Annual Report

For the year ended
31 December 2013

Bank of Ireland Group

For small steps, for big steps, for life

Bank of Ireland

Annual Report

for the year ended 31 December 2013

Forward-Looking statement

This document contains certain forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934 and Section 27A of the US Securities Act of 1933 with respect to certain of the Bank of Ireland Group's (the 'Group') plans and its current goals and expectations relating to its future financial condition and performance, the markets in which it operates, and its future capital requirements. These forward-looking statements often can be identified by the fact that they do not relate only to historical or current facts. Generally, but not always, words such as 'may,' 'could,' 'should,' 'will,' 'expect,' 'intend,' 'estimate,' 'anticipate,' 'assume,' 'believe,' 'plan,' 'seek,' 'continue,' 'target,' 'goal,' 'would,' or their negative variations or similar expressions identify forward-looking statements, but their absence does not mean that a statement is not forward looking.

Examples of forward-looking statements include among others, statements regarding the Group's near term and longer term future capital requirements and ratios, level of ownership by the Irish Government, loan to deposit ratios, expected impairment charges, the level of the Group's assets, the Group's financial position, future income, business strategy, projected costs, margins, future payment of dividends, the implementation of changes in respect of certain of the Group's pension schemes, estimates of capital expenditures, discussions with Irish, United Kingdom, European and other regulators and plans and objectives for future operations.

Such forward-looking statements are inherently subject to risks and uncertainties, and hence actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to, the following:

- *concerns on sovereign debt and financial uncertainties in the EU and in member countries and the potential effects of those uncertainties on the Group;*
- *general and sector specific economic conditions in Ireland, the United Kingdom and the other markets in which the Group operates;*
- *the ability of the Group to generate additional liquidity and capital as required;*
- *the effects of the 2011 PCAR, the 2011 PLAR and the deleveraging reviews conducted by the Central Bank of Ireland and any further capital assessments undertaken by regulators;*
- *property market conditions in Ireland and the United Kingdom;*
- *the potential exposure of the Group to various types of market risks, such as interest rate risk, foreign exchange rate risk, credit risk and commodity price risk;*
- *the impact of any arrangements following the exit by the Irish Government from the EU / IMF programme;*
- *the availability of customer deposits at sustainable pricing levels to fund the Group's loan portfolio and the outcome of the Group's disengagement from the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009;*
- *deterioration in the credit quality of the Group's borrowers and counterparties, as well as increased difficulties in relation to the recoverability of loans and other amounts due from such borrowers and counterparties, have resulted in significant increases, and could result in further significant increases, in the Group's impaired loans and impairment provisions;*
- *implications of the Personal Insolvency Act 2012 and / or the measures introduced by the Central Bank of Ireland to address mortgage arrears on the Group's distressed debt recovery and impairment provisions;*
- *the performance and volatility of international capital markets;*
- *the effects of the Irish Government's stockholding in the Group (through the NPRFC) and possible changes in the level of such stockholding;*
- *the impact of further downgrades in the Group's or the Irish Government's credit ratings or outlook;*
- *the stability of the eurozone;*
- *changes in the Irish and United Kingdom banking systems;*
- *changes in applicable laws, regulations and taxes in jurisdictions in which the Group operates particularly banking regulation by the Irish and United Kingdom Governments together with implementation of the Single Supervisory Mechanism and establishment of the Single Resolution Mechanism and the conduct and outcome of asset quality reviews and stress tests;*
- *the exercise by regulators of powers of regulation and oversight in Ireland and the United Kingdom;*
- *the introduction of new government policies or the amendment of existing policies in Ireland or the United Kingdom;*
- *the outcome of any legal claims brought against the Group by third parties or legal or regulatory proceedings or any Irish banking inquiry more generally, that may have implications for the Group;*
- *the development and implementation of the Group's strategy, including the implementation of the Group's revised EU Commission restructuring plan and the Group's ability to achieve net interest margin increases and cost reductions;*
- *the responsibility of the Group for contributing to compensation schemes in respect of banks and other authorised financial services firms in Ireland, the United Kingdom and the Isle of Man that may be unable to meet their obligations to customers;*
- *the inherent risk within the Group's life assurance business involving claims, as well as market conditions generally;*
- *potential further contributions to the Group sponsored pension schemes if the value of pension fund assets is not sufficient to cover potential obligations;*
- *the exposure of the Group to NAMA losses in the event that NAMA has an underlying loss at the conclusion of its operations, which could adversely impact the Group's capital and results of operations;*
- *the impact of the implementation of significant regulatory developments such as Basel III, Capital Requirements Directive (CRD) IV, Solvency II and the Recovery and Resolution Directive;*
- *the impact on the Group of the Central Bank of Ireland's Balance Sheet Assessment / Asset Quality Review of the Group and the European Central Bank's Comprehensive Assessment of the Group; and*
- *the Group's ability to address weaknesses or failures in its internal processes and procedures including information technology issues and equipment failures and other operational risks.*

Analyses of asset quality and impairment in addition to liquidity and funding are set out in the Risk Management Report. Investors should read 'Principal Risks and Uncertainties' in this document beginning on page 59).

Nothing in this document should be considered to be a forecast of future profitability or financial position and none of the information in this document is or is intended to be a profit forecast or profit estimate. Any forward-looking statement speaks only as at the date it is made. The Group does not undertake to release publicly any revision to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date hereof. The reader should however, consult any additional disclosures that the Group has made or may make in documents filed or submitted or may file or submit to the US Securities and Exchange Commission.

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www.bankofireland.com

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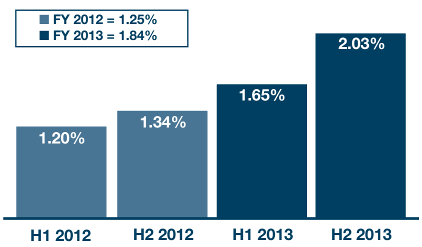
Key highlights

Business highlights

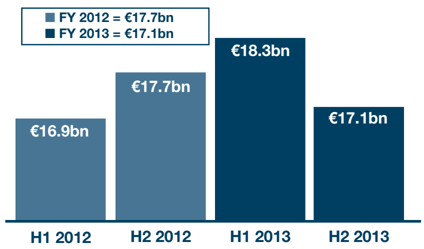
- Strategic position strengthened; New Ireland Assurance Company plc retained.
- Successful execution of the capital package in relation to the 2009 Preference Stock; 'step-up' addressed.
- Safely managed Eligible Liabilities Guarantee (ELG) Scheme expiry.
- Reimbursement of Irish Government investments in 2009 Preference Stock and 2011 Contingent Capital.
- Net interest margin of greater than 2% achieved, despite the low interest rate environment.
- Asset quality; defaulted loans reduced by €1.2 billion since June 2013. Arrears in RoI mortgage portfolios reducing in the second half of 2013 and restructures are effective.
- Regulatory Balance Sheet Assessment (BSA) / Asset Quality Review (AQR) addressed.
- Demonstrated consistent access to funding markets across the capital structure; raised over €3 billion during 2013.
- Voluntary redundancy and change programmes have been successfully managed.
- Shared solution to address defined benefit pension deficit agreed and being implemented.
- Cost discipline maintained while investing in our businesses.
- Significant investment in infrastructure including Single European Payments Area (SEPA) compliance and new branch operating models.
- Financial results substantially improved - almost €1 billion improvement in underlying performance.

Financial highlights

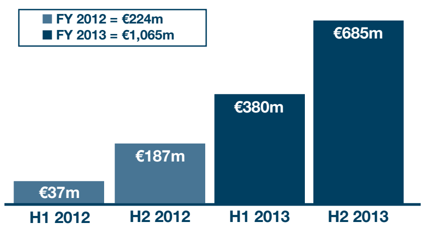
Net interest margin (before ELG fees) %



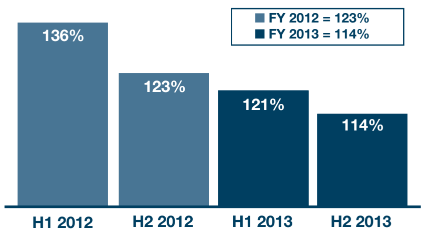
Defaulted loan volumes €bn



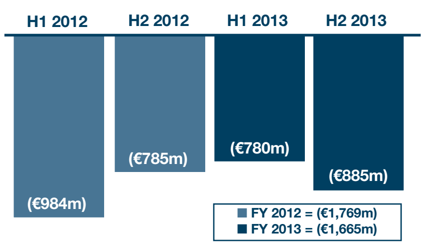
Underlying operating profit pre-impairment €m



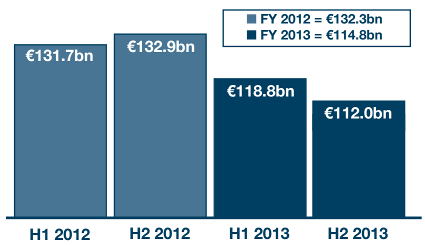
Loan to deposit ratio %



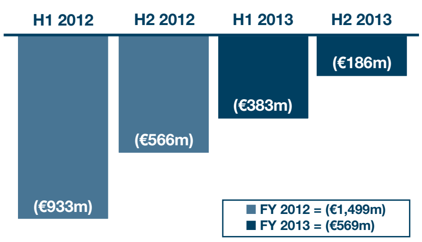
Impairment charges €m



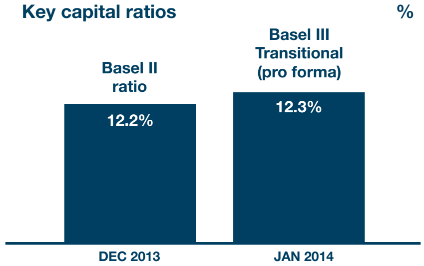
Average interest earning assets €bn



Underlying profit / (loss) before tax €m



Key capital ratios %



Chairman's review

Last year, in my first report as Chairman, I reflected on a year of steady progress despite continued economic headwinds in our major markets. This year, that progress has continued apace.

A turning point for the Irish economy

2013 was a turning point for the Irish economy. Ireland became the first Euro-zone country to successfully exit a EU / IMF support programme, reflecting the significant progress made by the economy over the past 3 years. We also saw a strong recovery in the UK economy. The outlook is steadily improving in both Ireland and the UK. This recovery is critically important for our customers' financial well-being and to the Group for our own strategic and business imperatives.

Bank of Ireland is playing a proactive role in supporting economic recovery. In 2013, we continued to support the Irish economy by providing increased lending capacity to all sectors of the economy, including homebuyers, SMEs and corporates. We have the capital, liquidity and the infrastructure to support our domestic and international ambitions, which should, in turn, help stimulate continued growth.

Very significant progress for the Group over the last twelve months

For the past four years, our strategic priorities have been to repay taxpayers for their support for Bank of Ireland and to return to sustainable profitability within a robust balance sheet, while continuing to support our customers and win new customers. We have enhanced our strategic position with the retention of New Ireland. We are delivering against our strategic targets and are seeing our performance improving against our key measures. These objectives have been delivered in the face of a challenging economic, interest rate and regulatory backdrop. Our progress has been endorsed by the international markets, which have demonstrated a significant appetite for our equity and debt issuance.

These achievements are underpinned by the outstanding support we have received from our stakeholders. I would like to thank our customers for their continued loyalty and confidence in trusting us to meet their financial needs. We will continue to work hard to provide our customers with excellent service, whilst meeting their financial needs.

I also want to recognise the dedication of all our employees who remain steadfast in their commitment to our customers and to the Group. They make a real difference for our customers as they embody our straightforward, professional and supportive, customer centric culture. Our accomplishments would not be possible without our employees.

Taxpayers rewarded and repaid

Our results have enabled us to repay and reward Irish taxpayers' investments in the Bank, with c. €6 billion cash returned to the State compared to original investments of €4.8 billion. The Eligible Liabilities Guarantee has expired, removing a contingent risk for taxpayers. The State retains a valuable c.14% shareholding in the Group. We are grateful to Irish taxpayers for their support.

Regulation

The Group faces further regulatory change in 2014, including the transition to the Single Supervisory Mechanism. A key priority is ensuring that the Group continues to professionally manage the evolving regulatory environment and maintains constructive engagement with our regulators.

Board

Prem Watsa retired from the Board in July 2013. Prem was instrumental in the success of the 2011 capital raising and, throughout his tenure, the Board benefitted greatly from his diligence and commitment. I thank Prem, on behalf of the Board and the Group, for the contribution he has made.

The Group is committed to recruiting well qualified people to the Board and recognises the benefits of diversity in its broadest sense. Board renewal continued during the year with the appointment of Davida Marston and Brad Martin to the Board. Both Directors expanded the diversity of the Board in bringing financial services, risk and international experience that complements the existing skill set of the Board. I would like to take this opportunity to express my appreciation to my fellow Directors for their continued commitment and contribution to the Group.

An independent external review of the effectiveness of the Board was conducted in 2013. This review concluded that the Board's corporate governance policies and processes were of a high standard. Our approach to governance is more fully set out in the Corporate Governance Statement set out on pages 126 to 139 of this Annual Report.

The Annual General Court (AGC) remains an important way for Directors to meet and hear the views of shareholders. Our 2014 AGC is scheduled to be held on 25 April 2014 and I encourage all shareholders to participate.

Confidence in the future

I am encouraged by the continued progress in the economies in which we operate and the positive impact that brings to our customers and to our businesses. We have made significant progress in 2013. I am confident that, with our strong franchises, we are well positioned to support our customers and to deliver sustainable returns for our shareholders.

Archie Kane
Chairman
28 February 2014

Group Chief Executive's review

'2013 was a year of further substantial progress for Bank of Ireland. Our underlying financial performance improved by almost €1 billion and we achieved our 2% net interest margin target. Taxpayers' support for and investment in Bank of Ireland has been rewarded and repaid. We are profitable and generating capital in 2014.

We are progressing to a further stage in the Group's development and remain focussed on a clear set of priorities. Building on our strong franchises, we are very well positioned to pursue new business opportunities, which are increasing as the economic environment continues to improve. We are confident in the Group's prospects and in our ability to deliver sustainable returns for our shareholders'

Richie Boucher, Group Chief Executive Officer

2013 - a year of further substantial progress

At the start of 2013, we set ourselves a number of strategic objectives. We have delivered these objectives and substantially enhanced the Group and its franchises.

Our underlying performance has improved by almost €1 billion in 2013

Our financial results for 2013 have improved significantly relative to 2012. This improvement has been driven by our strong net interest margin performance, offset by lower average interest earning assets, albeit with the pace of decline in interest earning assets slowing in the second half of 2013. A significant decline in Eligible Liabilities Guarantee Scheme (ELG) fees, ongoing tight management of costs and a modest decline in impairment charges also contributed to this result. The impairment charges, amongst other things, reflect consideration of the Central Bank's BSA / AQR observations on impairments as at 30 June 2013. Our underlying loss before tax reduced from €1,499 million in 2012 to €569 million in 2013.

We have achieved >2% net interest margin, notwithstanding the low interest rate environment

Having troughed at 1.2% in the first half of 2012, our net interest margin has increased by 83 basis points to an average of 2.03% for the second half of 2013. The increase in the margin reflects the actions that the Group has taken to optimise the price of assets and funding, to efficiently manage the balance sheet and to generate sustainable returns on new business.

We safely managed the ELG expiry

The Irish Government's ELG scheme expired at the end of March 2013. The expiry had no adverse impact on our deposit volumes or pricing strategies. The ELG fees are phasing out quickly, in line with our expectations. The ELG expiry has also very materially reduced the risk to the taxpayer.

Asset quality - defaulted loan volumes are €1.2 billion lower than June 2013

We have invested heavily in our people, processes and systems to effectively support those of our customers who are in financial difficulty. We have over 1,400 staff, who are specially trained and dedicated to supporting business and personal customers with repayment challenges.

Resolution of Irish mortgage arrears and SME challenged cases remains a key priority. Our dedicated teams are focussed on this task. We have developed and are deploying sustainable restructuring solutions, which are suitable for our customers and acceptable for the Group. Our experience indicates that in 8 out of 10 challenged Irish mortgages with agreed restructuring solutions, these repayment arrangements are being met. We have had a similar focus on the SME sector where specialist teams have worked through a detailed range of options and strategies for challenged customers, reaching an ultimate resolution in over 90% of cases.

As a result of our efforts, together with the improved economic climate in our main markets and recovery in their property markets, the level of defaulted loans has fallen by €1.2 billion or 6% since June 2013. This reduction is evident across all major loan categories.

The regulatory BSA / AQR has been addressed

Ahead of Ireland's exit from the EU/IMF programme of support, the Central Bank undertook a Balance Sheet Assessment (BSA / AQR). The BSA / AQR was a point in time capital assessment as at 30 June 2013 and included an assessment by the Central Bank of risk classifications and provisions and a review of the appropriateness of calculations of risk weighted assets. In December 2013, the Central Bank confirmed that Bank of Ireland had adequate capital as at 30 June 2013 to meet the requirements determined under the BSA. Consequently, the Central Bank did not require Bank of Ireland to raise additional capital as a result of the BSA.

The Central Bank also made a range of observations on the Group's treatment of expected loss on mortgage assets, the level of impairment provisions at 30 June 2013 and the Group's risk weighted asset calculations as part of the BSA. The Central Bank requested that the Group consider these observations in preparing its financial results and Annual Report for the year ended 31 December 2013. The Group has done so by incorporating the updated treatment of expected loss and has taken the Central Bank's observations into consideration as part of its comprehensive process in setting the year end impairment provisioning stock and associated impairment charge for 2013. Further engagement with the Central Bank in respect of risk weighted assets is envisaged during 2014 and, in the meantime, the Group has applied certain Central Bank required adjustments to the outputs of the Group's risk weighted asset calculations, which are also reflected in the Group's reported capital ratios at 31 December 2013.

Taxpayers rewarded and repaid

In the period 2009 to 2011, the State invested €4.8 billion in the Group. We are grateful for this support from taxpayers. Approximately €6 billion has been returned in cash to the State, which continues to own, at its discretion, a valuable c.14% equity shareholding in the Group. It is right and appropriate that taxpayers have got back their cash investment in Bank of Ireland, with a cash profit achieved and considerable potential upside.

The Irish State is also an important customer of the Group and we hold significant investments of €6.1 billion in Irish Government bonds.

We have addressed the 'Step-up' feature of the 2009 Preference Stock

At the beginning of 2013, the Group had €1.8 billion 2009 Preference Stock in issue. The 2009 Preference Stock contained a redemption 'Step-up' feature, which would have triggered on 31 March 2014. Had this occurred, the Group would have been required to pay a 25% premium to par, amounting to c. €460 million, on redemption of this instrument.

In December 2013, we successfully executed a capital package to fully address this 'Step-up' feature and reimburse the State aid relating to the 2009 Preference Stock. This package was agreed with the Central Bank and the State. It involved (i) an equity placing to redeem c.€0.5 billion 2009 Preference Stock; and (ii) the sale of notes, secured on €1.3 billion 2009 Preference Stock, to private investors, who waived their rights to the "Step-up". The Central Bank has confirmed that it will recognise the 2009 Preference Stock sold to private investors as Common equity tier 1 (CET1) capital under the grandfathering provisions of the Capital Requirements Regulation. We have advised the Central Bank that it is not the Group's intention to recognise the 2009 Preference Stock as regulatory CET1 capital after July 2016, unless de-recognition would mean an adequate capital buffer cannot be maintained above applicable regulatory requirements. As a further consequence of the capital package, certain restrictions including those on ordinary stock dividends, which had previously been imposed under EU Restructuring Plans, have been removed.

We have accessed markets across all levels of our capital structure

From January 2013 to date, we have issued both secured and unsecured debt totalling €3.25 billion, through 5 issues with maturity profiles of 3, 5 and 7 years. The cost of debt issuance continues to fall. Separately, we facilitated the sale by the State of €1 billion contingent convertible notes and €1.3 billion 2009 Preference Stock to private investors. We also raised c.€0.6 billion from the equity markets as part of the capital package. All these issues were strongly supported by international investors. Our issuance capability was recognised in December 2013, when the Group won the prestigious IFR 'Financial Issuer of the Year' award.

We have agreed a shared solution to address the pension deficit, which is being implemented

During 2013, we carried out a review of the defined benefit pension schemes sponsored by the Group and the related IAS 19 deficits. The objectives of this review were to continue to sponsor competitive pension benefits and help secure the future of the schemes, while recognising the need to substantially reduce the IAS 19 deficits and associated volatility.

A shared solution has been agreed with staff members of the largest Group sponsored defined benefit pension scheme, the Bank of Ireland Staff Pensions Fund (BSPF). The solution involves changes to members' potential defined benefits, which have now been implemented. As a result of the review, the IAS 19 pension deficit has been reduced by approximately €0.4 billion, which has immediate capital as well as future cost benefits. In return, the Group has agreed to increase its support for the BSPF, above existing support arrangements, so as to broadly match the deficit reduction achieved from changes to potential defined benefits. It is also intended, subject to consultation with the BSPF's trustees, that there will be reductions in the proportion of the BSPF's assets which are invested in potentially more volatile higher return seeking assets.

Capital ratios maintained above planning and regulatory requirements

We have worked carefully to position the Group for Basel III and to meet our capital planning targets. Our Basel III pro forma transitional CET1 ratio was 12.3% as of 1 January 2014. We continue to expect to maintain a buffer over a CET1 ratio of 10% on a Basel III transitional basis.

Strategic positioning strengthened by retaining New Ireland Assurance Company plc

In July 2013, the European Commission agreed to amend our EU approved Restructuring Plan so that we could retain New Ireland Assurance Company plc (NIAC) but imposed replacement substitution measures. NIAC is the number two provider in the life, pensions and investment market in Ireland, part of our very strong bancassurance model. We are successfully managing the substitution measures which involve, over time, deleveraging our Corporate and Business Banking activities in Great Britain, and discontinuing our broker introduced mortgage business, through our ICS subsidiary, in Ireland. The Group has met all of its obligations under the plan to date, with the remaining obligations expiring by the end of 2016.

Strong franchise positions

Our success in meeting our strategic objectives means that we are well positioned to pursue business opportunities, which are increasing in our main markets as the economic environment continues to improve. We are continuing to invest in our strong core franchises.

Economic conditions are improving with the outlook becoming more favourable

2013 was a turning point for the Irish economy as Ireland finally emerged from recession. The labour market has shown a consistent improvement with the numbers employed increasing and a sharp fall in unemployment during the year. The property markets continue to recover and for the first time since 2007 domestic demand contributed to economic growth. 2013 was also a positive year for the UK economy. While the economic environment continues to have challenges, the outlook is becoming more favourable in both Ireland and the UK, with further growth forecast in 2014.

We have the capital and liquidity available to grow our core businesses

We have the capital and the liquidity available to support our growth objectives in Ireland and in our core overseas franchises. We continue to actively seek new lending and other revenue generating opportunities, which are increasing as the Irish and UK economies continue their recovery.

We are continuing to invest in our core franchises

We have been investing in Ireland. A core component of our strategy is having a viable branch network in centres of commerce throughout Ireland. We are rolling out a new branch model, which makes it easier for customers to do business with us and is more cost efficient. To date, we have upgraded over 70 branches, with further new branch locations and upgrades planned for 2014.

We have also been investing heavily in our payments, mobile, e-banking and digital delivery infrastructure. A key priority for us in 2013 was to ensure compliance with the Single European Payments Area regulation (SEPA), which we achieved, on schedule, on 1 February 2014. We continue to invest in consumer and business online, mobile, tablet, digital and payments infrastructure and propositions, with significant further investment planned.

We are supporting our customers and the recovery of the Irish economy

In Ireland, approvals for new and increased credit for SMEs amounted to €4 billion in 2013, which was up c.8% on 2012. We received c.56,000 applications for credit, with 85% of those approved. We provided approximately half of all new non-property SME lending in the most recent period for which comparable information is available. Our lending has been to all sectors of the economy, with the agricultural, export and healthcare sectors particularly featuring. We continue to provide over 50% of new lending into the agricultural sector. We supported almost 16,000 start-up businesses in 2013 through our dedicated 'Start-up' business package. Our National Enterprise Week, which runs twice a year, continues to be a real success, with over 3,000 businesses showcasing their products and services in 2013. Our asset finance business continues to win market share and provides lending facilities to over 400 motor dealerships. Our seed venture funds, where we have committed a total of €37 million, have invested in 53 new businesses to date.

We launched a further €2 billion mortgage fund in Ireland for first time buyers and movers in July 2013, in response to existing and anticipated demand. This fund supplemented the €2 billion mortgage fund we had established in October 2012. During the year, mortgage applications to the value of €2.2 billion were approved for 12,500 customers, with first time buyers accounting for almost half of all drawdowns. We are also introducing new products to meet specific customer needs in the current Irish market, including products to facilitate customers in negative equity.

In our Insurance and Investments business, NIAC issued 55,000 new policies, provided investment solutions to over 67,000 customers and paid out €200 million in risk claims to existing protection customers. NIAC's strong customer focus was again recognised in 2013 when it retained the Professional Insurance Broker Association Excellence award.

Our Corporate and Treasury business continues to gain market share in Ireland, establishing a number of new relationships in 2013, driven by a strong and consistent focus on meeting customer needs. We have provided support to customers seeking a new banking partner, as the Irish market consolidates and we have continued to strengthen existing relationships. We have had particular success in winning new multinational customers, where we have continued to work closely with IDA Ireland, supporting foreign direct investment. Our Corporate business has also provided significant support for schools and national road projects, through public private partnership initiatives in conjunction with the Irish Government.

We are also continuing to invest in our international businesses

We are also investing in our international businesses. The relationship with the UK Post Office continues to develop on the back of the main contract's 2012 renewal and extension to 2023. Working in conjunction with our partner, the range of financial services products being offered through the Post Office's extensive network continues to grow. During 2013, we placed particular emphasis on investing in and enhancing our mortgage product offering and we processed mortgage applications in excess of £1 billion, with first time buyers accounting for almost half of all drawdowns. The Post Office is also investing significantly in the partnership by revamping the space in its branch network designated for financial services product sales. It has further invested through the appointment of specialist financial advisers to assist in product sales. We have made progress on the current account pilot with the Post Office, with encouraging results to date. Our foreign exchange joint venture has maintained its position as the leading provider of retail foreign currency in the UK and has expanded its product range to meet changes in customer demand. We supply ATM services to the Post Office with over 2,000 machines and identified opportunities for further growth. These investments leave the partnership well positioned to grow its share of financial services activities in 2014 and beyond.

The restructuring of our Northern Ireland business to bring it to sustainable profitability continues to progress in line with expectations. We have invested in upgrading our branch network during the year and continue to focus on providing lending to SMEs and consumers, contributing to economic recovery.

Our international Leveraged Acquisition Finance business continues to generate healthy returns and a number of new mandates were won and transactions concluded during the year.

Total focus on delivering our priorities for 2014 and beyond

Over the past three years, a clear objective has been to reduce the risk to the State of any support for Bank of Ireland and reward and repay the State for its investment in the Group. With this objective achieved, we are enhancing our focus on the next stage in the Group's development. We have a clear set of priorities.

Building strong relationships with customers continues to be our key priority

Our key priority is to continue to develop relationships with both existing and new customers, leveraging the strength of our Irish and international business franchises. In Ireland, we believe this relationship building will assist us in delivering our ambition to lend over €30 billion to the Irish economy in the period to 2017. We will continue to work with customers of exiting banks who are seeking a banking partner committed to Ireland for the long term.

We will also continue to enhance our customer services, infrastructure and distribution platforms to enhance our customers' experience and support efficiencies. We are simplifying our products and processes. We continue to invest in our online and digital offerings, with over 600,000 Irish customers already actively using our online services and c.300,000 customers actively banking via our mobile app.

We are profitable in 2014 - our priority is to generate strong and sustainable returns

As a consequence of the work done over the past number of years, we are profitable and generating capital in 2014. Against the backdrop of improving economic conditions and outlook in both Ireland and the UK, our priority is to generate strong and sustainable returns in the coming years, building on the significant momentum underway.

A key contributor to improved profitability in the coming years will be reducing current elevated impairment charges to normalised levels. We continue to work with our customers who are in financial difficulty. The ongoing development and provision of appropriate restructuring solutions to customers, combined with improving economic conditions and collateral values, should support continued reduction in defaulted loan volumes. Borrower behaviour and collections activity continues to be in line with our expectations.

Another important contributor will be rebuilding our loan volumes in our core franchises. While, in the short term, repayments and loan books running down under our EU restructuring plan may outstrip new lending we are confident that we can rebuild our loan books in the medium term. As improved economic conditions and customer sentiment translates into enhanced credit appetite, the strength of our Irish franchise in an evolving market, our partnership with the UK Post Office and our international acquisition finance business position us well to deliver on our lending ambitions.

The actions we have taken have resulted in the improvement in our net interest margin over the past 18 months. This has been achieved despite low official interest rates. The margin in the second half of 2013 has been sustained in early 2014. From here, we expect future net interest margin expansion will reflect the volume of new lending, where we are achieving higher margins and, over time, any increases in official interest rates.

We remain focussed on controlling our costs, while investing further in our people, businesses and infrastructure.

Effectively managing our capital and the evolving regulatory environment is an important priority

Effectively managing the evolving regulatory environment is an important priority for the Group. In 2014, the ECB will conduct its stress tests, whose parameters have not yet been finalised. The Group continues to expect to maintain a buffer above a CET1 ratio of 10% on a Basel III transitional basis.

We have been generating capital since the beginning of 2014. With State aid repaid, capital generated will be prioritised towards facilitating the de-recognition of the remaining €1.3 billion 2009 Preference Stock in 2016. After that, once regulatory requirements have been clearly defined and prudently met, our ambition will be to progress towards dividend payment capacity.

People – the key differentiator for our business

My colleagues continue to be the key differentiator for our businesses in the eyes of our customers. Our success relies on their dedication, the service they provide to their customers and the long term relationships they build with them. I am very grateful to my colleagues throughout the Group who, despite the many challenges that we have encountered, have remained resilient, committed and focussed as we deliver on our shared objectives for our customers and for the Group.

We continue to enhance the capability of our people. During 2013, we supported colleagues who attended over 10,000 classroom based courses, completed over 65,000 web based learning modules and achieved accreditation and qualifications through education and other external professional programmes. We have extended our learning programmes to our customers and have supported significant numbers of our personal and SME customers and representatives from charitable partners who attended classroom training programmes in our learning centres during 2013. Our focus in 2014 will be to continue to invest in our people through programmes that engage staff in activities, which promote and encourage their professional career development and wellbeing.

Outlook – confident in the Group's prospects

We have made substantial progress over the past 3 years. We have delivered on the key strategic goals we set ourselves as part of the 2011 capital raising. We are now profitable and generating capital in 2014.

Economic conditions continue to improve, with the outlook for both the Irish and UK economies looking better than for some time. In Ireland, we have a compelling opportunity to develop lifelong relationships with customers who want a banking provider who is committed to Ireland for the long term. In the UK, the strength of the Post Office brand and its unrivalled distribution potential, allied to our retail banking expertise, forms the basis of a strong partnership with the capacity to materially grow.

We have the capital and liquidity to invest in our strong core franchises. We also have the clear ambition and ability to support and benefit from economic recovery. We are confident in the Group's prospects and in our ability to deliver sustainable returns to our shareholders.

Richie Boucher
28 February 2014

Operating and financial review

Performance summary

	Year ended 31 December 2013 €m	Restated[1] Year ended 31 December 2012 €m
Group performance on an underlying[2] basis		
Net interest income (before ELG fees)	2,133	1,755
Eligible Liabilities Guarantee (ELG) Scheme fees[3]	(129)	(388)
Other income (net)	642	495
Operating income (net of insurance claims)	2,646	1,862
Operating expenses	(1,581)	(1,638)
Operating profit before impairment charges on financial assets	**1,065**	**224**
Impairment charges on loans and advances to customers	(1,665)	(1,724)
Impairment charges on available for sale (AFS) financial assets	-	(45)
Share of results of associates and joint ventures (after tax)	31	46
Underlying[2] loss before tax	**(569)**	**(1,499)**
Total non-core items (page 28)	44	(679)
Loss before tax	**(525)**	**(2,178)**
Group performance (underlying[2])		
Net interest margin[4] (%)	1.84%	1.25%
Average interest earning assets (€bn)	115	132
Per unit of €0.05 ordinary stock		
Basic loss per share (€ cent)	(2.3)	(6.7)
Underlying loss per share (€ cent)	(2.4)	(4.7)
Divisional performance[5]		
Underlying[2] operating profit before impairment charges on financial assets		
Retail Ireland	421	154
Bank of Ireland Life	107	96
Retail UK	231	15
Retail UK (Stg£ million equivalent)	*197*	*10*
Corporate and Treasury	619	507
Group Centre (including ELG fees)	(310)	(530)
Other reconciling items[6]	(3)	(18)
Underlying[2] operating profit before impairment charges on financial assets	**1,065**	**224**
Impairment charges on loans and advances to customers		
Residential mortgages	573	462
Non-property SME and corporate	468	413
Property and construction	583	797
Consumer	41	52
Impairment charges on loans and advances to customers	**1,665**	**1,724**
Defaulted loan volumes (€bn)	**17.1**	**17.7**

[1] For the impact of restatements and reclassification of the comparative periods please see note 58 on page 311.
[2] Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 28 for further information.
[3] The Government Guarantee Scheme, the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG scheme) ended for all new liabilities on 28 March 2013. A fee is payable in respect of each liability guaranteed under the ELG scheme until the maturity of the guaranteed deposit or term funding.
[4] The net interest margin is stated before ELG fees.
[5] For more details on the performance of each division see pages 41 to 54.
[6] This relates to segmental income on certain inter-segment transactions, which is eliminated at a Group level.

Performance summary (continued)

	Year ended 31 December 2013 €bn	Restated[1] Year ended 31 December 2012 €bn
Stockholders' equity	7.9	8.7
Total assets	132	148
Loans and advances to customers (after impairment provisions)	85	93
Customer deposits	74	75
Loan to deposit ratio	114%	123%
Wholesale funding	27	39
Drawings from Monetary Authorities (net)	8	15
Wholesale funding > 1 year to maturity	20	27
Wholesale funding < 1 year to maturity	7	12
Capital		
Common equity tier 1 ratio (pro forma) - Basel III transitional rules at 1 January 2014	12.3%	-
Common equity tier 1 ratio (pro forma) - Basel III fully loaded ratio	9.0%	-
Core tier 1 ratio - Basel II rules	12.2%	13.8%[7]
Total capital ratio	13.6%	15.3%
Risk weighted assets (€bn)	56.4	56.5

[7] *With effect from 1 January 2013, the deduction for the Group's participation in its Life and pension business is deducted 50:50 from Core tier 1 and Tier 2 capital in accordance with the Capital Requirements Directive (CRD). The comparative period has been restated to reflect this change. The previously reported ratio was 14.4%.*

Basis of presentation

This operating and financial review is presented on an underlying basis. For an explanation of underlying see page 28.

