that it could provide €5bn by Wednesday; in AIB's case it could provide €2bn the following day and the rest on Wednesday. BoI was constrained by two factors – the need to minimise Balance Sheet strain in its half year accounts and the need to generate the cash by placing collateral with ECB – which was not possible until Wednesday. No indication of Anglo's specific needs was given except that it was due to repay €1.5bn on Tuesday to a German bank and may need a further €4bn later in the week.

When the decision was conveyed that AIB and BoI were prepared to provide €10bn collectively, the mood of the meeting lifted considerably and the Government side began to focus on the draft Press Release to announce the blanket Guarantee with immediate effect.

In the event, market developments triggered the Guarantee earlier than expected. In these circumstances, the political judgement was that it had to apply to all banks and as a consequence Anglo and INBS were reprieved, and finding an acquirer for IL&P became less urgent.

In subsequent discussion Directors probed:

- Why Government had not favoured the option of strengthening the Irish banking system through consolidation rather than guaranteeing all?

  Management's view was that events moved too quickly in the end and Government felt obliged to protect all.

- Whether the Government had good advice on the issues?
  It was pointed out that Merrill Lynch had been advising as well as some prominent individuals whose knowledge of EU matters would be well respected by all parties.

- How Anglo's liquidity position had evolved?
  Outlfows were stopped by the Guarantee and they had not availed of the facilities put in place by AIB and BoI – which subsequently cost the Group circa €1m as we had drawn from ECB.

- Whether the need for consolidation has now disappeared?

Management expressed the view that the issue is merely deferred as the fundamental problems remain – the Guarantee had stabilised funding and bought time but the asset quality problems in Anglo and INBS remain.

- Whether IL&P would be an attractive acquisition for the Group?
  The positive factors were considered to be the strong life company with No. 1 share in pensions; good quality mortgage book; cost synergies but the offsetting challenges include €40bn funding requirement; loss making tracker mortgages could be a long term problem; UK BTL book a big negative from an investor perspective.

- The likely cost of the Guarantee?
  Not yet known but expected to be based on a number of factors including:

  - the actual cost to the State as reflected in higher borrowing costs;
  - the relative risk profile of the different beneficiaries and;
  - the quantum of liabilities covered in each case.

  It was reported that a task force has been established to advise Government on this.

- What is the Government's vision of the ideal ultimate shape of the sector and whether BoI should be working to influence this?
  Two strong indigenous banks, a mutual (EBS) and some foreign banks, e.g. Ulster, Danske, Rabo was understood by management to be the Government's preference. While it was accepted that we should demonstrate our willingness to help in any way we can, it was felt that we need to be very careful that this is not interpreted as an attempt to eliminate smaller competitors.

- The likely reaction to the Guarantee from Brussels?
  Felt to be negative in that Ireland moved unilaterally and put pressure on other Governments. However, this was felt to be balanced by a recognition that Ireland had to do something and it was expected that the Government would try hard to mend fences with the EU by clearing the conditions attaching to the Guarantee with Brussels.

- The implications of the many conditions and additional ministerial powers mentioned in connection with the Guarantee.
  Management indicated that the extent to which these will be used is very unclear but some signals from the Department for Finance suggested that the 2 bigger banks would find they have little to be concerned about. It was acknowledged, however, that the Minister could exercise considerable influence directly or through the FR and that the outcome could have a major impact on investor perceptions of the future prospects of Irish banks. There was a strong view that every effort should be made to ensure Government is well briefed on the likely market reaction to any measures contemplated, so that the future health of the sector is not inadvertently damaged.

Court file note extract 10th October 2008

PRESENT:	Mr R Burrows, Governor Mr BJ Goggin, Group Chief Executive		
	Mr R Boucher	Mr D Crowley	Mr D Dilger
	Ms R Hynes	Mr T Neill	Mr J O'Donovan
APOLOGIES:	G Magan, D Donovan, P Haran, D Holt, J Kennedy, D McCourt H A McSharry		

The Governor had convened the meeting at short notice to brief Directors, and to provide for an informal discussion on:

(i) The Government Guarantee (GG) Scheme.
(ii) The Group's Capital Enhancement Plan.

(i) The Government Guarantee (GG) Scheme

Mr. Goggin outlined developments since the previous Court on 3rd October, including his ongoing contacts with members of Government and others designed to ensure that the Group's views were understood by key decision makers and influencers. Communications were focussed in particular on:

- The need for the Guarantee fee to be appropriate to the underlying risks involved for each beneficiary entity, i.e. the fee should be commercial rather than punitive and should differentiate between beneficiaries. It was emphasised that the Guarantee should not be abused to gain competitive advantage.

- Conveying feedback on the impact of the Guarantee, which had been very effective in stabilising customer deposits but had not resulted in any lengthening in the term of interbank facilities.

- Responding to any issues raised or clarifications required; it emerged that the Government may not have fully appreciated the continuing constraints on banks' ability to lend (due to lack of other than short term liquidity).

In subsequent discussion, management advised that it is not expected that there will be further consultation with the industry on the specific Terms & Conditions of the G.G. It was agreed that it is essential to continue to invest time and effort into ensuring that key decision makers and influencers are well informed on the issues facing the industry in Ireland and beyond – the resolution of which may require further radical change including consolidation and recapitalisation of some banks.

(ii) The Group's Capital Enhancement Plan

Mr. Goggin tabled a short paper (attached to this File Note) which outlined the principal features of the UK bank support package which had been introduced earlier in the week and set out a number of capital scenarios for the Group.

He provided managements' current assessment of the implications of the UK package for BoI. In short, the liquidity element may be helpful while the capital proposals are unlikely to be as there is a significant risk that any state driven strengthening of capital ratios in the UK banks may result in Irish banks being seen by the financial markets as undercapitalised in relative terms.

Mr. Goggin then outlined possible capital scenarios for the Group – assuming different loan loss charges (LLC) over the next three years and different market expectations for core equity. It was shown that provided aggregate LLCs do not exceed c. 275 bps (c. €4bn) – current estimates are 235 pbs (c. €3.4bn) over the three years to March 2011 – the Group will remain within its current target range of 5.5% to 6.5% - which is well above the regulatory minimum of 4%. However, it was pointed out that if the Group needed to respond to market pressure to achieve a core equity ratio of 6.5%, it would be necessary to find additional capital of €1bn minimum.

Subsequent discussion focussed on the robustness of the LLC estimates and the potential sources of additional capital. In relation to the LLC, Directors queried the gap between some analysts' estimates and the Group's current figures and it was acknowledged that it is extremely difficult to establish robust estimates in view of the substantial uncertainties in the global economy and, more particularly, the low level of activity in the property sectors in our main markets which make asset valuation so difficult. Management explained that the level of LLC is kept under regular review and that the results of a current comprehensive review will be available next week. Meanwhile, confidence was expressed by management that the Group's risk profiles will, in time, be shown to be significantly better than our competitors' profiles because of the higher proportion of residential mortgages on our balance sheet, the lower proportion of property development and our robust underwriting standards.

It was acknowledged by management that the events of recent weeks, which had further weakened consumer and business sentiment and would likely give rise to further unemployment, may accelerate the crystallisation of loan losses without necessarily leading to an increase in the aggregate amount over the three year period. Management undertook to provide a breakdown of the LLC estimates in future across the major asset categories (mortgage, property development, landbank, etc) and to provide comparable figures for competitors based on analysts' reports and any other available material. It was also confirmed that the review of bank counterparty exposures, initiated after the WAMU failure, will be completed shortly.

RMM

The focus of discussion switched to capital and whether the top of the current range (i.e. 6.5%) for core equity will be sufficient in the context of recent UK developments. There was general recognition that the market is likely to demand 7% - and may not be persuaded to discriminate on the basis of asset risk profile. This would present a major challenge for the Group as the core equity gap could approach €2bn over the period to March 2011.

Management then outlined some scenarios, including industry consolidation, which could influence the amount, timing and sources of additional capital and the feasibility/ challenges associated with each. However, except in the event of consolidation, it was management's belief that the Group must be seen to avail of all internal opportunities to improve its capital ratios before seeking fresh capital externally. It was explained that the de-leveraging of the balance sheet, which is already underway in response to the wholesale funding constraints, will also help improve capital ratios. In addition, a number of non-core businesses were identified for disposal; collectively these could generate more than €1bn in equity – if sales could be achieved.

While the Directors encouraged management to continue its preparation for these disposals, it was agreed that the Court would need to see an evaluation of whether disposal of the whole would be better in the interests of stockholders before initiating piecemeal disposals.

Mr. Goggin explained that he had appointed Mr. Chris Williams of Citi as corporate adviser to undertake a thorough review of the Group and its prospects and options, as Goldman Sachs had declared a conflict of interest. He undertook to revert to the next scheduled Court with an initial assessment of the options.

Directors requested management to weigh carefully whether the underlying business of the Group is challenged or whether the market does not properly understand and value its prospects; if the latter, communication strategy needs to be reviewed.

Court minute extract 13th October 2008

PRESENT:	Mr R Burrows, Governor Mr BJ Goggin, Group Chief Executive		
	Mr R Boucher	Mr P Haran	Mr D McCourt
	Ms HA McSharry	Mr J O'Donovan	
BY PHONE:	Mr D Crowley	Mr D Donovan	Mr D Dilger
	Ms R Hynes	Mr J Kennedy	Mr G Magan
APOLOGIES:	Mr D Holt	Mr T Neill	

The Governor explained that the original purpose envisaged for the meeting was to consider the terms of the Government Guarantee Scheme (GGS) and the nature of any Stock Exchange Announcement arising from that. However, as the information available, which had been provided by the Irish Banking Federation (IBF) following a briefing earlier in the afternoon by the Department of Finance, was not specific enough to enable the impact on the Group's financials to be calculated and, as a result, no announcement would be possible at this stage.

Despite this, the Governor had decided to allow the meeting to proceed in order to bring Directors up-to-date on developments over the weekend and to assess the implications for the Group.

He invited Mr. Goggin to describe the information available on the GGS and to comment on developments in the market.

Mr. Goggin, in summarising the information provided by the IBF, emphasised the need for absolute confidentiality and commented that the information was very general in nature and lacked specifics on the cost to the industry and how this would be allocated across the participants in the scheme. However, it was understood that:

- The aggregate charge to the industry would reflect the cost to the exchequer – as reflected in the higher CDS spread now attaching to Government debt.
- The Guarantee would be extended to 4/5 additional banks.
- The legislation would go to the Dail before the end of the week.
- There would be little or no opportunity to change the draft legislation.
- All banks would have to apply for inclusion in the Scheme.

The Court noted Mr. Goggin's report and agreed that further consideration of the issue would have to wait until the full details are available.

Mr. Goggin then described other developments during the day:

- The UK Government had announced a major recapitalisation programme for UK banks.
- BoI and AIB shares had declined by 15% as Irish banks now appeared to be regarded by the market as undercapitalised relative to the new norms established by the UK Government's initiative and expected Europe wide developments following the Euro leaders framework agreement in Paris on the previous night.
- The Governor of the Central Bank (JH) had spoken with the Group CEO twice during the day to discuss market developments and, while he expressed concern at the significant decline in the value of AIB and BoI shares, he emphasised that the government/FR had no intention of requiring Irish banks to increase their capital bases.

Mr. O'Donovan, Group CFO, advised that BoI's capital ratios at end September are likely to be 6.1%; 8.5%; 12% for Core Tier 1, Total Tier 1 and Total Capital respectively and that additional capital of €2bn + would be required to bring the Core Tier 1 ratio close to 7.5% - the new UK 'norm'.

In subsequent discussion Directors queried why higher capital ratios should be required in the context of the GGS?

Management explained that the GGS had stabilised deposits initially but it appeared that corporate depositors and fiduciaries, while satisfied on the risk factor, had concerns about ready accessibility to their deposits if a bank failed, i.e. no commitment had been given on speed of payout under the Guarantee.

Subsequent discussion focussed on the feasibility of raising capital in current markets and potential sources. The initial conclusion was that a rights issue would not be feasible currently and this was reinforced by views picked up by Mr. D. Donovan, CEO, CMD in general discussion with delegates at the IMF. Mr. Donovan also reported that he had had a signal from a CBI executive, who was also attending the IMF, that BoI should approach Government for capital.

One NED questioned whether the bank needed additional equity and proposed that preference shares would be more appropriate from the perspective of existing stockholders.

Concern was expressed by some Directors that the bank needed to move quickly to secure additional capital as the cost of capital was considered likely to escalate if we delayed and consideration was given to an immediate contact with Government. There was, however, a general recognition that it would be inappropriate to approach Government at that time, as the Exchequer budget was due to be announced the following day, unless the Court's view was that the business was in imminent danger due to a capitulation in the stock price.

Court minute extract 17th October 2008

PRESENT:	Mr R Burrows, Governor Mr BJ Goggin, Group Chief Executive		
	Mr R Boucher	Mr D Crowley	Mr D Dilger
	Mr D Donovan	Ms R Hynes	Mr D McCourt
	Ms HA McSharry	Mr T Neill	Mr J O'Donovan
BY PHONE:	Mr G Magan	Mr J Kennedy	
APOLOGIES:	Mr P Haran	Mr D Holt	

Before moving to the formal agenda, and before being joined by advisers and other executives, the Governor briefed the Court on some developments since the last meeting on Monday, 13th October:

- Despite further decline in the stock price, the business remains stable under the umbrella of the Government Guarantee Scheme (GGS).

- AIB, while sharing the concern that equity market declines might de-stabilise deposits, do not propose to approach Government as they are working on other options. BoI and AIB agreed to advise each other if either is approaching Government.