Percentages presented throughout this document are calculated on the absolute underlying figures and so may differ from the percentage variances calculated on the rounded numbers presented, where the percentages are not measured this is indicated by n/m.

References to 'the State' throughout this document should be taken to refer to the Republic of Ireland, its Government and, where and if relevant, Government departments, agencies and local Government bodies.

Strategic report

- Bank of Ireland Group (the Group) is one of the largest financial services groups in Ireland with total assets of €132 billion as at 31 December 2013.
- The Group provides a broad range of banking and other financial services. These services include; current account and deposit services, overdrafts, term loans, mortgages, business and corporate lending, international asset financing, leasing, instalment credit, invoice discounting, foreign exchange facilities, interest and exchange rate hedging instruments, life assurance, pension and financial advisory services, including mergers and acquisitions. All of these services are provided by the Group in Ireland, with selected services being offered in the UK and internationally.
- The Group generates the majority of its revenue from traditional lending and deposit taking activities as well as fees for a range of banking and transaction services.
- The Group operates an extensive distribution network of over 280 branches and 1,400 ATMs in Ireland and access to 11,500 branches and over 2,200 ATMs in the UK via the Group's relationship as financial services partner with the UK Post Office.
- The Group is organised into operating divisions to effectively service its customers as follows: Retail Ireland, Bank of Ireland Life, Retail UK, Corporate and Treasury and Group Centre.
- The Group's central functions establish and oversee policies, processes and delivery platforms. These functions comprise Group Manufacturing, Group Finance, Group Credit & Market Risk, Group Governance Risk and Group Human Resources.

Retail Ireland
Retail Ireland offers a comprehensive range of banking products and related financial services to the personal and business markets including deposits, mortgages, consumer and business lending, credit cards, current accounts, money transmission services, commercial finance, asset finance and general insurance. Retail Ireland serves customers through a distribution network of branches, central support teams, ATMs and through direct channels (telephone, mobile and on-line) with a focus on delivering enhanced customer convenience and simplicity.

Retail Ireland is managed through a number of business units namely Distribution Channels, Consumer Banking (including Bank of Ireland Mortgage Bank and ICS Building Society), Business Banking and Customer and Wealth Management.

Bank of Ireland Life
Bank of Ireland Life includes the Group's wholly owned subsidiary, New Ireland Assurance Company plc (NIAC). Through NIAC, the Group offers a wide range of pension and life products, including life assurance, life protection, pensions and investment products to the Irish market through the Group's branch network, its financial advisors (direct sales force) and independent brokers.

Retail UK
Retail UK comprises consumer and business banking via a branch network in Northern Ireland, its UK residential mortgage business and the business partnerships with the UK Post Office. A substantial part of Retail UK's operations are conducted through the Group's wholly owned UK licensed subsidiary, Bank of Ireland (UK) plc.

A range of retail financial services are provided in the UK via an exclusive relationship with the UK Post Office. This gives the Group access to an extensive distribution network through which it distributes mortgage, insurance, banking and foreign exchange products and a large fleet of ATMs.

Corporate and Treasury
Corporate and Treasury comprises the Group's Corporate Banking and Global Markets activities across the Republic of Ireland, UK and international jurisdictions. This division also incorporates IBI Corporate Finance.

Corporate Banking provides banking services to major corporations and financial institutions. The range of lending products provided includes overdraft and short term loan facilities, term loans, project finance and structured finance. Corporate Banking also includes the Group's Leveraged Acquisition Finance (LAF) business.

Global Markets transacts in a range of market instruments on behalf of both the Group itself and its customers. The activities include transactions in inter-bank deposits and loans, foreign exchange spot and forward contracts, options, financial futures, bonds, swaps, forward rate agreements and equity tracker products.

IBI Corporate Finance advises publicly-quoted, private and semi-state companies across a variety of complex domestic and international transactions.

Group Centre
Our central Group functions are responsible for delivering services to each division and include Group Manufacturing, Group Finance, Group Credit & Market Risk, Group Governance Risk & Group Human Resources.

Strategic objectives
The Group's balance sheet, credit risk profile and funding profile have been substantially restructured since 2010, with a focus on the Group's core Republic of Ireland (RoI) market and selected international diversification. The Group is focussed on building sustainable profitability by nurturing and developing its:

i) strong customer and client relationships and appropriate and effective sales capabilities;
ii) franchise positions in its core markets in Ireland;
iii) access to an extensive distribution network, primarily through the UK Post Office (PO) partnership; and
iv) proven capabilities in LAF.

All delivered by committed and motivated employees.

In addition, the Group has an ongoing focus on the effective management of its portfolios that are challenged from a credit and / or pricing perspective.

This strategy will help the Group to deliver on its customer promises and create positive, sustainable returns for our shareholders.

(a) Focus on RoI
A key focus of the Group's strategy is to strengthen its core franchises in the RoI and to further develop its market positions by strengthening our customer offering and access. The Group continues to be focused on being a market leader in its Consumer Banking, Business Banking, Wealth Management and Corporate Banking Ireland businesses. Building a sustainable bank for the future is our priority. A key tenet of this strategy is consolidating and challenging our customer offerings and simplifying our processes to improve customer experience and the ability of staff to serve and support our customers.

b) Selective international diversification
The Group's international businesses provide diversification from the Irish economy. The relationship with the UK Post Office is a key priority, in addition to which the Group will continue to leverage our strong capabilities in LAF, which has consistently provided profitable returns from exposure to assets in Europe and in the US. The Group carefully evaluates investments in these international markets, focusing on opportunities where there is potential for profitable returns.

c) Funding model
The Group maintains a stable funding base with core loan portfolios substantially funded by customer deposits and term wholesale funding.

The commitment and dedication of the Group's staff has been key to the progress made during the challenging conditions of the past several years and their continued support and commitment will underpin the successful implementation of the Group's strategy.

EU Restructuring Plan
On 9 July 2013, the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which has enabled the Group to retain NIAC. Further details are set out in note 59.

Overview and market environment

The pace of global GDP growth was largely unchanged in 2013 at 3.0% from 3.1% in 2012. The pace of growth is expected to improve in 2014 and 2015 to 3.7% and 3.9% respectively[1]. This pickup in growth is expected to be largely on foot of a continued recovery in advanced economies with emerging economies growing at a slower pace than in recent years.

In the US, the economy grew every quarter in 2013 and by 1.9% for the full year[2]. It is expected to increase to 2.9% in 2014[3]. The labour market has also improved over the course of 2013. The unemployment rate has fallen to 6.7% at the end of 2013[4] from 7.9% a year earlier. The ongoing recovery in the US economy prompted the Federal Reserve to signal, in early summer, that a slowing in the pace of purchases under the Federal Reserves quantitative easing program would be considered. This initially put upward pressure on market interest rates both in the US and around the world. Rates eased back somewhat after the Fed delayed the start of tapering of asset purchases at its September meeting and which ultimately commenced in December. The Federal Reserve has maintained its commitment to keeping its main interest rate low while the unemployment rate remains above 6.5%.

The euro area economy started the year in recession with another quarter of negative growth in Q1 marking six consecutive quarters of contraction. However, a recovery began in the second quarter with the economy expanding in three successive quarters since then[5]. The fallout from the debt crisis and continued austerity has negatively affected domestic activity in many euro area economies. The ECB responded by easing monetary policy, cutting the main interest rate to a record low of 0.25% in November and the ECB continues to provide support to the banking sector in order to promote stability in financial markets. Inflation has fallen sharply in the euro area with the annual rate of Harmonised Index of Consumer Prices (HICP) inflation under 1% in the final months of the year[6]; which is less than half the ECB's target rate. The low inflation rate and weak economic recovery may prompt further monetary easing by the ECB in 2014. The ECB also keeps open the possible use of its Outright Monetary Transaction Program. The existence of this program is considered to help reduce tensions in euro area debt markets.

Irish economy

After an initial contraction, growth in the Irish economy has been improving on a slow and steady basis during 2013. A contraction of GDP in Q1 was followed by successive quarters of expansion in Q2 and Q3[7]. GDP is likely to have risen by 0.3% in 2013 and growth is expected to increase to over 2% in 2014[8]. The composition of growth in 2013 has been unusual as export growth slowed due to the effects of the 'patent cliff' (where several pharmaceutical products produced in Ireland came off patent in 2012 and subsequently production and export of those products has declined substantially) and constrained external demand in some key markets particularly due to the recession in the euro area. Consumer demand, albeit still muted, and business investment are showing signs of picking up and are expected to gain momentum in 2014.

The Irish labour market has improved significantly over the past year. Employment growth turned positive and 61,000 new jobs were created in the year to Q4 2013[9]. Unemployment has declined and in Q4 2013 the seasonally adjusted unemployment rate was estimated at a still high 12.1%[9] but down from 14.2% a year earlier and a peak of over 15% in early 2012.

The property market also appears to have stabilised. Residential property prices rose 6.4% in 2013, the first end of year increase since 2007. Dublin prices increased by 15.7% in 2013 and residential property prices outside the capital fell by 0.4% in 2013[10] with the pace of decline close to being the lowest since the crisis began.

The public finances continue to improve with all fiscal targets under the Troika programme met. Ireland successfully exited the programme in December 2013. The 2014 Budget estimates that the general government deficit in 2013 would be 7.3% of GDP[11], coming in under the 7.5% target, and the deficit is forecast to fall to 4.8% in 2014 and 2.9% in 2015. The National Treasury Management Agency (NTMA) has successfully re-entered the debt market and the agency held €20 billion in cash at the end of 2013[12] which is expected to be enough to fund the State until into 2015.

UK economy

The UK economy has performed robustly in 2013 with the recovery strengthening over the course of the year. GDP, which grew every quarter in 2013, is estimated to have expanded by 1.8%[13], the fastest pace of growth since 2007. Growth has been primarily driven by increases in consumer spending and investment. The Bank of England (BoE) has kept its main monetary policy on hold as the recovery strengthened leaving the bank rate at 0.5% and the asset purchase scheme unchanged. Unemployment in the UK has improved considerably over the course of the year with the unemployment rate falling to 7.2%[14] in December from 7.8% a year earlier. The housing market has also improved. Mortgage lending has increased with gross mortgage lending averaging over £14 billion a month in 2013[15] against £12 billion a month in 2012 albeit this is still significantly less than

1 *IMF world economic outlook, January 2014*
2 *Bureau of Economic Analysis*
3 *Reuters US consensus poll February 2014*
4 *Bureau of Labor Statistics*
5 *Eurostat, euro area GDP*
6 *Eurostat, December 2013 inflation*
7 *CSO, Q3 national accounts*
8 *Reuters Ireland consensus poll January 2014*
9 *CSO, Q4 2013 Quarterly National Household Survey*
10 *CSO, December 2013 Residential Property Price Index*
11 *Budget 2014*
12 *NTMA, Funding of Exchequer Balance Q4 2013*
13 *ONS, GDP second estimate Q4 2013*
14 *ONS, labour market statistics, February 2014*
15 *Bank of England, trends in lending January 2014*

Overview and market environment (continued)

levels recorded in more normal economic and credit environment. Property prices have also increased with house prices rising 8.4% in the year to December 2013[16] and are just 5.5% below the previous peak level set in late 2007. House price gains accelerated in the second half of 2013 suggesting the housing market recovery should continue in 2014. The upturn in UK house prices is becoming broad based with all regions reporting house price increases in Q4 although this continues to be led by London and the South East which is recording the strongest pace of growth.

[16] *Nationwide House Price Index, January 2014*

Group income statement

Summary consolidated income statement on an underlying[1] basis

	Table	Year ended 31 December 2013 €m	Restated[2] Year ended 31 December 2012 €m	Change %
Net interest income (before ELG fees)	1	2,133	1,755	22%
Eligible Liabilities Guarantee (ELG) fees	2	(129)	(388)	67%
Net other income	3	642	495	30%
Operating income (net of insurance claims)		**2,646**	**1,862**	**42%**
Operating expenses	4	(1,581)	(1,638)	3%
Operating profit before impairment charges on financial assets		**1,065**	**224**	**n/m**
Impairment charges on loans and advances to customers	5	(1,665)	(1,724)	3%
Impairment charges on available for sale (AFS) financial assets	6	-	(45)	n/m
Share of results of associates and joint ventures (after tax)		31	46	(33%)
Underlying[1] loss before tax		**(569)**	**(1,499)**	**62%**
Non-core items	7	44	(679)	n/m
Loss before tax		**(525)**	**(2,178)**	**76%**
Tax credit		35	337	n/m
Loss for the year		**(490)**	**(1,841)**	**73%**
Loss attributable to stockholders		(487)	(1,835)	n/m
Loss attributable to non-controlling interests		(3)	(6)	50%
Loss for the year		**(490)**	**(1,841)**	**73%**

[1] Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 28 for further information.
[2] For the impact of restatements and reclassification of the comparative periods please see note 58 on page 311.

Operating income (net of insurance claims)

Net interest income

TABLE: 1

Net interest income / net interest margin	Year ended 31 December 2013 €m	Restated[1] Year ended 31 December 2012 €m	Change %
Net interest income (before ELG fees)	2,133	1,755	22%
IFRS income classifications[2]	(10)	(87)	88%
Net interest income (before ELG fees) after IFRS income classifications	**2,123**	**1,668**	**27%**
Average interest earning assets (€bn)			
Loans and advances to customers	88	99	(11%)
Other interest earning assets	27	33	(18%)
Total average interest earning assets	**115**	**132**	**(13%)**
Year end interest earning assets	111	126	(12%)
Net interest margin	**1.84%**	**1.25%**	**59bps**

[1] For the impact of restatements and reclassification of the comparative periods please see note 58 on page 311.
[2] The period on period changes in 'net interest income' and 'net other income' are affected by certain IFRS income classifications. Under IFRS, certain assets and liabilities can be designated at 'fair value through profit or loss' (FVTPL). Where the Group has designated liabilities at 'fair value through profit or loss', the total fair value movements on these liabilities, including interest expense, are reported in 'net other income'. However, the interest income on any assets which are funded by these liabilities is reported in the 'net interest income'. In addition, assets are purchased and debt is raised in a variety of currencies and the resulting foreign exchange and interest rate risk is economically managed using derivative instruments – the cost of which is reported in 'net other income'. To enable a better understanding of underlying business trends, the impact of these IFRS income classifications is shown in the table above.

Net interest income (before ELG fees) after IFRS income classifications of €2,123 million for the year ended 31 December 2013 has increased by €455 million or 27% compared to the previous year.

The increase in net interest income reflects a 59 basis points increase in the Group's net interest margin to 1.84% for the year ended 31 December 2013, partly offset by a 13% reduction in average interest earning assets in the period. The net interest margin for the six months ended 30 June 2013 was 1.65%. The margin for the second half of the year to 31 December 2013 was 2.03%.

The Group's success in rebuilding its net interest margin given the low interest rate environment, reflects substantial progress on repricing loan and deposit portfolios, more efficient balance sheet management and the benefits of reduced risk premia in the capital markets. While margins are higher on new lending, demand remains low.

The reduction in average interest earning assets is due to a combination of muted demand for new lending, the impact of loan redemptions including the run off of certain portfolios and the reduction in excess regulatory liquidity in the Group's UK subsidiary, the termination of the IBRC repo transaction (on a no gain / no loss basis), the impact of the weakening of the sterling exchange rate against the euro and increased impairment provisions.

The annualised net interest margin (after the cost of ELG fees) increased by 77 basis points to 1.73% in the year ended 31 December 2013 compared to 0.96% in the previous year.

Eligible Liabilities Guarantee (ELG) fees

TABLE: 2 ELG	Year ended 31 December 2013	Year ended 31 December 2012	Change %
ELG fees (€m)	129	388	(67%)
Covered liabilities (at period end) (€bn)	5	26	(81%)
Average fee during period (%)	1.05%	1.15%	(9%)

ELG fees of €129 million for the year ended 31 December 2013 are €259 million lower compared to fees of €388 million for the previous year. Total liabilities covered by the ELG scheme reduced from €26 billion at 31 December 2012 to €5 billion at 31 December 2013. The ELG scheme ended for all new liabilities on 28 March 2013. The Group did not experience any adverse impacts on deposit volumes or pricing following the expiry of the ELG scheme.

The cost of the ELG scheme will continue to reduce in line with the maturity of covered liabilities. Final maturity of the covered liabilities is expected to occur by December 2017, with c.80% of the covered liabilities of €5 billion expected to mature by 30 June 2015.

Net other income

TABLE: 3 Net other income	Year ended 31 December 2013 €m	Restated[1] Year ended 31 December 2012 €m	Change %
Net other income	642	495	30%
IFRS income classifications[2]	10	87	(88%)
Net other income after IFRS income classifications	**652**	**582**	**12%**

[1] *For the impact of restatements and reclassification of the comparative periods please see note 58 on page 311.*

[2] *The period on period changes in 'net interest income' and 'net other income' are affected by certain IFRS income classifications. Under IFRS, certain assets and liabilities can be designated at 'fair value through profit or loss' (FVTPL). Where the Group has designated liabilities at 'fair value through profit or loss', the total fair value movements on these liabilities, including interest expense, are reported in 'net other income'. However, the interest income on any assets which are funded by these liabilities is reported in the 'net interest income'. In addition, assets are purchased and debt is raised in a variety of currencies and the resulting foreign exchange and interest rate risk is economically managed using derivative instruments – the cost of which is reported in 'net other income'. To enable a better understanding of underlying business trends, the impact of these IFRS income classifications is shown in the table above.*

Net other income (continued)

Net other income after IFRS income classifications	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m	Change %
Retail Ireland	302	278	9%
Bank of Ireland Life	131	133	(2%)
Retail UK	3	40	(92%)
Corporate and Treasury	151	147	3%
Group Centre and other	5	(14)	n/m
Business income	**592**	**584**	**1%**
Other Items	60	(2)	n/m
Net other income after IFRS income classifications	**652**	**582**	**12%**
Other items			
Transfer from available for sale reserve on asset disposal	50	60	(17%)
Recovery arising on settlement of administration claims	43	-	n/m
Investment variance - Bank of Ireland Life	21	21	-
Funding valuation adjustment on derivatives	(36)	-	n/m
Fair value movement on Contingent Capital Note (CCN) embedded derivative	(11)	(22)	50%
Fair value movements in derivatives economically hedging the Group's balance sheet	(4)	(57)	93%
Economic assumptions - Bank of Ireland Life	(3)	(3)	-
Loss on sale of assets to NAMA	-	(1)	n/m
Total other items	**60**	**(2)**	**n/m**

[1] *For the impact of restatements and reclassification of the comparative periods please see note 58 on page 311.*

Net other income, after IFRS income classifications, for the year ended 31 December 2013 increased by €70 million compared to the previous year from €582 million in December 2012 to €652 million in December 2013.

Business Income of €592 million for the year ended 31 December 2013 increased by €8 million compared to the previous year;

- business income in Retail Ireland has increased by €24 million due to higher retail banking fees €14 million, higher interchange income of €7 million and increased gains on international investment properties €5 million in 2013;
- other income in Bank of Ireland Life of €131 million decreased by €2 million reflecting a change in the mix of new business sales resulting in an increase in the proportion of income recognised as Net interest income. Total operating income in Bank of Ireland Life has increased by 5% to €179 million in the year ended 31 December 2013 compared to the previous year (see page 46);
- business income in Retail UK has decreased by €37 million primarily due to commissions paid to the UK Post Office which were €29 million higher than the previous year. This reflects a change in the contractual arrangements for commission where revised commission arrangements for all products were agreed with the Post Office in August 2012 as part of the renegotiation and extension of the overall financial services relationship. Since August 2012, commission paid is primarily reflected in net other income whereas under previous contractual arrangements a small proportion of the total amount paid was included in operating costs; and
- business income in Corporate and Treasury increased by €4 million to €151 million which is broadly in line with the prior year.

Other items within Net other income, after IFRS income classifications, amount to a net gain of €60 million for the year ended 31 December 2013, compared to a net charge of €2 million for the previous year, reflecting:

- a gain of €50 million relating to transfers from the AFS reserve on asset disposals for the year ended 31 December 2013 compared to a gain of €60 million in the previous year;
- a gain of €43 million due to a recovery during the year ended 31 December 2013 in relation to the Lehman Brothers administration settlement;
- a positive investment variance of €21 million in Bank of Ireland Life in the year ended 31 December 2013 which is in line with the prior year and reflects gains in investment markets during the period;
- a €36 million adverse movement following the adoption of a valuation adjustment, during 2013, related to the funding cost of derivatives in line with emerging market practice;

Net other income (continued)

- a charge of €11 million due to the accounting impact of fair value movements on the CCN embedded derivative in the year ended 31 December 2013 compared to a charge of €22 million in the previous year;
- a charge of €4 million due to the accounting impact of fair value movements in derivatives economically hedging the Group's balance sheet compared to a charge of €57 million for the previous year; and
- a charge of €3 million relating to economic assumption changes and interest rate movements in Bank of Ireland Life for the year ended 31 December 2013 which is in line with the prior year.

Operating expenses

TABLE: 4

Operating expenses	**Year ended 31 December 2013 €m**	Restated[1] Year ended 31 December 2012 €m	Change %
Staff costs (excluding pension costs)	691	771	(10%)
Pension costs	133	70	90%
Other costs	757	797	(5%)
Operating expenses	**1,581**	**1,638**	**(3%)**

			Change
Staff numbers at period end	**11,255**	**12,016**	**(761)**
Average staff numbers during the period	**11,831**	**13,091**	**(1,260)**

[1] *For the impact of restatements and reclassification of the comparative periods please see note 58 on page 311.*

Operating expenses of €1,581 million for the year ended 31 December 2013 are €57 million, or 3%, lower than the previous year.

The Group has continued its focus on reducing operating expenses and delivering efficiencies with savings being achieved in both staff and other costs during the year ended 31 December 2013. These savings have been partly offset by an increase in pension costs due to a higher deficit in the Group sponsored defined benefit pension scheme, reductions in discount rates and in part due to changes in the accounting for pensions following the introduction of IAS 19 Revised.

Staff costs (excluding pension costs) of €691 million for the year ended 31 December 2013 were €80 million lower than the previous year. This is primarily due to the departure of employees under the Group's restructuring programme. The average number of staff employed by the Group has declined by 1,260 from an average of 13,091 in 2012 to 11,831 in 2013. Staff numbers at 31 December 2013 were 11,255.

Pension costs of €133 million for the year ended 31 December 2013 were €63 million higher than the previous year. Of this increase, €48 million relates to a combination of lower discount rates and a higher pension deficit and c.€15 million relates to a lower recovery of the pension levy by Trustees of the Group sponsored defined benefit pension schemes compared to 2012 when two years of the BSPF levy were recovered compared to one year in 2013.

Other costs, including technology, property and other non-staff costs were €757 million for the year ended 31 December 2013 and were €40 million lower than the previous year. The decrease reflects strong cost control with an ongoing focus on efficiency improvements in the year ended 31 December 2013, as the Group continues to consolidate, standardise and simplify its operations. The Group's outsourcing contracts continue to deliver benefits. These savings have been partly offset by costs associated with strategic initiatives supporting improved customer experience and the costs associated with regulatory compliance projects.

Impairment charges on loans and advances to customers

TABLE: 5

Impairment charges on loans and advances to customers	**Year ended 31 December 2013 €m**	Year ended 31 December 2012 €m	Change %
Residential mortgages	573	462	24%
- Retail Ireland	*542*	*418*	*30%*
- Retail UK	*31*	*44*	*(30%)*
Non-property SME and corporate	468	413	13%
- Republic of Ireland SME	*233*	*223*	*4%*
- UK SME	*113*	*53*	*113%*
- Corporate	*122*	*137*	*(11%)*
Property and construction	583	797	(27%)
- Investment	*343*	*437*	*(22%)*
- Land and development	*240*	*360*	*(33%)*
Consumer	41	52	(21%)
Total impairment charges on loans and advances to customers	**1,665**	**1,724**	**(3%)**

Impairment charges on loans and advances to customers of €1,665 million for the year ended 31 December 2013 were €59 million or 3% lower than the previous year. The impairment charge for 2013 reflects the performance of the Group's loan portfolios, the economic environment in the countries in which those portfolios are located, up to date assessment of collateral values securing the loan portfolios, the Group's activities in restructuring loans for customers with repayment challenges, the Group's existing stock of impairment provisions, implementation of the Central Bank of Ireland 'Impairment Provisioning and Disclosures Guidelines' (revised 31 May 2013) and the observations from the Central Bank's Asset Quality Review (AQR) of the Group's loan portfolios as at 30 June 2013.

The impairment charge on **Residential mortgages** of €573 million for the year ended 31 December 2013 has increased by €111 million from €462 million in the previous year. The current year charge reflects, among other things, the consideration of the AQR and implementation of the revised CBI guidelines.

The impairment charge on the Retail Ireland mortgage portfolio of €542 million for the year ended 31 December 2013 has increased by €124 million from €418 million in the previous year. The current year charge reflects a significant improvement in default arrears trends in the second half of 2013, particularly in the Owner occupied segment, the impact of implementation of the revised CBI guidelines and consideration of the AQR. While the volume of default arrears (based on loan volumes 90 days or more past due and / or impaired) has continued to increase, the pace of default arrears formation has reduced significantly in the year, particularly in the Owner occupied segment. In addition to the reduction in the pace of formation of default arrears, reflecting improving economic conditions, the Group has continued to formally restructure a significant number of customer mortgages on a sustainable basis.

For the year ended 31 December 2013, Residential property prices recorded an annual increase of 6.4% according to the Central Statistics Office (CSO) Index. This compares to a decline of 4.5% in 2012. This is the first annual increase since January 2008, with residential property prices in Dublin continuing to perform significantly better (15.7% annual increase to 31 December 2013) than the national average. The CSO Index for December 2013 reported that national residential prices were 46% below peak, compared to 50% at December 2012 and June 2013, with residential prices in Dublin 49% below peak, while properties outside of Dublin were 47% below peak.

Owner occupied default arrears (based on loan volumes 90 days or more past due and / or impaired) were 10.10% at 31 December 2013 as compared with 10.52% at 30 June 2013 and 9.88% at 31 December 2012. The volume of default arrears in the Owner occupied segment has decreased in the second half of the year reflecting improving economic conditions, such as falling unemployment levels and the Group's ongoing strategy to assist customers in financial difficulty with sustainable mortgage restructure and resolution strategies. The level of Owner occupied default arrears for the Group remains at about half the level of the other Irish banks as published on a quarterly basis by the Central Bank of Ireland.

Buy to let default arrears (based on loan volumes 90 days or more past due and / or impaired) were 27.72% at 31 December 2013 as compared to 26.01% at 30 June 2013 and 23.26% at 31 December 2012. The volume of default arrears in the Buy to let segment has continued to increase, albeit the pace of arrears formation has slowed in 2013 compared to 2012, consistent with improved rental market conditions, particularly in city centre locations and Dublin commuter counties[1]. Buy to let borrowers continue to be impacted by rising repayments as interest only periods come to an end and they move to fully amortising loans. At 31 December 2013, 65% of the Buy to let

[1] *Source: Daft.ie National Rental Index.*

Impairment charges on loans and advances to customers (continued)

mortgage book was on a 'principal and interest' repayment basis (31 December 2012: 52%). As part of the Group's Mortgage Arrears Resolution Strategies, the Group continues to work with Buy to let customers, particularly those with interest only periods that are coming to an end, to restructure customer mortgages prior to them moving to fully amortising loans. The level of Buy to let default arrears for the Group remains below the level of the other Irish banks as published on a quarterly basis by the Central Bank of Ireland.

The impairment charge on the Retail UK mortgage portfolio of €31 million for the year ended 31 December 2013 has decreased by €13 million from €44 million in the previous year reflecting the stable performance of the UK mortgage book. Default arrears (volume of loans 90 days past due and / or impaired) increased marginally to 2.37% at 31 December 2013 as compared with 2.35% at 30 June 2013 and 2.34% at 31 December 2012, primarily reflecting the reduction in the size of the total UK mortgage book.

The impairment charge on the **Non property SME and corporate** loan portfolio of €468 million for the year ended 31 December 2013 has increased by €55 million from €413 million in the previous year. The current year charge reflects, among other things, the consideration of the AQR.

Republic of Ireland SME impairment charges of €233 million for the year ended 31 December 2013 have increased by €10 million from €223 million in the previous year. There have been some signs of improvement for the SME sector, as reflected in modest annual retail sales growth, increased consumer sentiment, and lower business insolvencies. However, there is a lag between consumer sentiment and consumer spending; hence, trading conditions remain difficult. As a result, Republic of Ireland SME impairment charges continue to be at an elevated level, particularly for those sectors correlated with consumer spending. The Group has made significant progress in agreeing end state resolution strategies with a large number of our challenged SME customers, and these strategies will be implemented over time.

Impairment charges on our UK SME portfolio increased to €113 million for the year ended 31 December 2013 compared to €53 million in the previous year, primarily driven by a small number of large individual exposures and case specific events. The UK macro-economic conditions and outlook have been on an improving trend in recent months, with the unemployment rate falling.

The impairment charges on the Corporate portfolios reduced to €122 million for the year ended 31 December 2013 compared to €137 million in the previous year. The domestic Irish Corporate portfolio was impacted by challenging domestic demand and market conditions, albeit the pace of migration of new cases into our challenged portfolios has reduced considerably. Our international corporate banking portfolios continue to perform satisfactorily reflecting their exposure to global, rather than exclusively Irish economic indicators, with impairments driven by individual case specific events.

The impairment charge on the **Property and construction** loan portfolio of €583 million for the year ended 31 December 2013 decreased by €214 million compared to €797 million in the previous year. The current year impairment charge reflects, among other things, the consideration of the AQR.

The impairment charge on the Investment property element of the Property and construction portfolio was €343 million for year ended 31 December 2013 compared to €437 million in the previous year.

Between 2007 and 2012, the Irish market has experienced a significant fall in asset values, with Irish commercial property capital values down 66% from peak[2]. However, capital values rose by 3% in 2013, which represented the first annual increase in capital values since 2007. Activity in the commercial property market in Dublin has continued to increase, particularly for prime Office assets, and improving economic conditions in recent months has led to capital value growth spreading to the Retail and Industrial sectors by late 2013. There have been some early signs of improvement in the Retail sector in recent months, such as increased Retail sales and consumer sentiment, however, conditions in the sector remained difficult in 2013 as evidenced by increased retail tenant defaults and high vacancy levels, particularly in provincial / regional locations, which have contributed to continued elevated impairment charges on our Investment property portfolio.

UK commercial property capital values increased by 4% in 2013, reflecting continued strong returns from London based properties coupled with rising returns in recent months in key regional centres on foot of growing investor confidence in real estate outside of London, particularly in the Office market. Performance in the UK Retail sector continues to remain more subdued, with limited occupier demand outside of London. Tenant failures and market rental pressures are continuing to impact on impairment levels.

The impairment charge on the Land and development element of the Property and construction portfolio was €240 million for the year ended 31 December 2013 compared to €360 million for the previous year. The charge remains elevated reflecting continued challenging market conditions.

The impairment charge of €41 million on **Consumer** loans for the year ended 31 December 2013 is €11 million lower compared to the impairment charge of €52 million in the previous year. Consumer loans have continued to reduce reflecting accelerated repayments and subdued demand for new loans and other credit facilities, in addition to lower than expected default arrears.

Further analysis and commentary on the changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment sections of the Risk Management Report.

[2] *Source: Investment Property Databank Ltd (IPD).*

Impairment charge on available for sale financial assets

There was no impairment charge on available for sale (AFS) financial assets for the year ended 31 December 2013. The charge of €45 million in the previous year included a charge of €40 million relating to the NAMA subordinated bonds following NAMA's updated outlook for its long term performance at that time.

TABLE: 6

Impairment charges on AFS financial assets	**Year ended 31 December 2013 €m**	Year ended 31 December 2012 €m	Change %
NAMA subordinated bonds	-	40	n/m
Other	-	5	n/m
Impairment charges on AFS financial assets	**-**	**45**	**n/m**

Non-core items

Underlying performance excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. The Group has treated the following items as non-core:

TABLE: 7

Non-core items	**Year ended 31 December 2013 €m**	Year ended 31 December 2012 €m	Change %
Impact of changes to pension benefits in the Group sponsored defined benefit schemes	274	-	n/m
Charge arising on the movement in the Group's credit spreads	(154)	(297)	48%
Cost of restructuring programme	(90)	(150)	40%
Gross-up for policyholder tax in the Life business	26	16	63%
Loss on disposal / liquidation of business activities	(10)	(69)	85%
Loss on deleveraging of financial assets	(3)	(326)	99%
Gain on liability management exercises	4	69	(94%)
Investment return on treasury stock held for policyholders	(3)	(1)	n/m
Gain on Contingent Capital Note	-	79	n/m
Total non-core items	**44**	**(679)**	**n/m**

Non-core items (continued)

Impact of changes to pension benefits in the Group sponsored defined benefit schemes
A non-core gain of €274 million was recognised in the year ended 31 December 2013, reflecting the impact of changes in pension benefits.

At 31 December 2012, the IAS 19 deficit in the Group sponsored defined benefit pension schemes was €1.1 billion. The most significant scheme sponsored by the Group is the Bank of Ireland Staff Pensions Fund (BSPF) which accounted for approximately 75% of the total deficit across all of its defined benefit sponsored schemes.

The Group completed a review of the BSPF during 2013 and is implementing amendments to benefits to address the IAS 19 deficit. Based on the status of implementation of the amendments and assumption changes made at 31 December 2013, the Group has recognised a reduction in the deficit of €391 million net of directly related expenses. The Group has recognised €274 million of this amount as a non-core gain in the income statement, with the remaining €117 million recognised in other comprehensive income. At end February 2014, over 95% of serving staff had accepted the benefit changes and the Group expects to recognise a further reduction in the deficit of €81 million which is expected will be reported as part of non-core gains in the income statement during 2014. Further details are set out in note 41 on page 256.

Charges arising on the movement in the Group's credit spreads
A charge of €154 million was recognised in the year ended 31 December 2013 compared with a charge of €297 million during the previous year. These charges arise from reductions in credit spreads relating to the Group's own debt and deposits accounted for at 'fair value through profit or loss'. These liabilities consist of certain subordinated debt, certain structured senior debt and tracker deposits. These charges do not impact the Group's regulatory capital.

Cost of restructuring programme
During the year ended 31 December 2013, the Group continued its restructuring programme which reduced the number of people employed by the Group and rationalised the Group's office space. The Group recognised a charge of €90 million in relation to the restructuring programme during the year ended 31 December 2013, primarily related to the rationalisation of office space (€42 million) and a reduction of employee numbers (€48 million). A restructuring charge of €150 million was incurred in the previous year of which €16 million related to office rationalisation and €134 million to a reduction in employee numbers.