The Court was then advised that, as the cost of the GGS was not yet available, no Stock Exchange announcement could be considered at this meeting. In any event, Mr. Donovan, CEO, CMD, advised that his discussions with the Department of Finance (DoF) had established that DoF would be concerned at a specific disclosure on the cost. Its strong preference is to maintain confidentiality on the amounts for each bank as disclosure could put riskier banks (which would attract a higher charge) under market pressure.

Discussion then turned to the formal agenda and the Governor emphasised the need to agree with management a clear action plan to address the bank's capital ratios and an urgent timeframe for the execution of each element as banks in other countries were moving ahead with radical recapitalisations designed to resolve their situations leaving the Irish banks looking weak by comparison. While the GGS had stabilised the liquidity situation, its two year life is already amortising and it does not resolve the capitalisation issue.

Item 1: Project Ann - Capital

Mr. Goggin opened the discussion by explaining that he had requested Citi/IBI to undertake a full review of the options open to the Group to address its liquidity and capital situations in the light of recent international developments, especially in the UK and US, which seem to be establishing more demanding capital and funding ratios. He explained that the advisers had been given a very short time to respond and complimented them on the document circulated, which should be recognised as 'work in progress'.

Mr. C. Williams, Citi (CW) then highlighted the range of Government interventions to date and noted that, while the Irish Government had moved fast, its initiative had since been eclipsed and while its decisiveness had initially attracted some admiration, this had given way to concern at its moving on its own rather than as part of a more co-ordinated EU approach.

Most national interventions had been welcomed by equity markets except in the case of the UK where the conditions were considered too severe. He indicated that there was evidence that the UK Government recognised this and was seeking to soften some of the conditions attaching to the equity injections, e.g. the blanket dividend restrictions may be confined to the first year and moderated thereafter.

CW contrasted the key features of the US and UK approaches with the former seen as much less punitive. In all cases, the effect was to raise Core Tier 1 (CT1) and Total Tier 1 (TT1) ratios by at least 1% and closer to 2% bringing the norm CT1 for UK banks' to 7% - 9% and it was emerging that Government equity, whether ordinary or preference shares, was being viewed by the markets as high quality capital, i.e. equivalent in practice to CT1.

Against this background CW outlined the CT1 gaps for Irish banks relative to the emerging UK norms. This showed an overall gap of €6bn to €10bn depending on the extent of loan losses to be absorbed, with BoI needing €1.5bn minimum.

Directors queried:

- The mechanism likely to be used in the UK; placing, with claw back provisions in favour of existing shareholders, was considered most likely.

- The likely take-up by existing/new private sector holders; the dividend restrictions were felt likely to discourage yield investors while growth investors would have to judge likely economic developments as well as individual bank prospects. Overall, CW's view was that demand would be modest unless attractive innovations were offered, e.g. convertible rights.

Mr. Collins then highlighted the Group's funding outlook – term of funding continuing to shrink and increasing reliance on ECB appeared likely in the months ahead. Forecasts showed current ECB collateral meeting the Group's needs to mid 2009 with €20bn further potential qualifying collateral then available under the wider definition introduced recently. This forecast assumes term funding markets remain closed and, crucially, that current deposits are retained – in this respect the €30bn corporate deposits in Global Markets are considered most critical as they tend to be most mobile.

Discussion focussed on:

- The likelihood of term markets re-opening; considered unlikely before 2009. It was also pointed out that as loan losses increase, which seems inevitable in view of the deteriorating economic circumstances emerging, the Group's credit ratings may be downgraded which would make term funding more difficult to acquire and could cause a loss of corporate deposits.

- The impact of the GGS on term deposits; the two year term of the GG is considered too short to be very effective in the term markets and the absence of a specific commitment on rapid payment of calls under the Guarantee was felt to diminish its value to corporate depositors who would be concerned about access to their deposits as well as risk and price. CW indicated that Ireland's unilateral move on the GGS had caused great concern and annoyance in London and that this may continue to influence investors who fear Ireland may be somewhat isolated from the EU.

- Mr. O'Donovan pointed out that, despite the funding challenges outlined, Directors could rest assured that the Bank is not over-trading.

Mr. Spain, IBI, highlighted key features of revised projections for the Group's Balance Sheet and P&L reflecting the vigorous de-leveraging now proposed:

- Customer lending and wholesale funding reducing.
- Reduction in Risk Weighted Assets slowed by deteriorating asset quality.
- CT1 ratio never below current target range 5.5% to 6.5% and just above 6% on the scheduled expiry of the GG which may not be acceptable to the market at that time.
- Earnings decline significantly but remain positive – assuming loan losses are no worse than recent projections presented to the Court c. €3.5bn in three years to March 2011.

Mr. Godfrey then outlined the options open to the Group:

- Stay as is – while minimum regulatory capital ratios are unlikely to be breached, this was considered to expose the Bank to the serious risk of a rating downgrade as the speed of execution of the disposal programme and the likely proceeds are difficult to predict.

- Raise capital – to meet new norm and to absorb higher potential loan losses and marks to market.

He outlined the impact of raising €1.5bn (€1bn ordinary and €0.5bn preference) on CTI (7.4%) and TT1 (9.7%) and the dilution impact assuming UK Government terms (19.2%) and US terms (7.5%).

CW outlined the potential sources of equity as:

- Existing stockholders – rights issue very risky, e.g. HBOS.
- Private equity – capacity reduced following recent losses and considered prone to leaks.
- Sovereign Wealth Funds – capacity reduced following recent losses but easier and more reliable to do business with.
- Government – best prospect as it will be seen as essential to support the economy.

CW then described the sale option and identified potential interested parties taking account of strategic rationale and financial capacity. He expressed the view that there were few credible candidates and outlined the likely approach to valuation.

It was agreed that CW would establish whether any of the SWFs identified might be interested. Simultaneously, management would develop a business case as the basis for engagement with Government on the role the State might play in recapitalising and restructuring the Irish banking system.

Mr. Godfrey, IBI, then described the consolidation options in the Irish banking system but suggested that consolidation, in isolation, does not represent a solution to the capital problem.

The relative merits of different combinations were considered and it was concluded that only one would potentially be of interest to BoI, but it faces many challenges especially on the funding side and on profitability.

The Court concluded that consolidation should not be proactively pursued but may be an essential part of any re-capitalisation from the Government perspective.

The Governor thanked the advisers for their good work in a very short period.

When the advisers left, Mr. Goggin explained that management had received the advisers report on the previous day and had arrived at some preliminary conclusions which he then tabled:

- The market standard for capital ratios had changed as a result of various Government interventions in the past week.
- Management proposed that CT1 of c. 7.5% and TT1 of c. 10% are required; this implies c. €1.5bn in additional capital is required by fiscal year end, at the latest.

He proposed a range of immediate actions for which he sought Court endorsement:

- De-leveraging.
- Disposal of identified assets.
- Restructure the Group to reflect changed circumstances.
- Review the dividend.
- Engage with a limited number of potential investors
- Engage with the State as part of the GGS and explore a capital injection by the State.

A number of Directors expressed a concern that matters seemed to be out of the Group's control in recent times and emphasised the need for frank exchanges on the critical issues facing the Group and a real sense of urgency in addressing them. There was an acknowledgement that the Group had been in re-active mode, and while this is less than ideal, it was understood in the context of the major upheavals in financial markets globally. All Directors expressed determination to address the critical issues cohesively and urgently.

Mr. Goggin outlined the de-leveraging envisaged and explained that, while essential from a funding perspective, its impact on capital would be relatively modest and would take time to achieve unless the Group was prepared to consider significant discounts – which would be damaging from a capital perspective.

Mr. Crowley reported on his efforts to dispose of, or enter a funding arrangement for, the mortgage business in the UK and indicated that, as the probability of success is low, plans for the run-down of the business are well advanced.

Likewise, it was explained that the de-leveraging in Capital Markets is underway but is likely to take the form of run-down of the books rather than disposal.

Mr. Donovan, CEO, CMD, outlined the current prospects for disposals – not encouraging as many more banks are engaged in attempts to sell assets than to buy, with the inevitable impact on valuations.

Meanwhile, Mr. Boucher confirmed that RFSI remains open for business selectively, but demand remains weak and Mr. Goggin reported good progress in assessing the cost reduction prospects likely to arise under Project X. In this context the Governor noted that fees for NEDs, including the Governor and Deputy Governor, would not be adjusted in respect of 2008. He advised the Court that details of Executive remuneration is to be provided to the new CIROC, established under the GGS, within the next six weeks and requested that this material be reviewed by the Group Remuneration Committee before submission. He further recommended that any consideration of a pay cut for executives should await the outcome of engagement with CIROC.

Reverting to management's proposed actions, Directors asked management to develop a comprehensive plan addressing all options for capital raising and identifying what action is required, by whom and within what time scales.

Item 2: Government Guarantee Scheme

The Court ratified the Group's participation in the scheme and delegated authority to management to execute the requisite Guarantee acceptance deed and all attendant matters.

MEETING OF THE COURT OF DIRECTORS
HELD ON
Tuesday, 21st October 2008
@ Head Office

PRESENT:	Mr R Burrows, Governor		
	Mr BJ Goggin, Group Chief Executive		
	Mr R Boucher	Mr D Dilger	Mr D Donovan
	Mr D McCourt	Ms HA McSharry	Mr T Neill
	Mr J O'Donovan		
BY PHONE:	Mr D Crowley	Mr D Donovan	Mr D Holt
	Ms R Hynes	Mr J Kennedy	Mr G Magan

IN ATTENDANCE:	Mr JB Clifford, Group Secretary	
	Mr F Murphy, Group Legal Adviser	
	Mr D Collins, Head Group Growth & Development	} For
	Mr D Loughrey, Head of Group Corporate Communications	} part
	Mr T Godfrey & Mr M Spain, IBI	} of
	Mr C Williams, Citi (By Phone)	} the
	Mr H G Davis, UBS	} meeting.

The Governor opened proceedings by recalling the conclusions and action points agreed at the previous Court:

- The Group needs to respond to new market norms for Core and Total Tier 1 of 7% to 9% and 10% to 12% respectively.

- Options available to the Group to improve its ratios are limited – de-leveraging and asset disposals offer slow prospects while external sources (P.E.; SWFs; Rights Issue or Government) may offer limited prospects at a cost that may be prohibitive.

Against that backdrop the following action steps had been agreed:

- Management to develop the business case for engagement with Government.
- Citi to sound out whether SWFs/others would be interested in investing
- Press on with 'self help' on de-leveraging and asset disposals.
- Prepare for early publication of interims – should that become necessary.

Noting that the stock market had been less volatile in recent days and that the interbank market was showing some tentative signs of easing, the Governor asked Mr. Goggin to update the Court on developments since the previous meeting.

Mr. Goggin reported on a visit from the Financial Regulator (F.R.) earlier that day, which the F.R. described as an exploratory general discussion to establish how BoI now sees the markets and to outline the timescale and nature of deeper engagement in the near term.

Messrs. Goggin, O'Donovan and Donovan took the opportunity to outline the case for early re-capitalisation by Government – as set out in the paper which had been circulated to the Court – and the desirability of early consolidation. The F.R. indicated that it would be setting out the ground rules for engagement shortly and these would cover the full range of issues including consolidation and capitalisation. However, the F.R. indicated that Government had no appetite for investing in banks unless forced by circumstances to do so. The F.R. expressed a preference to see how things settle here post the Guarantee and to see how different initiatives work out in other countries before rushing into a recommendation on re-capitalisation.

The Court noted Mr. Goggins' report of the meeting.

Mr. Goggin then gave a quick overview of the business as follows:

- De-leveraging underway, facilitated by weak demand.
- Credit risk management is a key focus across the business as the outlook for loan losses continues to deteriorate.
- Liquidity is easing through excellent growth in deposits in all businesses and tentative re-opening of money markets, albeit at the short end – the Group had raised €1bn + in the previous week for the first time in several weeks. All market indicators had begun to show positive signs, even if still a little tentative, helped by substantial $ injections by the ECB, and the easing of collateral criteria by the ECB, BoE and FED.

The Court noted these positive trends and queried whether the need for re-capitalisation might abate?

Management expressed the view that the Government's strong aversion to investing state funds at a time of extreme pressure on the public finances may result in the Irish banks having to manage through the recession without fresh capital – something that may be feasible but would not be without adverse consequences for the economy as in such circumstances, banks' lending capacity could be severely curtailed. The Court noted that most commentators have expressed the view that re-capitalisation is essential for the future development of the economy as well as the security of the banks.

It was pointed out that in the absence of new capital, the inevitably high loan losses expected in the next couple of years could result in ratings downgrades – with adverse consequences for cost and availability of wholesale funds.

Responding to a query on how BoI's loan losses are expected to compare with competitors, management expressed confidence that we should emerge with relatively lower losses ultimately, but that this is unlikely to be visible until we are emerging from the recession in a couple of years. A question was raised as to whether the PwC report for the F.R. would demonstrate differentiation between banks but it was considered too early to speculate on that.

The Governor then reported that he had called his counterpart in AIB for a general discussion on the market and learned that AIB do not propose to approach the Government for capital but would be receptive to preference capital if available. However, DG expressed a distinct lack of enthusiasm for the idea that the Government might re-capitalise all banks because, like the Guarantee arrangement, it would sustain some which do not deserve to survive in his view.

In concluding this part of the meeting, there was a general feeling that the immediate pressure had eased somewhat, giving time to review options. However there was a clear recognition that the economic outlook remained extremely challenging.

Before the advisers joined, Mr. O'Donovan, CFO, reminded the Court of the €600m Tier 2 capital redemption it had approved at the September meeting and pointed out the potential for that to attract critical media comment in the current context. He assured the Court that if management considered it feasible, it would not redeem it but the current assessment was that there would be a high risk of seriously damaging the Group's reputation if it were not to redeem. This, in extremis, could restrict access to further capital.

The Court noted Mr. O'Donovan's report and reiterated its decision that the Group should not put its reputation and future access to the market at risk.

Messrs. T. Godfrey and M. Spain, IBI; D. Collins and H. G. Davis, UBS joined the meeting and Mr. C. Williams, Citi, joined by phone.

Mr. Goggin drew attention to the outline Action Plan which had been circulated, confirmed that all work streams had been mobilised and undertook to establish timelines for each element in the near future. He then proposed to focus initial attention on the key priority identified at the previous meeting – development of a case to enable engagement with the State in order to explore a capital injection.

He then set out the key elements of the case:

- International developments had effectively raised the capital ratios demanded by the markets.
- Governments had played a strong role in most countries – in the interests of their economies.
- Without additional capital, the Irish banks would not be able to support economic recovery to the extent desirable.
- Irish banks would be unlikely to be able to re-capitalise without State support – as a minimum they would need 'bridging' support along the lines of the French loan capital or the US prefs.
- State investment could achieve a fair return on investment in the banks as well as lay the foundations for economic recovery.

The Governor invited inputs from the advisers who responded as follows:

H G Davis, UBS: He had, earlier that day, met a senior official from the Department of Finance and Mr Conor Lenihan, Minister of State of Integration, on UBS business, and took the opportunity to offer the UBS view on Irish banks' need for re-capitalisation.

C Williams, Citi: Expressed view that, without additional capital, Irish banks may become marginalised in international markets as he visualised a scenario where 'clubs' of well capitalised banks would do business with each other within the major economies and with similar 'clubs' internationally.

He also expressed his considered view, having consulted with colleagues, that third party investment in Irish banks is unlikely unless accompanied by some form of Government support – whether direct investment or underwriting rights issues.

T Godfrey, IBI: Believed the State understands the issues but will move slowly.

The Governor noted that the views expressed were consistent with the reported position of the F.R. and suggested that we must conclude that the urgency of recent weeks had abated from the State's perspective. This was consistent with the Group's own experience over the past week and, in the circumstances, the Group needed to be careful, in communicating its perspective to Government, that it is not seen as the problem but rather is ready and willing to participate in restructuring the Irish banking sector.

Regarding other sources of capital, Mr. Williams reported that he had initiated contacts with the parties agreed at the previous meeting (HSBC, Santander, 3 SWFs) and expected to have initial reactions by the weekend.

Mr. D. Loughrey then advised on how best to manage Government relations in this new era and there was general agreement that we need to be very sensitive to likely Government reaction in all key business decision making. He emphasised that this does not mean we must take different decisions but rather that we must consider whether a decision might impact on Government and, where that is likely, it would be essential to ensure that there is adequate consultation in order to avoid inadvertent friction.

He also cautioned that the Group needs to be clear in its interactions with the State, whether it purports to speak for the industry or only for itself, in order to avoid conflict.

Given the different interests and emphases between AIB and BoI, it must be assumed that even greater differences would be likely between BoI and others; it was considered essential, therefore, for BoI to develop its own case for bridging support, and the forms that could take, and to prepare the ground for that discussion with relevant parties.

The Governor thanked the advisers for their input and they left the meeting.

He then asked the Court for its reaction to the advice received and the direction now proposed. There was general satisfaction with the advice and discussion focussed on:

- Whether we can go on without additional capital? – management expressed the view that this would be possible provided no adverse external events arise. This, however, was described as a sub-optimal outcome as it would slow the recovery process for the bank and for the economy generally.

- Improved operating conditions arising from easing in wholesale markets – however, there was a general recognition that the markets still see the Irish banks in general, and BoI in particular, as undercapitalised and the general view is that this is unlikely to change in the foreseeable future. Meanwhile, if the stock price falls further, the cost of capital would effectively be increased again.

The Governor concluding the meeting, confirmed that management should proceed with the agreed actions with urgency.

Should market developments cause management to conclude that the publication of the interims needed to be accelerated, a further scheduled meeting would be required, probably on 3rd November.

Otherwise, it was confirmed that the next meeting will be that scheduled for Tuesday, 11th November.

____

GOVERNOR

11th November 2008

Court minute extract 23rd February 2010

PRESENT: Mr P Molloy, Chairman
Mr R Boucher, Group Chief Executive

Mr T Considine	Mr D Crowley	Mr D Donovan
Mr P Haran	Mr D Holt	Ms R Hynes
Mr J Kennedy	Mr D McCourt	Ms H A McSharry
Mr T Neill	Mr J O'Donovan	Mr P O'Sullivan
Mr J Walsh		

2. Group CEO Report

Mr. Boucher reported that the Group continued to roll over in excess of 100% of funding requirements and that Global Markets deposit balances were at c. €22bn. Trading in capital markets had been too thin the previous week to proceed with a Dollar term funding issuance, but a $1bn issue was planned for 23 February 2010. That would mean that approximately 50% of the term funding issuance planned for the period between 1 January 2010 and the expected elimination of the Government Guarantee (assumed to be September 2010) would have been achieved.

Mr. Crowley explained that there had been a lot of interaction with the UK Post Office, particularly in relation to the operating performance of POFS. A potential strategic review to improve the performance of POFS for the benefit of PO and BoI was to be deferred for several months given senior management changes in PO and Royal Mail Group.

Mr. Crowley reported that he had discussions with the FSA on the Bank's concerns about the indicated requirements for liquidity and capital for Colorado. He undertook to provide the Court with a paper on FSA requirements for liquidity and capital in Colorado, their consequences for the subsidiary's business plan and their impact on the Group.

DEC

Mr. Donovan said that the Capital Markets Division was coming to the end of the recent period of margin expansion and that risk levels were low in Global Markets, as it would be difficult to make trading profits at this point in the interest rate cycle.

Mr. Crowley reported muted demand for products in the Retail Division in RoI, although some activity was being created by the withdrawal of other banks from the Irish market. The key issue was the repairing of product profitability in this market, with margin pressure created particularly by elevated deposit pricing.

Mr. Boucher explained that product pricing would be adjusted on a phased basis, starting with the personal lending back books and credit cards, then moving to mortgages. Deposit pricing would be adjusted later, when sufficient term funding had been raised in preparation for the impact of deposit repricing.

3. Capital Raising

Mr. Williams explained that the overall capital plan, which was a complex one involving a fully underwritten rights issue and debt for equity swap, and a firm placing, amounted in

total to c. €1.5bn. He also said that a buyback of the warrants attaching to the Government preference shares was now part of the Plan, as there was a benefit from the Group's perspective and it was a clear desire of the NPRFC to generate cash. He pointed out the criticality of the discussions that were in progress with the Financial Regulator about the overall amount of equity tier 1 capital required, as this ultimately determined whether a private market equity solution was possible.

Mr. Williams explained that approximately €1.5bn in total was likely to be available from the public markets. The capital raising plan was to raise approximately €0.3bn from a firm placing, €0.3 bn - €0.6bn from a debt for equity swap, most of which was expected to be recycled into the rights issue, and an additional €0.9bn - €0.6bn from a conventional rights issue in addition to any flowback into the rights issue from the debt for equity swap. The balancing figure for the capital need would have to come from the State through a conversion of an element of government preference shares which would also have to incorporate capital to buy back the warrants. He provided calculations that showed estimated State ownership levels, based on current planning assumptions, of 33.5% if equity tier 1 of 7% was required at the trough of the cycle; 39.6% if a trough equity tier 1 level of 7.5% were required and 42.6% at an 8% trough equity tier 1 requirement, all based on BoI/OW loan loss estimates.

Mr. Williams said the planned timetable for capital raising was to launch on 22 March 2010, have an Extraordinary General Court on 15 April and settle the rights on 7 May 2010.

Mr. Williams explained that decisions had yet to be made on the pricing of the debt for equity offer and the Government preference share conversion. Bank of Ireland's preference on the order in which the elements of the capital plan would take place was to do the firm placing, followed by a debt for equity swap issue and rights issue and convert the Government's preference shares later. He pointed out that, in all scenarios, it would make sense to buy back the warrants attaching to the Government's preference shares, as they create dilution without providing capital.

Mr. Godfrey outlined the timetable for capital raising again, but pointed out that an announcement date of 22 March 2010, which required Prospectus sign off on 12 March in advance of "wall crossing" on 15 March, was now unlikely to be achieved, due to reliance on extraneous factors. The key dependencies were sign-off of the EU Restructuring Plan, completion of the transfer of tranche 1 assets to NAMA and agreement on equity tier 1 capital requirements with the Financial Regulator. However, Mr. Boucher recommended continuing with this timetable in order to avoid slippage due to a loss of focus on delivering the critical pre-conditions if a later date were to be agreed.

The Court agreed that it made sense to buy out the warrants on the Government's preference shares. Management agreed to change the "Base Case" and all cases in the capital raising plan to include buying out the warrants on the Government preference shares.

DC/TG /CW

Mr. Godfrey reported that Davy and Bloxham Stockbrokers had indicated that they were confident that a high proportion of private clients would invest in a rights issue by Bank of Ireland.

4. NAMA

Mr. Collins reported that confirmation of Bank of Ireland's participation in NAMA had been received. The Bank expected that approximately €13bn of assets would transfer to NAMA. The date of transfer for the first tranche of circa €2bn of assets had been delayed

until 19 March 2010, with the acquisition schedule expected to be received on 12 March 2010. He said that transfer of the second tranche of circa €1.8bn of loans was now likely to occur in May 2010.

Mr. Boucher explained that the delay was disappointing, as it meant that there was less information available on the impact of NAMA on Bank of Ireland for the capital raising exercise. The Court noted that an estimate of the effect of the transfer to NAMA of c. €13bn in assets, if available, would be included in the notes to the accounts for the nine months ended 31 December 2009.

5. EU Restructuring Plan

Mr. O'Donovan tabled a paper showing an update of the profit numbers in the EU Restructuring Plan, along with changes in key assumptions supporting the revisions to the numbers. He pointed out that the revised total cumulative income figure for the five year period to 31 March 2014 was €9m lower than in the original plan, cumulative costs were €475m better and cumulative loan losses were €938m worse, mainly reflecting losses on asset transfers to NAMA. The major movements shown within the period were a reduction in net interest income in the year to 31 March 2011 of €322m, €200m of which was due to increased costs of deposits, with €100m due to the additional cost associated with the terming out of funding. The revised plan was based on a change in assumption on the timing of withdrawal from the Government Guarantee Schemes from 2012 to September 2010. This reduces the cost of the Guarantee in 2012 by €198m in the revised Plan.

Mr. O'Donovan drew the Court's attention to the risk of Bank of Ireland working towards withdrawal of the Government Guarantee in September 2010, as required by the EU, but finding that it could not in fact be withdrawn, due to the fact that not all banks in the country were ready for withdrawal. This would lead to Bank of Ireland having to carry both the cost of the Guarantee Scheme and the additional cost of terming out its funding. In discussion, the Court recognised that this risk was caused in part by structural imperfections in the Irish market, due to the lack of a scheme such as pfandebriefe for mortgages.

The Court requested a separate full discussion at its next meeting on the updated financials. **JO'D**

The Court encouraged management to continue making progress on the cost agenda. The need to reduce costs was acknowledged. Management confirmed that significant cost reduction initiatives were in train and undertook to demonstrate further progress on cost reduction.

The Court discussed the need to understand the scale of the cost reduction challenge inherent in ensuring that the Plan represents a recovery strategy. The need to understand the dynamics of the cost base, including elements that appear to be fixed, and the relationship between costs and income, was acknowledged.

It was agreed that there would be a wider discussion on potential cost levers for the Group in the summer.

In discussion on the pace of write-off of items such as restructuring charges and pensions funding costs, Mr. O'Donovan explained that all accounting must be done in line with IFRS requirements and in addition that to accelerate the charges as contained in the revised Plan would create a strain on capital in the near term.

Mr. Collins informed the Court that a meeting with the EU was scheduled for the following day, the agenda for which was:

- EU to provide feedback on the Restructuring Plan and proposed measures;
- an update from Bank of Ireland on its capital raising plan;
- details of the process to agree the Restructuring Plan.

Mr. Collins reported on a meeting with the Department of Finance on the Restructuring Plan at which the following items were discussed:

- comments on Bank of Ireland's viability;
- the Group's funding gap in the UK;
- positive feedback on the Group's proposals on burden sharing, along with a view that more was likely to be required;
- competitive issues, recognising, however, that the Irish economy was still fragile and lagging other markets in recovery.

Mr. Collins explained that a Monitoring Trustee was likely to be appointed to oversee the implementation of the Plan.

Mr. Donovan reported that the EU had confirmed that only one Restructuring Plan would be required from Bank of Ireland in respect of all state aid, including NAMA. He expressed the view that, although the Plan as submitted was close to one that could be agreed, further concessions were very likely to be required in order to reach agreement.

Mr. Crowley said that the comments on the UK funding gap had been surprising, but that it might be appropriate to provide the EU with the plan to incorporate in the UK.

Mr. Collins informed the Court that the EU might be able to agree, within the next month, a disclosure suitable for inclusion in our Prospectus for capital raising purposes, although the full decision would not be available in time for the Group's capital raising plans.