Gross-up for policyholder tax in the Life business
Accounting standards require that the income statement be grossed up in respect of the total tax payable by Bank of Ireland Life, comprising both policyholder and stockholder tax. The tax gross-up relating to policyholder tax is included within non-core items.

Loss on disposal / liquidation of business activities
A loss on disposal of business activities of €10 million was recognised in the year ended 31 December 2013 compared to a loss of €69 million in the previous year.

As part of the Group's focus on simplifying its corporate structure the Group has been winding up a number of wholly owned dormant and non-trading subsidiary companies. In accordance with accounting standards any cumulative unrealised foreign exchange gains and losses are required to be realised on disposal and recycled through the income statement. A loss of €12 million arose in the year ended 31 December 2013 on the recycling of foreign exchange reserves on the liquidation of a number of legal entities within the Group with a sterling functional currency. This compares to a loss of €56 million in the previous year. These charges do not impact the Group's regulatory capital. This loss has been reflected as loss on disposal / liquidation of business activities.

The loss on disposal of business activities in the previous year also includes a loss of €14 million which arose in the year ended 31 December 2012 on the sale of Burdale.

Loss on deleveraging of financial assets
A loss on deleveraging of financial assets of €3 million was recognised in the year ended 31 December 2013 compared with €326 million in the previous year. The loss in the year ended 31 December 2012 reflects the impact of divestments completed by the Group in order to meet its target under the 2011 PCAR.

Gain on liability management exercises
A gain of €4 million on liability management exercises was recognised in the year ended 31 December 2013 compared with €69 million in the previous year, reflecting the repurchase of certain Group debt securities.

Investment return on treasury stock held for policyholders
Under accounting standards, the Group income statement excludes the impact of the change in value of Bank of Ireland stock held by Bank of Ireland Life for policyholders. There was a €3 million charge in the year ended 31 December 2013 compared to a €1 million charge in the previous year. Units of stock held by Bank of Ireland Life for policyholders at 31 December 2013 were 20 million units (31 December 2012: 24 million units).

Gain on Contingent Capital Note
The Group recognised a gain of €79 million during the year ended 31 December 2012, reflecting a decrease in the carrying value of the instrument following remeasurement as a result of a fall in the expected future coupon payments on this instrument. This gain will not recur or reverse as the State sold its entire holding in the instrument to a diverse group of international institutional investors on 9 January 2013, thereby fixing all future cash coupon payments on the notes at 10% per annum.

Taxation

The taxation credit for the Group was €35 million for the year ended 31 December 2013 compared to a taxation credit of €337 million in the previous year. Excluding the impact of non-core items, the effective tax rate for the year ended 31 December 2013 is 12% (taxation credit) which is lower than the comparable rate for the previous year of 17% (taxation credit). The effective tax rate is influenced by changes in the geographic mix of profits and losses and the impact on deferred tax of the reduction in the UK corporation tax rate to 20% with effect from 1 April 2015.

Group balance sheet

The following tables show the composition of the Group's balance sheet including the key sources of the Group's funding and liquidity.

Summary consolidated balance sheet

Summary consolidated balance sheet	**Table**	**31 December 2013 €bn**	Restated[1] 31 December 2012 €bn	Change %
Loans and advances to customers (after impairment provisions)		85	93	(9%)
Liquid assets	8	27	33	(18%)
Other assets[1]	13	20	22	(9%)
Total assets		**132**	**148**	**(11%)**
Customer deposits	9	74	75	(1%)
Wholesale funding[1]	10	27	39	(31%)
Subordinated liabilities	11	2	2	-
Other liabilities[1]	13	21	23	(9%)
Total liabilities		**124**	**139**	**(11%)**
Stockholders' equity[1]	12	8	9	(11%)
Total liabilities and stockholders' equity		**132**	**148**	**(11%)**
Loan to deposit ratio		**114%**	**123%**	
Common equity tier 1 ratio (pro forma) - Basel III transitional rules at 1 January 2014		**12.3%**	**-**	
Core tier 1 ratio - Basel II rules		**12.2%**	**13.8%[2]**	

[1] *For the impact of restatements and reclassification of the comparative periods please see note 58 on page 311.*
[2] *With effect from 1 January 2013, the deduction for the Group's participation in its Life and pension business is deducted 50:50 from Core tier 1 and tier 2 capital in accordance with the Capital Requirements Directive (CRD). The comparative period has been restated to reflect this change. The previously reported ratio was 14.4%.*

Loans and advances to customers

The Group's **loans and advances to customers (after impairment provisions)** of €85 billion have decreased by €8 billion or 9% since 31 December 2012.

On a constant currency basis, loans and advances to customers have decreased by €6.5 billion or 6.5% during the year ended 31 December 2013. This decrease is primarily driven by lower net new lending as loan repayments exceed origination of new loans in the Group's core markets.

The composition of the Group's loans and advances to customers by portfolio and by division at 31 December 2013 was broadly consistent with 31 December 2012.

The stock of impairment provisions on loans and advances to customers of €8.2 billion has increased by €0.7 billion since 31 December 2012.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section of the Risk Management Report, see pages 58 to 125.

Liquid assets

TABLE: 8

Liquid assets	**31 December 2013 €bn**	31 December 2012 €bn
Cash at banks	5	9
- Irish Bank Resolution Corporation (IBRC) repo	*-*	*3*
- Other	*5*	*6*
Cash and balances at Central Banks	6	9
- Bank of England	*5*	*8*
- Other	*1*	*1*
Government bonds	7	6
NAMA senior bonds	4	4
Covered bonds	3	3
Senior bank bonds and other	2	2
	27	**33**

The Group's portfolio of **liquid assets** of €27 billion has decreased by €6.2 billion since 31 December 2012. The reduction is primarily due to the termination of the IBRC repo transaction of €3.1 billion on a no gain / no loss basis, on 13 February 2013 (see note 52), together with a decrease in liquid assets held by Bank of Ireland (UK) plc of €2.8 billion. The reduction in liquid assets held by Bank of Ireland (UK) plc is as a result of more efficient balance sheet management including the sale of loans to the value of €1.5 billion from other Group entities to Bank of Ireland (UK) plc, together with a reduction in deposit volumes in line with the objective of optimising the level of deposits in Bank of Ireland (UK) plc to more appropriately reflect its balance sheet requirements.

At 31 December 2013, Bank of Ireland (UK) plc held liquid assets in excess of its minimum regulatory liquidity requirements.

However, the level of excess liquid assets is expected to be substantially eliminated in early 2014 following the approval to transfer c.€1.5 billion of assets from other Group entities to the UK subsidiary.

Further analysis of the Group's sovereign and other bonds is set out on pages 370 to 379.

Customer deposits

TABLE: 9

Customer deposits	**31 December 2013 €bn**	31 December 2012 €bn
Retail Ireland	36	35
- Deposits	*24*	*24*
- Current account credit balances	*12*	*11*
Retail UK	26	30
Retail UK (Stg£bn equivalent)	22	25
- UK Post Office	*16*	*19*
- Other Retail UK	*6*	*6*
Corporate and Treasury	12	10
Total customer deposits	**74**	**75**
Loan to deposit ratio	**114%**	**123%**
Deposits covered by ELG scheme	2	21

Group customer deposits of €74 billion have decreased by €1 billion since 31 December 2012. Increases of €1.0 billion in Retail Ireland and €1.6 billion in Corporate and Treasury were offset by a reduction of €3.6 billion in Retail UK balances due to a combination of the impact of the weakening of sterling against euro during the period and a planned fall in volumes in line with the strategy of optimising the Bank of Ireland (UK) plc balance sheet requirements and the closure of Bank of Ireland (IOM) Ltd. On a constant currency basis, the Group's customer deposits are €0.7 billion lower than 31 December 2012.

A key milestone for the Group during 2013 was the Irish Government's withdrawal of the ELG scheme at the end of March for all new liabilities. Volumes of deposits covered by the ELG scheme have reduced from €21 billion at 31 December 2012 to €2 billion at 31 December 2013. There was no adverse impact on deposit volumes or pricing arising from the withdrawal of the ELG scheme.

During the year ended 31 December 2013, reducing deposit pricing has continued to be a key strategic focus of the Group. The Group has taken actions in all of its markets to reduce the price paid on deposits.

Notwithstanding the expiry of ELG and actions to manage down pay rates, Irish retail deposits remained stable with some increase in current account credit balances.

Deposit balances in the Corporate and Treasury division have increased by €1.6 billion to €12 billion since 31 December 2012, reflecting growth in the large corporate and multinational deposit book. The book primarily comprises a mixture of corporate, State, SME and structured retail customer deposits.

The £3 billion reduction in balances in Retail UK to £22 billion at 31 December 2013, was primarily driven by a reduction in the UK Post Office deposits in line with the objective of optimising the level of deposits in Bank of Ireland (UK) plc to more appropriately reflect its balance sheet requirements. The closure of Bank of Ireland (IOM) Ltd also contributed to a reduction in deposits in Retail UK. Deposits in the Group's other UK businesses continue to remain stable and broadly in line with 31 December 2012.

The loan to deposit ratio improved from 123% at 31 December 2012 to 114% at 31 December 2013, which exceeded the requirement of a minimum of 122.5% at 31 December 2013, as set out in the 2011 PCAR .

Customer deposits at 31 December 2013 of €74 billion (31 December 2012: €75 billion) do not include €2.3 billion (31 December 2012: €2.5 billion) of savings and investment products sold by Bank of Ireland Life. These products have a fixed term (typically of five years) and consequently are an additional source of stable retail funding for the Group.

Wholesale funding

TABLE: 10

Wholesale funding sources	31 December 2013 €bn	31 December 2013 %	Restated[1] 31 December 2012 €bn	Restated[1] 31 December 2012 %
Secured funding	22	81%	31	79%
- Monetary Authority (gross) other	*8*	*30%*	*12*	*31%*
- Monetary Authority (gross) IBRC	*-*	*-*	*3*	*8%*
- Covered bonds	*7*	*26%*	*7*	*18%*
- Securitisations	*3*	*11%*	*4*	*10%*
- Private market repo	*4*	*14%*	*5*	*12%*
Unsecured funding	5	19%	8	21%
- Senior debt	*3*	*11%*	*6*	*16%*
- Bank deposits	*2*	*8%*	*2*	*5%*
Total Wholesale funding	**27**	**100%**	**39**	**100%**
Wholesale funding > 1 year to maturity	20	72%	27	68%
Wholesale funding < 1 year to maturity	7	28%	12	32%
Drawings from Monetary Authorities (net)	8	-	15	-
Wholesale funding covered by ELG scheme	3	-	5	-

[1] *For the impact of restatements and reclassification of the comparative periods please see note 58 on page 311.*

Wholesale funding of €27 billion has decreased by €12 billion (net) since 31 December 2012 reflecting:

- the termination on a no gain / no loss basis of the IBRC repo transaction of €3.1 billion on 13 February 2013 (see note 52);
- the impact of lower net lending and the sale of assets from other Group entities to Bank of Ireland (UK) plc to the value of €1.5 billion, leading to a reduction in the liquid assets held by Bank of Ireland (UK) plc in excess of regulatory liquidity requirements; and
- the remaining reduction of €7 billion is primarily due to the reduction in funding requirements for the lending book.

During the year ended 31 December 2013, the Group has continued to access the longer term debt markets with:

€2.0 billion of Irish Mortgage Asset Covered Securities across three transactions:

- a €500 million five-year transaction in March 2013 at a price of 190 basis points above mid swaps;
- a €500 million seven-year transaction in September 2013 at a price of 195 basis points above mid swaps; and
- a €1 billion three and half-year transaction in November 2013 at a price of 120 basis points above mid swaps.

A €500 million three-year unguaranteed senior unsecured funding transaction in May 2013 at a price of 220 basis points above mid swaps, which was the Group's first fully unguaranteed senior unsecured term funding transaction since June 2008.

Since the year end the Group has issued a €750 million five year senior unsecured funding transaction in January 2014 at a price of 210 basis points above mid swaps.

Other funding from Monetary Authorities (gross) of €8 billion has decreased by €4 billion since 31 December 2012 due to the repayment of amounts borrowed through the ECB's Long Term Refinancing Operations (LTRO). At 31 December 2013, all of the Group's Monetary Authority drawings are under the LTRO and include €4 billion of funding related to NAMA senior bonds. Borrowings under the LTRO will mature by 26 February 2015.

During the year ended 31 December 2013, the Group repaid €2.8 billion of senior unsecured debt.

At 31 December 2013, €19.9 billion or 72% of wholesale funding had a term to maturity of greater than one year (31 December 2012: €27.0 billion or 68%). Of the €7 billion of wholesale funding with less than one year to maturity €6 billion is secured funding of which €4 billion is private market repo funding.

At 31 December 2013, €2.7 billion or 98% of wholesale funding covered by the ELG has a maturity date of greater than one year. Final maturity of the covered liabilities is expected to occur by December 2015, with c.98% of the covered liabilities of c.€3 billion expected to mature by 30 June 2015.

Subordinated liabilities

TABLE: 11

Subordinated liabilities	**31 December 2013 €m**	31 December 2012 €m
Contingent Capital Note (CCN)	977	986
€250 million 10% Fixed Rate Notes	240	250
Other	458	471
Total	**1,675**	**1,707**

The Group's subordinated liabilities at 31 December 2013 are broadly unchanged from 31 December 2012. On 9 January 2013, the State sold its entire holding in the CCN at a price of 101% of its par value plus accrued interest to a diverse group of international institutional investors thereby fixing all future cash coupon payments at 10% per annum (see note 37).

Stockholders' equity

TABLE: 12

Movements in stockholders' equity	**Year ended 31 December 2013 €m**	Restated[1] Year ended 31 December 2012 €m
Stockholders' equity at beginning of year	**8,657**	**10,265**
Movements:		
Loss attributable to stockholders	(487)	(1,835)
Dividends on preference stock	(240)	(196)
Remeasurement of the net defined benefit pension liability	(117)	(775)
- Changes in actuarial assumptions and other movements	*(218)*	*(775)*
- Impact of amendments to defined benefit pension schemes	*101*	*-*
Available for sale (AFS) reserve movements	317	875
Cash flow hedge reserve movement	(181)	148
Foreign exchange movements	(81)	136
Purchase of non-controlling interest in Midasgrange (note 54)	-	39
Other movements	7	-
Stockholders' equity at end of year	**7,875**	**8,657**

[1] *For the impact of restatements and reclassification of the comparative periods please see note 58 on page 311.*

Stockholders' equity decreased from €8,657 million at 31 December 2012 to €7,875 million at 31 December 2013.

The loss attributable to stockholders of €487 million for the year ended 31 December 2013 compares to the loss attributable to stockholders of €1,835 million in the previous year.

During 2013, the Group paid dividends of €232.3 million on the 2009 Preference Stock, including on 9 December 2013, a dividend of €44 million payable on the redemption of €537 million of this stock as part of the capital package announced on 4 December 2013. The Group also paid dividends of €4.6 million and £2.4 million on its other euro and sterling preference stock respectively.

The remeasurement of the net defined benefit pension liability is primarily driven by changes in actuarial assumptions including the discount rate and inflation rate, partly offset by assumption changes arising from amendments to the Bank of Ireland Staff Pensions Fund (BSPF) to address the IAS 19 deficit in the scheme. The market value of pension scheme assets increased by 7.4% (before the impact of the 2013 pension levy charge) and by 6.9% after the levy during the year ended 31 December 2013.

The AFS reserve movement during 2013 is primarily due to a tightening of credit spreads, particularly on the portfolio of Irish Government bonds and Spanish covered bonds.

The cash flow hedge reserve movement primarily reflects changes in the mark to market value of cash flow hedge accounted derivatives. Over time, the reserve will flow through the income statement in line with the underlying hedged instruments.

Foreign exchange movements relate primarily to the impact arising from the translation of the Group's net investments in foreign operations and is due primarily to the strengthening of euro against sterling in the year ended 31 December 2013. It also reflects the recycling of foreign exchange reserves of €12 million (31 December 2012: €56 million) on the winding up of a number of wholly owned dormant and non-trading companies, a number of which are foreign operations.

Other assets and other liabilities

TABLE: 13

Other assets and other liabilities	**31 December 2013 €bn**	Restated* 31 December 2012 €bn
Other assets	20.5	22.1
- Bank of Ireland Life assets	*14.0*	*13.2*
- Derivative financial instruments	*3.5*	*5.8*
- Deferred tax asset	*1.7*	*1.6*
- Other assets	*1.3*	*1.5*
Other liabilities	21.2	23.2
- Bank of Ireland Life liabilities	*14.0*	*13.2*
- Derivative financial instruments	*3.2*	*5.3*
- Pension deficit	*0.8*	*1.1*
- Other liabilities	*3.2*	*3.6*

[1] For the impact of restatements and reclassification of the comparative periods please see note 58 on page 311.

At 31 December 2013, Bank of Ireland Life assets and liabilities were €14 billion, an increase of €0.8 billion since 31 December 2012, primarily due to positive investment returns on policyholder managed funds in the year.

Other assets at 31 December 2013 include derivative financial instruments with a positive fair value of €3.5 billion compared to a positive fair value of €5.8 billion at 31 December 2012. Other liabilities at 31 December 2013 include derivative financial instruments with a negative fair value of €3.2 billion compared to a negative fair value of €5.3 billion at 31 December 2012. The movement in the fair value of derivative assets and derivative liabilities is due to the impact of interest rates and the movement in foreign exchange rates (particularly the euro / sterling exchange rate) during 2013.

At 31 December 2013, the deferred tax asset was €1.7 billion, an increase of €0.1 billion since 31 December 2012. The increase in the year ended 31 December 2013 is primarily due to the tax effect of further losses in both Ireland and the UK. The deferred tax asset of €1.7 billion at 31 December 2013 includes an amount of €1.7 billion in respect of operating losses which are available to relieve future profits from tax. Under current Irish and UK tax legislation there is no time restriction on the utilisation of trading losses and based on its estimates of future taxable income, the Group has concluded that it is probable that sufficient taxable profits will be generated to recover this deferred tax asset and it has been recognised in full.

The Finance (No 2) Act 2013 abolished the tax provision applicable to financial institutions participating in NAMA which restricted by 50%, the amount of profits against which the carried forward trading losses could be utilised. The effect of this change is to accelerate the Group's ability to utilise its tax losses carried forward and shorten the recovery period of the deferred tax asset.

At 31 December 2013, the pension deficit was €0.8 billion, a net reduction of €0.3 billion from 31 December 2012. The drivers of this reduction are as follows:

- the assets of the Group's pension schemes increased by c.€0.3 billion during the year;
- these impacts were partly offset by a reduction in discount rates, with the RoI discount rate reducing to 3.65% at 31 December 2013 from 3.9% at 31 December 2012. Together with other liability assumption changes, this increased the deficit by c.€0.4 billion; and
- the Group completed the review of the Group sponsored Bank of Ireland Staff Pensions Fund (BSPF) during 2013 and implemented amendments to benefits to address the IAS 19 deficit in the scheme, reducing the deficit by €0.4 billion.

Capital

Regulatory capital and key capital ratios

Basel II / CRD 31 December 2012[13] €m	Basel II / CRD 31 December 2013 €m		**Pro forma Basel III/CRD IV transitional 1 January 2014 €m**	Pro forma Basel III/CRD IV fully loaded 31 December 2013 €m
		Capital Base		
8,604	7,869	Total equity	**7,869**	7,869
-	-	- Impact of amendments to defined benefit pension schemes[1]	**81**	81
349	(210)	**Regulatory adjustments being phased in / out under Basel III / CRD IV**	**(465)**	(1,966)
-	-	*- Deferred tax assets[5]*	-	*(1,526)*
-	-	*- 10% / 15% threshold deduction[6]*	***(47)***	*(235)*
1,154	*842*	*- Retirement benefit obligations[2]*	***609***	-
(150)	*(467)*	*- Available for sale reserve[3]*	***(486)***	-
(394)[13]	*(338)*	*- Deduction for unconsolidated investments[4,13]*	**-**	-
(54)	*(75)*	*- Pension supplementary contributions[2]*	***(60)***	-
(116)	*(59)*	*- Capital contribution on CCN[2]*	***(47)***	-
-	-	*- Tier 1 deductions in excess of Tier 1 capital[7]*	***(187)***	-
(91)	*(113)*	*- Other adjustments[8]*	***(247)***	*(205)*
(1,180)	(760)	**Other regulatory adjustments**	**(730)**	(1,064)
(242)	*(183)*	*- Expected loss deduction[9]*	***(83)***	*(417)*
(362)	*(368)*	*- Intangible assets and goodwill[10]*	***(368)***	*(368)*
(162)	*(115)*	*- Dividend expected on 2009 Preference Stock[10]*	***(115)***	*(115)*
(227)	*(46)*	*- Cash flow hedge reserve[10]*	***(46)***	*(46)*
(112)	*22*	*- Own credit spread adjustment (net of tax)[10]*	***22***	*22*
(75)	*(70)*	*- Securitisation deduction[11]*	***(140)***	*(140)*
7,773	6,899	**Core tier 1 / Common equity tier 1[14]**	**6,755**	4,920
		Additional Tier 1		
93	92	Tier 1 hybrid debt[7,12]	**74**	-
-	**-**	**Regulatory adjustments**	**(261)**	**-**
-	-	*- Expected loss deduction[9]*	***(167)***	-
-	-	*- 10% / 15% threshold[6]*	***(94)***	-
-	-	Tier 1 capital deficit deducted from CET1 capital[7]	**187**	-
7,866	6,991	**Total tier 1 capital**	***6,755***	4,920
		Tier 2		
1,208	993	Tier 2 dated debt	**987**	965
96	94	Tier 2 undated debt	**106**	155
(711)	(591)	**Regulatory adjustments**	**(261)**	-
(394)[13]	*(338)*	*- Deduction for unconsolidated investments[4,13]*	**-**	-
(242)	*(183)*	*- Expected loss deduction[9]*	***(167)***	-
-	-	*- 10% / 15% threshold[6]*	***(94)***	-
(75)	*(70)*	*- Securitisation deduction[11]*	**-**	-
78	60	Standardised incurred but not reported (IBNR) provisions	**60**	-
114	101	Other adjustments	**83**	-
785	657	**Total tier 2 capital**	**975**	1,120
8,651	7,648	**Total capital**	**7,730**	6,040
56.5	56.4	**Total risk weighted assets (€bn)**	**54.8**	54.8
		Capital ratios (including 2009 Preference Stock)		
13.8%	12.2%	Core tier 1 / Common equity tier 1	**12.3%**	9.0%
13.9%	12.4%	Tier 1	**12.3%**	9.0%
15.3%	13.6%	Total capital	**14.1%**	11.0%

Capital (continued)

Risk weighted assets (RWA)

Basel II / CRD 31 December 2012 €bn	Basel II / CRD 31 December 2013 €bn		**Pro forma Basel III/CRD IV transitional 1 January 2014 €bn**	Pro forma Basel III/CRD IV fully loaded 31 December 2013 €bn
51.9	51.7	Credit risk	50.1	50.1
1.0	1.2	Market risk	1.2	1.2
3.6	3.5	Operational risk	3.5	3.5
56.5	56.4	**Total RWA**	**54.8**	54.8

The observations from the Central Bank's Balance Sheet Assessment (BSA) / Asset Quality Review (AQR) at June 2013 have been addressed in the Basel II / CRD and pro forma Basel III / CRD IV reported capital ratios. The Group has incorporated the updated treatment of expected loss and it has considered the observations of the Central Bank in setting the year end impairment provisioning stock and associated impairment charge for 2013. Further engagement in respect of RWA's is envisaged with the Central Bank of Ireland during 2014 and in the meantime the Group has applied certain Central Bank of Ireland required BSA adjustments to the outputs of the Group's RWA calculations which are also reflected in the reported capital ratios.

Basel II / CRD

RWA at 31 December 2013 are in line with 31 December 2012 primarily due to declines in risk weighted assets arising from a reduction in the quantum of loans and advances, loan repayments in excess of new lending and the impact of foreign exchange movements, offset by the impact of incorporating the Central Bank's risk weighted asset adjustments made as part of the BSA / AQR.

On a Basel II / CRD basis, the **Core tier 1 ratio** at 31 December 2013 of 12.2% compares to an equivalent ratio of 13.8% at 31 December 2012. The decrease is primarily driven by the decline in Core tier 1 capital primarily due to attributable losses incurred during the year ended 31 December 2013 and dividends paid on preference stock.

The **Total capital ratio** at 31 December 2013 of 13.6% compares to 15.3% at 31 December 2012 driven by lower capital primarily as a result of attributable losses, dividends paid on preference stock and regulatory amortisation of subordinated debt.

[1] Equity is increased in the Basel III pro forma transitional and fully loaded ratios to account for the €81 million arising from the impact of changes made to defined benefit pension schemes which is being realised in Q1 2014 (see note 41).

[2] Regulatory deductions applicable under Basel II and phased out under Basel III relate primarily to national filters. These will be phased out at 20% per annum until 2018 and are not applicable under fully loaded rules. The Basel III transitional adjustment for Retirement benefit obligations has been amended to reflect the €81 million of gains arising from the impacts of changes made to defined benefit pension schemes highlighted in footnote 1.

[3] Available for sale reserve removed from regulatory capital under Basel II. Basel III transitional rules in 2014 require phasing in 20% of unrealised losses and 0% of unrealised gains. Between 2015-2018 unrealised losses and gains will be phased in at the following rates 40%, 60%, 80%, 100%. Reserve is recognisable in capital under fully loaded Basel III rules.

[4] The deduction for unconsolidated investments is taken 50% from Core tier 1 and 50% from Tier 2 under Basel II. Under Basel III, investments in financial sector entities are incorporated into the 10%/15% threshold deduction. See footnote 6.

[5] Deduction for deferred tax assets (DTA) relates to DTA on losses carried forward, net of associated deferred tax liabilities. The deduction is phased at 0% in 2014 and 10% per annum thereafter.

[6] The 10%/15% threshold deduction is phased in at 20% in 2014 and deducted in full from CET1 under fully-loaded rules. The calculation of the 10% / 15% threshold amount includes the benefit of the 2009 Preference Stock on a transitional and fully loaded basis.

[7] Under Basel III Additional tier 1 deductions in excess of Additional tier 1 capital are deducted from CET1. Under Basel III transitional rules expected loss and significant investments not deducted from CET1 are deducted 50:50 from Tier 1 and Tier 2 capital. These deductions contribute to the excess of Additional tier 1 deductions over Additional tier 1 capital. Grandfathered Tier 1 hybrid debt has been offset against total Additional tier 1 deductions.

[8] Includes technical items such as other national filters and non-qualifying CET1 items.

[9] The expected loss deduction is taken 50% from Core tier 1 and 50% from Tier 2 under Basel II. Under Basel III transitional rules it is phased in at 20% in 2014. It is deducted in full from CET1 under fully loaded rules. See also footnote 7.

[10] Regulatory deductions fully applicable under Basel II and Basel III.

[11] The securitisation deduction is taken 50% from Core tier 1 and 50 % from Tier 2 under Basel II. Under Basel III transitional and fully loaded rules it is deducted in full from CET1.

[12] Non qualifying Tier 1 hybrid debt is phased out of Additional tier 1 at 20% in 2014 and 10% per annum thereafter. Certain debt instruments are phased into Tier 2 capital from Tier 1 capital.

[13] With effect from 1 January 2013, the deduction for the Group's participation in its Life and pension business is deducted 50:50 from Core tier 1 and Tier 2 capital in accordance with the Capital Requirements Directive (CRD). The comparative period has been restated to reflect this change. The previously reported Core tier 1 ratio under Basel II was 14.4%. Otherwise, the 31 December 2012 amounts remain as previously reported for regulatory purposes and have not been restated for the impact of the adoption of new accounting standards in the year ended 31 December 2013 as set out in note 58. The pro forma Core tier 1 ratio at 31 December 2012 would remain unchanged if the amounts were restated for the impact of the accounting changes.

[14] CET1 capital calculated under both the fully loaded and transitional rules includes the benefits of the 2009 Preference Stock (€1.3 billion outstanding at 31 December 2013). Under Basel III transitional rules state aid instruments are grandfathered until 31 December 2017. However, as part of the capital package completed in December 2013 the Group advised the Central Bank of Ireland that it is not the Group's intention to recognise the 2009 Preference Stock as regulatory CET1 capital after July 2016, unless de-recognition would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements.

Capital (continued)

Capital actions
In January 2013, the State sold 100% of its €1 billion holding of the CCN's originally issued in July 2011 at a price of 101% of its par value plus accrued interest to a diverse group of international institutional investors thereby fixing all future cash coupon payments on the notes at 10% per annum. This Tier 2 classified note would convert into Bank of Ireland ordinary stock on a breach of the Core tier 1 or transitional CET1 trigger ratio of 8.25% (ratio was 12.2% at 31 December 2013 and 12.3% on a pro forma basis at 1 January 2014) or on a 'non-viability event' as determined by the CBI.

In December 2013, the Group announced a capital package in relation to the 2009 Preference Stock, which had been agreed with the Irish State and the CBI comprising (i) the placing of new units of ordinary stock to generate proceeds of c.€537 million (net of expenses), to redeem c.€537 million of the 2009 Preference Stock and (ii) the sale by the NPRFC of €1.3 billion 2009 Preference Stock to private investors. As part of the capital package completed in December 2013 the Group stated its intention not to redeem the 2009 Preference Stock prior to January 2016, save in certain limited circumstances which would include changes in regulatory capital treatment, breach of waiver deed and taxation. The Group also advised the CBI that it is not the Group's intention to recognise the 2009 Preference Stock as regulatory CET1 capital after July 2016, unless de-recognition would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements.

Basel III / CRD IV
The Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) were published in the Official Journal of the EU on 27 June 2013. The CRR had direct effect in EU member states and CRD IV was required to be implemented through national legislation in EU member states by 31 December 2013. CRD IV also includes requirements for regulatory and technical standards to be published by the European Banking Authority (EBA). Many of these have not yet been published or their impact is uncertain. The CRD IV legislation is being implemented on a phased basis from 1 January 2014, with full implementation by 2019.

The Basel III / CRD IV transition rules results in a number of new deductions from CET1 capital being introduced on a phased basis typically with a 20% impact in 2014, 40% in 2015 and so on until 2018. The CBI published their 'Implementation of Competent Authority Discretions and Options in CRD IV and CRR' on 24 December 2013 which clarifies the application of transitional rules in Ireland under CRD IV.

The pro forma ratios as outlined in the above table represents estimates reflecting the Group's interpretation of the CRD IV rules as published on 27 June 2013 and subsequent clarifications, including the CBI paper 'Implementation of Competent Authority discretions and options in CRD IV and CRR'. The actual capital ratios under CRD IV may differ once the rules are assessed in their entirety, related technical standards are finalised and other guidance is issued by the relevant regulatory bodies.

The Group continues to expect to maintain a buffer above a CET1 ratio of 10% on a transitional basis.

Transitional Ratio at 1 January 2014

Risk weighted assets (RWA) at 1 January 2014 of €54.8 billion compares to Basel II RWA at 31 December 2013 of €56.4 billion. Reductions in RWA due to the SME reduction factor, application of fixed maturity adjustment and treatment of deferred tax assets during the transitional period are partially offset by increases due to Credit Valuation Adjustment (CVA), higher risk weighted assets for financial institutions and the RWA associated with the 10% / 15% threshold deduction.

The **Common equity tier 1 ratio** at 1 January 2014 of 12.3% on a pro forma basis compares to the Basel II Core tier 1 ratio of 12.2% at 31 December 2013. The increase relates primarily to lower RWA's partially offset by the impact of the phasing in and out of regulatory deductions and adjustments under the transitional arrangements of the CRR, including:

- retirement benefit obligations – add back of deficit under Basel II rules is phased out at 20% p.a., giving a 20% reduction in the add back from that as at 31 December 2013;
- expected loss – phased deduction at 1 January 2014 reflects the incorporation of the updated treatment post BSA / AQR;
- 10% / 15% threshold deduction – reflects threshold calculation for significant investments in financial sector entities and deferred tax assets relating to future profitability and temporary differences; and
- items in excess of Additional Tier 1 (AT1) capital – CRR rules require that any excess of deductions over available AT1 capital must be deducted from CET1 capital.

The **Total capital** ratio at 1 January 2014 of 14.1% on a pro forma basis compares to 13.6% at 31 December 2013 primarily driven by lower RWA's, higher Tier 2 capital as a result of the unconsolidated investments deduction (in the Life and pension business) being replaced by the 10% / 15% threshold deduction and securitisations being deducted fully from CET1.

Fully Loaded Ratio
The Group's pro forma CET1 ratio, including the 2009 Preference Stock is estimated at 9.0% as at 31 December 2013 on a fully loaded basis, which has increased from 8.5% as at 31 December 2012. The increase is primarily driven by lower RWAs and an improvement in the pension deficit and available for sale (AFS) reserve, partly offset by attributable losses incurred during the year.

Capital (continued)

Under Basel III transitional rules, state aid instruments, including the 2009 Preference Stock are grandfathered until 31 December 2017. However, as part of the capital package completed in December 2013 the Group advised the Central Bank of Ireland that it is not the Group's intention to recognise the 2009 Preference Stock as regulatory CET1 capital after July 2016, unless de-recognition would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements. The Group's pro forma ratio excluding the 2009 Preference Stock is estimated to be 6.3% at 31 December 2013.

Leverage ratio

The leverage ratio is 4.9% on a Basel III / CRD IV pro forma transitional basis and 3.7% on a pro forma full implementation basis including the 2009 Preference Stock. The Group expects to remain above the Basel Committee indicated minimum level leverage ratio of 3% on a fully loaded pro forma basis and on a transition basis, including the 2009 Preference Stock.

The Basel committee will monitor the proposed 3% minimum requirement for the leverage ratio and have proposed that final calibrations and any further adjustments to the definition of the leverage ratio will be completed by 2017, with a view to migrating to a Pillar I treatment on 1 January 2018.

Regulatory initiatives

Ahead of Ireland's exit from the EU / IMF programme of support, the Central Bank undertook a BSA / AQR. The BSA / AQR was a point in time capital assessment as at 30 June 2013 and included an assessment by the CBI of risk classifications and provisions and a review of the appropriateness of calculations of risk weighted assets. In December 2013, the CBI confirmed that Bank of Ireland had adequate capital as at 30 June 2013 to meet the requirements determined under the BSA. Consequently, the CBI did not require Bank of Ireland to raise additional capital as a result of the BSA.

As part of the BSA, the CBI also made a range of observations on the Group's treatment of expected loss on mortgage assets, the level of impairment provisions at 30 June 2013 and the Group's risk weighted asset calculations. The CBI requested that the Group consider these observations in preparing its financial results and Annual Report for the year ended 31 December 2013. The Group has done so by incorporating the updated treatment of expected loss and has taken the CBI's observations into consideration as part of its comprehensive process in setting the year end impairment provisioning stock and associated impairment charge for 2013. Further engagement in respect of risk weighted assets is envisaged with the Central Bank of Ireland during 2014 and, in the meantime, the Group has applied certain Central Bank of Ireland required BSA adjustments to the outputs of the Group's risk weighted asset calculations, which are also reflected in the Group's reported capital ratios at 31 December 2013.

The BSA also included a Data Integrity Verification (DIV) element to ensure key data, data fields and processes are robust. There were no findings or issues arising from the DIV that materially impact the BSA. The BSA represents a review under the CBI's Supervisory Review and Evaluation Process (SREP) and Full Risk Assessment (FRA) and, as such, the result may be considered by the Central Bank of Ireland in determining the Pillar II capital requirements of the Group.

The European Central Bank (ECB) under the forthcoming Single Supervisory Mechanism (SSM) will also conduct a Comprehensive Assessment (CA) during 2014. The CA will include a balance sheet and risk assessment and is expected to encompass the European Banking Authority (EBA) and ECB EU-wide stress test.

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Divisional performance

Divisional performance - on an underlying basis

Divisional performance is presented on an underlying basis, which is the measure of profit or loss used to measure the performance of the divisions and the measure of profit or loss disclosed for each division under IFRS (see note 1).

Income statement - underlying (loss) / profit before tax	Table	Year ended 31 December 2013 €m	Restated[1] Year ended 31 December 2012 €m	Change %
Retail Ireland		(697)	(989)	29%
Bank of Ireland Life		107	96	11%
Retail UK		(153)	(368)	58%
Corporate and Treasury		487	350	39%
Group Centre		(310)	(570)	46%
Other reconciling items[2]		(3)	(18)	n/m
Underlying loss before tax		**(569)**	**(1,499)**	**62%**
Non-core items	7	44	(679)	
Loss before tax		**(525)**	**(2,178)**	**76%**

[1] *For the impact of restatements and reclassification of the comparative periods please see note 58 on page 311.*
[2] *This relates to segmental income on certain inter-segment transactions, which is eliminated at a Group level.*

Retail Ireland

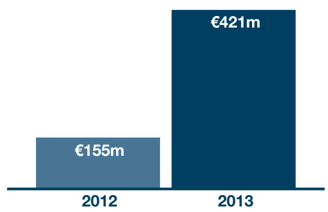
Retail Ireland: Income statement	Year ended 31 December 2013 €m	Restated[1] Year ended 31 December 2012 €m	Change %
Net interest income	886	674	31%
Net other income	326	310	5%
Operating income	**1,212**	**984**	**23%**
Operating expenses	(791)	(829)	5%
Operating profit before impairment charges on financial assets	**421**	**155**	**172%**
Impairment charges on loans and advances to customers	(1,109)	(1,149)	3%
Share of results of associates and joint ventures (after tax)	(9)	6	n/m
Underlying loss before tax	**(697)**	**(988)**	**29%**
Loans and advances to customers (net) (€bn)	39	41	
Customer deposits (€bn)	36	35	
Staff numbers at period end	4,592	4,932	

[1] From 1 January 2013, the Group adopted IAS 19 Employee Benefits (Revised 2011) which resulted in an increase in the pension charge included in operating expenses of €4 million for the year ended 31 December 2012 (see note 58).

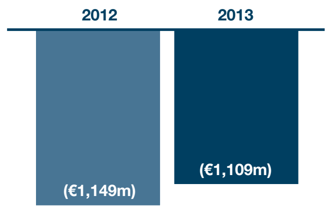
The Group adopted IFRS 10, from 1 January 2013, which resulted in the deconsolidation of certain entities with interests in an international investment property within Retail Ireland. The impact of this has been to reclassify the income statement lines relating to these entities to share of results of associates and joint ventures (after tax), but with no impact on underlying loss before tax. The comparative figures for the year ended 31 December 2012 have been restated to reflect this, resulting in a €9 million increase in net interest income, a €26 million decrease in net other income, a €11 million decrease in operating expenses and a €5 million increase in share of results of associates and joint ventures (after tax) (see note 58).

In addition the gain on sale of assets to NAMA of €5 million which had been reported as a separate line item in the income statement for the year ended 31 December 2012, is now included in other income as it is not material enough to require separate disclosure.

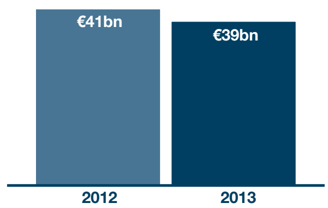
Pre-impairment operating profit €m



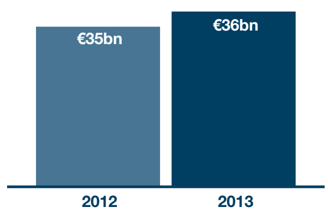
Impairment charges €m



Loans and advances to customers (net) €bn



Customer deposits €bn



Retail Ireland incorporates the Group's branch network and Direct Channels (mobile, online and phone), Mortgage Business, Consumer Banking, Business Banking and Private Banking activities in the Republic of Ireland and is built on a broad distribution platform and a comprehensive suite of retail and business products and services.

As set out in note 59, on 9 July 2013 the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which permitted the retention of New Ireland Assurance Company plc (NIAC) its life assurance company which distributes protection, investment and pension products to the Irish market, through independent brokers, its financial advisors (direct sales force) and the Group's branch network, but required a range of substitution measures. One of these substitution measures is that the Group will exit from the origination of new mortgages through its intermediary channel, including the sale (or retirement) of the ICS Building Society's distribution platform together with the sale, if required by the acquirer, of up to €1.0 billion of intermediary originated mortgage assets and matched deposits.

Retail Ireland (continued)

Retail Ireland reported an **underlying loss before tax** of €697 million for the year ended 31 December 2013 compared to €988 million for the previous year. The reduction of €291 million was due primarily to an increase of 172% in operating profit before impairment charges of €266 million to €421 million and a reduction of €40 million in impairment charges.

Loans and advances to customers (after impairment provisions) of €39 billion at 31 December 2013 have decreased by €2 billion since 31 December 2012. This net decrease is as a result of loan repayments and impairment provisions, partly offset by new lending across all sectors which remains muted.

Customer deposits of €36 billion at 31 December 2013 have increased by €1 billion since 31 December 2012. Reducing deposit pricing has continued to be a key strategic focus and action has been taken in all markets to reduce the price paid on deposits. Within deposits, current account credit balances of €12 billion at 31 December 2013 have increased by €1 billion since 31 December 2012.

The change in 'net interest income' and 'net other income' is impacted by IFRS income classifications between the two income categories (see page 22).

Net interest income	**Year ended 31 December 2013 €m**	Restated Year ended 31 December 2012 €m	Change %
Net interest income	886	674	31%
IFRS income classifications	24	26	(8%)
Net interest income (after IFRS income classifications)	**910**	**700**	**30%**

Net interest income (after IFRS income classifications) of €910 million for the year ended 31 December 2013 was €210 million or 30% higher than the previous year. This increase is primarily driven by the lower cost of customer deposits and other funding sources, the impact of higher lending margins on new lending and repricing relevant loan portfolios to incorporate a liquidity charge that references the actual cost of funds. While demand for new lending remains relatively muted, new lending volumes have been increasing quarter on quarter throughout 2013. These factors have been partly offset by the continued negative impact of historically low official interest rates and lower average loan volumes.

Retail Ireland (continued)

Net other income	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m	Change %
Net other income	326	310	5%
IFRS income classifications	(24)	(26)	(8%)
Net other income (after IFRS income classifications)	**302**	**284**	**6%**

Net other income (after IFRS income classifications) of €302 million for the year ended 31 December 2013 was €18 million or 6% higher than the same period in 2012. This is primarily due to higher retail banking fees €14 million, higher interchange income €7 million and increased gains on international investment properties €5 million in 2013. These factors are partly offset by the impact of gains on sale of assets to NAMA €5 million in the previous year not repeated in 2013 and lower general insurance income.

Operating expenses of €791 million for the year ended 31 December 2013 are €38 million or 5% lower than the previous year. The impacts of lower staff numbers and lower infrastructure costs were partly offset by higher pension costs primarily due to the impact of lower discount rates during 2013. Staff numbers have reduced by 7% from 4,932 at 31 December 2012 to 4,592 at 31 December 2013.

The **share of results of associates and joint ventures (after tax)** gave rise to a charge of €9 million for the year ended 31 December 2013 compared to a gain of €6 million for the year ended 31 December 2012. This was primarily due to a decrease in the value of international investment properties and other investment funds.

Impairment charges on loans and advances to customers	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m	Change %
Residential mortgages	542	418	30%
Non-property SME and corporate	233	223	4%
Property and construction	309	479	(35%)
Consumer	25	29	14%
Impairment charges on loans and advances to customers	**1,109**	**1,149**	**(3%)**

Impairment charges on loans and advances to customers of €1,109 million for the year ended 31 December 2013 were €40 million or 3% lower compared to the previous year.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section.

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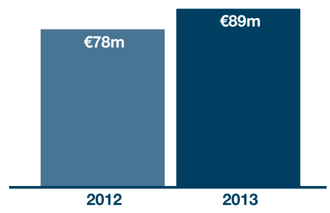
Bank of Ireland Life

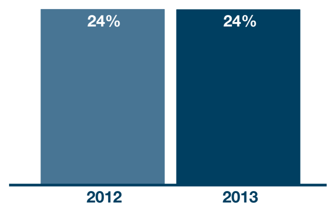
Bank of Ireland Life: Income statement (IFRS performance)	**Year ended 31 December 2013 €m**	Restated[1] Year ended 31 December 2012 €m	Change %
Net interest income	48	38	26%
Net other income	131	133	(2%)
Operating income	179	171	5%
Operating expenses	(90)	(93)	3%
Operating profit	**89**	**78**	**14%**
Investment variance	21	21	-
Economic assumption changes	(3)	(3)	-
Underlying profit before tax	**107**	**96**	**11%**
Staff numbers period end	936	970	

[1] From 1 January 2013, the Group adopted IAS 19 Employee Benefits (Revised 2011) which resulted in an increase in the pension charge included in operating expenses of €1 million for the year ended 31 December 2012 (see note 58).

Operating profit €m



New business market share %



Bank of Ireland Life comprises the life assurer, New Ireland Assurance Company plc (NIAC) which distributes protection, investment and pension products to the Irish market, through independent brokers, its financial advisors (direct sales force) and the Group's branch network.

As set out in note 59, on 9 July 2013 the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which permitted the retention of NIAC but required a range of substitution measures (see page 316).

The **underlying profit before tax** of €107 million for the year ended 31 December 2013 is €11 million or 11% higher than the previous year and has benefited from a positive investment variance.

Bank of Ireland Life has performed well in a challenging market during the year ended 31 December 2013, with sales growing by 6%, in line with the market and resulting in 24% market share of new business. Sales were ahead in each channel compared to the prior year with pension sales showing strong growth. Total new business margins were ahead of last year reflecting lower acquisition costs.

Profits from the book of existing business were also strong reflecting positive experience variances from mortality and persistency compared to those assumed.

Operating profit of €89 million for the year ended 31 December 2013 was €11 million or 14% higher than the previous year as a result of higher operating income and lower costs.

Operating income of €179 million for the year ended 31 December 2013 is €8 million or 5% higher than the previous year reflecting higher persistency and mortality profits over the year.

Bank of Ireland Life (continued)

Operating expenses of €90 million for the year ended 31 December 2013 are €3 million lower than the year ended 31 December 2012. Costs excluding those related to the higher pension deficit, were €6 million lower than the previous period reflecting the efficiency benefits arising from investments in customer service and technology together with the impact from an uplift in the value of NIAC's owner occupied property of €1.6 million. This was partly offset by a €3 million increase in pension costs, primarily due to the impact of lower discount rates in 2013.

During the year ended 31 December 2013, investment funds outperformed the unit growth assumption to give rise to a positive investment variance of €21 million (31 December 2012: €21 million).

The overall impact of higher interest rates, including the impact on the economic assumptions, gave rise to a net charge of €3 million for the year ended 31 December 2013 (31 December 2012: €3 million). The discount rate applied to future cash flows was increased to 7.11% at 31 December 2013 (an increase of 0.50% as compared to 31 December 2012). The future growth rate on unit linked assets increased to 4.75% at 31 December 2013 (an increase of 0.60% as compared to 31 December 2012).

Embedded value performance

Bank of Ireland Life: income statement (Embedded value performance)	**Year ended 31 December 2013 €m**	Restated Year ended 31 December 2012 €m	Change %
New business profits	25	22	14%
Existing business profits	77	70	10%
Expected return	*67*	*70*	*(4%)*
Experience variance	*11*	*2*	*n/m*
Assumption changes	*(1)*	*(2)*	*(50%)*
Intercompany payments	(12)	(12)	-
Operating profit	**90**	**80**	**13%**
Investment variance	31	42	(26%)
Economic assumption changes	-	(13)	n/m
Underlying profit / (loss) before tax	**121**	**109**	**11%**

The alternative method of presenting the performance of the Life business is on an **embedded value (EV) basis**. This method is widely used in the life assurance industry.

Operating profit for the year ended 31 December 2013 of €90 million was €10 million or 13% higher than the previous year. New business profits of €25 million were 14% ahead of the previous year reflecting higher new business volumes and improved acquisition costs. Existing business profits of €77 million were €7 million or 10% higher than the year ended 31 December 2012 reflecting positive experience variances from mortality and persistency compared to that assumed.

The **underlying profit before tax**, on an embedded value basis, of €121 million for the year ended 31 December 2013 compares to €109 million for the previous year.

The underlying profit before tax has benefited from a positive investment variance. During the year ended 31 December 2013, investment funds outperformed the unit growth assumption to give rise to a positive investment variance of €31 million (31 December 2012: €42 million).

The overall impact of higher interest rates, including the impact on the economic assumptions was flat for the year ended 31 December 2013 (31 December 2012: €13 million charge).

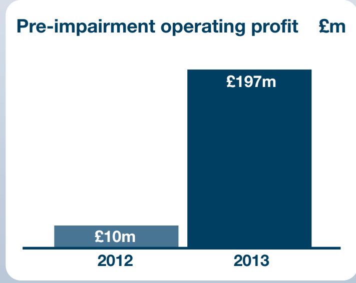
The key assumptions used in the EV methodology are consistent with those used under the IFRS methodology, being a discount rate of 7.11% (31 December 2012: 6.61%), future unit growth rate on unit linked assets of 4.75% (31 December 2012: 4.15%) and the rate of tax to be levied on shareholders profits of 12.5% (31 December 2012: 12.5%).

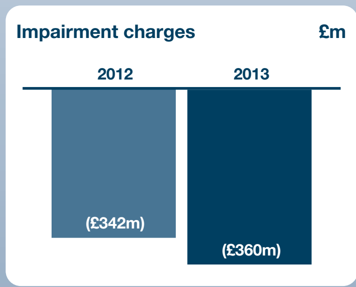
Retail UK (Sterling)

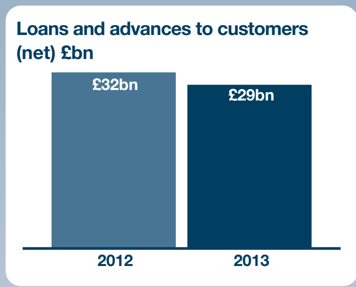
Retail UK: Income statement	Year ended 31 December 2013 £m	Restated[1] Year ended 31 December 2012 £m	Change %
Net interest income	486	298	63%
Net other income	3	25	(88%)
Operating income	**489**	**323**	**51%**
Operating expenses	(292)	(313)	7%
Operating profit before impairment charges on financial assets	**197**	**10**	**n/m**
Impairment charges on loans and advances to customers	(360)	(342)	(5%)
Impairment charge on available for sale (AFS) financial assets	-	(1)	n/m
Share of results of associates and joint ventures (after tax)	34	32	6%
Underlying loss before tax	**(129)**	**(301)**	**57%**
Underlying loss before tax (€m equivalent)	**(153)**	**(368)**	**58%**
Loans and advances to customers (net) (£bn)	29	32	
Customer deposits (£bn)	22	25	
Staff numbers at period end	1,422	1,469	

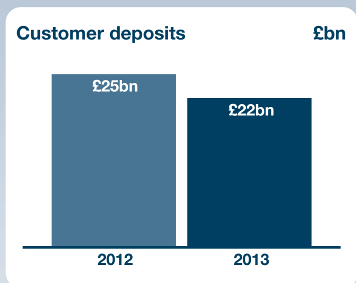
[1] *From 1 January 2013, the Group adopted IAS 19 Employee Benefits (Revised 2011) which resulted in an increase in the pension charge included in operating expenses of £1 million for the year ended 31 December 2012 (see note 58).*

In addition the loss on sale of assets to NAMA of £7 million which had been reported as a separate line item in the income statement for the year ended 31 December 2012, is now included in other income as it is not material enough to require separate disclosure.









The Retail UK Division incorporates the exclusive financial services relationship and foreign exchange joint venture with the UK Post Office, the UK residential mortgage business, the Group's branch network in Northern Ireland and the Group's business banking business in Great Britain and Northern Ireland. The Retail UK division includes the activities of Bank of Ireland (UK) plc, the Group's wholly owned UK licensed banking subsidiary.

As set out in note 59, on 9 July 2013, the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which permitted the retention of NIAC but required a range of substitution measures. One of these substitution measures is that the Group will exit its existing Great Britain based business banking activities, with gross assets of c.£3 billion, which form part of the Retail UK division. This measure does not impact on the Group's consumer banking business in Great Britain including its partnership with the Post Office, or its activities in Northern Ireland.

Retail UK (Sterling) (continued)

Retail UK reported an **underlying loss before tax** of £129 million for the year ended 31 December 2013 compared to an underlying loss before tax of £301 million in the previous year. The reduction of £172 million relates to an improvement in operating profit before impairment charges of £187 million and an increase of £18 million in impairment charges.

Loans and advances to customers (after impairment provisions) of £29 billion have decreased by £3 billion since 31 December 2012. This decrease is the result of loan repayments and impairment provisions, partly offset by new lending. New lending during 2013 primarily comprises UK Residential mortgages marketed under both the Post Office and Bank of Ireland brands. Demand for business lending has remained muted during the year.

Customer deposits of £22 billion have decreased by £3 billion since 31 December 2012, this planned fall in volumes is in line with the objective of optimising the level of deposits in Bank of Ireland (UK) plc to more appropriately reflect its balance sheet requirements and the closure of Bank of Ireland (IOM) Ltd.

Net interest income of £486 million for the year ended 31 December 2013 is £188 million or 63% higher than the previous year. The increase reflects the full year impact of asset pricing decisions made during 2012 and in early 2013. The increase also reflects the material reduction in deposit pay rates during the first quarter of 2013 and in other funding costs, partially offset by a 10% decrease in average lending volumes.

Net other income was a gain of £3 million for the year ended 31 December 2013 and is £22 million lower than the previous year. Commissions payable to the UK Post Office were £25 million higher than the previous year. This reflects a change in the contractual arrangements for commission payments where revised commission arrangements for all products were agreed with the UK Post Office in August 2012 as part of the renegotiation and extension of the overall financial services relationship. Since August 2012, commission paid is primarily reflected in net other income whereas under previous contractual arrangements a small proportion of the total amount paid was included in operating costs. Income from the sale of structured deposit products, transaction related fees and commissions and foreign exchange income also decreased in the year ended 31 December 2013 compared to the previous year. These factors are partly offset by the impact of losses on the sale of assets to NAMA of £7 million in the previous year not repeated in 2013.

Operating expenses of £292 million for the year ended 31 December 2013 are £21 million lower than the previous year reflecting lower staff and infrastructure costs following the implementation of a cost reduction programme in the Northern Ireland business and the Group's business banking business in Great Britain, partially offset by ongoing investment in the relationship with the UK Post Office.

The **share of results of associates and joint ventures (after tax)** of £34 million, which relates to First Rate Exchange Services Limited (FRES), the foreign exchange joint venture with the UK Post Office, is £2 million higher than the previous year. The Group's share of income from FRES has increased despite a continued decline in the overall UK travel market.

Impairment charges on loans and advances to customers	**Year ended 31 December 2013 £m**	Year ended 31 December 2012 £m	Change %
Residential mortgages	27	35	23%
Non-property SME and corporate	95	43	121%
Property and construction	224	246	(9%)
Consumer	14	18	(22%)
Impairment charges on loans and advances to customers	**360**	**342**	**5%**

Impairment charges on loans and advances to customers of £360 million for the year ended 31 December 2013 were £18 million or 5% higher than the previous year.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section.

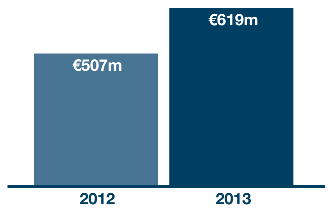
Corporate and Treasury

Corporate and Treasury: Income statement	Year ended 31 December 2013 €m	Restated[1] Year ended 31 December 2012 €m	Change %
Net interest income	617	633	(3%)
Net other income	174	58	n/m
Operating income	**791**	**691**	**14%**
Operating expenses	(172)	(184)	7%
Operating profit before impairment charges on financial assets	**619**	**507**	**22%**
Impairment charges on loans and advances to customers	(132)	(153)	(14%)
Impairment charge on available for sale (AFS) financial assets	-	(4)	n/m
Underlying profit before tax	**487**	**350**	**39%**
Loans and advances to customers (net) (€bn)	10	12	
Customer deposits (€bn)	12	10	
Staff numbers at period end	580	570	

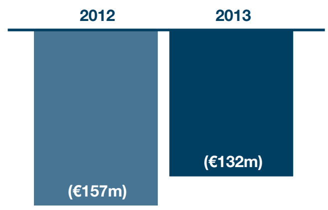
[1] *From 1 January 2013, the Group adopted IAS 19 Employee Benefits (Revised 2011) which resulted in an increase in the pension charge included in operating expenses of €1 million for the year ended 31 December 2012 (see note 58).*

In addition the gain on sale of assets to NAMA of €1 million which had been reported as a separate line item in the income statement for the year ended 31 December 2012, is now included in other income as it is not material enough to require separate disclosure.

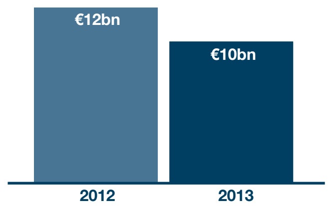
Pre-impairment operating profit €m



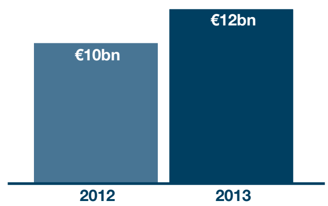
Impairment charges €m



Loans and advances to customers (net) €bn



Customer deposits €bn



The Corporate and Treasury Division comprises Corporate Banking, Global Markets and IBI Corporate Finance.

As set out in note 59, on 9 July 2013, the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which permitted the retention of NIAC but required a range of substitution measures. One of these substitution measures is that the Group will exit from its Great Britain based Corporate Banking activities, which form part of the Corporate and Treasury division. This measure does not impact on the Group's Leveraged Acquisition Finance business.

Corporate and Treasury (continued)

Corporate and Treasury reported an **underlying profit before tax** of €487 million for the year ended 31 December 2013 compared to €350 million in the previous year. The increase of €137 million or 39% is primarily driven by higher income arising from improved lending margins, higher yields on liquid assets and the reduction in the cost of deposits. It also reflects recoveries of the administrators settlement associated with the collapse of Lehman Brothers in September 2008 and higher gains arising on the transfer from the available for sale reserve on asset disposals.

Loans and advances to customers (after impairment provisions) of €10 billion at 31 December 2013 were €2 billion lower than the previous year, primarily as a result of net loan repayments.

Customer deposits at 31 December 2013 of €12 billion were €2 billion higher than at 31 December 2012, reflecting growth in the large corporate and multinational deposit book. The book primarily comprises a mixture of corporate, State, SME and structured retail customer deposits.

The change in 'net interest income' and 'net other income' is impacted by IFRS income classifications between the two income categories (see page 22).

Net interest income	**Year ended 31 December 2013 €m**	Year ended 31 December 2012 €m	Change %
Net interest income	617	633	(3%)
IFRS income classifications	(34)	(113)	70%
Net interest income (after IFRS income classifications)	**583**	**520**	**12%**

Net interest income (after IFRS classifications) of €583 million for the year ended 31 December 2013 has increased by €63 million or 12% compared to the previous year. This increase is primarily as a result of improved margins on the corporate loan books as term facilities at historic lower margins are replaced by facilities reflecting current market pricing, a reduction in the cost of deposits, and a higher yield on the liquid asset portfolio. These factors are partly offset by a reduction in average loan volumes due to deleveraging in 2012 and net loan repayments, together with a reduction in the size of the liquid asset portfolio, primarily due to lower requirements to hold liquid assets as the Group increases the term of its wholesale funding profile.

Net other income	**Year ended 31 December 2013 €m**	Restated Year ended 31 December 2012 €m	Change %
Net other income	174	58	n/m
IFRS income classifications	34	113	(70%)
Net other income (after IFRS income classifications)	**208**	**171**	**22%**

Net other income (after IFRS classifications) of €208 million for the year ended 31 December 2013 has increased by €37 million or 22% compared to the previous year. Ongoing business income levels were similar in both years, with the increase in reported income attributable to a number of non-recurring items, primarily €40 million higher recoveries on the administration settlement associated with the collapse of Lehman Brothers in September 2008 and €33 million higher transfers from the available for sale reserve on asset disposals as the Group switched some shorter dated Irish sovereign bonds to longer maturities, partly offset by a valuation adjustment related to the funding cost of derivatives in line with emerging market practice.

Operating expenses of €172 million for the year ended 31 December 2013 have decreased by €12 million or 7% compared to the previous year primarily due to continued tight cost management and lower average staff numbers.

Corporate and Treasury (continued)

Impairment charges on loans and advances to customers	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m	Change %
Non-property SME and Corporate	122	137	(11%)
Property and construction	10	16	(38%)
Total impairment charges on loans and advances to customers	**132**	**153**	**(14%)**

Impairment charges on loans and advances to customers of €132 million for the year ended 31 December 2013 have decreased by €21 million or 14% compared to the previous year.

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section.

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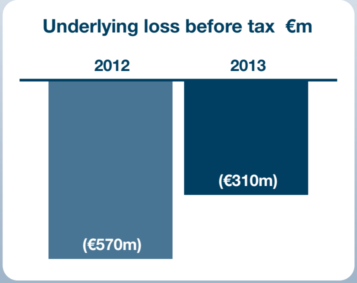
Group Centre

Group Centre: Income statement	Year ended 31 December 2013 €m	Restated[1] Year ended 31 December 2012 €m	Change %
ELG fees	**(129)**	**(388)**	**67%**
Other income	3	6	(50%)
Net operating income / (expense)	**(126)**	**(382)**	**67%**
Operating expenses	(184)	(148)	(24%)
Impairment charge on available for sale (AFS) financial assets	-	(40)	n/m
Underlying loss before tax	**(310)**	**(570)**	**46%**
Staff numbers at period end	3,725	4,075	

[1] *From 1 January 2013, the Group adopted IAS 19 Employee Benefits (Revised 2011) which resulted in an increase in the pension charge included in operating expenses of €3 million for the year ended 31 December 2012 (see note 58).*

In addition the gain on sale of assets to NAMA of €2 million which had been reported as a separate line item in the income statement for the year ended 31 December 2012, is now included in other income as it is not material enough to require separate disclosure.



Group Centre comprises capital management activities, unallocated Group support costs and the cost associated with schemes such as the ELG scheme, the Deposit Guarantee Scheme (DGS) and the UK Financial Services Compensation Scheme (FSCS).

Group Centre reported an **underlying loss before tax** of €310 million for the year ended 31 December 2013 compared to €570 million for the year ended 31 December 2012.

Net operating income / (expense) was a charge of €126 million for the year ended 31 December 2013 compared to a charge of €382 million for the previous year. The decreased charge of €256 million in the year is driven primarily by lower **ELG fees** of €129 million for the year ended 31 December 2013 compared to €388 million for the previous year. The ELG scheme was withdrawn for all new liabilities on 28 March 2013. The total liabilities covered by the ELG scheme is €5 billion at 31 December 2013 compared to €26 billion at 31 December 2012. Final maturity of the covered liabilities is expected to occur by December 2017, with c.80% of the covered liabilities of €5 billion expected to mature by 30 June 2015.

Operating expenses of €184 million for the year ended 31 December 2013 are €36 million higher than the previous year. The increase is due mainly to higher pension charges in 2013 coupled with higher regulatory related costs and a charge under the deposit guarantee scheme following the liquidation of IBRC.

An **impairment charge on available for sale (AFS) financial assets** of €40 million for the year ended 31 December 2012 related to the NAMA subordinated bonds following an assessment of NAMA's outlook for its long term performance at that time.

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Income statement - Operating segments

Year ended 31 December 2013	Net interest income €m	Insurance net premium income €m	Other income €m	**Total operating income €m**	Insurance contract liabilities and claims paid €m	**Total operating income net of insurance claims €m**	Operating expenses €m	**Operating profit / (loss) before impairment charges on financial assets €m**	Impairment charge on loans and advances to customers €m	Loss on deleveraging €m	Share of results of associates and joint ventures (after tax) €m	Loss on disposal / liquidation of business activities €m	**Profit / (loss) before taxation €m**
Retail Ireland	886	-	326	**1,212**	-	**1,212**	(791)	**421**	(1,109)	-	(9)	-	**(697)**
Bank of Ireland Life	48	1,064	551	**1,663**	(1,466)	**197**	(90)	**107**	-	-	-	-	**107**
Retail UK	572	-	3	**575**	-	**575**	(344)	**231**	(424)	-	40	-	**(153)**
Corporate and Treasury	617	-	174	**791**	-	**791**	(172)	**619**	(132)	-	-	-	**487**
Group Centre	(120)	9	(47)	**(158)**	32	**(126)**	(184)	**(310)**	-	-	-	-	**(310)**
Other reconciling items	1	-	(4)	**(3)**	-	**(3)**	-	**(3)**	-	-	-	-	**(3)**
Group - underlying[1]	**2,004**	**1,073**	**1,003**	**4,080**	**(1,434)**	**2,646**	**(1,581)**	**1,065**	**(1,665)**	**-**	**31**	**-**	**(569)**
Total non-core items													
- Impact of changes to pension benefits in the Group sponsored defined benefit schemes	-	-	-	**-**	-	**-**	274	**274**	-	-	-	-	**274**
- Change arising on the movement in the Group's credit spreads	-	-	(118)	**(118)**	(36)	**(154)**	-	**(154)**	-	-	-	-	**(154)**
- Cost of restructuring programme	-	-	-	**-**	-	**-**	(90)	**(90)**	-	-	-	-	**(90)**
- Gross-up for policyholder tax in the Life business	-	-	26	**26**	-	**26**	-	**26**	-	-	-	-	**26**
- Loss on disposal / liquidation of business activities	-	-	-	**-**	-	**-**	-	**-**	-	-	-	(10)	**(10)**
- Loss on deleveraging of financial assets	-	-	-	**-**	-	**-**	-	**-**	-	(3)	-	-	**(3)**
- Gain on liability management exercises	-	-	4	**4**	-	**4**	-	**4**	-	-	-	-	**4**
- Investment return on treasury stock held for policyholders	-	-	(3)	**(3)**	-	(3)	-	**(3)**	-	-	-	-	**(3)**
Group total	**2,004**	**1,073**	**912**	**3,989**	**(1,470)**	**2,519**	**(1,397)**	**1,122**	**(1,665)**	**(3)**	**31**	**(10)**	**(525)**

[1] *Underlying performance excludes the impact of non-core items (see page 28).*

Restated[1]

Year ended 31 December 2012	Net interest income €m	Insurance net premium income €m	Other income €m	Total operating income €m	Insurance contract liabilities and claims paid €m	Total operating income net of insurance claims €m	Operating expenses €m	Operating profit / (loss) before impairment charges on financial assets €m	Impairment charge on loans and advances to customers €m	Impairment charge on available for sale assets €m	Loss on deleveraging €m	Share of results of associates and joint ventures (after tax) €m	Loss on disposal / liquidation of business activities €m	Profit / (loss) before taxation €m
Retail Ireland	674	-	309	983	-	983	(829)	154	(1,149)	-	-	6	-	(989)
Bank of Ireland Life	38	1,146	725	1,909	(1,720)	189	(93)	96	-	-	-	-	-	96
Retail UK	368	-	31	399	-	399	(384)	15	(422)	(1)	-	40	-	(368)
Corporate and Treasury	633	-	58	691	-	691	(184)	507	(153)	(4)	-	-	-	350
Group Centre	(347)	10	(87)	(424)	42	(382)	(148)	(530)	-	(40)	-	-	-	(570)
Other reconciling items[2]	1	-	(19)	(18)	-	(18)	-	(18)	-	-	-	-	-	(18)
Group - underlying[3]	1,367	1,156	1,017	3,540	(1,678)	1,862	(1,638)	224	(1,724)	(45)	-	46	-	(1,499)
Total non-core items														
- Loss on deleveraging	-	-	-	-	-	-	-	-	-	-	(326)	-	-	(326)
- Charges arising on the movement in the Group's credit spreads[4,5]	-	-	(250)	(250)	(47)	(297)	-	(297)	-	-	-	-	-	(297)
- Cost of restructuring programme	-	-	-	-	-	-	(150)	(150)	-	-	-	-	-	(150)
- Loss on disposal / liquidation of business activities	-	-	-	-	-	-	-	-	-	-	-	-	(69)	(69)
- Gain on Contingent Capital Note	79	-	-	79	-	79	-	79	-	-	-	-	-	79
- Gain on liability management exercises	-	-	69	69	-	69	-	69	-	-	-	-	-	69
- Gross-up for policyholder tax in the Life business	-	-	16	16	-	16	-	16	-	-	-	-	-	16
- Investment return on treasury stock held for policyholders	-	-	(1)	(1)	-	(1)	-	(1)	-	-	-	-	-	(1)
Group total	1,446	1,156	851	3,453	(1,725)	1,728	(1,788)	(60)	(1,724)	(45)	(326)	46	(69)	(2,178)

1 For the impact of restatements and reclassification of the comparative periods please see note 58 on page 311.
2 This relates to certain inter-segment transactions which are reported as core income in the Corporate and Treasury division but eliminated from the Group's measure of underlying (loss) / profit before tax.
3 Underlying performance excludes the impact of non-core items (see page 28).
4 This relates to charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at fair value through profit and loss.
5 The analysis of the changes arising on the movement in the Group's credit spreads between Other income and Insurance contract liabilities and claims paid has been represented to enhance comparability with the year ended 31 December 2013, with no change to the total amount.