Mr. Boucher noted that any slippage in timeline for agreement of the Plan put the capital raising at risk. He explained that management would seek to reach an agreement, but would avoid the risk of the timeline being used against the Group in extracting an agreement.

6. Pensions Update

Mr. Boucher summarised progress on the project to address the Group's pension scheme deficits, on which a paper had been provided.

He indicated that satisfactory progress was being made in discussions with the Unions and Trustees, although he expressed some concern about the IBOA's focus on pensioners, rather than active members, taking a more substantial part of the burden involved in reducing the deficits. He explained that the IBOA was seeking agreements on redundancies and pay as part of the negotiations.

Mr. Boucher informed the Court that a series of focus groups was being held with non-unionised staff to ensure they were also involved in the process to reach proposals for addressing the deficits in the pension funds.

7. Group Treasury Strategy

Mr. Crowe explained that the ICAAP Regulatory process required the Court to review the Group's Treasury strategy annually. The Plan presented was primarily based on the Group

Treasury Strategy contained within the EU Restructuring Plan. He drew the Court's attention to the Wholesale Funding Strategy, which outlined the Group's plan for withdrawing from the Government Guarantee Schemes. The strategy envisaged is to run parallel funding programmes in the short term, with more favourable pricing, e.g. a difference of 30 bps, for unguaranteed funding.

Although the Wholesale Funding markets distinguish effectively between banks, the deposit markets are less sophisticated and are, therefore, more challenging for Bank of Ireland. The Plan envisaged moving to 50% term funding before the planned introduction of the new CEBs liquidity regime in June 2010, the cost of which would be €150m higher than the costs at the current 30% level. Mr. Crowe said that this move to 50% term funding would require €9.5bn to be raised pre June, €4bn of which had already been raised this year.

Mr. O'Donovan informed the Court that the EU was insisting on an update of the EU Restructuring Plan reflecting withdrawal of the Government Guarantee by September 2010.

Redacted for Relevance

Mr. O'Donovan pointed out that, of the €3.4bn loan loss reported for the 9 month period to 31 December 2009, €1.6bn had arisen between September and December 2009, mainly in relation to property and construction assets. He asked the Court to consider particularly the difference between the cumulative loan losses of €2.2bn taken on NAMA-bound assets in the accounts to 31 December 2009 and the ultimate loss on disposal of those assets. It was noted that PwC had some concerns on the extent of this gap and our approach to management judgement was going to be key. Given the fact that the work conducted by Oliver Wyman on non-NAMA-bound assets confirmed management's projected provisions on those assets, it is important to avoid any negative "read across" by analysts of the loss on disposal of assets to NAMA to the property and construction assets not transferring to NAMA.

In discussion on the total quantum of expected loan losses through the full cycle, it was noted that the impact of the anticipation of NAMA on the property and construction market had caused valuations to fall, the impact of which was recognised in loan losses in the period between September and December 2009.

Mr. O'Donovan was asked to consider the presentation/explanations in the Report and Accounts to 31 December 2009 of growth in volumes of impaired assets including and excluding NAMA bound assets. **JO'D**

Mr. O'Donovan then drew the Court's attention to movements in the balance sheet between March 2009 and December 2009 and to the P&L comparison of the nine month periods to December 2008 and December 2009. He particularly highlighted the trends in wholesale funding, customer deposits and term funding greater than one year.

Mr. O'Donovan also informed the Court that operating profit in the quarter ended 31

March 2010 was forecast to be €200m - €225m, compared with €350m in the previous quarter. He attributed the fall in operating profits to liability pricing pressure, which had not been able to be passed on to customers.

9. Monthly Risk Report

Mr. Mulvey introduced the Court Risk Report by highlighting the overall environment "red" rating, although there was evidence of a fragile, multi-speed recovery internationally. The Irish market reflected depressed property valuations as a result of the wait for the impact of NAMA to become clearer. He noted that six of the ten ICAAP risks were rated "red", as was operational risk.

On credit risk, Mr. Mulvey noted that concentration risk measures were rising for technical reasons, that consumer credit trends were spiking up on declining books and that economic capital measures would require significant model recalibration to reflect recent experience appropriately.

The Court requested the development of a training session on economic capital, for delivery after the current training schedule has been completed. **VM/HN**

Mr. Mulvey summarised the comments on the other risk categories, noting that both pension risk and business risk were rated "red".

.

- **Court Risk Committee ('CRC')**

Stress Testing of Mortgages:

At its December 2009 meeting the CRC noted that the GRPC had agreed to the revision in the interest rate used to Stress Test Mortgages from 6% to 5%. It also noted that the Chief Credit & Market Risk Officer had favoured retaining the 6% rate. The CRC asked management to provide background information on the change. At its most recent meeting the CRC received comprehensive material on the reasons for and against the change.

Following an in-depth discussion, the CRC concluded that while the reasons advanced by the CCMRO were well made, the reasons for the change were sufficiently strong to support the GRPC decision of the move to 5%.

Management agreed to report to the Committee in due course on the impact of the change and to continue its efforts to persuade the Government to move more towards the European approach to providing mortgage finance, e.g. pfandebriefe. **VM**

Risk Appetite Statement:

The CRC reviewed a management document which quantified the risk appetite embedded in the EU Plan approved by the Court. This document illustrated how the EU Plan would be converted into credit exposures by portfolio and region and how these could in turn be converted into operational limits to be used to manage the business in line with the EU Plan.

The high level measures and limits would continue to be approved by the Court as at present. The CRC also noted a draft Risk Appetite Statement based on the EU Plan and drawing on the quantification included in the document referred to above. The structure provided for in these two documents creates a more tangible link between the management limits used in the day to day operation of the Bank and the EU Plan.

Once that structure is in place, management will consider how best to develop proposals for the development of a Risk Appetite Statement from first principles.

In relation to the GRPC Minutes, the main discussion centred on the GRPC decision to second five Credit Review Staff to the NAMA project. They were first seconded in August 2009 for the period to 31 December 2009. The secondment has now been extended to 30 April next. The impact of the secondment is to extend the normal 18 month credit review cycle to 22 – 30 months and to make it unlikely that a return to an 18 month cycle can be achieved before late 2011.

The Committee appreciates the efforts that have been made by management to identify and recruit additional staff and it understands the priority which the NAMA project requires. In addition, it welcomes continuing efforts by management to source additional resources. However, the Committee would be concerned if the secondment period were to be extended beyond 30 April 2010.

.

12. Risk Governance Review

- Update on Implementation of Initiatives

Mr. Mulvey updated the Court on progress against the actions from the Oliver Wyman Risk Governance Review. Good progress was reported on most aspects of the recommendations, but he noted that the Credit M.I. Project was a very substantial one and was, at present, in the early stages of development. The Court emphasised the importance of making progress on this critical recommendation and urged management to continue to try to ensure that the required resources were identified and made available.

The Court noted the update.

Draft : Strictly Confidential -
Price Sensitive Information

Project Atlas 3 – Volume 3

Final – BoI

Strictly Confidential - Price Sensitive Information

This volume is part of our report on Project Atlas 3 and should be read in conjunction with Volumes 1 to 2 and 4 to 6, and in particular the transmittal letter to Volume I.

16 December 2008

Strictly Private and Confidential

Customer loan to deposit ratio reduced from 159.1% at 30 September 2008 to 138.6% at 31 October 2008 driven by increases in customer deposits

Consolidated Balance Sheet - Summary

€ in billions	31 March 2008	30 Sept 2008	31 Oct 2008
	Audited	Interim	Mgt Accounts
Customer lending	135.7	144.3	145.9
AFS	1.0	1.0	0.8
Liquid assets	38.4	37.3	45.4
Life Assurance assets	12.8	12.3	10.7
Other assets	9.5	9.4	12.0
Total Assets	**197.4**	**204.3**	**214.8**
Customer deposits	86.2	90.7	105.3
Wholesale borrowing	75.0	77.7	74.4
Life Assurance liabilities	12.8	12.3	10.7
Other liabilities	9.1	8.7	9.1
Sub-ordinated liabilities	7.8	8.5	8.6
Capital & reserves	6.5	6.4	6.7
Total equity & liabilities	**197.4**	**204.3**	**214.8**

Wholesale funding ratio	40.6%	40.5%	36.4%
Customer Loan / Deposit ratio	157.4%	159.1%	138.6%
Term Funding > 1 year (% of Wholesale)	32.7%	29.0%	29.1%
Term Funding > 1 year & Customer Deposit vs Customer Lending	81.6%	78.5%	86.9%

Total Capital %	11.1%	12.2%	12.2%
Equity Tier 1	5.7%	6.3%	6.3%
Tier Capital (%)	8.1%	8.7%	8.7%
Risk Weighted Assets - Basel II:			
Pre-securitisation	117.0	116.2	116.2
Post-securitisation	125.8		

Source: Group Performance Report - Oct 2008

- The Customer Loan to Deposits ratio reduced significantly between 30 September 2008 (159.1%) and 31 October 2008 (138.6%).
- There was little movement in Customer lending, which increased by 1% since September 2008. This uplift is generally due to increased utilisation of existing facilities by borrowers rather than new facilities being approved. This includes additional interest roll up on existing facilities.
- Customer deposits totalled €105.3 billion at 31 October 2008, up €14.6 billion on 30 September 2008. The Bank attribute this growth to a combination of UKFS initiatives and deposit gathering schemes in Global Markets.

Phase III of our review concentrated on the next 50 largest Land and Development exposures (1 of 2)

Area	Comment
Phase III of our review concentrated on the Bank's next 50 largest Land and Development exposures	The Bank's property loan book of €38.0 billion at 30 September 2008 is spread across Corporate Banking (€9.5 billion), Retail RoI (€9.4 billion), UKFS (€16.4 billion) and Private Banking (€2.7 billion). These property loan books are managed by separate business management teams and separate business credit units within Business Banking RoI, UKFS and Corporate Banking. Our review has incorporated exposures managed by each of these business units. Of the total Property balance, €13.1 billion related to land and development exposures of which €7.7 billion related to development exposures and €5.4 billion to land bank. The land bank can be analysed as follows: €0.4 billion unzoned land, €2.8 billion zoned land with no planning permission and €2.2 billion zoned land with planning permission. In Phase II, we reviewed the Bank's top 20 land and development exposures and the top 25 total group exposures. Phase III of our review has concentrated on land and development exposures, reviewing the Bank's next 50 largest exposures.
Mothballing of developments and land banks	During our review, we have seen increasing evidence of land and development borrowers reacting to the downturn in the residential market by 'mothballing' development sites and land banks. These sites are not expected to be developed/completed until there is a return in activity to the market. This is a short to medium term solution for many developers and requires the continued support of the Bank. However, the ability to place facilities on hold may be restricted. Overtime interest roll up will become more difficult, particularly where LTV is high, interest cannot be funded and further security is unavailable.

Phase III of our review concentrated on the next 50 largest Land and Development exposures (2 of 2)

Area	Comment
Land & Development Listing	At the request of the Regulator, our Phase III review has concentrated specifically on land & development exposures. The accepted practice in many such loans is to allow interest roll-up and repayment moratoriums until the site is developed. In almost all cases the loans continue to be performing on that basis, despite the evidence of a substantial slow down in the Irish and UK property markets and the difficulties this poses for developers seeking to successfully develop out sites, particularly those acquired since c.2005/06. The next 50 land and development exposures reviewed are based on a selection of the Bank's main exposures across the BBROI, BBUK and Corporate books. Some element of judgement was involved, as historically the Bank has concentrated on the actual total exposure by customer, as opposed to specific land and development elements. We cannot ascertain the accuracy or completeness of this listing, however the exposures reviewed are a broad representation of the overall portfolio.
Concentration of exposures	Within the next 50 land and development exposures in Ireland, the Bank has significant exposure to a number of large land bank plays/large scale developments in the Dublin region and surrounding commuting areas (Oir P Oireachtas P) and Cork where sales of units have been decreasing significantly or the prospect of land bank development is remote in the short term. Given the volume of residential units available for sale and the current economic climate it is likely that significant further discounting will be required in order to complete unit sales into 2009. The successful development of current land banks is typically dependent on a number of factors which include completion of local area development plans, zoning etc., an increase in demand from current depressed levels, services/infrastructure build and continued availability of financing. Other concentrations were noted in Northern Ireland and the UK (Manchester and London in particular). These exposures are concentrated across residential and office block developments and also included an element of land bank holding with varying planning classes applying.

Top 70 Land & Development loans represent 39% of the total Land and Development Loan Book (3 of 5)

40. : Residential/commercial development in city. High LTV at 135% with collateral shortfall of €15.8 million. Large number of unsold units. Possibility that provision may be required with the level to be considered following discussions with borrowers.

41. 25% club funding construction of SC; complete and 93% let; 75% LTV; possible refinancing into investment loan (50% LTV) with oir.

42. : LTV covenants breach; maturity date passed; non-payment of interest; CG 12; provision of €4 million, with any further provisioning dependent on outcome of fundraising and final negotiations; collateral shortfall of c.€2.5 million; non-recourse on 2 SPVs which acquired land banks in 2005/2006; LTV 98%; ongoing restructuring.

43. : 33% club with oir & oir. 16 developments however many at "mid development" stage"; c.52% of unsold units. LTV 73%. Liquidity, contracted sales and tight headroom key to facility.

44. : 655 residential units in old 28% club with and oir; LTV 43.3% , 469 of 586 private units contracted, however, 200 sold to bulk foreign purchasers, yet to close.

45. : mixed use development in (LTV 69%). Extremely high LTV covenant breaches on 2 office developments in UK recently (LTV's of 162% and 150%). Additional equity and/or security required to reduce LTV's. Interest serviced by funds on deposit.

46. : CG 8; Overall external LTV of 109%; Collateral shortfall of c.€4.6 million. Substantial other borrowings. High LTV on (113%) (132%); No few pre-sales/pre-lets. BOI have credit strategy in place;. Cashflow and liquidity key; Relationship requires close monitoring.

47. High internal LTV 97% (November 2008); significant exposures. Large land bank and unsold developed sites; to be restructured/under review; interest of €0.16 million rolling per month outside original maturity of June 2007. security being enhanced from letter of undertaking to formal fixed charge.

48. : builder, cross secured facilities on 3 residential developments & 2 land banks with planning in . Internal LTV 77% (September 2008). Facility matures March 2008 and slow sales/reduced valuations will put pressure on further interest roll up. Full recourse, however, assets illiquid.

49. : Leveraged buy out of builder, syndicate deal with oir lead. Company highly geared and experiencing difficulties; CG slipped 5 times from 6 to 11 during 2008; deficiency in security for property-backed debt. Last credit review addressed numerous impending covenant breaches. Provision of €16 million may be required if 30% senior debt converted to equity. BOI consider this level unlikely.

50. : Developed sites comprising office, residential and retail; very slow pre-sales/lets; interest continuing to roll-up; security values a concern in particular residential units. Cross collateralised LTV of 72%, significant borrowers with other financial institutions land bank funding.

52. : Partnership) purchased site in 2006, phase 1 of the development has commenced. 2 other sites held as land banks. Large amount of debt in the company, LTV 83.3% on site. BOI looking for extra security. Hope to sell the site as (land bank), to reduce debt in the partnership. Possible LTV shortfall of €4.0 million.

53. : Residential development in complete on current phases. 33 units unsold of total 75. LTV low at 64.2%. Discounting of current valuation by 20%, increases LTV to 89%. Full recourse to promoters. Borrower also has significant exposure to Oir P.

54. : Residential building company with 2 sites in oir - 1 site developed but significant unsold units. Site in close to the proposed classed as a land bank. Land bank accounts for 34% of collateral. Cross secured LTV 84%, credit rating 4.3 "challenging case"; all facilities are interest roll up.

Bank of Ireland
Group Secretary
Head Office, 40 Mespil Road,
Dublin 4
Tel +353 (0)76 623 4710
Fax +353 (0)76 623 4789
www.bankofireland.com

By Email: biwitnessmanager@oireachtas.ie

Mr L Gordon
Joint Committee of Inquiry into the Banking Crisis
Leinster House
Dublin 2

20 April 2015

Dear Larry,

I refer to our telephone conversation on 16 April and, having checked the position, respond to the points raised by you as follows:

(1) You mentioned the reference in the Group Liquidity Committee (GLC) minutes of 29 September 2008 to a draft guarantee and a list of institutions having been prepared at that meeting and requested a copy of those documents. I have checked with a number of the people who attended that meeting including the person who subsequently prepared the minutes. They recall a discussion in relation to the meeting with government which was to take place later that evening but have confirmed to me that a draft guarantee was not prepared. The minutes of 29 September 2008, insofar as they refer to a draft guarantee being prepared, are, therefore, incorrect. The people with whom I spoke have some recollection of a page containing a list of financial institutions from the Central Bank quarterly bulletin being used during their discussion. All of the people confirmed that no draft guarantee or listing of institutions to which it might be applied was produced or communicated to anyone.

Bank of Ireland – The Governor and Company of the Bank of Ireland, incorporated by charter in Ireland with limited liability. A tied agent of New Ireland Assurance Company plc, trading as Bank of Ireland Life.
Bank of Ireland is regulated by the Central Bank of Ireland.

Directors: Archie Kane (Governor) (British); Patrick O'Sullivan (Deputy Governor); Richie Boucher (Group Chief Executive); Kent Atkinson (British); Pat Butler; Tom Considine; Patrick Haren (British); Andrew Keating; Patrick Kennedy; Davida Marston (British); Bradley Martin (Can); Patrick Mulvihill; Group Secretary: Helen Nolan

(2) You also referred to the GLC minutes of 30 September 2008 and the reference to Goldman Sachs having been asked to develop possible charging mechanisms in respect of the guarantee. I can confirm that no report or other work product was received from Goldman Sachs on this topic.

(3) You mentioned the Court minutes of 3 October 2008 at which the then CEO, Mr Goggin, reported on the events of 29 September leading up to the government guarantee. I can confirm that a full set of these minutes to the extent they refer to the guarantee have been provided to the Joint Committee. I can also confirm that none of the items redacted from the CEO Report presented to that meeting in the copy given to the Joint Committee touch on the guarantee or were otherwise relevant to any of the categories of documents requested by the Joint Committee.

If I can be of further assistance please contact me.

Yours sincerely,

Helen Nolan

POMEROY DT-2008.09.30 09.15 B74

1 Oireachtas P: Good morning Oir P
2 Oir P: Well, it is all over.
3 Oireachtas P: Absolutely.
4 Oir P: It is all sorted.
5 Oireachtas P: All done. Magic wand.
6 Oir P I mean, Jesus I would nearly feel like issuing a
7 bit of capital myself. Everybody bar the equity holder
8 has been sorted.
9 Oireachtas P: Yes, absolutely.
10 Oir P: Yes, I mean they are calling it super TARP, but
11 like it solves one side of the problem.
12 Oireachtas P: Yes.
13 Oir P Which is the liquidity side clearly, yes.
14 Oireachtas P Absolutely, yes.
15 Oir P So now we are going to guarantee all comers,
16 come what may, irrespective of tenor or of I suppose
17 seniority.
18 Oireachtas P: Yes.
19 Oir P But the asset side of the balancesheet is grand.
20 Oireachtas P: Yes, well, that is i Oir P. I mean I say
21 -- and I mean if you look at the problems that say Bank
22 of Ireland had, one was raising liquidity. Two, was
23 capital.
24 Oir P: Yes.
25 Oireachtas P: And three was kind of assets and kind of
26 divide that in two between over leveraged and bad debts
27 writing.
28 Oir P: Yes.
29 Oireachtas P: So it certainly helps the liquidity; the

1 liquidity side of things. It does nothing for the
2 capital straight away and it does nothing for the
3 assets, but at least it helps one part of the overall
4 picture.
5 Oir P Yes, and I suppose the other thing is it doesn't
6 -- well, now I don't know I haven't asked the question
7 yet. Are banks going to start lending again?
8 Oireachtas P Well, it will need the money markets to be
9 up. Like, for instance, today if the money markets
10 were open today we would absolutely -- you know we
11 would be issuing and we would be issuing at a lower
12 spread than we were this time yesterday obviously.
13 Oir P Yes.
14 Oireachtas P: But the fact that markets aren't open
15 means, you know, there is no cash for anything.
16 Oir P Yes.
17 Oireachtas P Never mind anything with a Government
18 guarantee.
19 Oir P Yes, but even if you get the -- let us say you
20 go out and you take billions.
21 Oireachtas P Yes.
22 Oir P: Right, and it is Government guaranteed, etc.,
23 etc., like all that is doing is essentially shoring up
24 and overly geared balancesheet.
25 Oireachtas P: Absolutely.
26 Oir P So it is giving you money, wholesale money for
27 two and three years, issuing capital, whatever.
28 Oireachtas P: Yes.
29 Oir P But you are still left with a balancesheet and

1 we know with bad debts --
2 Oireachtas P: Right.
3 Oir P: That are going to come against us.
4 Oireachtas P: Yes, absolutely.
5 Oir P Like that is kind of almost like a zombie bank.
6 Oireachtas P Yes, no absolutely.
7 Oir P And it is not dealing with the real issue, as
8 you said, which is capital and bad debts.
9 Oireachtas P Yes.
10 Oir P And they are both inextricably linked.
11 Oireachtas P: They are.
12 Oir P: But I suppose the thing is it is the first step,
13 whereas a lot of the other European countries are
14 actually trying to deal with capital as well.
15 Oireachtas P Yes.
16 Oir P They are trying to re-capitalise the situation.
17 Oireachtas P Yes, absolutely.
18 Oir P So I mean it is -- well, we will see. Time will
19 tell.
20 Oireachtas P: Yes.
21 Oir P: I mean the equity side, it is up a bit but then
22 I mean if you take Anglo yesterday.
23 Oireachtas P Sure.
24 Oir P Anglo was up at about 250/260 and it went out on
25 the auction at 230.
26 Oireachtas P Exactly.
27 Oir P The auction you don't worry about because that
28 is a kind of an after hours.
29 Oir P Sure, yes

1 Oir P So it is only up about 10%. Allied is up 10 or
2 12, 14, Bank is up a few percent. It is not exactly
3 the most overwhelming growth.
4 Oireachtas P: Absolutely not.
5 Oir P At this stage.
6 Oireachtas P: Ah it is not.
7 Oir P So I suppose everybody is afraid to put any
8 money out to break --
9 Oireachtas P That is it. There is no money out there.
10 The one thing it does d Oir P sorry, as well is just
11 on the deposit side. I mean we have seen deposits
12 leaving over the course of the last two weeks.
13 Oir P Yes.
14 Oireachtas P And we would expect to see customer
15 deposits coming back to us. In fact already this
16 morning between ourselves, I know of one bank around
17 town and he has taken money out of Ulster and moving it
18 into Bank of Ireland.
19 Oir P Yes.
20 Oireachtas P So it will help us domestically.
21 Oir P Yes.
22 Oireachtas P: And it will also help us in London, like
23 you know kind of the Oireachtas P team over there.
24 You know you want Oireachtas P
25 Oir P Yes.
26 Oireachtas P Who they have certainly been losing
27 deposits over the course of the last week and a half.
28 Oir P: Yes.
29 Oireachtas P: It should get them back. So that will

1 help. So it will reduce the -- you know, our customer
2 deposits will go up and our wholesale funding should
3 reduce on that metric. So it will help there as well.
4 Oir P Yes, and it keeps the rating agency at bay.
5 Oireachtas P Absolutely, yes.
6 Oir P So I suppose the two things, it brought HBOS
7 down and Merrill Lynch down, which was a run on the
8 bank and the rating agencies making a phone call.
9 Oireachtas P Yes.
10 Oir P Both of those now are gone.
11 Oireachtas P Yes, so it takes the tail risk out.
12 Oir P It takes the tail risk out but it still leaves
13 us --
14 Oireachtast P With the problems we have.
15 Oir P With six banks with -- in fact it could give you
16 a false sense of security here because it means that
17 you may not have to deal -- like what they should have
18 done here was done a bit of a cleaning up since they
19 were doing it.
20 Oireachtas P That someone go first before -- well, that
21 is it. I think that is from what I am hearing.
22 Oir P What they have done is they have just bailed
23 everybody out now.
24 Oireachtas P Yes.
25 Oir P And they have just put off the day when there
26 has to be consolidation.
27 Oireachtas P Yes, that is right. I mean that is the
28 only thing I am hearing this morning from slightly
29 higher up than where I am, dispatch. That maybe it is

1 an opportunity missed.
2 Oir P Yes.
3 Oir P: That potentially someone to take the blame
4 for it and go and, you know, the rest to kind of take
5 it and the Government to come in then, but anyway,
6 look, I think certainly when I was here at 8:30 last
7 night after the TARP was gone, I was kind of thinking
8 like Anglo are gone tomorrow morning first thing.
9 Oir P Yes.
10 Oir P: Given where they finished and given where
11 the Dow finished.
12 Oir P Yes, yes, yes.
13 Oir P I think certainly --
14 Oir P We live to fight another day..
15 Oir P Absolutely, Oir P
16 Oir P Take it easy.
17 Oir P Cheers, you too.
18 Oir P Cheers, bye.
19 Oir P Bye.
20
21
22
23
24
25
26
27
28
29

0

09.15 [1] - 1:6

1

10 [1] - 5:1
10% [1] - 5:1
12 [1] - 5:2
14 [1] - 5:2

2

230 [1] - 4:25
250/260 [1] - 4:24

8

8:30 [1] - 7:6

A

Absolutely [1] - 2:3
absolutely [10] - 2:9, 2:14, 3:10, 3:25, 4:4, 4:6, 4:17, 5:4, 6:5, 7:15
afraid [1] - 5:7
agencies [1] - 6:8
agency [1] - 6:4
Allied [1] - 5:1
almost [1] - 4:5
Anglo [3] - 4:22, 4:24, 7:8
anyway [1] - 7:5
asset [1] - 2:19
assets [2] - 2:25, 3:3
auction [2] - 4:25, 4:27

B

B74 [1] - 1:6
bad [3] - 2:26, 4:1, 4:8
bailed [1] - 6:22
balancesheet [3] - 2:19, 3:24, 3:29
bank [3] - 4:5, 5:16, 6:8
Bank [3] - 2:21, 5:2, 5:18
banks [2] - 3:7, 6:15
bar [1] - 2:7
bay [1] - 6:4
between [2] - 2:26, 5:16
billions [1] - 3:20
bit [3] - 2:7, 4:21, 6:18
blame [1] - 7:3
break [1] - 5:8
brought [1] - 6:6
bye [2] - 7:18, 7:19

C

capital [6] - 2:7, 2:23, 3:2, 3:27, 4:8, 4:14
capitalise [1] - 4:16
cash [1] - 3:15
certainly [4] - 2:29, 5:26, 7:6, 7:13
cheers [2] - 7:17, 7:18
cleaning [1] - 6:18
clearly [1] - 2:13
comers [1] - 2:15
coming [1] - 5:15
consolidation [1] - 6:26
countries [1] - 4:13
course [2] - 5:12, 5:27
customer [2] - 5:14, 6:1