Risk Management Report

The information below in sections or paragraphs denoted as audited in sections 3.1, 3.2, 3.3, 3.4 and 4 and all the tables (except those denoted unaudited) in the Risk Management Report form an integral part of the audited financial statements as described in the Basis of preparation on page 184.

All other information in the Risk Management Report is additional disclosure and does not form an integral part of the audited financial statements.

1 Principal Risks and Uncertainties

The Group regards the following risks and uncertainties to be particularly important in the next twelve months. Any of these risks could have a material impact on the Group's results, financial condition and prospects. These risks should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties; some risks are not yet known and some that are not considered material could later turn out to be material.

Inherent risks arising from macroeconomic conditions in the Group's main markets, namely Ireland and the UK

The Group's businesses are subject to inherent risks arising from general and sector specific economic conditions in countries to which the Group has an exposure, particularly in Ireland and the UK.

Reduced growth prospects of Ireland's trading partners could set back recovery efforts in the Irish economy, possibly leading to a renewed rise in unemployment and a renewed downturn in the housing market, which could adversely impact the Group's results, financial condition and prospects.

Downward pressure on firms' profitability and household disposable incomes from unexpected fiscal measures, as well as the high level of private sector debt combined with the consequent deterioration in the business environment could depress demand for financial products and credit facilities and increase the Group's impaired loans and impairment provisions.

Deterioration in the credit quality of the Group's borrowers and counterparties, as well as increased difficulties in relation to the recoverability of loans and other amounts due from such borrowers and counterparties

Exposures originated and managed in Ireland and the UK represent the substantial majority of the Group's credit risk. The Group has exposures to Residential mortgages, SME and corporate customers in different sectors and investors in commercial property and residential property. Economic conditions may deteriorate in the Group's main markets, which may lead to, amongst other things, further declines in values of collateral (including residential and commercial property values) and investments, increases in unemployment levels, weak consumer and corporate spending, declining corporate profitability, declining equity markets and bond markets and a further increase in corporate insolvencies. This may give rise to further deterioration in the credit quality of Group's borrowers and counterparties and increased difficulties in relation to the recoverability of loans and other amounts due from such borrowers and counterparties, resulting in further significant increases in the Group's impaired loans and impairment provisions.

Renewed uncertainty in the global and eurozone economies could result in further downgrades and deterioration in the credit quality of the Group's Irish and eurozone sovereign and banking exposures.

Personal Insolvency Act 2012 and the Central Bank of Ireland measures to address mortgage arrears

The Irish Personal Insolvency Act 2012 (the 'Personal Insolvency Act') which became effective in 2013 provides for judicial and non-judicial resolution options for consumers deemed under the provisions of the Personal Insolvency Act to have unsustainable indebtedness levels. The Personal Insolvency Act amends existing bankruptcy provisions by reducing the timescale for discharge from bankruptcy from twelve years to three years. The Personal Insolvency Act also introduces several non-judicial resolution options to debt resolution as an alternative to bankruptcy.

There is a risk that customers behaviours may change regarding payment obligations which could have an adverse impact on the Group's results, financial condition, prospects and reputation.

The Central Bank of Ireland (CBI) announced a range of measures to address mortgage arrears, including the publication of performance targets for the main Irish banks (which include the Group) and changes to the Code of

Conduct on Mortgage Arrears. The CBI will consider regulatory actions, including the imposition of additional capital requirements, for Irish banks that fail to meet its targets or which demonstrate poor resolution strategies or poor execution of their strategies.

The CBI has also set out its plans to require more rigorous provisioning for mortgage loans in arrears greater than 90 days which have not been subject to a sustainable solution. The cumulative impact of these measures could adversely impact the Group's results, financial conditions and prospects.

Further interventions may occur in the event that the regulatory or other State authorities deem these to be necessary. Any such interventions could have an adverse impact on the Group's financial results, conditions or prospects.

Risks associated with the banking system and the regulatory environment in the jurisdictions in which the Group carries out its principal activities, namely Ireland and the UK

Irish and UK Banking System
The exercise of powers under existing legislation, in particular the Credit Institutions (Stabilisation) Act 2010 ('Stabilisation Act') (the effective period of which has been extended to 31 December 2014) and the Central Bank and Credit Institutions (Resolution) Act 2011 ('Resolution Act'), the introduction of new government policies or the amendment of existing policies in Ireland or the UK (including supervision, regulation, capital levels and structure), or the introduction of new regulatory obligations by the Group's regulators, could have an adverse impact on the Group's results, financial condition and prospects.

Single Supervisory Mechanism (SSM)
The Single Supervisory Mechanism is the mechanism through which the European Central Bank (ECB) will carry out key supervisory tasks for banks in EU member states participating in the European banking union from November 2014. The ECB will conduct a comprehensive assessment of large banks during 2014 in advance of assuming full responsibility for supervision as part of the SSM. The assessment will consist of;

(i) a supervisory risk assessment intended to address key risks in banks' balance sheets, including liquidity, leverage and funding;
(ii) an asset quality review of all asset classes including non-performing loans, restructured loans and sovereign exposures, as at 31 December 2013; and
(iii) a stress test building on and complementing the asset quality review by providing a forward-looking view of banks' shock-absorption capacity under stress.

Single Resolution Mechanism (SRM)
Negotiations between the European institutions to establish a SRM will continue during 2014 on the establishment of a single resolution board and a single fund for the resolution of banks. The establishment of a SRM is designed to ensure that supervision and resolution are exercised at the same level for countries that share the supervision of banks within the SSM. The SRM will cover banks in all countries participating in the SSM. The single resolution fund will be financed by bank levies raised at national level.

Basel III
Basel III has been implemented into EU law via the Capital Requirements Regulation (CRR) and Capital Requirements Directive IV (CRD IV), both of which were published in June 2013. The rules came into effect on a phased basis commencing in January 2014. The estimated full impact of the published revised rules on the Group's capital ratio is material and this estimate has been publicly disclosed. The legislation requires the European Banking Authority (EBA) to prepare technical standards setting out requirements around the implementation of certain aspects of the legislation. There is some level of risk that the EBA's interpretation may affect the Group's capital and other ratios in the future.
The CRR liquidity requirements came into force on 1 January 2014. Under the CRR, the EBA has been allocated responsibility to determine additional technical standards relating to a wide range of liquidity related matters. Many of these new technical standards have not been published or finalised and their impact on the Group's regulatory liquidity requirements is uncertain. In addition, CRD IV which allows local regulators discretion with respect to certain liquidity requirements has not been yet passed into law by the Irish Government and thus the final impact of CRD IV on the Group's regulatory liquidity requirements is uncertain.

Solvency II
Solvency II is the new pan European regulatory framework for insurance companies. When implemented, it will transition the existing regulatory framework to a more risk based approach coupled with additional governance and disclosure requirements. It is expected that the new capital regime will apply from 1 January 2016. From 2014 onwards companies are expected to demonstrate their readiness for Solvency II through compliance with interim guidelines. As a risk based measure Solvency II is expected to increase New Ireland Assurance Company's plc (NIAC's) total level of free assets.

Recovery and Resolution Directive

Regulatory bodies in the UK and Ireland are introducing new measures in respect of loss absorbency and bail-in rules which may result in further significant changes in the regulatory framework for capital and debt instruments of credit institutions. The Recovery and Resolution Directive published by the European Commission remains in draft form but is expected to come into force in 2014 and to be transposed into national law thereafter. It envisages certain powers similar to those granted by the Credit Institutions (Stabilisation) Act 2010 and the Credit Institutions (Resolution) Act 2011 and provides for a potential 'bail-in' of certain senior unsecured debt and corporate deposits in the circumstances of a bank resolution post-2016. EU regulatory authorities (including the Central Bank of Ireland (the Central Bank)) have taken an interim step, pending finalisation of this Directive, and the Group has submitted a Recovery Plan, as required, by 31 December 2013. The impact of the Directive on the Group is as yet unclear pending finalisation of the measures.

Regulatory obligations

The Group is subject to extensive regulation and oversight. Regulatory obligations including licence conditions have increased and continue to increase and the number of regulatory sanctions and fines are increasing globally. Where breaches occur, a sanction or fine requiring public disclosure may be imposed by a regulator, which could adversely impact market sentiment and consequently adversely impact Group results, financial conditions, prospects and reputation.

The impact of the proposed EU banking union is not yet clear. It is envisaged that the ECB will discharge a direct supervisory role with respect to certain eurozone banks, including the Group, with the right to scrutinise other banks in the eurozone area. Were the ECB to increase the level of regulatory obligations and / or impose more stringent sanctions and fines, this could adversely impact the Group's results, financial conditions and prospects.

Balance Sheet Assessment

The CBI conducted a Balance Sheet Assessment (BSA) as at 30 June 2013 of a number of Irish banks, including Bank of Ireland. The BSA consisted of an assessment by the CBI of risk classification and provisions against the CBI's May 2013 Impairment Guidelines, namely an Asset Quality Review (AQR) and a review of the appropriateness of risk weighted assets (RWA).

The CBI confirmed that Bank of Ireland had adequate capital as at 30 June 2013 to meet the requirements determined under the BSA. Consequently Bank of Ireland was not required to raise additional capital as a result of the BSA.

The BSA represents a review under the CBI's Supervisory Review and Evaluation Process (SREP) and Full Risk Assessment (FRA) and, as such, the result may be considered by the CBI in determining the Pillar II capital requirements of the Bank. The CBI has noted that it is the intention that the BSA output will be utilised by the European Central Bank in the forthcoming Single Supervisory Mechanism assessment but it is not yet confirmed whether this will be the case.

UK reform measures

Bank of Ireland (UK) plc is the Group's licensed banking subsidiary in the UK. It comprises the Group's financial services relationship with the UK Post Office, its branch business in Northern Ireland, certain assets from its former intermediary sourced mortgage business, and parts of its UK business banking operations. Bank of Ireland (UK) plc is authorised by the Prudential Regulation Authority and regulated by both the Prudential Regulation Authority and the Financial Conduct Authority. Bank of Ireland (UK) plc could be subject to future structural and non-structural reforms currently under consideration by the UK government to promote financial stability and competition and to protect UK retail depositors. Further, Bank of Ireland (UK) plc could be subject to special resolution regime powers under the UK Banking Act 2009.

Banking inquiry

The Irish Government previously commissioned and received three preliminary reports into the factors which contributed to the Irish banking crisis, including one report from the Statutory Commission of Investigation (under the Commissions of Investigation Act, 2004).

In addition, the Irish Government has brought forward legislation to provide a statutory framework for enquiries by the Oireachtas (Houses of the Oireachtas (Inquiries Privileges and Procedures) Act 2013). Under this legislation, the Irish Government is expected to hold an inquiry into the banking crisis.

The scope of any further inquiry (which may include findings of the Statutory Commission of Investigation, including the possibility of public hearings under the Commissions of Investigation Act, 2004) pursuant to the above legislation or otherwise, its costs and potential implications for the Group are currently unknown.

EU restructuring plan

On 20 December 2011, the European Commission approved the revised EU restructuring plan prepared by the Group for the period to 31 December 2015. The revised EU restructuring plan approved on 20 December 2011 included additional deleveraging of assets, extension of the period in which to divest NIAC by twelve months, together with the deferral of the market opening measures by twelve months and the expansion and extension of other behavioural measures already agreed in the previous EU restructuring plan for the Group for the period to 31 December 2014 which was approved by the European Commission on 15 July 2010.

On 9 July 2013, the European Commission gave approval under the State aid rules to amend the Group's revised EU restructuring plan, which permitted the retention of NIAC but required a range of substitution measures including the exit from the Group's Great Britain based business and corporate banking activities, the exit from the origination of new mortgages through the intermediary channel in Ireland and the expansion and extension of other behavioural measures already agreed in the previous EU restructuring plans for the Group.

While the Group has met all of its obligations due under the restructuring plan, it has certain continuing obligations. If the Group fails to comply with commitments contained in the EU Restructuring Plan or if the Group materially deviates from the EU Restructuring Plan or needs additional State aid not foreseen in the Commission's decision approving the EU Restructuring Plan, the Commission may reopen the State aid control procedure and / or open a new procedure and reassess the aid measures in their entirety, which may result in an adverse outcome for the Group.

Other

The Government through the NPRFC and through the Relationship Framework could exert a significant level of influence over the Group. The National Pensions Reserve Fund Commission (NPRFC) could exercise its voting rights in respect of the ordinary stock in a manner which is not aligned with the interests of the Group or its other stockholders. As previously disclosed, the Group has also given certain undertakings to the Minister for Finance (the 'Undertakings') in respect of its lending, corporate governance and remuneration. Actions on foot of the NPRFC holding of ordinary stock and the Undertakings could require the Group to implement operational policies that could adversely affect the Group's results, financial condition and prospects.

Downgrades to the Irish sovereign or the Group's credit ratings or outlook

The Irish sovereign credit ratings and outlook are set out on page 111. Downgrades of the sovereign may hinder normal market funding for the State and may impair the Group's access to private sector funding, trigger additional collateral requirements and weaken the financial position of the Group. Downgrades could also adversely impact potential funding from Irish Government bonds used as collateral for the purposes of accessing the liquidity provision operations offered by Monetary Authorities, or secured borrowing from wholesale markets as well as the value of Irish Government bonds held by the Group's life assurance business to meet its liabilities.

The Group's credit ratings and outlook are set out on page 111. Downgrades in the credit ratings of the Group could have a negative impact on the volume and pricing of its private sector funding and its financial position, restrict the Group's access to the capital and funding markets, trigger material collateral requirements or associated obligations in other secured funding arrangements or derivative contracts, make ineligible or lower the liquidity value of pledged securities and weaken the Group's competitive position in certain markets.

Concern regarding European sovereign debt

Concerns regarding European sovereign debt, represented by sovereign credit spreads, diminished significantly in 2013. However, international debt markets could be impacted by renewed concerns on the level of fiscal deficits, an increased requirement for support of the banking system, evolving sovereign debt levels of EU member states, speculation about the stability of the eurozone including the potential for a country exiting the system and the potential impact of these factors on the individual EU member state economies.

A material and unexpected escalation of market concern towards Ireland could lead to speculation or further concern about the applicability of policy choices that might be applied to resolve those concerns which could ultimately have an adverse impact on the Group's results, financial condition or prospects.

There is no certainty that the new, tighter budgetary rules to enforce economic discipline and deepen economic integration outlined in the Fiscal Stability Treaty, or any mechanisms available or to be made available within the eurozone, will ensure stability in financial markets.

Lack of liquidity to fund the Group's business activities

The Group relies on customer deposits to fund a considerable portion of its loan portfolio.

Loss of customer confidence in the Group's business or in banking businesses generally, among other things, could result in unexpectedly high levels of customer deposit withdrawals, which could have a material adverse effect on the Group's results, financial condition and prospects. Liquidity risk can be heightened by an over-reliance on a particular kind of funding and may be exacerbated by any restrictions on the flow of liquidity between jurisdictions and legal entities.

The Group sources funding from Monetary Authorities and any disruption to access could increase the Group's funding and liquidity risks. The CBI prescribes regulatory liquidity ratios for Irish domestic financial institutions. Compliance with these ratios can be adversely impacted by a range of factors, including the stability of customer deposits, the split between unsecured and secured funding, the mix of liquidity facilities provided by Monetary Authorities and the concentration of wholesale funding maturity. Failure to comply with these ratios could result in regulatory sanctions and adversely impact the Group's reputation and prospects.

Furthermore the Group will be required to comply with the obligations of the European Commission's formal proposals for implementing Basel III, including new liquidity ratios (the Liquidity Coverage Ratio and the Net Stable Funding Ratio), which are expected to be phased in as regulatory requirements between 2015 and 2018.

The Advanced Monitoring Framework which replaced the Liquidity Assessment Review requirements from September 2012 sets out certain requirements for the Group. The Group, under the Advanced Monitoring Framework, is currently reporting its progress towards achievement of compliance by the proposed implementation dates with requirements for the Liquidity Coverage Ratio and the Net Stable Funding Ratio to the CBI. A failure to demonstrate such progress may lead to regulatory sanction.

Capital adequacy and its effective management, which is critical to the Group's ability to operate its businesses and to pursue its strategy

The Group's business and financial condition would be affected if the Group was insufficiently capitalised. This could be caused by a materially worse than expected financial performance (including, for example, reductions in earnings as a result of impairment charges, an unexpected change in interest rates and unexpected increases in risk weighted assets).

The minimum regulatory requirements imposed on the Group, the manner in which the existing regulatory capital is calculated, the instruments that qualify as regulatory capital and the capital tier to which those instruments are allocated, are the subject of extensive analysis and debate in the media and by regulatory authorities and could be subject to change in the future.
A number of regulatory initiatives have recently been proposed or enacted which have the potential to impact the Group's capital requirements. These initiatives include Capital Requirements Directives (CRD II, III and IV), Basel III and Solvency II and the transfer of supervisory powers to the Single Supervisory Mechanism (SSM) in 2014.

The CBI has confirmed to the Group that, in line with the 31 October 2013, communication published by the EBA on its website and following their sale to private investors, it will recognise the 2009 Preference Stock for grandfathering purposes as CET1 capital under Article 483 of the Capital Requirements Regulation from 1 January 2014.

The Group announced on 4 December 2013, that save in certain circumstances (including changes in the regulatory capital treatment of the 2009 Preference Stock or taxation events) it does not intend to redeem the 2009 Preference Stock prior to 1 January 2016. The Group has advised the CBI that it is not the Group's intention to recognise the 2009 Preference Stock as CET1 capital after July 2016, unless the de-recognition of the 2009 Preference Stock would mean that an adequate capital buffer can not be maintained above applicable regulatory requirements. It is noted that in any event the 2009 Preference Stock would no longer qualify as CET1 capital under Article 483 of the Capital Requirements Regulation after 31 December 2017.

If the grandfathering requirements or the definition of CET1 capital are subsequently amended or if new qualification requirements are introduced, or if the CBI, SSM or similar authority otherwise applies a different approach to their determination of what constitutes CET1 capital, there is no guarantee that the 2009 Preference Stock will continue to qualify or be recognised as CET1 capital and this could adversely affect the Group's ability to meet its regulatory capital obligations and could adversely affect the Group's results, financial conditions and prospects. In addition, the Group may be required or may consider it necessary to take appropriate actions to address such matters, such as the redemption of the 2009 Preference Stock.

The Group could be subject to increased capital requirements following the results of asset quality reviews or other stress tests overseen by regulatory and / or other authorities.

It is expected that relevant European banks (including the Group), under the SSM will be subject to a comprehensive assessment (SSM CA) during 2014. The SSM CA will include a balance sheet and risk assessment and is expected to encompass the EBA and EU-wide stress test. The CBI has noted the intention that the significant reviews and outputs of the CBI's balance sheet assessment will be utilised in the SSM CA, although it cannot be confirmed that this will be the case.

The outcome of the CBI balance sheet and / or any subsequent SSM CA may adversely impact the Group's financial results, capital and / or liquidity requirements. The Group may be required or may consider it necessary to take appropriate actions to address matters arising from these assessments.

Failure in the Group's processes, operational systems, technology or infrastructure, or those of third parties

The Group is exposed to operational risk as a direct and indirect consequence of its normal business activities; arising in the day-to-day execution of business processes, the functioning and resilience of its technologies and the risk of information leakage, loss or theft in the various activities performed by its employees, contractors and by third party suppliers on its behalf.

Operational risks may materialise as a result of a broad range of factors, including inadequate or failed internal or customer facing processes (including financial reporting, risk monitoring processes and controlled deficiencies), information technology or equipment failures, the malfunction of external systems and controls (including those of the Group's suppliers or counterparties), or from people-related or external events, such as cyber-crime and fraud or from natural disasters and social or political events.

The Group faces various risks associated with operational disruption, breakdown or constraints, including in the capacity of third party suppliers, that are integral to the provision of its products and services. If one or more of these risks were to materialise, the confidentiality, integrity and availability of the Group's computer systems and networks may be compromised, or otherwise cause interruptions or malfunctions in the Group's, as well as its clients' or third parties', operations.

As part of its day-to-day operations, the Group processes a large volume of transactions, some of which are highly complex, across a diverse range of products and services, in various markets and currencies and subject to several legal and regulatory regimes. The Group faces the risk that due to errors, control failures or criminal acts, the Group's execution and provision of these transactions and services may be negatively impacted.

The Group is required to implement and adhere to a significant body of existing and new regulatory and legal requirements. The implementation of these requirements and the ongoing adherence to their associated obligations, pose various risks, including the potential for non-compliance and direct operational impacts on existing processes and systems and on the continuity of services provided to customers.

The occurrence of one or more of the above, or any weakness in the Group's internal control structures and procedures, could lead to a material adverse impact on the Group's results, financial condition and prospects, as well as reputational damage which could exacerbate such adverse impact, and could give rise to regulatory penalties.

Potential further contributions to the Group sponsored defined benefit pension schemes if the value of pension fund assets is not sufficient to cover potential obligations and / or the impact of new Basel III / CRD IV capital rules.

The Group sponsored defined benefit pension funds are subject to market fluctuations and changes in the value of underlying assets, as well as to interest rate risk, mortality risk and changes to actuarial assumptions. These fluctuations could impact on the value of the schemes' asset portfolios and result in returns on the pension funds being less than expected and / or result in there being a greater than expected increase in the estimated value of the schemes' liabilities.

Due to adverse market conditions impacting the value of liabilities, deficits still exist in the majority of the Group's Defined Benefit schemes. As the pension funds continue to be subject to market fluctuations, interest rate and inflation risks, a level of volatility associated with pension funding also remains.

Legislative changes were made to the Irish Pensions Act (1990) in June 2012 introducing a revised statutory funding standard for Republic of Ireland schemes. The introduction of these new requirements could have an adverse impact on the Group's financial condition and prospects due to the introduction of additional Risk Reserve requirements from 1 January 2016.

The impact of material volatility could be exacerbated under the new Basel III / CRD IV capital rules under which defined benefit pension deficits will be a deduction from capital ratios over time.

Market risks such as changes in interest rates, interest rate spreads (or bases) and foreign exchange rates

A range of market risks are inherent to the Group's business including, inter alia, the interest rate risks that rise from the presence of non-interest related assets and liabilities on the balance sheet, the exposure of Group earnings to basis risk and the exposure of the Group's net worth and its principal capital ratios to exchange rate movements. Whist the Group engages in a range of hedging strategies, the Group remains potentially exposed to adverse movements in interest rates, interest rate bases (the differential between variable interest rates), cross currency basis (primarily the cost of borrowing in euro to fund assets in sterling) and exchange rates.

The persistence of exceptionally low interest rates for an extended period into the future or a material reduction in current interest rates could adversely affect the Group's financial condition and prospects through, among other things, the compression of net interest margin, the low absolute level of yields at which certain liabilities are invested together with the rate at which pension liabilities are discounted.

Fundamental changes are underway in derivatives markets, in particular the mandatory clearing of most forms of interest rate swap and other standardised derivatives. The Group will access clearing through a number of appointed clearing brokers. The move to clearing brings with it concentration risks for many banks, including the Group, arising from the fact that access to clearing through central exchanges will be controlled by a relatively small number of counterparties. This compares with the bilateral over-the-counter (OTC) markets where no such concentration exists. The deterioration in the credit standing of the Group or credit appetite of one or more clearing brokers could impact on the Group's ability to execute new, or to clear existing derivatives.

The availability of skilled management and the continued services of key members of its management team, both at its head office and at each of its business units

Failure by the Group to staff its operations appropriately, or the loss or one or more key senior executives and failure to replace them in a satisfactory and timely manner may have a material adverse impact on the Group's results, financial condition and prospects.

In addition, if the Group fails to attract and appropriately train, motivate and retain highly skilled and qualified people, or if it was to be impacted by industrial unrest, its businesses may also be negatively impacted.

The Group is subject to ongoing restrictions on remuneration arising from the implementation of Irish legislation, agreements with the Irish Government associated with the recapitalisation of the Bank Group and the EBA remuneration guidelines.

Restrictions imposed on remuneration by Government, tax or regulatory authorities, the CRD III and IV or other factors outside the Group's control in relation to the retention and recruitment of key executives and highly skilled and qualified people may also adversely impact on the Group's ability to attract and retain such staff.

Adverse changes to tax rates, legislation and practice in the various jurisdictions in which the Group operates

In accordance with applicable accounting rules, the Group has recognised deferred tax assets on losses available to relieve future profits to the extent that it is probable that such losses will be utilised. Failure to demonstrate convincing evidence of the availability of future taxable profits, or changes in tax legislation or government policy may reduce the recoverable amount of the deferred tax assets currently recognised in the financial statements, and result in a material adverse impact on the Group's results, financial condition and prospects.

The taxation charge accounts for amounts due to fiscal authorities in the various territories in which the Group operates and includes estimates based on a judgement of the application of law and practice in certain cases to determine the quantification of any liabilities arising. In arriving at such estimates, management assesses the relative merits and risks of tax treatments assumed, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice. There is a risk that the final taxation outcome could be different to the amounts currently recorded.

Other changes in tax rates, legislation and practice could also adversely impact the results, financial condition, prospects and reputation of the Group.

Litigation and regulatory proceedings

Disputes, legal proceedings and regulatory investigations in which the Group may be involved are subject to many uncertainties, and their outcomes are often difficult to predict, particularly in the earlier stages of a case or investigation.

Adverse judgments in litigation or regulatory proceedings involving the Group or other financial institutions could result in restrictions or limitations to the Group's operations or result in a material adverse impact on the Group's results, financial condition and prospects, together with its reputation.

Reputation risk is inherent in the Group's business

Reputation risk is inherent in the Group's business. Negative public or industry opinion can result from the actual or perceived manner in which the Group conducts its business, actual or perceived practices in the banking industry or from issues arising in the external environment. Such activities could, potentially, include necessary commercial decisions that impact on customers, the availability of credit, the treatment of customers in difficulties, the occurrence of cybercrime or other fraudulent activity, allegations of overcharging and mis-selling or mispricing of financial products, non-compliance with legal or regulatory requirements, including obligations associated with money laundering, inadequate or failed internal processes or systems or issues arising from human error or remuneration practices.

Negative publicity may adversely impact the Group's ability to have a positive relationship with key stakeholders, including regulatory authorities, and / or to keep and attract customers, the loss of which may adversely impact the Group's business, financial condition and prospects.

2 Risk management framework

The Group follows an integrated approach to risk management to ensure that all material classes of risk are taken into consideration and that the Group's overall business strategy practices are aligned with its risk and capital management strategies. This integrated approach is set out in the Group Risk Framework, which is approved by the Court of Directors (the Court). It identifies the Group's formal governance process around risk, the framework for setting risk appetite and the approach to risk identification, assessment, measurement, management and reporting.

2.1 Risk identity, appetite and strategy

The Group's risk identity, appetite and strategy are set by the Court.

Risk identity
The Group's risk identity is to be the leading Irish retail, commercial and corporate bank committed to long-term relationships with its customers. The Group's core franchise is in Ireland with income and risk diversification through a meaningful presence in the UK and selected international activities where the Group has proven competencies. The Group will pursue an appropriate return for the risks taken and on capital deployed while operating within prudent Court-approved risk parameters to have and maintain a robust, standalone financial position.

Risk appetite
Risk appetite defines the amount and nature of risk the Group is prepared to accept in pursuit of its financial objectives. It is defined in qualitative terms as well as quantitatively through a series of high level limits and targets covering areas such as credit risk, market risk, funding and liquidity risk and capital measures. These high level limits and targets are cascaded where appropriate into more granular limits and targets across portfolios and business units. Risk appetite guides the Group in its risk taking and related business activities, having regard to the maintenance of financial stability, solvency and the protection of the Group's core franchises and growth platforms. The Group has defined measures to track its profile against the most significant risks that it assumes. Each of these measures has a defined target level or limit, as appropriate, and actual performance is tracked against these target levels or limits. As such, risk appetite represents a boundary condition to the Group's strategy.

The risk appetite statement (RAS) includes specific credit limits on sectoral and single name exposures among other qualitative and quantitative risk parameters and it also provides for the implementation of a hierarchy of sectoral credit limits. The RAS is set and approved by the Court. It is reviewed at least annually in light of changing business and economic conditions.

Risk strategy
The Group's risk strategy is to protect the Group's balance sheet while supporting the Group in re-building its profitability. The Group seeks to accomplish this by:

- defining risk identity and risk appetite as the boundary condition for the Group's strategic plan and annual Operating plan / budget;
- defining the risk principles upon which risks may be accepted;
- ensuring that all material risks are correctly identified, assessed, measured, managed and reported;
- ensuring that capital and funding considerations shape the approach to risk selection / management in the Group;
- allocating clear roles and responsibilities / accountability for the control of risk within the Group;
- avoiding undue risk concentrations;
- engendering a prudent and balanced risk management culture;
- ensuring that the basis of remuneration for key decision makers is consistent with EBA guidelines, as appropriate; and
- ensuring that the Group's risk management structures remain appropriate to its risk profile and take account of lessons learnt and emerging internal and external factors.

2.2 Risk governance

Risk in the Group is controlled within the Risk Governance Framework which incorporates both the Court, risk committees appointed by the Court (e.g. Court Risk Committee, Group Audit Committee), and also the Group Risk Policy Committee and its appointed committees (e.g. Group Credit Committee, Asset & Liability Committee etc.).

The Risk Governance Framework is supported by the Group's management body, with risk responsibilities extending throughout the organisation based on a three lines of defence approach.

First line of defence: Primary responsibility and accountability for risk management lies with line management in individual businesses and relevant Group functions. They are responsible for the identification and management of risk at business unit / Group function level including the implementation of appropriate controls and reporting to the Group in respect of all major risk events.

Second line of defence: Central risk management functions are responsible for maintaining independent risk oversight of the first line of defence and ensuring that a risk control framework is in place. They formulate risk policy and strategy, and provide independent oversight and analysis and centralised risk reporting.

Third line of defence: Group Internal Audit (incorporating Group Credit Review) provides independent, reasonable, risk based assurance to key internal (Court, Group and subsidiary audit committees, senior management, staff) and external (regulators, external auditors, customers) stakeholders on the effectiveness and sustainability of the Group's internal control environment and culture. Group Internal Audit carries out a range of risk based assignments on an annual basis across all key Group businesses and functions (including outsourcing providers) with ratings assigned as appropriate. Findings are communicated to senior management with timely remediation plans agreed and progress monitored.

The organisational structure for risk management is designed to facilitate reporting and escalation of risk concerns from business units, Group functions and Group Internal Audit upwards to Group Risk Policy Committee (GRPC), the Court Risk Committee (CRC), the Group Audit Committee (GAC) and the Court of Directors, and conveying approved risk management policies and decisions to business units.

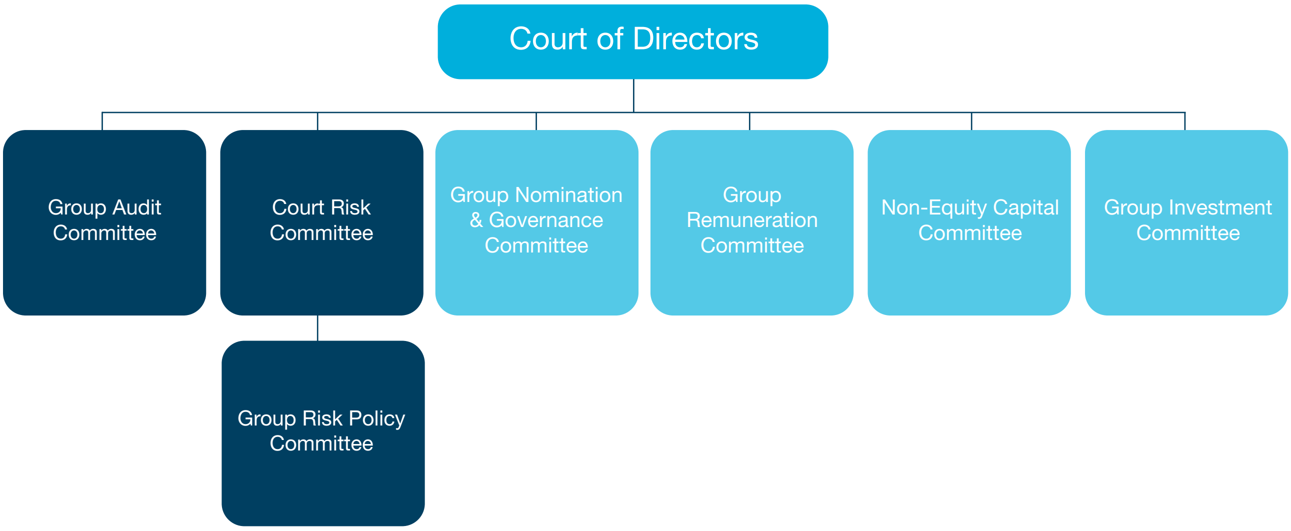
Risk Governance Framework

The Court of Directors is responsible for ensuring that an appropriate system of internal control is maintained and for reviewing its effectiveness.

The identification, assessment and reporting of risk in the Group is controlled through risk committees appointed by the Court of Directors and also the Group Risk Policy Committee (appointed by the Court Risk Committee) and its appointed committees.

Each of the risk committees has detailed terms of reference, approved by the Court or their parent committee, setting out their respective roles and responsibilities. In summary, the following are the key responsibilities of the Group's risk committees.