D

day. [1] - 7:14
deal [2] - 4:14, 6:17
dealing [1] - 4:7
debts [3] - 2:26, 4:1, 4:8
deposit [1] - 5:11
deposits [4] - 5:11, 5:15, 5:27, 6:2
dispatch [1] - 6:29
divide [1] - 2:26
domestically [1] - 5:20
done [4] - 2:5, 6:18, 6:22
Dow [1] - 7:11
down [2] - 6:7
DT-2008.09.30 [1] - 1:6

E

easy [1] - 7:16
equity [2] - 2:7, 4:21
essentially [1] - 3:23
etc [2] - 3:22, 3:23
European [1] - 4:13
exactly [2] - 4:26, 5:2
expect [1] - 5:14

F

fact [3] - 3:14, 5:15, 6:15
false [1] - 6:16
few [1] - 5:2
fight [1] - 7:14
finished [2] - 7:10, 7:11
first [3] - 4:12, 6:20, 7:8
funding [1] - 6:2

G

Oir P [1] - 5:23
geared [1] - 3:24
given [2] - 7:10
Government [3] - 3:17, 3:22, 7:5
grand [1] - 2:19
growth [1] - 5:3
guarantee [2] - 2:15, 3:18
guaranteed [1] - 3:22

H

half [1] - 5:27
HBOS [1] - 6:6
hearing [2] - 6:21, 6:28
help [4] - 5:20, 5:22, 6:1, 6:3
helps [2] - 2:29, 3:3
higher [1] - 6:29
holder [1] - 2:7
hours [1] - 4:28

I

inextricably [1] - 4:10
instance [1] - 3:9
Ireland [2] - 2:22, 5:18
irrespective [1] - 2:16
issue [1] - 4:7
issuing [4] - 2:6, 3:11, 3:27

J

Oir P - 5:24
Jesus [1] - 2:6

K

keeps [1] - 6:4
kind [7] - 2:25, 4:5, 4:28, 5:23, 7:4, 7:7

L

last [3] - 5:12, 5:27, 7:6
least [1] - 3:3
leaves [1] - 6:12
leaving [1] - 5:12
left [1] - 3:29
lending [1] - 3:7
leveraged [1] - 2:26
linked [1] - 4:10
liquidity [4] - 2:13, 2:22, 2:29, 3:1
live [1] - 7:14
London [1] - 5:22
look [2] - 2:21, 7:6
losing [1] - 5:26
lower [1] - 3:11
Lynch [1] - 6:7

M

magic [1] - 2:5
markets [3] - 3:8, 3:9, 3:14
Oir P [1] - 5:24
mean [9] - 2:6, 2:10, 2:20, 2:21, 4:18, 4:21, 4:22, 5:11, 6:27
means [2] - 3:15, 6:16
Merrill [1] - 6:7
metric [1] - 6:3
Oir [4] - 2:1, 2:20, 5:10, 7:15
Oir P] - 2:2, 2:4, 2:6, 2:10, 2:13, 2:15, 2:19, 2:24, 2:28, 3:5, 3:13, 3:16, 3:19, 3:22, 3:26, 3:29, 4:3, 4:5, 4:7, 4:10, 4:12, 4:16, 4:18, 4:21, 4:24, 4:27, 5:1, 5:5, 5:7, 5:13, 5:19, 5:21, 5:25, 5:28, 6:4, 6:6, 6:10, 6:12, 6:15, 6:22, 6:25, 7:2, 7:9, 7:12, 7:14, 7:16, 7:18
mind [1] - 3:17
missed [1] - 7:1
money [7] - 3:8, 3:9, 3:26, 5:8, 5:9, 5:17
morning [4] - 2:1, 5:16, 6:28, 7:8
most [1] - 5:3
moving [1] - 5:17
O [48] - 2:1, 2:3, 2:5, 2:9, 2:12, 2:14, 2:18, 2:20, 2:25, 2:29, 3:8, 3:14, 3:17, 3:21, 3:25, 3:28, 4:2, 4:4, 4:6, 4:9, 4:11, 4:15, 4:17, 4:20, 4:23, 4:26, 4:29, 5:4, 5:6, 5:9, 5:14, 5:20, 5:22, 5:26, 5:29, 6:5, 6:9, 6:11, 6:14, 6:20, 6:24, 6:27, 7:3, 7:10, 7:13, 7:15, 7:17, 7:19

N

nearly [1] - 2:6
need [1] - 3:8
never [1] - 3:17
night [1] - 7:7
nothing [2] - 3:1, 3:2

O

obviously [1] - 3:12
one [5] - 2:11, 2:22, 3:3, 5:10, 5:16
open [2] - 3:10, 3:14
opportunity [1] - 7:1
ourselves [1] - 5:16
overall [1] - 3:3
overly [1] - 3:24
overwhelming [1] - 5:3

P

part [1] - 3:3
percent [1] - 5:2
Oir [1] - 5:23
phone [1] - 6:8
picture [1] - 3:4
POMEROY [1] - 1:6
potentially [1] - 7:3
problem [1] - 2:11
problems [2] - 2:21, 6:14
put [2] - 5:7, 6:25

R

raising [1] - 2:22
rating [2] - 6:4, 6:8
re [1] - 4:16
re-capitalise [1] - 4:16
real [1] - 4:7
reduce [2] - 6:1, 6:3
rest [1] - 7:4
risk [2] - 6:11, 6:12
run [1] - 6:7

S

security [1] - 6:16
see [2] - 4:18, 5:14
seniority [1] - 2:17
sense [1] - 6:16
shoring [1] - 3:23
side [6] - 2:11, 2:13, 2:19, 3:1, 4:21, 5:11
situation [1] - 4:16
six [1] - 6:15
slightly [1] - 6:28
solves [1] - 2:11
someone [2] - 6:20, 7:3
sorry [1] - 5:10
sorted [2] - 2:4, 2:8
spread [1] - 3:12
stage [1] - 5:5
start [1] - 3:7
step [1] - 4:12
still [2] - 3:29, 6:12
straight [1] - 3:2
super [1] - 2:10
suppose [5] - 2:16, 3:5, 4:12, 5:7, 6:6

T

tail [2] - 6:11, 6:12
TARP [2] - 2:10, 7:7
team [1] - 5:23
tenor [1] - 2:16
thinking [1] - 7:7
three [2] - 2:25, 3:27
Oir P [48] - 2:1, 2:3, 2:5, 2:9, 2:12, 2:14, 2:18, 2:20, 2:25, 2:29, 3:8, 3:14, 3:17, 3:21, 3:25, 3:28, 4:2, 4:4, 4:6, 4:9, 4:11, 4:15, 4:17, 4:20, 4:23, 4:26, 4:29, 5:4, 5:6, 5:9, 5:14, 5:20, 5:22, 5:26, 5:29, 6:5, 6:9, 6:11, 6:14, 6:20, 6:24, 6:27, 7:3, 7:10, 7:13, 7:15, 7:17, 7:19
today [2] - 3:9, 3:10
tomorrow [1] - 7:8
town [1] - 5:17
trying [2] - 4:14, 4:16
two [5] - 2:22, 2:26, 3:27, 5:12, 6:6

U

Ulster [1] - 5:17
up [10] - 3:9, 3:23, 4:21, 4:24, 5:1, 5:2, 6:2, 6:18, 6:29

W

wand [1] - 2:5
week [1] - 5:27
weeks [1] - 5:12
whereas [1] - 4:13
wholesale [2] - 3:26, 6:2
worry [1] - 4:27
writing [1] - 2:27

Y

years [1] - 3:27
yesterday [2] - 3:12, 4:22

Z

zombie [1] - 4:5

F9/25/08, D
Record 12

30 September 2008

Attendance: T, BL, AG, DMcC, KC, DD, JM, E McCague, xxxx Burrows Sheehy, Gleeson

Burrows

- Rapidly deteriorating situation everywhere – fully caught up in it
- Situation threatens the stability of our organisations
- Rumour in NYSE that Dublin won't go tomorrow
- Contagion from weaker to strong
- 2 institutions in terminal decline
- Why has INBS not been dealt with? Afraid people will assume INBS & Anglo tied in to the healthier outfits.
- Reminded action: 2 elements (a) guarantee for surviving (b) troubled patients to be taken out
- Can't guarantee that any guarantee will work
- Eventually impartial guarantee should register as good among Centrals Banks around the world – language must be unmistakeable
- Higher difficulty with funding – slight resistance to overnight funding today (heard from Eamonn Hackett, Treasury).

Sheehy

- On positive side, retail guarantee has been very successful – no effect on wholesale depositors.
- Trend has been increasing – more and more difficult "no quote for Dublin".
- People we've been dealing with for decades pulling back – 1 month we will be funding bank overnight. Bad if can't even get that, disaster – bankruptcy.
- Market is saying that Anglo is bust.
- Guarantee in xxxx will not help equity markets, but may help liquidity a bit.
- Want price to be in cash.

Hurley

- Guarantee required tomorrow
- Needs to be priced
- Anglo now asking for 4 bn tomorrow
- Will give them 1 ½ in the morning
- Might be necessary tonight to call in the banks
- Will have to be told that the use of the guarantee requires them to close down their businesses
- If further funds required AIB & Bank should contribute
- If rates for Anglo are significant, give them ELA from Central Bank.

PN &JR

- Guarantee absolutely xxxx
- Price of guarantee 0.25 and 0.5 of a point

- Min asked FR did they agree with AIB/BofI that 2 need to be nationalised first, FR (PN) did not agree.

T

- State guarantee best way to underpin deposits
- Want clarity of what is to be done in light of international events
- Go off and do it – Chairman & CEO

PN

- Will put in significant conditions

Governor

- If provide funding, need conditions – need to reduce risks of State

PN

- Everybody who has had a look at the banks is saying there is value in them over time
- Accepts this is a 'throw of the dice'

<u>00.41 on 30 September 2009</u>

AIB & BofI back in ....

- Use MLF[?] for AIB – 1 ½ billion best can do 4. 6 best do
- Another idea – non eligible assets
- 10bn ABS & AAA – bring to NTMA – give gilts for it – say 8bn assuming a haircut – have to get it back next Monday.

<u>Goggin</u>

- Tomorrow is ½ year end
- So already managing for tomorrow
- Can't get cash xxxx Wed in xxxx
- Very nervous about how own deposits will hold up
- Could produce 4-5bn by Wed if get tender
- Will not use MLF[?]
- Capacity to consider
- Very strong preference not to xxxx
- Prefer to get it back close of business on Friday
- Could not xxxx

THEME: C4

Appropriateness and effectiveness of the domestic policy responses

LINE OF INQUIRY: C4c

Decision to recapitalise Anglo, Allied Irish Banks (AIB), Bank of Ireland (BoI), Educational Building Society (EBS), Permanent TSB (PTSB) and the alternatives available and/or considered

However, the seismic shifts of the past 12 months have been too rapid and all-encompassing for Bank of Ireland. We have been caught in a difficult situation. Our problem has been compounded by the fact that "Ireland Inc." has been very seriously impacted by the world recession. It appears that the other Irish banks and, in particular, AIB and Anglo are materially worse off than we are. The latter two are more exposed to the property correction than we are and do not have the liquidity or access to liquidity that we do. Being the "best of the rest" is not a solution, however, if the problems of the rest are such that they undermine the ability of the Government to provide support to Bank of Ireland.

3. CURRENT SITUATION

3.1 De-leveraging

As virtually all of the banks operating in our major markets have similar issues regarding capital adequacy, access to liquidity and aversion to risk (to various degrees), conventional routes to reducing risk assets are difficult.

Even if we could attract any interest in our loan books, we could only sell them at significant discounts and less than their true long term value. This would materially damage our capital base.

Customers' own cash flows are tighter and the willingness of other banks to refinance debt held elsewhere is low. Therefore redemptions through more normal sources will be low. In addition, to help viable customers with cash flow difficulties, we are, in a number of cases, extending repayment terms.

We have halted new lending in a number of businesses outside Ireland. In certain other businesses we have to be careful (e.g. some parts of BBUK) about exiting too quickly, in case we damage their deposit franchises.

Therefore, even the actions we have taken to choke-off new lending, will not do much to reduce balance sheet footings quickly. We have to face the scenario where it will be difficult to materially reduce the asset side of the balance sheet for several years to come. As a consequence, we must use our existing experience, skills and market positions to:

- Create as much collateral / pools as we can out of these assets to access liquidity.
- Source and retain franchise relationship deposits.
- Persuade Governments (e.g. the current UK initiative) that the assets and markets positions we have make us systemically important to their economies and worthy of support.

3.2 Capitalisation

As the economies in which we operate face into deeper recession and liquidity remains very constrained, loan losses will increase to our downside scenarios. Revenue generation is also hampered by the recessionary environment impacting on operating profits.

We need additional capital and the only current source is the Government. The amount of capital needed and nature of same deemed appropriate by the debt markets is a moveable feast. We have to recognise that political and fiscal realities constrain how much the State can provide. We have to balance how much we meaningfully need, to cover worst case scenarios and satisfy debt investors, while, at the same time, avoiding absolute dilution for our existing shareholders and *de facto* nationalisation.

Oireachtas L

THEME: R3

Clarity and effectiveness of the nexus of institutional roles and relationships

LINE OF INQUIRY: R3b

Nature and appropriateness of the relationship between the Central Bank (including the Financial Regulator), Department of Finance and the Banking Institutions

Bank of Ireland

Bank of Ireland Mortgages

New Century House
IFSC
Mayor Street Lower
Dublin 1

Telephone 01 611 3333
Facsimile 01 611 3100
email boi@mortgagelink.ie

30th April 2001

Mr Dermot Finneran
Banking Supervision Department
Central Bank of Ireland
Dame Street
Dublin 2

Re: Homeloan Lending Policy

Dear Dermot

I had hoped to meet you at the meeting in your offices on Friday 20th, but this was not possible.

I just wanted to inform you of planned changes to the general Homeloan Lending Policy of Bank of Ireland and ICS Building Society, a summary of which is attached. These changes have been approved by the Group Credit Committee. Our intention regarding communication is that we will have minimal PR and will not be announcing these changes publicly but will be informing all business sources over the course of the coming days.

If you have any queries regarding the attached, please let me know.

Kind regards

Lynda Carragher
Head of Credit & Risk Management

Bank of Ireland · incorporated in Ireland with limited liability.
Registered No. C-1. A tied insurance agent for Lifetime Assurance Company Limited.

Bank of Ireland Group

CREDIT POLICY CHANGES

Current	Change
Joint Borrowers	*Joint Borrowers*
3 times principal income plus 1.25 times 2nd income	2.5 times combined income where 2nd income is greater than £15k (increasing our Net Disposable Income thresholds across all borrower types)
Professional Product	*Professional Product*
3.25 times principal income where income is £25k plus certain professional type	3.75 times income where income is £35k – similar professional type (increasing our Net Disposable Income thresholds across all borrower types)
	Interest Only Residential Investment Loan (ICS Only)
	Key features: Max LTV 65% Portfolio Investor Limited tranche only for certain ICS Introducers

Follow up issues from Day 1 of BOI Audit – 29 January 2008

Issues outstanding

- **Case No. 4 - System ID no:** Redacted for Rel...
  Latest professional property valuation reported to CBFSAI was €410,000 vs €320,000 on professional valuation report.
- **Case No. 12 - System ID no:** Redacted for Rel...
  Not clear what Interest Rate is attached to loan – Could you explain what WFS special rate means?
- **Case No. 27 & 28 - System ID no:** Redacted for Relevance
  Valuation date of May 2006 on system but the latest Valuation report is dated 14 March 2001. We wonder why there would be such a difference between the date on the valuation report and the date entered in the system?

Treatment of Annual Payments

- **Case No. 15 & 16 - System ID no:** Redacted for Relevance
  No monthly repayments. 20 annual repayment instalments.
- **Case No. 39 & 40 - System ID no:** Redacted for Relevance
  Mortgage drawn in July 2007 yet first repayment is August 2008

The inclusion of loans with annual repayments is not in line with the spirit of the Framework Agreement (FA) and should, therefore be excluded. Our stance on this occasion is similar to the one taken in September last year regarding the inclusion of moratoria. Annuity form (criterion 6) is understood to be the payment of interest and capital on a regular basis. The meaning of regular should be further seen to be some multiple of one monthly frequency as indicated by Criteria 4 (65 days in arrears, i.e., two monthly payments) and Schedule 5 (90 day seasoning, i.e., three monthly payments).

GROUP RISK POLICY COMMITTEE MINUTES
25th August 2003

PRESENT: **B.J. Goggin (Chair), M.D. Soden (Item 3), J.B. Clifford, J.G. Collins, D. Crowley, D. Donovan, R. Keenan, J. O'Donovan, J.R. Warren, V. Mulvey**
B. Lillis, D. Whelan
P. O'Donnell (Items 1 & 3), L. Carragher (Item 3), F. Ryan (Item 6)

Minute Extract

ITEMS FOR APPROVAL:

3. Draft Court Paper – IFSRA Mortgage Findings

The Committee considered two recent letters from IFSRA addressed respectively to The Governor of BOI and the Chairman of ICS. The Committee also considered GC/TMB papers outlining the position from their joint perspective together with draft Paper for the Court and draft letters of response to IFSRA.

The IFSRA letters stated that its Board had considered the results of recent examinations of BOI and ICS lending practices. The letters stated that these examinations raised questions about the maintenance of our Group's lending standards and about our ongoing monitoring, management and control of risk in relation to residential mortgage credit. The letters requested that the detailed issues arising from the examinations be discussed by the BOI Court/ICS Board at its next meeting and that IFSRA receive Court/Board Minutes and a remedial action plan. Further, IFSRA requested that the Court/Board review and ratify BOI's/ICS' residential mortgage lending policy at its next meeting and that the policy should incorporate the Central Bank's July 2001 Guidance on prudent loan assessment together with the Board procedure in place to monitor adherence to policy.

The letters contained detailed comments on a total of 60 BOI/ICS files and claimed that these included high levels of policy exceptions together with failures to adequately verify income or source of borrower deposit and a number of alleged breaches of money laundering regulations.

The Committee noted that TMB and GC had assessed all the issues raised by the IFSRA examiners and had concluded that they were largely based on misunderstandings and inaccurate assumptions and did not support IFSRA's conclusions about the Group's risk management standards.

LC outlined TMB's view on the manner in which the three-day IFSRA examination had been conducted. The examiners had received copies of all relevant TMB policies in advance but declared at the outset that they had not read these. They declined LC's request for an opening meeting or of any assistance with the files and they also declined to hold a closing meeting to discuss any matters of clarification or to hear TMB "macro" views on the mortgage market to put our policies in context. In her view, it was not surprising that misinterpretations and inaccuracies arose in the examination process. In addition, LC pointed out that the focus of the inspection was on underwriting 'Housekeeping' and did not extend to the broader aspects of credit risk management. This narrow focus could not therefore enable IFSRA to conclude that questions were to be raised about the Group's risk management standards of mortgage credit.

BOI01B01
BOI02982-001

In the view of the Committee, the claims made by IFSRA would, if accurate, be of very serious concern to the Group but it accepted the TMB/GC assessment and the conclusion that the matter of remedial action did not arise. It also noted that TMB had received an "A" rating in its latest GCR review in May 2003. However, for the avoidance of any doubt whatever in this matter, the Committee decided that Group Internal Audit be asked to carry out a further independent review of the issues raised in the IFSRA examination, including an examination of the original source files to verify that the IFSRA conclusions lacked validity.

In the course of discussion the following points were made:

- Members generally expressed surprise and dismay at the nature of the IFSRA examination (which seemed to be out of line with normal audit practice) as well as its outcome and at having a formal IFSRA letter on record containing sweeping and unwarranted conclusions about the Group's lending standards and risk management/controls.
- In relation to the Central Bank Guidance on prudent mortgage loan assessment, LC and BL clarified that these had been issued in 2001 including a request that banks define the circumstances where they would seek evidence of savings etc. and the type of evidence required. BOI had complied with this and notified the Central Bank on two separate occasions (2001 and 2002) that verification would only be carried out in exceptional (defined) circumstances. The Central Bank had raised no objections to our approach on either occasion and yet - despite the fact that we were fully compliant with our stated procedures - the recent examination had claimed 21 instances in which there was "insufficient or no evidence of the balance of the funding".
- LC said that it appeared, based on informal soundings, that other major banks may have received letters with the same headline conclusions.
- It was questioned whether, in writing to the Governor/Chairman, IFSRA had been fully aware of the Group's governance structure (i.e. that GRPC is the Court sub-committee for dealing with risk policy in the first instance) or whether this could be seen as implying that IFSRA lacked confidence in Executive Management to the point where it felt that it had to go "over their heads".
- IFSRA's approach was contrasted with that of FSA. It was questioned whether IFSRA was seeking to influence and direct the Group's risk policies. BOI experience with FSA was that, while they express strong opinions from time to time, they do not dictate policy to UK institutions. Rather, they assess the underlying risk in an institution after the fact and in extremis, may indicate the need for increased capital.
- Members asked whether it might be helpful to IFSRA if we offered to take some of their staff into TMB, on a secondment basis – emphasizing that we would want to do this in a helpful manner which would facilitate training/ familiarization and not to compromise IFSRA's independence.
- The importance of avoiding press leaks of IFSRA letters was emphasized. Such press stories were inevitably picked up on international financial news channels and could cause difficulties for Irish banks with investors and rating agencies.

The Committee then discussed how best to proceed. It was seen as particularly important to approach the matter in a calm, constructive but very firm manner in that it would be the first step in the Group's relationship with our new Regulator and it was important to establish the right basis for a future relationship.

It was agreed that prior to issuing any formal written rebuttal, BJG and JGC would seek an early meeting with Dr. Liam O'Reilly, Chief Executive and Mr. Pat Neary, Head of Prudential Supervision. The main objectives of the meeting would be to make them aware of BOI's deep concern and to ask that the IFSRA letters be withdrawn. The meeting would also put on record BOI's macro views on the mortgage market which underpinned BOI's prudent lending approach.

Impairment Provisions for Credit Exposures

Business Unit: **Total Group - Standardised** **September 2008**

Total

Exposure Class **€ 000**	**Corporate**	**Institutions**	**Central Govt. and Central Banks**	**Regional Govt. and Local Authorities**	**Admin. Bodies and Non-Commercial Undertakings**	**MDB**	**Intl. Orgs**	**Secured on Real Property**	**Retail**	**Other**	**Total**
Total Exposure Gross of Impairment Provisions	87,603,518	3,115,116	1,362,580	-	-	-	-	33,783,293	6,247,808	6,336,501	138,448,816
Total Exposure Net of Impairment Provisions	87,136,466	3,115,116	1,362,580	-	-	-	-	33,762,669	6,183,498	6,329,307	137,889,637
Impaired Exposures	1,307,398	-	-	-	-	-	-	45,318	126,406	23,747	1,502,869
Individual Impairment Provision:											
Opening Balance	255,962	-	-	-	-	-	-	8,616	48,053	-	312,631
Charge for the period	99,811	-	-	-	-	-	-	5,134	14,514	7,194	126,653
Recoveries during the period	- 142	-	-	-	-	-	-	188	- 14	-	32
Transfer to write-offs	- 5,184	-	-	-	-	-	-	- 974	- 2,624	-	- 8,782
Closing balance	350,447	-	-	-	-	-	-	12,964	59,928	7,194	430,533
Portfolio Impairment Provision:											
Opening balance	112,537	-	-	-	-	-	-	5,573	4,184	-	122,294
Charge/release for the period	4,068	-	-	-	-	-	-	1,525	199	-	5,792
Transfer to Individual Provision	-	-	-	-	-	-	-	561	-	-	561
Closing balance	116,605	-	-	-	-	-	-	7,660	4,382	-	128,647
Write-offs:											
Charge to P&L A/c	-	-	-	-	-	-	-	-	-	-	-
Transfer from Individual Provision	5,184	-	-	-	-	-	-	974	2,624	-	8,782
Total write-offs	5,184	-	-	-	-	-	-	974	2,624	-	8,782

Impairment Provisions for Credit Exposures

Business Unit: Group Total - Standardised Solo **September 2008**

Total

Exposure Class **€ 000**	**Corporate**	**Institutions**	**Central Govt. and Central Banks**	**Regional Govt. and Local Authorities**	**Admin. Bodies and Non-Commercial Undertakings**	**MDB**	**Intl. Orgs**	**Secured on Real Property**	**Retail**	**Other**	**Total**
Total Exposure Gross of Impairment Provisions	87,544,283	3,110,287	1,362,580	-	-	-	-	33,783,293	6,200,148	6,336,501	138,337,092
Total Exposure Net of Impairment Provisions	87,077,232	3,110,287	1,362,580	-	-	-	-	33,762,669	6,137,101	6,329,307	137,779,176
Impaired Exposures	1,307,398	-	-	-	-	-	-	45,318	123,857	23,747	1,500,320
Individual Impairment Provision:											
Opening Balance	255,962	-	-	-	-	-	-	8,616	46,694	-	311,272
Charge for the period	99,811	-	-	-	-	-	-	5,134	14,894	7,194	127,033
Recoveries during the period	-142	-	-	-	-	-	-	188	-14	-	32
Transfer to write-offs	-5,184	-	-	-	-	-	-	-974	-2,415	-	-8,573
Closing balance	350,447	-	-	-	-	-	-	12,964	59,159	7,194	429,763
Portfolio Impairment Provision:											
Opening balance	112,537	-	-	-	-	-	-	5,573	3,760	-	121,870
Charge/release for the period	4,067	-	-	-	-	-	-	1,525	129	-	5,722
Transfer to Individual Provision	-	-	-	-	-	-	-	561	-	-	561
Closing balance	116,605	-	-	-	-	-	-	7,660	3,888	-	128,153
Write-offs:											
Charge to P&L A/c	-	-	-	-	-	-	-	-	-	-	-
Transfer from Individual Provision	5,184	-	-	-	-	-	-	974	2,415	-	8,573
Total write-offs	5,184	-	-	-	-	-	-	974	2,415	-	8,573