2.2 Risk governance (continued)



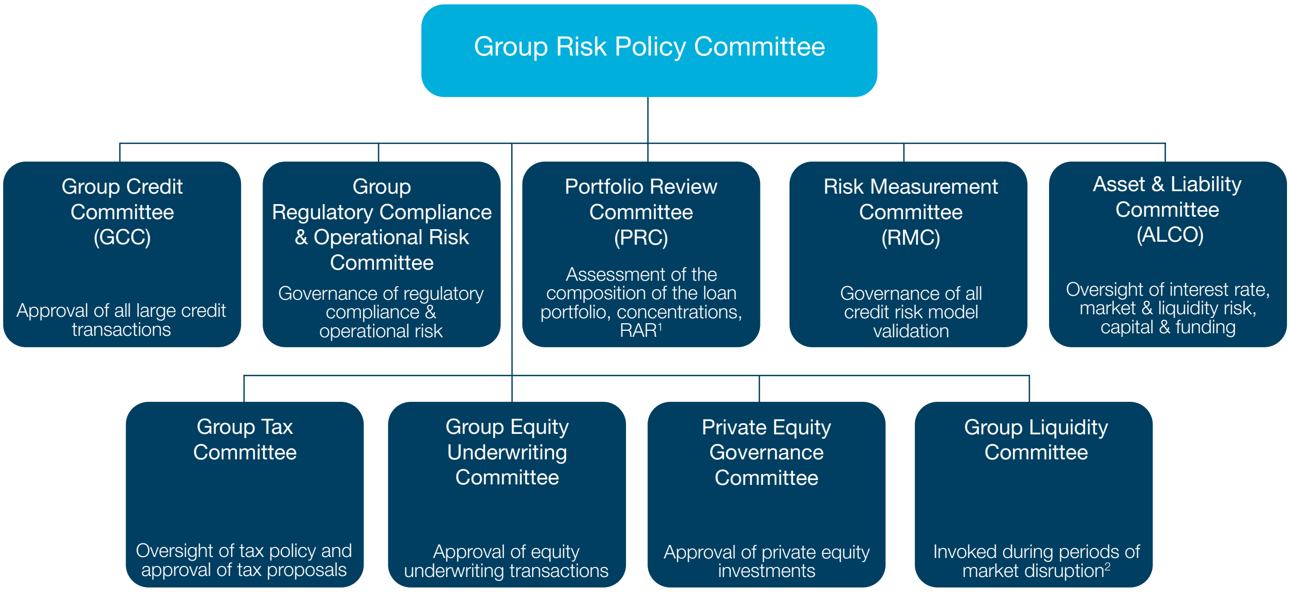
- **The Court**, comprising the Governor, 11 non-executive Directors and 2 Executive Directors, is responsible for approving high level policy and strategic direction in relation to the nature and scale of risk that the Group is prepared to assume to achieve its strategic objectives. It approves the Group Risk Framework which identifies the Group's formal governance process around risk and the approach to risk identification, analysis, measurement, management and reporting. It regularly reviews reports on the size and composition of key risks facing the Group as well as the minutes of direct committees. The Court approves the Group's Risk Appetite Statement (incorporating risk identity and high level risk limits and targets), thereby defining the amount and nature of risk the Group is prepared to accept in pursuit of its financial objectives, and forming a boundary condition to strategy. It has reserved authority to review and approve a number of key risk policies. The Court also approves the Group Internal Capital Adequacy Assessment Process (ICAAP) report which is a key process for the Group and facilitates the Court and senior management in adequately identifying, measuring and monitoring the Group's risks and ensures that the Group holds adequate capital to support its risk profile.

- **The Court Risk Committee (CRC)** comprises non-executive Directors and its primary responsibilities are to make recommendations to the Court on risk issues where the Court has reserved authority, to maintain oversight of the Group's risk profile, including adherence to Group risk principles, policies and standards, and to approve material risk policies within delegated discretion. It also ensures risks are properly identified and assessed, that risks are properly controlled and managed and that strategy is informed by and aligned with the Group's risk appetite. The committee met ten times during 2013.

- **The Group Audit Committee (GAC)** comprises non-executive Directors. In close liaison with the CRC, it reviews the appropriateness and completeness of the system of internal control, reviews the manner and framework in which management ensures and monitors the adequacy of the nature, extent and effectiveness of internal control systems, including accounting control systems, and thereby maintains an effective system of internal control. It assists the Court in meeting obligations under relevant Stock Exchange Listing Rules, and under applicable laws and regulations, including the Sarbanes Oxley Act, as well as other regulatory requirements, (e.g. Pillar III Disclosures), and monitors the integrity of the financial statements. The committee met eight times during 2013.

- **The Group Risk Policy Committee (GRPC)** is the most senior management risk committee and reports to the CRC. It is chaired by the Chief Credit & Market Risk Officer (CCMRO) and its membership comprises members of the Group executive team and Group wide divisional and control function executives. It met twenty-five times during 2013. The GRPC is responsible for managing all risk types across the Group, including monitoring and reviewing the Group's risk profile and compliance with risk appetite and other approved policy limits, approving risk policies and actions within discretion delegated from the CRC. The GRPC reviews and makes recommendations on all risk matters where the Court and the CRC has reserved authority. The CRC oversees the decisions of the GRPC through a review of the GRPC minutes. The GRPC delegates specific responsibility for oversight of the major classes of risk (including credit, market, liquidity, operational, regulatory and tax) to committees that are accountable to it. The relevant committees are set out in the following diagram.

2.2 Risk Governance (continued)



[1] *Risk-adjusted returns (RAR).*
[2] *The committee ceased meeting in 2013 as circumstances no longer warranted its invocation.*

Management oversight of risk
Consistent with the three lines of defence approach to risk management, business units and relevant Group functions are the first line of defence and are accountable for the risks in their business unit / Group function and are responsible for the identification and management of those risks.

Central risk and Group management functions are responsible for establishing a risk control framework and for risk oversight. These are referred to as ‘Risk Owners’.

Risk Owners are responsible for ensuring that:

- a policy or a process is in place for the risks assigned to them;
- exposure to the risk is correctly identified, assessed according to the Group’s materiality criteria, and reported; and
- identified risk events are appropriately managed or escalated.

There are two key functions in the Group responsible for managing different aspects of risk - the Credit & Market Risk function and Group Governance Risk function:

- Credit & Market Risk is responsible for the independent oversight and underwriting of credit risk and the monitoring of market risk within the Group as well as for the centralised management of certain challenged portfolios. It assists the Court in the setting of risk appetite for the Group and the formulation of credit and market risk policies. It is also responsible for over sight of risk models and for integrated risk reporting within the Group; and
- Group Governance Risk is responsible for the management of regulatory compliance and operational risk, Group Legal Services and the Group Secretariat.

In addition a number of other Group functions have responsibility for the Group’s other key risk types, namely Group Treasury (Liquidity risk), Group Communications (Reputation risk) and Group Finance (Pension risk). Business & Strategic Risk is managed by the relevant Divisional Chief Executive Officers, Group Strategy Development and Group Finance, and Life Insurance risk is managed within NIAC, an independent regulated subsidiary with its own independent board.

2.3 Risk identification, measurement and reporting

Risk identification

Risks facing the Group are identified and assessed annually through the Group's Risk Identification Process.

Arising out of the Risk Identification Process, the identified risks are aggregated and ten key risk categories identified which could have a material impact on its earnings, capital adequacy and on its ability to trade in the future. These ten key risk categories form the basis on which risk is managed and reported in the Group.

A risk owner is assigned to each key risk category and appropriate policies and / or processes put in place and a formalised measurement and management process defined and implemented.

Business and strategic risk is the volatility of the Group's projected outcomes (including income, net worth or reputation), associated with damage to the franchise or operational economics of the business and reflected in the income or net worth of the Group. Typically business risk occurs in a one year timeframe and relates to volatilities in earnings caused by changes in the competitive environment, new market entrants and / or the introduction of new products or inflexibility in the cost base. Strategic risk generally relates to a longer timeframe and pertains to volatilities in earnings arising from failure to develop or execute an appropriate strategy.

Credit risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. This risk includes concentration risk and country risk.

Life insurance risk is the volatility in the amount and timing of claims caused by unexpected changes in mortality, morbidity, persistency and longevity.

Liquidity risk is the risk that the Group will experience difficulty in financing its assets and / or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds.

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

Model risk is the risk of loss resulting from the Group's suite of models (credit, market, liquidity and operational) inaccurately measuring the risk of the Group's exposures, resulting in the Group mispricing deals, holding insufficient or too much capital (economic and / or regulatory) and being subject to financial, regulatory and / or market censure.

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. It includes legal and contractual risk which is the risk of loss due to litigation arising from errors, omissions and acts by the Group in the conduct of its business.

Pension risk is the risk that the assets in the Group's sponsored defined benefit pension schemes are inadequate or fail to generate returns that are sufficient to meet the schemes' liabilities.

Regulatory risk is the risk of failure to meet new or existing regulatory and / or legislative requirements and deadlines or to embed requirements into processes. It also includes the risk to the Group's capital, liquidity and profitability from the impact of future legislative and regulatory changes.

Reputation risk is the risk to earnings or franchise value arising from an adverse perception of the Group's image on the part of customers, suppliers, counterparties, shareholders, investors, staff, legislators or regulators.

In addition to, and separate from, the Group's Risk Identification Process, a review of the top five risks facing the Group is carried out on a semi-annual basis. This review facilitates a senior management assessment of any new or emerging macro threats to the Group, independent of the risk management and reporting structures that apply to the ten key risk types. Members of the Group Executive Committee (GEC) and the GRPC identify and rank the top five risks facing the Group for consideration by the CRC and the Court. The following criteria are used to identify and assess the top five risks:

- the severity of the risk in terms of materiality and the length of time it would take the Group to recover;
- the likelihood of the risk occurring; and
- the impact of the risk, taking mitigants and likelihood into account.

Risk measurement

The ten identified key risk categories are actively analysed and measured in line with the formalised policies and management processes in place for each risk category.

For credit, market, liquidity, operational and life insurance risk, risk models are used to measure, manage and report on these respective risk types. Risk concentrations, in particular for credit and liquidity / funding risk, could lead to increased volatility in the Group's expected financial outcomes. Risk limits and diversification, together with regular review processes, are in place to manage such risk concentrations. Additionally, the Group's calculation of Economic Capital takes into consideration the extent to which credit concentration risk exists in respect of single name, sector and geography.

At Group level, common measures and approaches for risk aggregation and measurement have also been adopted, in order to inform operational and strategic plans and to steer the business within the boundaries of its risk appetite. These

2.3 Risk identification, measurement and reporting (continued)

include one-year or multi-year forecasting / stress testing and a capital allocation framework which incorporates economic capital modelling and risk adjusted return analysis.

The Group uses a suite of risk measurement models and systems to support decision-making processes at transaction and portfolio levels, e.g. approving a loan facility to a borrower.

The common measure of return on risk used by the Group is Risk Adjusted Return on Capital (RAROC). RAROC provides a uniform measure of performance that the Group utilises to analyse the economic profitability of businesses with different sources of risk and different capital requirements.

Forecasting and stress testing (including reverse stress testing) are risk management tools used by the Group to inform potential risk outcomes under different scenarios and mitigating actions.

The Group conducts solvency stress tests in order to assess the impacts of adverse scenarios on the Group's impairment charges on financial assets, deleveraging losses, earnings, capital adequacy, liquidity and financial prospects.
The results of solvency stress tests are used to assess the Group's resilience to adverse scenarios and to aid the identification of potential areas of vulnerability. The tests are applied to the existing risk exposures of the Group and also consider changing business volumes as envisaged in the Group's business plans and strategies. Macroeconomic scenarios of different levels of severity are combined with assumptions on volume changes and margin development. Impacts are measured in terms of potential impairment charges on financial assets, earnings, capital adequacy, liquidity and financial prospects. Solvency stress test results are presented to the GRPC, the CRC and the Court.

The Group also performs other scenario analyses and stress tests to measure exposure to liquidity risk, operational risk and market risk to inform management and limit setting of individual risks.

Risk reporting
The key risk types identified under the Group's risk identification process are assessed and their status is reported quarterly by the CCMRO in the Court Risk Report which is reviewed by the GRPC, the CRC and the Court. The content of the report includes an analysis of and commentary on all key risk types as set out on page 73. It also addresses governance and control issues and compliance with risk appetite. Regular updates on emerging risks, risk surveys and relevant international economic or monetary reports are also considered. In addition, the GRPC and the Court consider more frequent formal updates on the key areas of credit and liquidity risk and capital management. The reports also provide data on the external economic environment and management's view of the implications of this environment on the Group's risk profile. The Court Risk Report forms the top of a reporting hierarchy with more detailed risk information being considered by divisional level management.

The CRC also receives risk information through its review of the GRPC minutes and through investigations carried out into specific risk matters.

3 Management of key Group risks

3.1 Credit risk

Key points:

- The Irish economy has begun to recover, while recovery in the UK economy continued through 2013.
- While defaulted and forborne loans remain elevated, the volume of defaulted loans reduced for the first time in a number of years, with defaulted loans totalling €17.1 billion at 31 December 2013 as compared to €17.7 billion at 31 December 2012 and €18.3 billion at 30 June 2013.
- Values in a number of segments of the commercial property market increased in both RoI and the UK in 2013, representing the first annual increase in RoI commercial property values since 2007. Residential property prices increased in RoI in 2013, with Dublin residential property prices recovering and property prices outside of Dublin stabilising. Residential property prices also increased in the UK in 2013.
- Total loans and advances to customers (before impairment provisions) reduced from €100 billion at 31 December 2012 to €93 billion at 31 December 2013.
- Provision coverage on defaulted loans was 48% at 31 December 2013 compared to 43% at 31 December 2012.
- The pace of arrears formation in the Retail Ireland Residential mortgage book has reduced significantly in the Owner occupied segment, with a slowdown in Buy to let, reflecting improving economic conditions and the Group's ongoing strategy to assist customers in financial difficulty with sustainable mortgage restructure and resolution strategies.
- Effective workout structures comprising our Mortgage Arrears Resolution Strategies (MARS) and Challenged Assets Group (CAG) continued the alignment of significant specialist resources to the management of challenged assets.
- A Real Estate Advisory Unit (REAU) staffed by property professionals has been established within CAG to support the continued development and execution of recovery strategies in the Property and construction portfolio.
- Total impairment charges on loans and advances to customers of €1,665 million (31 December 2012: €1,724 million) reflects the Group's response to the observations set out in the Central Bank of Ireland (CBI) Asset Quality Review and the implementation of the revised CBI 'Impairment Provisioning and Disclosures Guidelines' (dated 31 May 2013).

Definition of Credit Risk

(audited)

Credit Risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. The manner in which the Group's exposure to credit risk arises, its policies and processes for managing it and the methods used to measure and monitor it are set out below.

How Credit Risk arises

Credit risk arises from loans and advances to customers. It also arises from the financial transactions the Group enters into with financial institutions, sovereigns and state institutions. It comprises both drawn exposures and exposures the Group has committed to extend. While the Group could potentially suffer loss to an amount equivalent to its undrawn commitments, the Group does not expect to incur losses to that extent as most consumer related commitments can be cancelled by the Group and non-consumer related commitments are entered into subject to the customer continuing to achieve specific credit standards.

The Group is also exposed to credit risk from its derivatives, available for sale financial assets, other financial assets and from its reinsurance activities in NIAC.

Country risk

The Group is exposed to country risk. Exposures are managed in line with approved policy and country maximum exposure limits.

Country risk is governed by the Group Country Risk Policy which is approved by the Court. Limits are set and monitored for countries and for sovereign obligors in accordance with this policy. Further information is set out on page 76.

Settlement risk

Settlement risk arises in any situation where a payment in cash, securities or equities is made in expectation of a corresponding receipt in cash, securities or equities. Appropriate policies exist and settlement limits are monitored.

Credit concentration risk

Credit concentration risk is 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. Undue concentrations could lead to increased volatility in the Group's impairment charges on financial assets, earnings, capital requirements and financial prospects. Management of risk concentrations is an integral part of the Group's approach to risk management. Target levels and, where appropriate, limits are defined by the Court for each credit category. In addition, monetary risk limits are set by the GRPC or its appointed committees and, where necessary, approved by the Court. These target levels and, where appropriate, limits, are informed by the Group's Risk Appetite Statement. Single name concentrations are also subject to limits. As the Group reduces the overall size of its balance sheet, concentration risk may increase in relative terms.

Credit risk (continued)

Definition of Credit Risk (continued)

Large exposures
The Group's Risk Appetite Statement and regulatory guidelines set out maximum exposure limits to a customer or a group of connected customers. The limits and regulatory guidelines cover both bank and non-bank counterparties.

The Group's Risk Appetite Statement specifies a range of exposure limits for credit concentration risk. The Group also monitors single customer exposure against regulatory guidelines.

At 31 December 2013, the Group's top 50 non-bank potential exposures (including off balance sheet and undrawn exposures) amounted to €7.1 billion (31 December 2012: €7.1 billion).

Credit related commitments
The Group manages credit related commitments that are not reflected as loans and advances on the balance sheet on the same basis as loans for credit approval and management purposes.

These include:
- guarantees and standby letters of credit;
- performance or similar bonds and guarantees;
- documentary and commercial letters of credit;
- commitments; and
- letters of offer.

Further information on the Group's exposures is set out in note 42.

Credit risk management
(audited)

The Group's approach to the management of credit risk is focussed on a detailed credit analysis at origination followed by early intervention and active management of accounts where creditworthiness has deteriorated.

The Credit & Market Risk function has responsibility for the independent oversight of credit and market risk and overall risk reporting to the GRPC, the CRC and the Court on (a) developments in these risks and (b) compliance with specific risk limits. It is led by the CCMRO who reports directly to the Group Chief Executive.

The function provides independent oversight and management of the Group's credit risk strategy, credit risk management information and credit risk underwriting as well as strategic oversight and management of certain challenged portfolios.

Credit policy
The core values and principles governing the provision of credit are contained in Group Credit Policy which is approved by the Court. Individual business unit credit policies define in greater detail the credit approach appropriate to the units concerned. These policies are aligned with the Group's Risk Appetite Statement and applicable credit limits, the lessons learned from the Group's recent loss history, the markets in which the business units operate and the products which they provide. In a number of cases business unit policies are supplemented by sectoral / product credit policies.

Each staff member involved in developing banking relationships and / or in assessing or managing credit has a responsibility to ensure compliance with these policies. There are procedures for the approval and monitoring of exceptions to policy.

Lending authorisation
The Group's credit risk management systems operate through a hierarchy of lending authorities which are related to internal loan ratings. All exposures above certain levels require approval by the Group Credit Committee (GCC). Other exposures are approved according to a system of tiered individual authorities which reflect credit competence, proven judgment and experience. Material lending proposals are referred to credit units for independent assessment / approval or formulation of a recommendation and subsequent adjudication by the applicable approval authority.

Counterparty credit risk arising from derivatives
Credit risk exposure arising from derivative instruments is managed as part of the overall lending limits with customers and financial institutions. Credit risk exposure on derivative transactions is calculated using the current value of the contract (on a mark to market basis) and an estimate of the maximum cost of rewriting the contract in the event of counterparty default. The credit process also limits gross derivative positions.

Credit risk (continued)

Credit risk measurement

(audited)

All credit transactions are assessed at origination for credit quality and the borrower is assigned a credit grade based on a predefined credit rating scale. The risk, and consequently the credit grade, is reassessed periodically. The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes within the Group. Details of these internal credit rating models are outlined in section on Credit Risk Methodologies on page 100.

Loan loss provisioning

Through its ongoing credit review processes, the Group seeks early identification of deteriorating loans with a view to taking corrective action to prevent the loan becoming impaired. Typically, loans that are at risk of impairment are managed by dedicated specialist units / debt collection teams focused on working out loans.

The identification of loans for assessment as impaired is driven by the Group's credit risk rating systems. It is the Group's policy to provide for impairment promptly and consistently across the loan book. For those loans that become impaired, the focus is to minimise the loss that the Group will incur from such impairment. This may involve implementing forbearance solutions, entering into restructuring arrangements or action to enforce security.

Other factors taken into consideration in estimating provisions include domestic and international economic climates, changes in portfolio risk profile and the effect of any external factors such as legal or competition requirements. Whilst provisioning is an ongoing process, all business units formally review and confirm the appropriateness of their provisioning methodologies and the adequacy of their impairment provisions on a half yearly basis. Their conclusions are reviewed by the Credit & Market Risk function and the GRPC.

Under delegated authority from the Court, the Group's provisioning methodology is approved by the GRPC on a half yearly basis, details of which are set out in Credit Risk Methodologies on page 100.

The quantum of the Group's impairment charge, impaired loan balances and provisions is also reviewed by the GRPC half yearly, in advance of providing a recommendation to the GAC.

An analysis of the Group's impairment provisions at 31 December 2013 is set out in note 26.

Credit risk mitigation

(audited)

An assessment of the borrower's ability to service and repay the proposed level of debt (principal repayment source) is undertaken for credit requests and is a key element in the Group's approach to mitigating risk. In addition, the Group mitigates credit risk through the adoption of both proactive preventative measures (e.g. controls and limits) and the development and implementation of strategies to assess and reduce the impact of particular risks, should these materialise including hedging, securitisation and the taking of collateral (which acts as a secondary repayment source).

Controls and limits

The Group imposes credit risk control limits and guide points to mitigate significant concentration risk. These limits and guide points are informed by the Group's Risk Appetite Statement which is approved annually by the Court.

The Court approves country maximum exposure limits based on the Group's country risk rating models which are supported by external ratings.

Maximum exposure limits for exposures to banks are also approved by the GRPC for each rating category based on credit risk modelling techniques combined with expert judgement.

Risk transfer and financing strategies

The objective of risk mitigation / transfer is to limit the risk impact to acceptable (quantitative and qualitative) levels. Where the risk review process indicates the possible emergence of undue risk concentrations, appropriate risk transfer and mitigation options are explored and recommended to the Portfolio Review Committee (PRC).

Credit risk (continued)

Credit risk mitigation (continued)

Collateral
Credit risk mitigation includes the requirement to obtain collateral, depending on the nature of the product and local market practice, as set out in the Group's policies and procedures. The nature and level of collateral required depends on a number of factors including, but not limited to, the amount of the exposure, the type of facility made available, the term of the facility, the amount of the borrower's own cash input and an evaluation of the level of risk or probability of default. The Group takes collateral as a secondary source, which can be called upon if the borrower is unable or unwilling to service and repay debt as originally assessed.
Various types of collateral are accepted, including property, securities, cash, guarantees and insurance, grouped broadly as follows:
- financial collateral (lien over deposits, shares, etc.);
- residential and commercial real estate;
- physical collateral (plant and machinery, stock, etc.); and
- other collateral (debtors, guarantees, insurance, etc.).

The Group's requirements around completion, valuation and management requirements for collateral are set out in appropriate Group or business unit policies and procedures. The extent to which collateral and other credit enhancements mitigate credit risk in respect of the Group's Residential mortgage portfolio is set out in tables 3c on pages 385 and 403.

Counterparty credit risk arising from derivatives
The Group has executed standard internationally recognised documents such as International Swaps and Derivative Association (ISDA) agreements and Credit Support Annexes (CSAs) with its principal interbank derivative counterparties. The purpose of a CSA is to limit the potential cost of replacing derivative contracts at market prices in the event of default by the counterparty. A very high proportion of the Group's interbank derivatives book is covered by CSAs and is hence collateralised, primarily through cash.

Credit risk reporting / monitoring
(audited)

It is the Group's policy to ensure that adequate up to date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio.

Credit risk at a Group, divisional and significant operating unit / product type level is reported on a monthly basis to senior management. This monthly reporting includes information and detailed commentary on loan book growth, quality of the loan book (credit grade and probability of default (PD) profiles and risk weighted assets) and loan impairment provisions including individual large impaired exposures. Changes in sectoral and single name concentrations are tracked on a quarterly basis highlighting changes to risk concentration in the Group's loan book. A report on any exceptions to credit policy is presented to and reviewed by the GRPC on a monthly basis. The Group allocates significant resources to ensure ongoing monitoring and compliance with approved risk limits.

The PRC considers and recommends to the GRPC, on a quarterly basis, credit concentration reports which track changes in sectoral and single name concentrations measured under agreed parameters. Credit risk including compliance with key credit risk limits is reported monthly in the Court Risk Report. Statistics on credit policy exceptions are also included on a quarterly basis. This report is presented to and discussed by the GRPC, the CRC and the Court.

In addition other reports are submitted to senior management and the Court as required.

Group Credit Review (GCR) is an independent function within Group Internal Audit. Its reviews cover lending units in each division and incorporate an examination of adherence to credit policies and procedures across the various portfolios. GCR also addresses the timeliness of the annual review process and the quality of credit assessment in each portfolio.

Credit risk (continued)

Management of challenged assets
(audited)

A range of initiatives are in place on an ongoing basis to deal with the effects of the deterioration in the credit environment and decline in asset quality in recent years including;

- enhanced collections and recoveries processes;
- expansion of specialist work-out teams to ensure early intervention in vulnerable cases;
- intensive review cycles for 'at risk' exposures and the management of excess positions;
- support from central teams in managing 'at risk' portfolios at a business unit level;
- modified and tighter lending criteria for specific sectors;
- a reduction in certain individual bank exposures; and
- revised Risk Appetite Framework and Statement.

The segregation of certain challenged portfolios and the realignment of resources to manage these assets allows the remaining portfolio managers to focus on the loan book classified as 'acceptable quality' or better and to work closely with those customers.

Group forbearance strategies

Forbearance occurs when a borrower is granted a temporary or permanent concession or agreed change to a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. If the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. A loan which has an active 'forbearance measure' is a 'forborne loan'. The Group definition of forbearance is consistent with the CBI regulatory definition of forbearance.

A range of forbearance strategies are used by the Group for customers in arrears or facing potential arrears on contracted loan repayments, in order to arrange, where viable, sustainable short term or longer term repayment solutions as appropriate. A forbearance strategy may include, but is not necessarily limited to, one or more of the following measures:

- adjustment or non-enforcement of covenants: an arrangement whereby the Group agrees to either waive an actual or expected covenant breach for an agreed period, or adjust the covenant(s) to reflect the changed circumstances of the borrower;
- facilities in breach of terms placed on demand: an arrangement whereby the Group places a facility in breach of its contractual terms on a demand basis as permitted under the facility agreement rather than enforcing, and pending a more long term resolution;
- reduced payments (full interest): an arrangement where the borrower pays the full interest on the principal balance, on a temporary or longer term basis, with the principal balance unchanged, rather than repaying some of the principal as required under the original facility agreement;
- reduced payment (greater than full interest) incorporating some principal repayments: a temporary or medium term arrangement where the borrower pays the full interest due plus an element of principal due on the basis that principal payments will increase in the future;
- capitalisation of arrears: an arrangement whereby arrears are added to the principal balance, effectively clearing the arrears, with either the repayments or the original term of the loan adjusted accordingly to accommodate the increased principal balance; and
- term extension: an arrangement where the original term of the loan is extended.

The forbearance strategies adopted by the Group seek to maximise recoveries and minimise losses arising from non-repayment of debt, while providing suitable and sustainable restructure options that are supportive of customers in challenged circumstances. The Group has an operating infrastructure in place to assess and, where appropriate, implement such options on a case-by-case basis. Group Credit Policy outlines the core principles and parameters underpinning the Group's approach to forbearance with individual business unit policies defining in greater detail the forbearance strategies appropriate to each unit.

Forbearance requests are assessed on a case-by-case basis taking due consideration of the individual circumstances and risk profile of the customer to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place. Forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay prior to any decision to grant a forbearance treatment. This assessment may result in a disimprovement in the credit grade assigned to the loan, potentially impacting how frequently the loan must be formally reviewed; and, where impairment is deemed to have occurred, will result in a specific provision. Where appropriate, and in accordance with the Group's credit risk management structure, forbearance requests are referred to credit units for independent assessment prior to approval by the relevant approval authority.

Forborne loans are reviewed in line with the Group's credit management processes, which includes monitoring borrower compliance with the revised terms and conditions of the forbearance arrangement. Loans to which forbearance has been applied continue to be classified as forborne until the forbearance measure expires. The Group does not currently apply a set time period after which the forbearance classification on a performing forborne loan is discontinued but may do so in future in light of regulatory guidance in this area. Borrower compliance with revised terms and conditions may not be

Credit risk (continued)

Management of challenged assets (continued)

achieved in all cases. Non-compliance could for example arise because the individual circumstances and risk profile of the borrower continues to deteriorate, or fails to show an expected improvement, to the extent that an agreed reduced level of repayment can no longer be met. In the event of non-compliance, a request for further forbearance may be considered. It is possible that the Group, by virtue of having granted forbearance to a borrower, could suffer a loss that might otherwise have been avoided had enforcement action instead been taken – this could for example arise where the value of security held in respect of a loan diminishes over the period of a forbearance arrangement which ultimately proves unsustainable. It is the Group's policy to measure the effectiveness of forbearance arrangements over the lifetime of those arrangements. A forbearance arrangement is considered to be effective where the risk profile of the affected borrower stabilises or improves over the measured time period, resulting in an improved outcome for the Group and the borrower. The measurement of effectiveness takes account of the nature and intended outcome of the forbearance arrangement and the period over which it applies.

Book profile - Loans and advances to customers

(unaudited)

Loans and advances to customers are shown in the tables below and in the tables on pages 87 to 98.

Geographical and industry analysis of loans and advances to customers

The following table gives the geographical and industry breakdown of total loans (before impairment provisions).

31 December 2013 **Geographical / industry analysis**	**RoI** **€m**	**UK** **€m**	**US** **€m**	**ROW** **€m**	**Total** **€m**
Personal	28,206	26,262	-	-	54,468
- Residential mortgages	*26,700*	*24,946*	-	-	*51,646*
- Other consumer lending	*1,506*	*1,316*	-	-	*2,822*
Property and construction	9,144	7,647	11	-	16,802
- Investment	*7,263*	*6,365*	*11*	-	*13,639*
- Land and Development	*1,881*	*1,282*	-	-	*3,163*
Business and other services	6,323	2,891	224	46	9,484
Distribution	2,883	176	-	-	3,059
Manufacturing	2,627	739	336	99	3,801
Transport	1,437	160	20	-	1,617
Financial	880	177	-	-	1,057
Agriculture	1,499	283	-	-	1,782
Energy	599	86	-	-	685
Total	**53,598**	**38,421**	**591**	**145**	**92,755**

The geographical breakdown is primarily based on the location of the business unit where the asset is booked.

Credit risk (continued)

Book profile - Loans and advances to customers (continued)

31 December 2012 Geographical / industry analysis	RoI €m	UK €m	US €m	ROW €m	Total €m
Personal	29,150	28,880	-	-	58,030
- Residential mortgages	*27,485*	*27,543*	-	-	*55,028*
- Other consumer lending	*1,665*	*1,337*	-	-	*3,002*
Property and construction	9,877	9,285	-	-	19,162
- Investment	*7,814*	*7,747*	-	-	*15,561*
- Land and development	*2,063*	*1,538*	-	-	*3,601*
Business and other services	6,771	3,280	173	31	10,255
Distribution	3,289	264	-	-	3,553
Manufacturing	3,094	539	386	86	4,105
Transport	1,532	61	-	-	1,593
Financial	787	161	8	-	956
Agriculture	1,492	246	-	-	1,738
Energy	684	89	-	-	773
Total	56,676	42,805	567	117	100,165

The geographical breakdown is primarily based on the location of the business unit where the asset is booked.

The Group's primary markets are Ireland and the UK and exposures originated and managed in these countries represent a material concentration of credit risk. Similarly, the Group exhibits a material concentration in Residential mortgages and in the Property and construction sector.

The Group’s Residential mortgage portfolio is widely diversified by individual borrower and amounted to 56% of total loans at 31 December 2013 (31 December 2012: 55%). 52% of Residential mortgages related to Ireland (31 December 2012: 50%) and 48% related to the UK at 31 December 2013 (31 December 2012: 50%). At 31 December 2013, the Group’s UK Residential mortgage book amounted to £20.8 billion (31 December 2012: £22.5 billion) (before impairment provisions).

The Property and construction sector accounted for 18% or €16.8 billion of total loans at 31 December 2013 (31 December 2012: 19% or €19 billion). This book consists primarily of investment loans.

Impairment charges on loans and advances to customers

(unaudited)

Impairment charges on loans and advances to customers **Composition**	**Year ended 31 December 2013** **€m**	Year ended 31 December 2012 €m	Change %
Residential mortgages	573	462	24%
- Retail Ireland	*542*	*418*	*30%*
- Retail UK	*31*	*44*	*(30%)*
Non-property SME and corporate	468	413	13%
- Republic of Ireland SME	*233*	*223*	*4%*
- UK SME	*113*	*53*	*113%*
- Corporate	*122*	*137*	*(11%)*
Property and construction	583	797	(27%)
- Investment	*343*	*437*	*(22%)*
- Land and development	*240*	*360*	*(33%)*
Consumer	41	52	(21%)
Total impairment charges on loans and advances to customers	**1,665**	**1,724**	**(3%)**

Credit risk (continued)

Impairment charges on loans and advances to customers (continued)

Impairment charges on loans and advances to customers of €1,665 million for the year ended 31 December 2013 were €59 million or 3% lower than the previous year. The impairment charge for 2013 reflects the performance of the Group's loan portfolios, the economic environment in the countries in which those portfolios are located, up to date assessment of collateral values securing the loan portfolios, the Group's activities in restructuring loans for customers with repayment challenges, the Group's existing stock of impairment provisions, implementation of the CBI 'Impairment Provisioning and Disclosures Guidelines' (revised 31 May 2013) and the observations from the CBI's Asset Quality Review (AQR) of the Group's loan portfolios as at 30 June 2013.

The impairment charge on **Residential mortgages** of €573 million for the year ended 31 December 2013 has increased by €111 million from €462 million in the previous year. The current year charge reflects, among other things, the consideration of the AQR and implementation of the revised CBI guidelines.

The impairment charge on the Retail Ireland mortgage portfolio of €542 million for the year ended 31 December 2013 has increased by €124 million from €418 million in the previous year. The current year charge reflects a significant improvement in default arrears trends in the second half of 2013, particularly in the Owner occupied segment, the impact of implementation of the revised CBI guidelines and consideration of the AQR. While the volume of default arrears (based on loan volumes 90 days or more past due and / or impaired) has continued to increase, the pace of default arrears formation has reduced significantly in the year, particularly in the Owner occupied segment. In addition to the reduction in the pace of formation of default arrears, reflecting improving economic conditions, the Group has continued to formally restructure a significant number of customer mortgages on a sustainable basis.

For the year ended 31 December 2013, Residential property prices recorded an annual increase of 6.4% according to the Central Statistics Office (CSO) Index. This compares to a decline of 4.5% in 2012. This is the first annual increase since January 2008, with residential property prices in Dublin continuing to perform significantly better (15.7% annual increase to 31 December 2013) than the national average. The CSO Index for December 2013 reported that national residential prices were 46% below peak, compared to 50% at December 2012 and June 2013, with residential prices in Dublin 49% below peak, while properties outside of Dublin were 47% below peak.

Owner occupied default arrears (based on loan volumes 90 days or more past due and / or impaired) were 10.10% at 31 December 2013 as compared with 10.52% at 30 June 2013 and 9.88% at 31 December 2012. The volume of default arrears in the Owner occupied segment has decreased in the second half of the year reflecting improving economic conditions, such as falling unemployment levels and the Group's ongoing strategy to assist customers in financial difficulty with sustainable mortgage restructure and resolution strategies. The level of Owner occupied default arrears for the Group remains at about half the level of the other Irish banks as published on a quarterly basis by the CBI.

Buy to let default arrears (based on loan volumes 90 days or more past due and / or impaired) were 27.72% at 31 December 2013 as compared to 26.01% at 30 June 2013 and 23.26% at 31 December 2012. The volume of default arrears in the Buy to let segment has continued to increase, albeit the pace of arrears formation has slowed in 2013 compared to 2012, consistent with improved rental market conditions, particularly in city centre locations and Dublin commuter counties[1]. Buy to let borrowers continue to be impacted by rising repayments as interest only periods come to an end and they move to fully amortising loans. At 31 December 2013, 65% of the Buy to let mortgage book was on a 'principal and interest' repayment basis (31 December 2012: 52%). As part of the Group's Mortgage Arrears Resolution Strategies, the Group continues to work with Buy to let customers, particularly those with interest only periods that are coming to an end, to restructure customer mortgages prior to them moving to fully amortising loans. The level of Buy to let default arrears for the Group remains below the level of the other Irish banks as published on a quarterly basis by the CBI.

The impairment charge on the Retail UK mortgage portfolio of €31 million for the year ended 31 December 2013 has decreased by €13 million from €44 million in the previous year reflecting the stable performance of the UK mortgage book. Default arrears (volume of loans 90 days past due and / or impaired) increased marginally to 2.37% at 31 December 2013 as compared with 2.35% at 30 June 2013 and 2.34% at 31 December 2012, primarily reflecting the reduction in the size of the total UK mortgage book.

The impairment charge on the **Non property SME and corporate** loan portfolio of €468 million for the year ended 31 December 2013 has increased by €55 million from €413 million in the previous year. The current year charge reflects, among other things, the consideration of the AQR.

Republic of Ireland SME impairment charges of €233 million for the year ended 31 December 2013 have increased by €10 million from €223 million in the previous year. There have been some signs of improvement for the SME sector, as reflected in modest annual retail sales growth, increased consumer sentiment, and lower business insolvencies. However, there is a lag between consumer sentiment and consumer spending; hence, trading conditions remain difficult. As a result, Republic of Ireland SME impairment charges continue to be at an elevated level, particularly for those sectors correlated with consumer spending. The Group has made significant

[1] *Source: Daft.ie National Rental Index.*

Credit risk (continued)

Impairment charges on loans and advances to customers (continued)

progress in agreeing end state resolution strategies with a large number of our challenged SME customers, and these strategies will be implemented over time.

Impairment charges on our UK SME portfolio increased to €113 million for the year ended 31 December 2013 compared to €53 million in the previous year, primarily driven by a small number of large individual exposures and case specific events. The UK macro-economic conditions and outlook have been on an improving trend in recent months, with the unemployment rate falling.

The impairment charges on the Corporate portfolios reduced to €122 million for the year ended 31 December 2013 compared to €137 million in the previous year. The domestic Irish Corporate portfolio was impacted by challenging domestic demand and market conditions, albeit the pace of migration of new cases into our challenged portfolios has reduced considerably. Our international corporate banking portfolios continue to perform satisfactorily reflecting their exposure to global, rather than exclusively Irish economic indicators, with impairments driven by individual case specific events.

The impairment charge on the **Property and construction** loan portfolio of €583 million for the year ended 31 December 2013 decreased by €214 million compared to €797 million in the previous year. The current year impairment charge reflects, among other things, the consideration of the AQR.

The impairment charge on the Investment property element of the Property and construction portfolio was €343 million for year ended 31 December 2013 compared to €437 million in the previous year.

Between 2007 and 2012, the Irish market has experienced a significant fall in asset values, with Irish commercial property capital values down 66% from peak[2]. However, capital values rose by 3% in 2013, which represented the first annual increase in capital values since 2007. Activity in the commercial property market in Dublin has continued to increase, particularly for prime office assets, and improving economic conditions in recent months has led to capital value growth spreading to the Retail and Industrial sectors by late 2013. There have been some early signs of improvement in the retail sector in recent months, such as increased retail sales and consumer sentiment, however, conditions in the sector remained difficult in 2013 as evidenced by increased retail tenant defaults and high vacancy levels, particularly in provincial / regional locations, which have contributed to continued elevated impairment charges on our Investment property portfolio.

UK commercial property capital values increased by 4% in 2013, reflecting continued strong returns from London based properties coupled with rising returns in recent months in key regional centres on foot of growing investor confidence in real estate outside of London, particularly in the Office market.

Performance in the UK Retail sector continues to remain more subdued, with limited occupier demand outside of London. Tenant failures and market rental pressures are continuing to impact on impairment levels.

The impairment charge on the Land and development element of the Property and construction portfolio was €240 million for the year ended 31 December 2013 compared to €360 million for the previous year. The charge remains elevated reflecting continued challenging market conditions.

The impairment charge of €41 million on **Consumer** loans for the year ended 31 December 2013 is €11 million lower compared to the impairment charge of €52 million in the previous year. Consumer loans have continued to reduce reflecting accelerated repayments and subdued demand for new loans and other credit facilities, in addition to lower than expected default arrears.

Further analysis and commentary on the changes in the loan portfolios, asset quality and impairment is set out in the Asset Quality and Impairment section.

[2] *Source: Investment Property Databank Ltd (IPD).*

Impairment charge by nature of impairment provision	**Year ended 31 December 2013 €m**	Year ended 31 December 2012 €m
Specific charge individually assessed	1,323	1,672
Specific charge collectively assessed	151	355
Incurred but not reported	191	(303)
Total impairment charge	**1,665**	**1,724**

Credit risk (continued)

Impairment charges on loans and advances to customers (continued)

Impairment provision by nature of impairment provision	31 December 2013 €m	31 December 2012 €m
Specific provisions individually assessed	6,195	5,658
Specific provisions collectively assessed	1,155	1,183
Incurred but not reported	891	703
Total impairment provision	**8,241**	**7,544**

Incurred but not reported (IBNR) impairment provisions increased by €188 million to €891 million in the year. This increase was due to increased IBNR on the Retail Ireland and Retail UK mortgage portfolios reflecting the impacts of the implementation of the revised CBI guidelines and the consideration of the Central Bank of Ireland's observations in the AQR, partially offset by a reduction in the Property and construction portfolio, due to a decrease in the volume of relevant Property and construction loans consistent with the overall contraction in loans and advances to customers.

The increase in the individual specific provisions and the decrease in the collective specific provisions in the year were due to an increase in the volume of loans classified as 'impaired' and individually assessed for provisioning in the Retail Ireland mortgage portfolio. Additionally, this also reflects increases to existing specific provisions attaching to individually assessed Non-property SME and Corporate and Property and construction exposures.

The individual and collective specific provisions at 31 December 2013 are after provisions utilised in the year of €1.1 billion as set out in note 26 on page 240.

The total impairment charge on loans and advances to customers for the year ended 31 December 2013 was €1,665 million. Of this, the impairment charge on forborne loans amounted to €112 million as set out in the table below:

31 December 2013 **Impairment charge on forborne loan and advances Composition**	**Specific charge individually and collectively assessed €m**	**Incurred but not reported €m**	**Total impairment charge on forborne loans €m**
Residential mortgages	29	83	112
- Retail Ireland	*29*	*82*	*111*
- Retail UK	*-*	*1*	*1*
Non-property SME and corporate	-	(1)	(1)
- Republic of Ireland SME	*-*	*2*	*2*
- UK SME	*-*	*(2)*	*(2)*
- Corporate	*-*	*(1)*	*(1)*
Property and construction	-	3	3
- Investment	*-*	*2*	*2*
- Land and development	*-*	*1*	*1*
Consumer	-	(2)	(2)
Total Impairment charge on forborne loans	**29**	**83**	**112**

Credit risk (continued)

Impairment charges on loans and advances to customers (continued)

Impairment charge on forborne loans and advances
The charge incurred during 2013 on Retail Ireland forborne mortgage loans largely reflects the increase in the stock of 'impaired' forborne mortgage loans. The charge of €1 million on Retail UK forborne mortgage loans reflects the stable performance of the UK mortgage loan book and the limited use of forbearance as a resolution strategy. In the non-mortgage book, where a specific provision is required the exposure is reported as 'impaired' and is not reported as 'forborne'; hence, only IBNR provisions are held against non-mortgage loans that are reported as forborne. The IBNR charge of €2 million on forborne non-mortgage loans in the year reflects an increase in the volume of non-mortgage 'lower quality but neither past due nor impaired' forborne loans.

The total impairment provisions on loans and advances to customers for the year ended 31 December 2013 were €8,241 million (31 December 2012: €7,544 million). Of this, the impairment provisions on forborne loans amounted to €521 million (31 December 2012: €406 million) as set out in the tables below:

31 December 2013 **Impairment provision on forborne loan and advances Composition**	**Specific provisions individually and collectively assessed €m**	**Incurred but not reported €m**	**Total impairment provision on forborne loans €m**
Residential mortgages	182	181	363
- Retail Ireland	*181*	*177*	*358*
- Retail UK	*1*	*4*	*5*
Non-property SME and corporate	-	61	61
- Republic of Ireland	-	*34*	*34*
- UK SME	-	*13*	*13*
- Corporate	-	*14*	*14*
Property and construction	-	95	95
- Investment	-	*85*	*85*
- Land and development	-	*10*	*10*
Consumer	-	2	2
Total impairment provision on forborne loans	**182**	**339**	**521**

31 December 2012 Impairment provision on forborne loan and advances Composition	Specific provisions individually and collectively assessed €m	Incurred but not reported €m	Total impairment provision on forborne loans €m
Residential mortgages	149	98	247
- Retail Ireland	*148*	*95*	*243*
- Retail UK	*1*	*3*	*4*
Non-property SME and corporate	-	62	62
- Republic of Ireland	-	*32*	*32*
- UK SME	-	*15*	*15*
- Corporate	-	*15*	*15*
Property and construction	-	93	93
- Investment	-	*84*	*84*
- Land and development	-	*9*	*9*
Consumer	-	4	4
Total Impairment provision on forborne loans	149	257	406

Credit risk (continued)

Impairment charges on loans and advances to customers (continued)

Impairment provision on forborne loans
Specific and Incurred but not reported (IBNR) provisions held against forborne Retail Ireland mortgage loans increased during 2013, largely due to an increase in the stock of 'impaired' forborne mortgage loans. Provisions held against forborne Retail UK mortgage loans were €5 million, reflecting the stable performance of the UK mortgage loan book and the limited use of forbearance as a resolution strategy. In the non-mortgage book, where a specific provision is required the exposure is reported as impaired and is not reported as forborne; hence, only IBNR provisions are held against non-mortgage loans that are reported as forborne. IBNR provisions on non-mortgage forborne loans were largely unchanged at 31 December 2013 compared to 31 December 2012.

Asset Quality - Loans and advances to customers

(audited except where denoted unaudited)

The Group classifies forborne and non-forborne loans and advances to customers as 'neither past due nor impaired', 'past due but not impaired' and 'impaired' in line with the requirements of IFRS 7.

Forbearance occurs when a borrower is granted a temporary or permanent concession or agreed change to a loan ('forbearance measure'), for reasons relating to the actual or apparent financial stress or distress of that borrower. A loan which has an active forbearance measure is a 'forborne loan'.

The Group applies internal ratings to both forborne and non-forborne loans based on an assessment of the credit quality of the customer, as part of its credit risk management system. A thirteen point credit grade rating scale is used for more complex, individually managed loans, including wholesale, corporate and business lending. A seven point credit grade rating scale is used for standard products (including mortgages, personal and small business loans). Both credit scales have a defined relationship with the Group's Probability of Default (PD) scale.

'Neither past due nor impaired' ratings are summarised as set out below:
Mappings to external rating agencies are indicative only, as additional factors such as collateral will be taken into account by the Group in assigning a credit grade to a counterparty.

- high quality ratings apply to loans to customers, strong corporate and business counterparties and consumer banking borrowers (including Residential mortgages) with whom the Group has an excellent repayment experience. For both forborne and non-forborne loans, high quality ratings are derived from grades 1 to 4 on the thirteen point grade scale, grades 1 and 2 on the seven point grade scale and ratings equivalent to AAA, AA+, AA, AA-, A+, A, A- and BBB+ and BBB for the external major rating agencies;
- satisfactory quality ratings apply to good quality loans that are performing as expected, including loans to small and medium sized enterprises, leveraged entities and more recently established businesses. Satisfactory quality ratings also include some element of the Group's retail portfolios. For both forborne and non-forborne loans, satisfactory quality ratings are derived from grades 5 to 7 on the thirteen point grade scale, grade 3 on the seven point grade scale and external ratings equivalent to BBB-, BB+, BB and BB-. In addition, satisfactory quality ratings can also apply to certain temporary and permanent mortgage forbearance arrangements that are neither past due nor impaired;
- acceptable quality ratings apply to loans to customers with increased risk profiles that are subject to closer monitoring and scrutiny by lenders with the objective of managing risk and moving accounts to an improved rating category. For both forborne and non-forborne loans, acceptable quality ratings are derived from grades 8 and 9 on the thirteen point grade scale, grade 4 outstandings within the seven point scale and external ratings equivalent to B+. In addition, acceptable quality ratings can also apply to certain temporary mortgage forbearance arrangements that are neither past due nor impaired; and
- the lower quality but neither past due nor impaired rating applies to those loans that are neither in arrears nor impaired but where the Group requires a work down or work out of the relationship unless an early reduction in risk is achievable. For both forborne and non-forborne loans, lower quality ratings are derived from outstandings within rating grades 10 and 11 on the thirteen point grade scale, grade 5 on the seven point grade scale and external ratings equivalent to B or below. In addition, the lower quality but neither past due nor impaired ratings can apply to certain temporary mortgage forbearance arrangements that are neither past due nor impaired and mortgages which are forborne, were previously in default and have had their terms and conditions modified and which are subject to a twelve month probation period under revised contractual arrangements.

Credit risk (continued)

Asset Quality - Loans and advances to customers

'Past due but not impaired' loans, whether forborne or not, are defined as follows:

- loans where repayment of interest and / or principal are overdue by at least one day but which are not impaired.

'Impaired' loans are defined as follows:

- loans with a specific impairment provision attaching to them together with loans (excluding Residential mortgages) which are greater than 90 days in arrears. For Residential mortgages, forborne loans with a specific provision attaching to them are reported as both forborne and impaired. Forborne loans (excluding Residential mortgages) with a specific provision attaching to them are reported as impaired and are not reported as forborne.

'Defaulted' loans are defined as follows:

- impaired loans together with Residential mortgages which are greater than 90 days in arrears. Defaulted loans are derived from grades 11 and 12 on the thirteen point grade scale and grades 5 and 6 on the seven point grade scale.

Loans and advances to customers Composition (before impairment provisions)	**31 December 2013 €m**	**31 December 2013 %**	31 December 2012 €m	31 December 2012 %
Residential mortgages	51,646	56%	55,028	55%
- Retail Ireland	*26,700*	*29%*	*27,485*	*27%*
- Retail UK	*24,946*	*27%*	*27,543*	*28%*
Non-property SME and corporate	21,485	23%	22,973	23%
- Republic of Ireland SME	*10,275*	*11%*	*10,733*	*11%*
- UK SME	*3,339*	*4%*	*3,524*	*3%*
- Corporate	*7,871*	*8%*	*8,716*	*9%*
Property and construction	16,802	18%	19,162	19%
- Investment	*13,639*	*15%*	*15,561*	*15%*
- Land and development	*3,163*	*3%*	*3,601*	*4%*
Consumer	2,822	3%	3,002	3%
Total loans and advances to customers	**92,755**	**100%**	**100,165**	**100%**

Unaudited:

The Group's loans and advances to customers before impairment provisions at 31 December 2013 were €92.8 billion compared to €100.2 billion at 31 December 2012. Low demand for credit, repayments and exchange rate movements contributed significantly to the reduction in loans and advances to customers. The majority of the reduction in the Group's loans and advances to customers relates to portfolios outside the Republic of Ireland. Residential mortgages accounted for 56% of total loans and advances to customers at 31 December 2013, broadly unchanged from 55% at 31 December 2012, albeit with a slightly higher percentage now accounted for by Retail Ireland mortgages. The other loan portfolios account for broadly equivalent proportions of the loan book at 31 December 2013 and at 31 December 2012. The majority of the decrease in the loan book relates to portfolios outside the Republic of Ireland.

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

Risk profile of loans and advances to customers

The tables and analysis below summarise the Group's loans and advances to customers over the following categories: 'neither past due nor impaired', 'past due but not impaired' and 'impaired'. Exposures are before provisions for impairment.

31 December 2013 Risk profile of loans and advances to customers (before impairment provisions)	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
Total loans and advances to customers						
High quality	43,625	3,886	946	2,003	50,460	54%
Satisfactory quality	659	8,685	2,805	454	12,603	14%
Acceptable quality	769	3,055	2,397	23	6,244	7%
Lower quality but not past due or impaired	258	1,705	1,650	-	3,613	4%
Neither past due nor impaired	**45,311**	**17,331**	**7,798**	**2,480**	**72,920**	**79%**
Past due but not impaired	3,288	243	413	106	4,050	4%
Impaired	3,047	3,911	8,591	236	15,785	17%
Total loans and advances to customers	**51,646**	**21,485**	**16,802**	**2,822**	**92,755**	**100%**

The Group's total loans and advances to customers of €92,755 million at 31 December 2013 are analysed below over the following categories: 'non-forborne' and 'forborne'. Exposures are before provisions for impairment.

Non-forborne loans and advances to customers						
High quality	43,625	3,852	909	2,002	50,388	61%
Satisfactory quality	-	8,312	1,849	319	10,480	13%
Acceptable quality	-	1,985	376	13	2,374	3%
Lower quality but not past due or impaired	-	413	610	-	1,023	1%
Neither past due nor impaired	**43,625**	**14,562**	**3,744**	**2,334**	**64,265**	**78%**
Past due but not impaired	2,619	156	160	87	3,022	4%
Impaired	2,597	3,621	8,008	236	14,462	18%
Total non-forborne loans and advances to customers	**48,841**	**18,339**	**11,912**	**2,657**	**81,749**	**100%**
Forborne loans and advances to customers						
High quality	-	34	37	1	72	1%
Satisfactory quality	659	373	956	135	2,123	19%
Acceptable quality	769	1,070	2,021	10	3,870	35%
Lower quality but not past due or impaired	258	1,292	1,040	-	2,590	24%
Neither past due nor impaired	**1,686**	**2,769**	**4,054**	**146**	**8,655**	**79%**
Past due but not impaired	669	87	253	19	1,028	9%
Impaired	450	290	583	-	1,323	12%
Total forborne loans and advances to customers	**2,805**	**3,146**	**4,890**	**165**	**11,006**	**100%**

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

31 December 2012 Risk profile of loans and advances to customers (before impairment provisions)	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
Total loans and advances to customers						
High quality	46,820	4,332	926	2,076	54,154	54%
Satisfactory quality	390	8,742	3,652	485	13,269	13%
Acceptable quality	1,088	3,929	3,149	27	8,193	8%
Lower quality but not past due or impaired	161	1,321	2,070	-	3,552	4%
Neither past due nor impaired	48,459	18,324	9,797	2,588	79,168	79%
Past due but not impaired	3,722	291	556	133	4,702	5%
Impaired	2,847	4,358	8,809	281	16,295	16%
Total loans and advances to customers	55,028	22,973	19,162	3,002	100,165	100%

The Group's total loans and advances to customers of €100,165 million at 31 December 2012 are analysed below over the following categories: 'non-forborne' and 'forborne'. Exposures are before provisions for impairment.

Non-forborne loans and advances to customers						
High quality	46,820	4,253	842	2,074	53,989	61%
Satisfactory quality	-	8,260	2,616	311	11,187	13%
Acceptable quality	-	2,583	1,160	15	3,758	4%
Lower quality but not past due or impaired	-	518	1,310	-	1,828	2%
Neither past due nor impaired	46,820	15,614	5,928	2,400	70,762	80%
Past due but not impaired	2,984	241	414	108	3,747	4%
Impaired	2,464	3,919	7,708	281	14,372	16%
Total non-forborne loans and advances to customers	52,268	19,774	14,050	2,789	88,881	100%
Forborne loans and advances to customers						
High quality	-	79	84	2	165	1%
Satisfactory quality	390	482	1,036	174	2,082	19%
Acceptable quality	1,088	1,346	1,989	12	4,435	39%
Lower quality but not past due or impaired	161	803	760	-	1,724	15%
Neither past due nor impaired	1,639	2,710	3,869	188	8,406	74%
Past due but not impaired	738	50	142	25	955	9%
Impaired	383	439	1,101	-	1,923	17%
Total forborne loans and advances to customers	2,760	3,199	5,112	213	11,284	100%

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

Unaudited:

Loans and advances to customers classified as **'neither past due nor impaired'** amounted to €72.9 billion or 79% of the Group's loan book at 31 December 2013 compared to €79.2 billion or 79% at 31 December 2012. Low demand for credit, repayments and exchange rate movements contributed significantly to the reduction in loans and advances to customers classified as 'neither past due nor impaired'.

Forborne loans and advances to customers classified as 'neither past due nor impaired' amounted to €8.7 billion or 79% of the Group's forborne loan book at 31 December 2013 compared to €8.4 billion or 74% at 31 December 2012.

The **'past due but not impaired'** category amounted to €4.0 billion or 4% of loans and advances to customers at 31 December 2013 compared to €4.7 billion or 5% at 31 December 2012. This reduction is largely driven by the decrease in Residential mortgages 'past due but not impaired.

Forborne loans and advances to customers classified as 'past due but not impaired' amounted to €1.0 billion or 9% of the Group's forborne loan book at 31 December 2013 compared to €1.0 billion or 9% at 31 December 2012.

'Impaired' loans decreased to €15.8 billion or 17% of loans and advances to customers at 31 December 2013 from €16.3 billion or 16% of loans and advances to customers at 31 December 2012. This decrease reflects the Group's progress in executing end state resolution strategies for challenged non-property corporate and Property and construction customers, aided by improving economic and property market conditions, particularly in the second six months of the year.

Forborne 'impaired' loans decreased to €1.3 billion or 12% of the Group's loan book at 31 December 2013 compared to €1.9 billion or 17% at 31 December 2012, consistent with the reduction in total loan and advances 'impaired' loans, and specifically in the Non-property SME and corporate and Property and construction portfolios.

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

Risk profile of loans and advances to customers

The tables below summarise the Group's loans and advances to customers according to the Group's interpretation of regulatory guidance with regard to 'performing' and 'non-performing' reflecting the observations of the CBI's AQR. Non-performing loans includes loans which are impaired, 90 days past due but not impaired and mortgages (denoted by *) which are forborne, have had their terms and conditions modified, were previously in default and which are subject to a twelve month probation period under revised contractual arrangements until they are reclassified to a performing status. Exposures are before provisions for impairment.

	31 December 2013		
Risk profile of loans and advances to customers (before impairment provisions)	**Performing €m**	**Non-performing €m**	**Total €m**
Total loans and advances to customers			
High quality	50,460	-	50,460
Satisfactory quality	12,603	-	12,603
Acceptable quality	6,244	-	6,244
Lower quality but not past due or impaired	3,357	256*	3,613
Neither past due nor impaired	**72,664**	**256**	**72,920**
Past due but not impaired			
- Past due 0 - 90 days	2,602	108*	2,710
- Past due more than 90 days but not impaired	-	1,340	1,340
Total past due but not impaired	**2,602**	**1,448**	**4,050**
Impaired	**-**	**15,785**	**15,785**
Total loans and advances to customers	**75,266**	**17,489**	**92,755**

The Group's total loans and advances to customers of €92,755 million at 31 December 2013 are analysed below over the following categories: 'non-forborne' and 'forborne'. Exposures are before provisions for impairment.

Non-forborne loans and advances to customers			
High quality	50,388	-	50,388
Satisfactory quality	10,480	-	10,480
Acceptable quality	2,374	-	2,374
Lower quality but not past due or impaired	1,023	-	1,023
Neither past due nor impaired	**64,265**	**-**	**64,265**
Past due but not impaired			
- Past due 0 - 90 days	2,047	-	2,047
- Past due more than 90 days but not impaired	-	975	975
Total past due but not impaired	**2,047**	**975**	**3,022**
Impaired	**-**	**14,462**	**14,462**
Total non-forborne loans and advances to customers	**66,312**	**15,437**	**81,749**
Forborne loans and advances to customers			
High quality	72	-	72
Satisfactory quality	2,123	-	2,123
Acceptable quality	3,870	-	3,870
Lower quality but not past due or impaired	2,334	256*	2,590
Neither past due nor impaired	**8,399**	**256**	**8,655**
Past due but not impaired			
- Past due 0 - 90 days	555	108*	663
- Past due more than 90 days but not impaired	-	365	365
Total past due but not impaired	**555**	**473**	**1,028**
Impaired	**-**	**1,323**	**1,323**
Total forborne loans and advances to customers	**8,954**	**2,052**	**11,006**

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

'Past due and / or impaired'

The tables below provide an aged analysis of loans and advances to customers 'past due and / or impaired' by asset classification. Amounts arising from operational and / or timing issues that are outside the control of customers are generally excluded.

31 December 2013 Risk profile of loans and advances to customers - past due and / or impaired	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Total loans and advances to customers					
Past due up to 30 days	684	169	154	59	1,066
Past due up to 31 - 60 days	887	36	171	33	1,127
Past due up to 61 - 90 days	377	38	88	14	517
	1,948	**243**	**413**	**106**	**2,710**
Past due more than 90 days but not impaired	1,340	-	-	-	1,340
Impaired	3,047	3,911	8,591	236	15,785
Defaulted loans	**4,387**	**3,911**	**8,591**	**236**	**17,125**
Total loans and advances to customers - past due and / or impaired	**6,335**	**4,154**	**9,004**	**342**	**19,835**

The Group's total loans and advances to customers - past due and / or impaired of €19,835 million at 31 December 2013 are analysed below over the following categories: 'non-forborne' and 'forborne'. Exposures are before provisions for impairment.

	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Non-forborne loans and advances to customers					
Past due up to 30 days	557	118	58	53	786
Past due up to 31 - 60 days	780	13	75	24	892
Past due up to 61 - 90 days	307	25	27	10	369
	1,644	**156**	**160**	**87**	**2,047**
Past due more than 90 days but not impaired	975	-	-	-	975
Impaired	2,597	3,621	8,008	236	14,462
Defaulted loans	**3,572**	**3,621**	**8,008**	**236**	**15,437**
Total non-forborne loans and advances to customers - past due and / or impaired	**5,216**	**3,777**	**8,168**	**323**	**17,484**
Forborne loans and advances to customers					
Past due up to 30 days	127	51	96	6	280
Past due up to 31 - 60 days	107	23	96	9	235
Past due up to 61 - 90 days	70	13	61	4	148
	304	**87**	**253**	**19**	**663**
Past due more than 90 days but not impaired	365	-	-	-	365
Impaired	450	290	583	-	1,323
Defaulted loans	**815**	**290**	**583**	**-**	**1,688**
Total forborne loans and advances to customers - past due and / or impaired	**1,119**	**377**	**836**	**19**	**2,351**

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

31 December 2012 Risk profile of loans and advances to customers - past due and / or impaired	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Total loans and advances to customers					
Past due up to 30 days	810	193	197	71	1,271
Past due up to 31 - 60 days	1,049	69	230	42	1,390
Past due up to 61 - 90 days	456	29	129	20	634
	2,315	291	556	133	3,295
Past due more than 90 days but not impaired	1,407	-	-	-	1,407
Impaired	2,847	4,358	8,809	281	16,295
Defaulted loans	4,254	4,358	8,809	281	17,702
Total loans and advances to customers - past due and / or impaired	6,569	4,649	9,365	414	20,997

The Group's total loans and advances to customers - past due and / or impaired of €20,997 million at 31 December 2012 are analysed below over the following categories: 'non-forborne' and 'forborne'. Exposures are before provisions for impairment.

	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Non-forborne loans and advances to customers					
Past due up to 30 days	669	163	104	62	998
Past due up to 31 - 60 days	930	57	196	31	1,214
Past due up to 61 - 90 days	378	21	114	15	528
	1,977	241	414	108	2,740
Past due more than 90 days but not impaired	1,007	-	-	-	1,007
Impaired	2,464	3,919	7,708	281	14,372
Defaulted loans	3,471	3,919	7,708	281	15,379
Total non-forborne loans and advances to customers - past due and / or impaired	5,448	4,160	8,122	389	18,119
Forborne loans and advances to customers					
Past due up to 30 days	141	30	93	9	273
Past due up to 31 - 60 days	119	12	34	11	176
Past due up to 61 - 90 days	78	8	15	5	106
	338	50	142	25	555
Past due more than 90 days but not impaired	400	-	-	-	400
Impaired	383	439	1,101	-	1,923
Defaulted loans	783	439	1,101	-	2,323
Total forborne loans and advances to customers - past due and / or impaired	1,121	489	1,243	25	2,878

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

Unaudited:

Loans and advances to customers classified as 'past due and / or impaired' amounted to €19.8 billion or 21% of the Group's loan book at 31 December 2013 compared to €21.0 billion or 21% at 31 December 2012. Forborne loans and advances to customers classified as 'past due and / or impaired' amounted to €2.4 billion or 21% of the Group's forborne loan book at 31 December 2013 compared to €2.9 billion or 26% at 31 December 2012.

Residential mortgages classified as 'past due and / or impaired' decreased by €0.3 billion from €6.6 billion at 31 December 2012 to €6.3 billion at 31 December 2013 reflecting the reduced volume of Retail Ireland and Retail UK Residential mortgage loans classified as past due up to 90 days, which was partially offset by the increase in the volume of Retail Ireland Residential mortgage loans classified as 'impaired'. Forborne Residential mortgages classified as 'past due and / or impaired' remained unchanged at €1.1 billion.

Property and construction loans classified as 'past due and / or impaired' were €9 billion at 31 December 2013 (€9.4 billion at 31 December 2012) a decrease of €0.4 billion, reflecting the reduction in the volume of loans classified as 'impaired' as referenced earlier, together with a reduction in Property and construction loans past due up to 90 days. Forborne Property and construction loans classified as 'past due and / or impaired' decreased by €0.4 billion from €1.2 billion at 31 December 2012 to €0.8 billion at 31 December 2013, consistent with the overall reduction in 'past due and / or impaired' Property and construction loans.

The volume of Non-property SME and corporate loans that are 'past due and / or impaired' decreased by €0.5 billion to €4.2 billion at 31 December 2013 primarily reflecting a reduction in the volume of Non-property Corporate loans classified as 'impaired'. Forborne non-property SME and corporate loans classified as 'past due and / or impaired' decreased by €0.1 billion from €0.5 billion at 31 December 2012 to €0.4 billion at 31 December 2013.

Consumer loans that are 'past due and / or impaired' are €342 million at 31 December 2013 compared to €414 million at 31 December 2012, reflecting the overall reduction in consumer loans due to accelerated repayments and subdued demands for new loans and other credit facilities. Forborne Consumer loans that are 'past due and / or impaired' are minimal at €19 million at 31 December 2013 (31 December 2012: €25 million).

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

31 December 2013 **Total loans and advances to customers Composition and impairment**	**Advances (pre-impairment) €m**	**Defaulted loans €m**	**Defaulted loans as % of advances %**	**Impairment provisions €m**	**Impairment provisions as % of defaulted loans %**
Residential Mortgages	51,646	4,387	8.5%	2,002	46%
- Retail Ireland	*26,700*	*3,796*	*14.2%*	*1,863*	*49%*
- Retail UK	*24,946*	*591*	*2.4%*	*139*	*24%*
Non-property SME and corporate	21,485	3,911	18.2%	1,909	49%
- Republic of Ireland SME	*10,275*	*2,747*	*26.7%*	*1,379*	*50%*
- UK SME	*3,339*	*571*	*17.1%*	*286*	*50%*
- Corporate	*7,871*	*593*	*7.5%*	*244*	*41%*
Property and construction	16,802	8,591	51.1%	4,118	48%
- Investment	*13,639*	*5,766*	*42.3%*	*2,183*	*38%*
- Land and development	*3,163*	*2,825*	*89.3%*	*1,935*	*68%*
Consumer	2,822	236	8.4%	212	90%
Total loans and advances to customers	**92,755**	**17,125**	**18.5%**	**8,241**	**48%**

31 December 2012 Total loans and advances to customers Composition and impairment	Advances (pre-impairment) €m	Defaulted loans €m	Defaulted loans as % of advances %	Impairment provisions €m	Impairment provisions as % of defaulted loans %
Residential Mortgages	55,028	4,254	7.7%	1,594	37%
- Retail Ireland	*27,485*	*3,610*	*13.1%*	*1,452*	*40%*
- Retail UK	*27,543*	*644*	*2.3%*	*142*	*22%*
Non-property SME and corporate	22,973	4,358	19.0%	1,836	42%
- Republic of Ireland SME	*10,733*	*2,846*	*26.5%*	*1,213*	*43%*
- UK SME	*3,524*	*631*	*17.9%*	*234*	*37%*
- Corporate	*8,716*	*881*	*10.1%*	*389*	*44%*
Property and construction	19,162	8,809	46.0%	3,876	44%
- Investment	*15,561*	*5,585*	*35.9%*	*1,931*	*35%*
- Land and development	*3,601*	*3,224*	*89.5%*	*1,945*	*60%*
Consumer	3,002	281	9.4%	238	85%
Total loans and advances to customers	100,165	17,702	17.7%	7,544	43%

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

Unaudited:

Loans and advances to customers reduced by 7% or €7.4 billion, from €100.2 billion at 31 December 2012 to €92.8 billion at 31 December 2013 due to muted demand for new lending, actions taken by customers to reduce their levels of debt and movements in foreign exchange.

Defaulted loans decreased to €17.1 billion at 31 December 2013 from €17.7 billion at 31 December 2012 and €18.3 billion at 30 June 2013. The reduction in defaulted loans reflects the Group's progress in executing a combination of end state resolution strategies aided by improved economic and property market conditions. These strategies include debt restructures, loan sales, collateral realisation, customer repayments and utilisation of impairment provisions.

The stock of **impairment provisions** increased from €7.5 billion at 31 December 2012 to €8.2 billion at 31 December 2013 and impairment provisions as a percentage of defaulted loans ('total provision cover') also increased from 43% at 31 December 2012 to 48% at 31 December 2013. Impairment provisions of €8.2 billion at 31 December 2013 are after provisions utilised of €1.1 billion as set out in note 26 on page 240.

Total **Residential mortgages** defaulted loans increased to €4.4 billion or 8.5% of the loan book at 31 December 2013 from €4.3 billion or 7.7% of the loan book at 31 December 2012, reflecting increased default arrears (based on loan volumes 90 days or more past due and / or impaired) in the Retail Ireland mortgage book and the reduction in the volume of Residential mortgage loans.

The Retail UK Residential mortgage loan book is broadly stable, with reduced defaulted loans reflecting improved economic and residential property market conditions in the UK.

Further additional disclosures on the Retail Ireland and Retail UK Residential mortgages is set out in the Supplementary Asset Quality Disclosures section on page 380.

Non-property SME and corporate defaulted loans decreased to €3.9 billion or 18.2% of the loan book at 31 December 2013 from €4.4 billion or 19.0% of the loan book at 31 December 2012. The reduction in non-property SME and corporate defaulted loans is driven largely by the Group's progress in executing end state resolution strategies for larger challenged non-property Corporate customers, particularly in the second six months of the year.