Impairment Provisions for Credit Exposures

IRB

Business Unit: Group Total - IRB **September 2008**

Total

	Corporate				Retail				
Exposure Class **€ 000**	**Corporates**	**Specialised Lending**	**Institutions**	**Central Govt. and Central Bank**	**Exposure Secured by Real Estate**	**Qualifying Revolving Retail Exposures**	**Other Retail Exposures**	**Other**	**Total**
Total Exposure Gross of Impairment Provisions	8,170,885	-	29,367,437	3,715,354	26,687,293	-	4,288,486	2,218,575	74,448,030
Total Exposure Net of Impairment Provisions	8,138,796	-	29,326,997	3,715,354	26,668,374	-	4,050,442	2,218,575	74,118,538
Impaired Exposures	121,506	-	45,000	-	18,985	-	288,370	-	473,861
Individual Impairment Provision:									-
Opening Balance	19,253	-	-	-	10,997	-	181,784	-	212,034
Charge for the period	1,536	-	40,440	-	1,598	-	24,380	-	67,954
Recoveries during the period	-	-	-	-	-	-	- 322	-	- 322
Transfer to write-offs	-	-	-	-	- 29	-	- 17,910	-	- 17,939
Closing balance	20,789	-	40,440	-	12,566	-	187,932	-	261,727
Portfolio Impairment Provision:									
Opening balance	12,300	-	-	-	5,436	-	45,893	-	63,629
Charge/release for the period	- 1,000	-	-	-	917	-	4,220	-	4,137
Transfer to Individual Provision	-	-	-	-	-	-	-	-	-
Closing balance	11,300	-	-	-	6,353	-	50,112	-	67,765
Write-offs:									
Charge to P&L A/c	-	-	-	-	-	-	-	-	-
Transfer from Individual Provision	-	-	-	-	29	-	17,910	-	17,939
Total write-offs	-	-	-	-	29	-	17,910	-	17,939

d:\cw\netitscan\6facc36a03d95870a50888917f81f079\1.xls1.xlsIRB

Impairment Provisions for Credit Exposures

Business Unit: Group Total - IRB Solo **September 2008**

Total

	Corporate				Retail				
Exposure Class **€ 000**	**Corporates**	**Specialised Lending**	**Institutions**	**Central Govt. and Central Bank**	**Exposure Secured by Real Estate**	**Qualifying Revolving Retail Exposures**	**Other Retail Exposures**	**Other**	**Total**
Total Exposure Gross of Impairment Provisions	8,170,885	-	29,367,437	3,715,354	-	-	4,288,486	2,218,575	47,760,737
Total Exposure Net of Impairment Provisions	8,138,796	-	29,326,997	3,715,354	-	-	4,050,442	2,218,575	47,450,164
Impaired Exposures	121,506	-	45,000	-	-	-	288,370	-	454,876
Individual Impairment Provision:									-
Opening Balance	19,253	-	-	-	-	-	181,784	-	201,037
Charge for the period	1,536	-	40,440	-	-	-	24,380	-	66,356
Recoveries during the period	-	-	-	-	-	-	-322	-	-322
Transfer to write-offs	-	-	-	-	-	-	-17,910	-	-17,910
Closing balance	20,789	-	40,440	-	-	-	187,932	-	249,161
Portfolio Impairment Provision:									
Opening balance	12,300	-	-	-	-	-	45,893	-	58,193
Charge/release for the period	-1,000	-	-	-	-	-	4,219	-	3,219
Transfer to Individual Provision	-	-	-	-	-	-	-	-	-
Closing balance	11,300	-	-	-	-	-	50,112	-	61,412
Write-offs:									
Charge to P&L A/c	-	-	-	-	-	-	-	-	-
Transfer from Individual Provision	-	-	-	-	-	-	17,910	-	17,910
Total write-offs	-	-	-	-	-	-	17,910	-	17,910

d:\cw\netitscan\6facc36a03d95870a50888917f81f079\1.xls1.xlsIRB Solo

Impairment Provisions for Credit Exposures

Local Currency in 000's

Business Unit: BOIMB **Sep-08**

Appendix 2 - Internal Ratings Based Approach

	Corporate				Retail				
Exposure Class **€ 000**	**Corporates**	**Specialised Lending**	**Institutions**	**Central Govt. and Central Bank**	**Exposure Secured by Real Estate**	**Qualifying Revolving Retail Exposures**	**Other Retail Exposures**	**Other**	**Total**
Total Exposure Gross of Impairment Provisions					21,870,595				21,870,595
Total Exposure Net of Impairment Provisions					21,856,118	-	-	-	21,856,118
Impaired Exposures					15,257				15,257
Individual Impairment Provision:									-
Opening Balance					9,640				9,640
Charge for the period					1,082				1,082
Recoveries during the period									-
Transfer to write-offs					- 20				- 20
Closing balance					10,702				10,702
Portfolio Impairment Provision:									
Opening balance					3,314				3,314
Charge/release for the period					461				461
Transfer to Individual Provision									-
Closing balance					3,775				3,775
Write-offs:									0
Charge to P&L A/c									-
Transfer from Individual Provision					20				20
Total write-offs					20	-	-	-	20

Impairment Provisions for Credit Exposures

Local Currency in 000's

Business Unit: ICS **Sep-08**

Appendix 2 - Internal Ratings Based Approach

	Corporate				Retail				
Exposure Class **€ 000**	**Corporates**	**Specialised Lending**	**Institutions**	**Central Govt. and Central Bank**	**Exposure Secured by Real Estate**	**Qualifying Revolving Retail Exposures**	**Other Retail Exposures**	**Other**	**Total**
Total Exposure Gross of Impairment Provisions					4,588,963				4,588,963
Total Exposure Net of Impairment Provisions					4,584,521	-	-	-	4,584,521
Impaired Exposures					3,727				3,727
Individual Impairment Provision:									-
Opening Balance					1,357				1,357
Charge for the period					516				516
Recoveries during the period									-
Transfer to write-offs					- 9				- 9
Closing balance					1,864				1,864
Portfolio Impairment Provision:									
Opening balance					2,123				2,123
Charge/release for the period					455				455
Transfer to Individual Provision					-				-
Closing balance					2,578				2,578
Write-offs:									0
Charge to P&L A/c									-
Transfer from Individual Provision					9				9
Total write-offs					9	-	-	-	9

Impairment Provisions for Credit Exposures

Local Currency in 000's

Business Unit: Total

Appendix 3 - Other Disclosures

September 2008

(a) Restructured Facilities - Largest Restructured Facilities with Impairment Provisions

List the Largest Impaired Loans in the order of the Largest loan first

	Name of Exposure	Exposure Class	Carrying Amount € 000	Impairment Provision € 000
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

(b) Loans with Largest Provisions

	Name of Exposure	Exposure Class	Carrying Amount € 000	Impairment Provision € 000
1	*Customer information*	Corporate	34,540	16,011
2		Corporates	96,057	15,535
3		Corporates	10,060	12,977
4		Corporates	18,250	11,600
5		Corporates	11,388	11,388
6		Corporates	13,983	11,361
7		Corporates	10,734	10,734
8		Corporate	18,097	10,123
9		Corporates	65,684	9,996
10		Corporates	13,983	8,739

Impairment Provisions for Credit Exposures

Local Currency in 000's

Business Unit: BOIMB

Appendix 3 - Other Disclosures — September 2008

(a) Restructured Facilities - Largest Restructured Facilities with Impairment Provisions

List the Largest Impaired Loans in the order of the Largest loan first

	Name of Exposure	Exposure Class	Carrying Amount € 000	Impairment Provision € 000
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

(b) Loans with Largest Provisions

	Name of Exposure	Exposure Class	Carrying Amount € 000	Impairment Provision € 000
1	*Customer information*	Secured on Real Estate	2,944.55	3,600.00
2		Secured on Real Estate	2,184.97	2,400.00
3		Secured on Real Estate	843.42	900.00
4		Secured on Real Estate	1,031.34	860.00
5		Secured on Real Estate	985.53	860.00
6		Secured on Real Estate	2,795.64	580.00
7		Secured on Real Estate	879.52	430.00
8		Secured on Real Estate	477.22	415.00
9		Secured on Real Estate	982.20	225.00
10		Secured on Real Estate	412.38	50.00

Impairment Provisions for Credit Exposures

Local Currency in 000's

Business Unit: **ICS**

Appendix 3 - Other Disclosures

September 2008

(a) Restructured Facilities - Largest Restructured Facilities with Impairment Provisions				
	List the Largest Impaired Loans in the order of the Largest loan first			
	Name of Exposure	Exposure Class	Carrying Amount € 000	Impairment Provision € 000
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

(b) Loans with Largest Provisions				
	Name of Exposure	**Exposure Class**	**Carrying Amount € 000**	**Impairment Provision € 000**
1	*Customer information*	Secured on Real Estate	843.42	900.00
2		Secured on Real Estate	982.20	225.00
3		Secured on Real Estate	305.50	200.00
4		Secured on Real Estate	388.67	119.00
5		Secured on Real Estate	250.36	103.00
6		Secured on Real Estate	167.10	85.00
7		Secured on Real Estate	172.93	62.00
8		Secured on Real Estate	305.71	50.00
9		Secured on Real Estate	172.81	50.00
10		Secured on Real Estate	87.89	20.00

Appendix 4(a) - Non Performing assets (loan arrears) 90DPD

Institutuion	Bank of Ireland			
Quarter ending:	Sep-08			

	No of a/c's in arrears	Arrears Balance € '000	Exposure value of a/c's in arrears € '000	Loan book € '000
PERSONAL CREDIT	**87,159**	**177,298**	**886,631**	**70,526,900**
(i)of which Residential Mortgages (note 2)	3,737	36,811	597,881	63,905,264
Ireland	1,927	20,115	266,607	27,315,726
UK(inc NI)	1,810	16,696	331,274	36,588,986
Rest of Europe	0	0	0	0
North America	0	0	0	0
Rest of World	0	0	0	552
(ii) which other (note 4)	83,422	140,486	288,750	6,621,636
BUSINESS CREDIT	**15,104**	**226,977**	**1,486,498**	**74,436,005**
(i)of which Commercial Mortgages (note 5)	937	130,619	949,326	34,782,013
Ireland	558	27,675	417,630	16,630,750
UK(inc NI)	379	102,944	531,696	16,266,903
Rest of Europe	0	0	0	1,414,275
North America	0	0	0	467,186
Rest of World	0	0	0	2,899
(ii)of which other (note 6)	14,167	96,358	537,171	39,653,992
OTHER (note 7)	7	0	98,538	3,423,284
Total	102,270	404,275	2,471,666	148,386,189

Appendix 4 (b) - Quarterly movements in Non-Performing Assets (loan arrears)

WITH REFERENCE TO THE QUARTER UNDER REVIEW	No. of accounts	Arrears Balance € '000	Exposure value of a/c's in arrears € '000	*Amount of Impairment provisions related to these accounts € '000
1: NEW ACCOUNTS IN ARREARS (note 8)	**19,707**	**69,765**	**718,248**	**109,581**
Of which relate to				
Residential Mortgages	1,338	8,420	240,331	1,823
Commercial Mortgages and other charges on real estate	260	30,173	333,148	52,081
Other	18,109	31,172	144,770	55,677
2: A/Cs RETURNED TO COMPLIANCE (note 9)	**6,797**	**6,142**	**131,813**	**n/a**
Of which relate to				
Residential Mortgages	910	2,223	112,996	
Commercial Mortgages and other charges on real estate	13	2	260	
Other	5,874	3,917	18,557	
3: ACCOUNTS RESTRUCTURED (note 10)	**158**	**171**	**18,146**	**n/a**
Of which relate to				
Residential Mortgages				
Commercial Mortgages and other charges on real estate		0		
Other	158	171	18,146	

	A	B	C	D	E
53	* Deemed to be Specific provisions				
54	**NOTES**				
55	**1: Definition of Non-Performing asset**				
56	The obligor is past due more than 90 days on any material credit obligation to the credit institution; OR				
57					
58	**2: Residential Mortgages**				
59					
60	**3 Geographical Analysis**				
61					
62	**4: Other personal credit**				
63					
64	**5:Commercial Mortgages**				
65					
66	**6: Other Business credit**				
67	All other loans to businesses not included in commercial mortgages category				
68	**7: OTHER category**				
69					
70	**8: New accounts in arrears**				
71					
72					
73					
74	**10: Accounts restructured**				
75					
76					
77					
78					
79					
80					

Appendix 5 - Non Performing assets (60 days past due)

Institutuion	Bank of Ireland		
Quarter ending:	Sep-08		
	1	2	3
	No of a/c's in arrears	Arrears Balance (€'000)	Exposure value of a/c's in arrears (€'000)
PERSONAL CREDIT	**94,836**	**184,124**	**1,128,236**
(i)of which Residential Mortgages (note 2)	4,945	41,089	806,596
PERSONNAL CREDIT			
Ireland	2,384	21,941	344,796
UK(inc NI)	2,560	19,125	461,444
Rest of Europe	1	23	356
North America	-	-	-
Rest of World	-	-	-
(ii)of which other (note 4)	89,891	143,035	321,640
BUSINESS CREDIT	**16,525**	**235,066**	**1,675,932**
(i)of which Commercial Mortgages (note 5)	1,101	135,261	1,096,756
BUSINESS CREDIT			
Ireland	662	31,434	508,078
UK(inc NI)	439	103,827	588,678
Rest of Europe	-	-	-
North America	-	-	-
Rest of World	-	-	-
(ii)of which other (note 6)	15,424	99,805	579,176
OTHER (note 7)	7	-	98,538
Total	111,368	419,190	2,902,706

	A	B	C	D
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46				
47				
48				
49				
50				
51				
52				
53				
54				

	E
1	
2	
3	
4	
5	
6	**4**
7	**Loan book (€'000)**
8	**70,526,901**
9	63,905,264
10	
11	27,315,726
12	36,588,986
13	-
14	-
15	552
16	
17	6,621,636
18	**74,436,005**
19	34,782,013
20	
21	16,630,750
22	16,266,903
23	1,414,275
24	467,186
25	2,899
26	
27	39,653,992
28	3,423,284
29	148,386,189
30	