There have been some signs of improvement for the Irish SME sector, albeit trading conditions remained difficult during the year, and particularly for those sectors correlated with consumer spending. The Group's international corporate banking portfolios continue to perform satisfactorily.

Defaulted loans in the **Property and construction** portfolio decreased from €8.8 billion or 46.0% of the portfolio at 31 December 2012 to €8.6 billion or 51.1% of the portfolio at 31 December 2013.

In the Investment property sector, defaulted loans were €5.8 billion at 31 December 2013 as compared with €5.6 billion at 31 December 2012 and €5.9 billion at 30 June 2013. Commercial property values rose by 3% in RoI in 2013, the first annual increase in property values since 2007. Commercial property values rose by 4% in the UK in 2013, with rising returns spreading to key regional centres in recent months. Defaulted loans reflect the continued challenges in both the RoI and UK Retail sectors for much of 2013, as evidenced by increased retail tenant defaults and high vacancy levels.

Land and development defaulted loans amounted to €2.8 billion or 89.3% of the portfolio at 31 December 2013 from €3.2 billion or 89.5% of the portfolio at 31 December 2012, reflecting economic conditions.

Consumer defaulted loans amounted to €236 million or 8.4% of the loan portfolio at 31 December 2013 (31 December 2012: defaulted loans of €281 million or 9.4% of the loan portfolio). Consumer loans have continued to reduce reflecting accelerated repayments and subdued demand for new loans and other credit facilities.

Coverage ratios have increased from 43% at 31 December 2012 to 48% at 31 December 2013 reflecting the decrease in the level of defaulted loans and the impact of impairment charges of €1,665 million during 2013. Coverage ratios have increased across most portfolios over the same period.

Credit risk (continued)

Asset Quality - Segmental analysis

(audited)

31 December 2013

Risk profile of loans and advances to customers Total before impairment provisions	**Retail Ireland €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Total Group €m**
High quality	22,641	25,454	2,365	50,460
Satisfactory quality	5,464	2,470	4,669	12,603
Acceptable quality	3,002	1,612	1,630	6,244
Lower quality but not past due or impaired	1,558	1,283	772	3,613
Neither past due nor impaired	**32,665**	**30,819**	**9,436**	**72,920**
Past due but not impaired	2,268	1,717	65	4,050
Impaired	10,237	4,530	1,018	15,785
Past due and / or impaired	**12,505**	**6,247**	**1,083**	**19,835**
Total	**45,170**	**37,066**	**10,519**	**92,755**

31 December 2012

Risk profile of loans and advances to customers Total before impairment provisions	Retail Ireland €m	Retail UK €m	Corporate and Treasury €m	Total Group €m
High quality	24,080	27,715	2,359	54,154
Satisfactory quality	5,280	3,211	4,778	13,269
Acceptable quality	3,536	2,182	2,475	8,193
Lower quality but not past due or impaired	1,622	1,305	625	3,552
Neither past due nor impaired	34,518	34,413	10,237	79,168
Past due but not impaired	2,596	2,074	32	4,702
Impaired	10,024	4,734	1,537	16,295
Past due and / or impaired	12,620	6,808	1,569	20,997
Total	47,138	41,221	11,806	100,165

Credit risk (continued)

Asset Quality - Segmental analysis (continued)

The table below provides an aged analysis of loans and advances to customers 'past due and / or impaired' by division:

31 December 2013 **Loans and advances to customers which are past due and / or impaired** **Total before impairment provisions**	**Retail Ireland €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Total Group €m**
Past due up to 30 days	687	371	8	1,066
Past due up to 31 - 60 days	344	745	38	1,127
Past due up to 61 - 90 days	221	277	19	517
	1,252	**1,393**	**65**	**2,710**
Past due more than 90 days but not impaired	1,016	324	-	1,340
Impaired	10,237	4,530	1,018	15,785
Defaulted loans	**11,253**	**4,854**	**1,018**	**17,125**
Total past due and / or impaired loans	**12,505**	**6,247**	**1,083**	**19,835**

31 December 2012 Loans and advances to customers which are past due and / or impaired	Retail Ireland €m	Retail UK €m	Corporate and Treasury €m	Total Group €m
Past due up to 30 days	885	379	7	1,271
Past due up to 31 - 60 days	419	953	18	1,390
Past due up to 61 - 90 days	259	368	7	634
	1,563	1,700	32	3,295
Past due more than 90 days but not impaired	1,033	374	-	1,407
Impaired	10,024	4,734	1,537	16,295
Defaulted loans	11,057	5,108	1,537	17,702
Total past due and / or impaired loans	12,620	6,808	1,569	20,997

Repossessed collateral

At 31 December 2013, the Group had collateral held as security, as follows:

Repossessed collateral	**31 December 2013 €m**	31 December 2012 €m
Residential properties;		
Ireland	25	17
UK and other	35	45
	60	**62**
Other	6	7
Total	**66**	**69**

Credit risk (continued)

Asset Quality - Other financial instruments

(audited except where denoted unaudited)

Asset quality: Other financial instruments

Other financial instruments include trading securities, derivative financial instruments, other financial instruments at fair value through profit or loss (excluding equity instruments), loans and advances to banks, available for sale financial assets (excluding equity instruments), NAMA senior bonds, interest receivable and any reinsurance assets. The table below sets out the Group's exposure to Other financial instruments based on the gross amount before provisions for impairment.

Other financial instruments are rated using external ratings attributed to external agencies or are assigned an internal rating based on the Group's internal models, or a combination of both. Mappings to external ratings agencies in the table below are therefore indicative only.

Asset quality:			Restated[1]	
	31 December 2013		31 December 2012	
Other financial instruments with ratings equivalent to:	**€m**	**%**	€m	%
AAA to AA-	7,500	25%	7,514	21%
A+ to A-	7,209	24%	10,036	28%
BBB+ to BBB-	13,988	47%	16,809	47%
BB+ to BB-	510	2%	648	2%
B+ to B-	125	1%	277	1%
Lower than B-	201	1%	225	1%
Total	**29,533**	**100%**	**35,509**	**100%**

[1] *The comparative period has been restated to reflect the change in rating categories in the current year.*

In addition, the Group adopted IFRS 10, from 1 January 2013, which resulted in the deconsolidation of certain entities with interests in an international investment property within Retail Ireland. The comparative figures for 31 December have been restated to reflect this, resulting in a reduction of €4 million in liquid assets, which is included in the category A+ to A- above (see note 58).

Unaudited:

Other financial instruments at 31 December 2013 amounted to €29.5 billion, a decrease of €6.0 billion as compared with €35.5 billion at 31 December 2012. This decrease primarily reflects a lower level of loans and advances to banks including the Group's cancellation of the repo transaction with IBRC of €3.1 billion in February 2013.

Credit risk (continued)

Credit risk methodologies

(audited)

Internal credit rating models
The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes within the Group.

The primary model measures used are:
- Probability of Default (PD): the probability of a given counterparty defaulting on any of its borrowings from the Group within the next twelve months;
- Exposure at Default (EAD): the exposure the Group has to a defaulting borrower at the time of default;
- Loss Given Default (LGD): the loss incurred (after the realisation of any collateral) on a specific transaction should the borrower default, expressed as a percentage of EAD; and
- Maturity: the contractual or estimated time period until an exposure is fully repaid or cancelled.

These measures are used to calculate expected loss and are fully embedded in, and form an essential component of, the Group's operational and strategic credit risk management and credit pricing practices.

For the Group's retail consumer and smaller business portfolios, which are characterised by a large volume of customers with smaller individual exposures, the credit risk assessment is grounded on application and behavioural scoring tools. For larger commercial and corporate customers, the risk assessment is underpinned by statistical risk rating models which incorporate quantitative information from the customer (e.g. financial accounts) together with a qualitative assessment of non-financial risk factors such as management quality and market / trading outlook. Other financial assets are assigned an internal rating supported by external ratings of the major rating agencies.

The credit risk rating systems employed within the Group use statistical analysis combined, where appropriate, with external data and the judgement of professional lenders.

An independent unit annually validates internal credit risk models from a performance and compliance perspective. This unit provides reports to the Risk Measurement Committee (RMC).

Risk modelling is also applied at a portfolio level in the Group's credit businesses to guide economic capital allocation and strategic portfolio management.

The measures to calculate credit risk referred to above are used to calculate expected loss on a regulatory basis. A different basis is used to derive the amount of incurred credit losses for financial reporting purposes. For financial reporting purposes, impairment allowances are recognised only with respect to losses that have been incurred at the balance sheet date based on objective evidence of impairment.

Regulatory approval of approaches
The Bank of Ireland Group has regulatory approval to use its internal credit models in the calculation of its capital requirements. As at 31 December 2013, 79% of credit risk weighted assets (excluding non-credit obligations) were calculated using internal credit models. This approval covers the adoption of the Foundation IRB approach for non-retail exposures and the Retail IRB approach for retail exposures.

The structure of internal rating systems
The Group divides its internal rating systems into non-retail and retail approaches. Both approaches differentiate PD estimates into eleven grades in addition to the category of default. For both non-retail and retail internal rating systems, default is defined based on the likelihood of non- payment indicators that vary between borrower types. In all cases, exposures 90 days or more past due are considered to be in default.

PD calculation
The Group produces estimates of PD on either or both of the following bases:
- Through-the-Cycle (TtC) estimates are estimates of default over an entire economic cycle, averaged to a twelve month basis. These are in effect averaged expectations of PD for a borrower over the economic cycle; and
- Cyclical estimates are estimates of default applicable to the next immediate twelve months. These cyclical estimates partially capture the economic cycle in that they typically rise in an economic downturn and decline in an economic upturn but not necessarily to the same degree as default rates change in the economy.

Non-Retail internal rating systems
The Group has adopted the Foundation IRB approach for certain of its non-retail exposures. Under this approach, the Group calculates its own estimates for probability of default and uses supervisory estimates of loss given default, typically 45%, and credit conversion factors. To calculate PD, the Group assesses the credit quality of borrowers and other counterparties using criteria particular to the type of borrower under consideration. In the case of financial institutions, external credit agency ratings provide a significant challenge within the Group's ratings approach. For exposures other than financial institutions, external ratings, when available for borrowers, play a role in the independent validation of internal estimates.

Retail internal rating systems
The Group has adopted the Retail IRB approach for its retail exposures. Under this approach, the Group calculates its own estimates for PD, loss given default and credit conversion factors. External ratings do not play a role within the Group's retail internal rating systems,

Credit risk (continued)

Credit risk methodologies (continued)

however, external credit bureau data does play a significant role in assessing UK retail borrowers. To calculate loss given default and credit conversion factors, the Group assesses the nature of the transaction and underlying collateral. Both loss given default and credit conversion factors estimates are calibrated to produce estimates of behaviour characteristic of an economic downturn.

Other uses of Internal Estimates
Internal estimates play an essential role in risk management and decision making processes, the credit approval functions, the internal capital allocation function and the corporate governance functions of the Group. The specific uses of internal estimates differ from portfolio to portfolio, and for retail and non-retail approaches, but typically include:
- internal reporting;
- credit management;
- calculation of risk adjusted return on capital (RAROC);
- credit decisioning / automated credit, decisioning;
- borrower credit approval; and
- internal capital allocation between businesses of the Group.

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

Control mechanisms for rating systems
The control mechanisms for rating systems are set out in the Group's model risk policy. Model risk is one of the ten key risk types identified by the Group, the governance of which is outlined in the Group's Risk Framework. RMC approves all risk rating models, model developments, model implementations and all associated policies. The Group mitigates model risk as follows:
- model development standards: the Group adopts centralised standards and methodologies over the operation and development of models. The Group has specific policies on documentation, data quality and management, conservatism and validation. This mitigates model risk at model inception;
- model governance: the Group adopts a uniform approach to the governance of all model related activities. This ensures the appropriate involvement of stakeholders, ensuring that responsibilities and accountabilities are clear;
- model performance monitoring: all models are subject to testing on a quarterly basis. The findings are reported to, and appropriate actions, where necessary, approved by RMC; and
- independent validation: all models are subject to in-depth analysis at least annually. This analysis is carried out by a dedicated unit (the Independent Control Unit – ICU). It is independent of credit origination and management functions.

In addition, Group Internal Audit regularly reviews the risk control framework including policies and standards to ensure that these are being adhered to, meet industry good practices and are compliant with regulatory requirements. The ICU function is independently audited on an annual basis.

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

Methodology for loan loss provisioning
All credit exposures, either individually or collectively, are regularly reviewed for objective evidence of impairment. Where such evidence of impairment exists, the exposure is measured for an impairment provision. The criteria used to determine if there is objective evidence of impairment include:
- delinquency in contractual payments of principal or interest;
- cash flow difficulties;
- breach of loan covenants or conditions;
- granting a concession to a borrower, for economic or legal reasons, relating to the borrower's financial difficulty that would otherwise not be considered;
- deterioration of the borrower's competitive position;
- deterioration in the value of collateral;
- external rating downgrade below an acceptable level; or
- initiation of bankruptcy proceedings.

At 31 December 2013, each of the following portfolio specific events requires the completion of an impairment assessment to determine whether a loss event has occurred at the balance sheet date that may lead to recognition of impairment losses:

Residential mortgages
- loan asset has fallen 90 days past due;
- a forbearance measure has been requested by a borrower and formally assessed;
- a modification of loan terms resulting in the non-payment of interest, including the refinancing and renegotiation of facilities where there is evidence of a loss event and / or borrower financial distress;
- notification of, or intended application for, bankruptcy proceedings, debt settlement or personal insolvency arrangement or similar; or
- offer of voluntary sale at possible shortfall or voluntary surrender of property security.

Non-property SME and Corporate
- loan asset has fallen 90 days past due
- a forbearance measure has been requested by a borrower and formally assessed;
- a modification of loan terms resulting in the non-payment of interest, including the refinancing and renegotiation of facilities where there is evidence of a loss event and / or borrower financial distress;
- internal credit risk rating, or external credit rating, has been downgraded below a certain level;

Credit risk (continued)

Credit risk methodologies (continued)

- financial statements or financial assessment indicates inability of the borrower to meet debt service obligations and / or a negative net assets position;
- borrower has ceased trading; or
- initiation of bankruptcy / insolvency proceedings.

Property and construction
- loan asset has fallen 90 days past due;
- a forbearance measure has been requested by a borrower and formally assessed;
- a modification of loan terms resulting in the non-payment of interest, including the refinancing and renegotiation of facilities where there is evidence of a loss event and / or borrower financial distress;
- internal credit risk rating, or external credit rating, has been downgraded below a certain level;
- financial statements or financial assessment indicates inability of the borrower to meet debt service obligations and/ or a negative net assets position;
- initiation of bankruptcy / insolvency proceedings;
- a fall in the assessed current value of security such that the loan to value ratio is greater than or equal to 120%;
- a fall in net rent such that it is inadequate to cover interest with little / no other income to support debt service capacity (Investment property exposures only); or
- a fall in the assessed gross development value such that sale proceeds are no longer expected to fully repay debt (development exposures only).

Consumer
- loan asset has fallen 90 days past due;
- a forbearance measure has been requested by a borrower and formally assessed; or
- a modification of loan terms resulting in the non-payment of interest, including the refinancing and renegotiation of facilities where there is evidence of a loss event and / or borrower financial distress

Where objective evidence of impairment exists, as a result of one or more past events, the Group is required to estimate the recoverable amount of the exposure or group of exposures.

For financial reporting purposes, loans on the balance sheet that become impaired are written down to their estimated recoverable amount. The amount of this write down is taken as an impairment charge in the income statement.

Loans with a specific impairment provision attaching to them together with loans (excluding Residential mortgages) which are more than 90 days in arrears are included as impaired loans.

The Group's impairment provisioning methodologies are compliant with IFRS. International Accounting Standard (IAS) 39 requires objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

Methodology for individually assessing impairment
An individual impairment assessment is performed for any exposure for which there is objective evidence of impairment and where the exposure is above an agreed threshold. For Residential mortgage, Non-property SME and corporate, and Property and construction exposures, a de-minimus total customer exposure level of €1 million applies for the mandatory completion of a discounted cash flow analysis for the assessment of impairment. The carrying amount of the exposure net of the estimated recoverable amount (and thus the specific provision required) is calculated using a discounted cashflow analysis. This calculates the estimated recoverable amount as the present value of the estimated future cash flows, discounted at the exposure's original effective interest rate (or the current effective interest rate for variable rate exposures). The estimated future cash flows include forecasted principal and interest payments (not necessarily contractual amounts due) including cash flows, if any, from the realisation of collateral / security held, less realisation costs.

A significant element of the Group's credit exposures are assessed for impairment on an individual basis. An analysis of the Group's impairment provisions and impairment charge by nature of impairment provision is set out in the tables on pages 83 to 84.

Methodology for collectively assessing impairment
Where exposures fall below the threshold for individual assessment of impairment by way of discounted cash flow analysis, such exposures are subject to individual lender assessment to assess for impairment (which may involve the completion of a discounted cash flow analysis to quantify the specific provision amount), or are automatically included for collective impairment provisioning. For collective impairment provisioning, exposures with similar credit risk characteristics (e.g. portfolio of consumer personal loans) are pooled together and a provision is calculated by estimating the future cash flows of a group of exposures. In pooling exposures based on similar credit risk characteristics, consideration is given to features including: asset type; industry; past due status; collateral type; and forbearance status. The provision estimation considers the expected contractual cash flows of the exposures in a portfolio and the historical loss experience for exposures with credit risk characteristics similar to those in the portfolio being assessed. Assumptions

Credit risk (continued)

Credit risk methodologies (continued)

and parameters used to create the portfolio provision, which are based on historical experience (i.e. amount and timing of cash flows / loss given default), are regularly compared against current experience in the loan book and current market conditions.

For example, Retail Ireland Residential mortgage customer exposures less than €1 million are provisioned for impairment on a collective basis. These mortgage exposures are pooled based on similar credit risk characteristics such as: asset type; geographical location; origination channel; and forbearance status. The Retail Ireland Residential mortgage collective specific provisioning model has been revised, in the current year, for implementation of the revised Central Bank of Ireland Impairment Provisioning and Disclosures Guidelines (May 2013) (‘CBI guidelines’). This provisioning model redevelopment included:

- enhanced cure segmentation, incorporating forbearance and loan to value (for relevant cohorts) as segmentation factors;
- application of a twelve month probation period and a less than 30 days past due status for loans to cure; and
- revised cure rate calculations to exclude loans with interest only forbearance and apply a zero cure rate to loans where the Group has taken a decision to foreclose.

The Group’s Retail Ireland Residential mortgage portfolio is the most material portfolio which is collectively assessed for provisioning purposes, and therefore is the portfolio which has been most impacted by implementation of the revised CBI guidelines as highlighted below.

Some of the key factors used in the calculation of the portfolio specific provision for the Retail Ireland Residential mortgage portfolio include assumptions in relation to: residential property price peak to trough (31 December 2013: 55%); weighted average cure rate (31 December 2013: c.4.8% over two years) forced sale discount / work-out costs (31 December 2013: (c.15%), and time to sale (31 December 2013: continuing 2 year rolling average from the reporting date). The provisioning model assumptions and parameters use historical loan loss experience adjusted where appropriate for current conditions and current observable data. Cure assumptions reflect the revised CBI guidelines definition of cure which requires satisfactory completion of a twelve month probation period, while being less than 30 days past due. All provisioning model assumptions and parameters are reviewed on a half-yearly basis and updated, if appropriate, based on most recent observed experience.

A key assumption used in the calculation of the collective specific impairment provisions for Retail Ireland Residential mortgages is the expected decline in the value of underlying residential properties securing the loans. At 31 December 2013, the assumption adopted by the Group in respect of expected average decline in the value of Irish residential properties was 55% from their peak in 2007. Actual house prices in Ireland, as published by the CSO in its residential property price index, showed a decline of 46% nationally from peak to 31 December 2013.

The collective specific provisioning methodology has been reviewed in light of the revised CBI guidelines, whilst the factors and assumptions underpinning the collective specific provisioning model have also been updated for the Group’s most recent observed experience. The more material changes to the model factors and assumptions compared to 31 December 2012 relate to cure, both segmentation and rate, driven by implementation of the revised definition of cure in line with the CBI guidelines as outlined above. At 31 December 2013, the collective specific provisioning model cure assumptions are segmented by a number of factors, including forbearance classification, and LTV (for relevant cohorts), and reflect a weighted average cure rate of c.4.8% over 2 years. At 31 December 2012, the collective specific provisioning model cure assumptions were not segmented for forbearance or LTV, and a weighted average cure rate of c.9.75% over two years, based on actual observed experience, was applied. These assumptions are not directly comparable and the reduction in the weighted average cure rate applied in the collective specific provisioning methodology at 31 December 2013 is as a result of the implementation of the revised CBI guidelines. There have been no other material changes to the collective specific model factors and assumptions compared to 31 December 2012.

The Group’s critical accounting estimates and judgements on pages 209 and 210, includes sensitivity analysis disclosure on some of the key judgmental areas, including Residential mortgages, in the estimation of impairment charges.

Where there is objective evidence of impairment on a collective basis, this is reported as a specific provision (‘collective specific’) in line with individually assessed loans. An analysis of the Group’s impairment provisions and impairment charge by nature of impairment provision is set out in the tables on page 81 and pages 83 to 85.

Credit risk (continued)

Credit risk methodologies (continued)

Methodology for establishing incurred but not reported (IBNR) provisions
Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio / group of exposures at the date of assessment. These are described as incurred but not reported provisions. Statistical models are used to determine the appropriate level of IBNR provisions for a portfolio / group of exposures with similar credit risk characteristics (e.g. asset type, geographical location, forbearance status etc.). These models estimate latent losses taking into account three observed and / or estimated factors:

- loss emergence rates (based on historic grade migration experience or probability of default, offset by cure expectations where appropriate);
- the emergence period (historic experience, adjusted to reflect the current conditions and the credit management model); and
- loss given default rates (loss and recovery rates using historical loan loss experience, adjusted where appropriate to reflect current observable data).

Account performance is reviewed periodically to confirm that the credit grade or probability of default assigned remains appropriate and to determine if impairment has arisen. For consumer and smaller ticket commercial exposures, the review is largely based on account behaviour and is highly automated. Where there are loan arrears, excesses, dormancy, etc. the account is downgraded to reflect the higher underlying risk.

A significant element of the Group's IBNR provisions relate to the Retail Ireland Residential mortgage portfolio. A key assumption used in the calculation of the IBNR impairment provisions for defaulted (but not impaired) Retail Ireland Residential mortgages is the expected decline in the value of underlying residential properties securing the loans. At 31 December 2013, the assumption adopted by the Group in respect of expected average decline in the value of Irish residential properties was 55% from their peak in 2007. Actual house prices in Ireland, as published by the CSO in its residential property price index, showed a decline of 46% nationally from peak to 31 December 2013.

The IBNR provisioning methodology has been reviewed during the year to implement the revised CBI guidelines and the resulting methodology changes, particularly in relation to cure assumptions, are the same as those outlined above in respect of the Retail Ireland Residential mortgage collective specific provisioning methodology. The factors and assumptions underpinning the Retail Ireland Residential mortgage IBNR provisioning model have also been updated for the Group's most recent observed experience. At 31 December 2013, the default (but not impaired) IBNR provisioning model cure assumptions are segmented by a number of factors, including forbearance classification, and LTV (for relevant cohorts), and reflect a weighted average cure rate of c.7.4% over two years. IBNR cure assumptions reflect the revised CBI guidelines definition of cure which includes satisfactory completion of a twelve month probation period, while being less than 30 days past due. At 31 December 2012, the IBNR provisioning model cure assumptions were not segmented for forbearance or LTV, and a weighted average cure rate of c.24% over two years, based on actual observed experience, was applied. These assumptions are not directly comparable and the reduction in the weighted average cure rate applied in the IBNR provisioning methodology at 31 December 2013 is as a result of the implementation of the revised CBI guidelines.

For larger commercial loans the relationship manager reassesses the risk at least annually (more frequently if circumstances or grade require) and re-affirms or amends the grade (credit and PD grade) in light of new information or changes (e.g. up to date financials or changed market outlook). Grade migration and adjusted PD grades are analysed for inclusion in the loss model. Recent data sets are used in order to capture current trends rather than averaging over a period which might include earlier and less stressed points in the credit cycle.

Emergence period refers to the period of time between the occurrence and reporting of a loss event. Emergence periods are reflective of the characteristics of the particular portfolio. For example, at 31 December 2013, emergence periods are in the following ranges: forborne 9-10 months, non-forborne 7-9 months for Retail Ireland Residential mortgages and 3-4 months for both forborne and non-forborne larger SME / Corporate and Property loans. Emergence periods are estimated based on historic loan loss experience supported by back testing and, as appropriate, individual case sampling. Given the economic environment over recent years, emergence periods reflect the more intensive credit management model in place, particularly for the Group's larger SME / Corporate and Property loans, where all vulnerable portfolios are reviewed on a shortened cycle. Emergence periods are reviewed and back tested half-yearly and updated as appropriate. At 31 December 2013, the only material change to emergence periods, compared to 31 December 2012, is the segmentation of the emergence period for the Retail Ireland Residential mortgage portfolio between forborne and non-forborne (previously nine months for forborne and non-forborne).

The LGD is calculated using historical loan loss experience and is adjusted where appropriate to apply management's credit expertise to reflect current observable

Credit risk (continued)

Credit risk methodologies (continued)

data (including an assessment of the deterioration in the property sector, discounted collateral values and repayment prospects, etc.).

While loss emergence rates have been assessed in light of the Group's most recent grade migration experience and current probability of default grades, back testing of emergence periods and LGD factors against current experience in the loan book has not resulted in any material changes in these factors compared to 31 December 2012, with the exception of the changes outlined above in relation to cure and emergence period. All IBNR provisioning model assumptions and parameters are reviewed on a half-yearly basis and updated, if appropriate, based on most recent observed experience. Increasing the emergence period or LGD factors in the IBNR model would give rise to an increase in the level of IBNR provisions for a portfolio.

The Group's critical accounting estimates and judgements on page 209 includes sensitivity analysis disclosure on some of the key judgemental areas in the estimation of IBNR provisions.

Methodology for loan loss provisioning and forbearance

Forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay prior to any decision to grant a forbearance treatment. This assessment may result in a disimprovement in the credit grade assigned to the loan, potentially impacting how frequently the loan must be formally reviewed; and, where impairment is deemed to have occurred, will result in a specific provision.

Individually Assessing Impairment & Forbearance

The methodology for individually assessing impairment, whether an exposure is forborne or not, is as outlined above (i.e. on an individual case-by-case basis). The underlying credit risk rating of the exposure, and ultimately the individual impairment assessment, takes into account the specific credit risk characteristics of the exposure.

Collectively assessing impairment and forbearance

Forborne exposures are pooled together for collective impairment provisioning, including IBNR provision calculations, as detailed above. Assumptions and parameters used to create the portfolio provision(s) take into consideration the historical experience on assets subject to forbearance (e.g. amount and timing of cash flows, cure experience, emergence period etc.), adjusted where appropriate to reflect current conditions, and require the satisfactory completion of a twelve month probation period, while being less than 30 days past due. Management adjustments are also applied, as appropriate, where historical observable data on forborne assets may be limited. Impairment provisioning methodologies and provisioning model factors applied to forborne loan pools are reviewed regularly, and revised if necessary, to ensure that they remain reasonable and appropriate and reflective of the credit characteristics of the portfolio being assessed and current conditions. This includes a comparison of actual experience to expected outcome. As previously outlined, during the current year, the collective provisioning model methodologies have been further enhanced for forbearance segmentation, including forbearance treatment type (where relevant), and the differentiation of individual model factors between forborne and non-forborne where statistically relevant.

Provisioning and forbearance

For Residential mortgages, exposures which are subject to forbearance and have a specific provision are reported as both 'forborne' and 'impaired'. The total provision cover on the Residential mortgage portfolio which is subject to forbearance is higher (typically c.2-3 times higher) than that of the similar portfolio of Residential mortgage exposures which are not subject to forbearance. For non-residential mortgage exposures which are subject to forbearance and where a specific provision is required, the exposure is reported as 'impaired' and is not reported as 'forborne'. The IBNR provision cover on the non-residential mortgage portfolio which is subject to forbearance is higher (typically c.3 times higher) than that of the similar portfolio of non-residential mortgage exposures which are not subject to forbearance. In both cases, the higher provision cover is reflective of the additional credit risk inherent in such loans (given that forbearance is only provided to borrowers experiencing actual or apparent financial stress or distress), particularly the potentially higher risk of default and / or re-default.

Forbearance related disclosures are subject to evolving industry practice and regulatory guidance.

Impaired loans review

Irrespective of the valuation methodology applied, it is Group policy to review impaired loans above agreed thresholds quarterly, with the review including a reassessment of the recovery strategy, the continued appropriateness of the valuation methodology and the adequacy of the impairment provision.

Where information is obtained between reviews that impact expected cash flows (e.g. evidence of comparable transactions emerging, changes in local market conditions, etc.), an immediate review and assessment of the required impairment provision is undertaken.

Credit risk (continued)

Credit risk methodologies (continued)

An impaired loan is restored to unimpaired status when the contractual amount of principal and interest is deemed to be fully collectible. Typically, a loan is deemed to be fully collectible based on an updated assessment by the Group of the borrower's financial circumstances. The assessment includes a demonstration of the customer's ability to make payments on the original or revised terms and conditions as may be agreed with the Group as part of a sustainable forbearance arrangement.

Methodologies for valuation of collateral

Retail Ireland mortgage loan book property values are determined by reference to the original or latest property valuations held indexed to the Residential Property Price Index published by the CSO. Retail UK mortgage loan book property values are determined by reference to the original or latest property valuations held indexed to the Nationwide UK house price index.

In relation to commercial property valuations, there is a Court approved policy which 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. This policy is consistent with the CBI regulatory guidance. In line with the policy, valuations may include formal written valuations from external professionals or internally assessed valuations.

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 more detailed guidance and metrics which are approved at least annually by GRPC. These guidelines and metrics are informed by both internal and externally sourced market data / valuation information, including input from the Group's Real Estate Advisory Unit (REAU).

The appropriate methodology applied depends in part on the options available to management to maximise recovery which are driven by the particular circumstances of the loan and underlying collateral, e.g. the degree of liquidity and recent transactional evidence in the relevant market segment, the type, size and location of the property asset and its development potential and marketability. In all cases where the valuations for property collateral are used, the initial recommendation of the realisable value and the timeline for realisation are arrived at by specialist work-out units. These estimated valuations are subject to review, challenge and, potentially, revision by experienced independent credit professionals in underwriting units within the Credit & Market Risk function and are ultimately approved in line with delegated authority upon the recommendation of the credit underwriting unit. At all approval levels, the impairment provision and the underlying valuation methodology is reviewed and challenged for appropriateness, adequacy and consistency.

3.2 Liquidity risk

Key points

- The Capital Requirements Regulations that implement the Basel III liquidity requirements (Liquidity Coverage Ratio and Net Stable Funding Ratio) came into effect on 1 January 2014. The Group projects compliance with the ratios by the proposed implementation dates and is reporting its progress in this regard to the CBI under the Advanced Monitoring Framework.
- Group customer deposits of €74 billion have reduced by €1 billion since 31 December 2012. Planned volume reductions in Retail UK balances and foreign exchange translation impacts have been largely offset by growth in Retail Ireland and Corporate and Treasury balances.
- The Group has taken actions in all of its markets to reduce the price paid on deposits.
- A key milestone for the Group during 2013 was the Irish Government's withdrawal of the systemic ELG scheme at the end of March for all new liabilities. Volumes of deposits covered by the ELG scheme have reduced from €21 billion at 31 December 2012 to €2 billion at 31 December 2013. There was no adverse impact on deposit volumes or pricing arising from the withdrawal of the ELG scheme.
- The Group has had an on-going and cost effective access to funding markets and issued €2.5 billion of senior funding during 2013, in both secured and unsecured formats.
- The Group continues to reduce funding from Monetary Authorities, from €12 billion at December 2012 to €8 billion, of which €4 billion is related to NAMA bonds.

Definition of Liquidity Risk *(audited)*

Liquidity risk is the risk that the Group will experience difficulty in financing its assets and / or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds. Liquidity risk arises from differences in timing between cash inflows and outflows. Cash inflows are driven, among other things, by the maturity structure of loans and investments held by the Group, while cash outflows are driven, inter alia, by the term of the debt issued by the Group and the outflows from deposit accounts held for customers. Liquidity risk can increase due to the unexpected lengthening of maturities or non-repayment of assets, a sudden withdrawal of deposits or the inability to refinance maturing debt. These factors are often associated with times of distress or adverse events such as a credit rating downgrade(s) or economic or financial turmoil.

Liquidity risk management *(audited)*

The Group's exposure to liquidity risk is governed by the Group's Risk Appetite Statement and associated limits and the Group's Funding and Liquidity policy, both of which are approved by the Court on the recommendation of the GRPC and CRC.

The objective of the policy is to ensure that the Group can meet its obligations, including deposit withdrawals and funding commitments, as they fall due. The operation of this policy is delegated to the Group's Asset and Liability Committee (ALCO). Liquidity management within the Group focuses on the overall balance sheet structure together with the control, within prudent limits, of risk arising from the mismatch in contracted maturities of assets and liabilities and the risks arising from undrawn commitments and other contingent liabilities. Liquidity management consists of two main activities:

- tactical liquidity management focuses on monitoring current and expected daily cash flows to ensure that the Group's liquidity needs can be met. This takes account of the Group's access to unsecured funding (customer deposits and wholesale funding) and the liquidity value of a portfolio of highly marketable assets and a portfolio of contingent assets that can be readily converted into funding to cover unforeseen cash outflows; and
- structural liquidity management focuses on assessing an optimal balance sheet structure taking account of the expected maturity profile of assets and liabilities and the Group's debt issuance strategy. The Group is required to comply with the liquidity requirements of the CBI and also with the requirements of local regulators in those jurisdictions where such requirements apply to the Group. The CBI requires that banks have sufficient resources (cash inflows and marketable assets) to cover 100% of expected cash outflows in the 0 to 8 day time horizon and 90% of expected cash outflows in the 9 day to 30 day time horizon.

Stress testing and scenario analysis *(audited)*

The Group performs stress testing and scenario analysis to evaluate the impact of stresses on its liquidity position. These stress tests incorporate Group specific risks and systemic risks and are run at different levels of possible, even if unlikely, severity. Tactical actions and strategies available to mitigate the stress scenarios are evaluated as to their appropriateness. Stress test results are reported to ALCO, the GRPC, the CRC and the Court.

Liquidity risk (continued)

Basel III / CRD IV *(unaudited)*
The Basel III framework is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. When implemented, these regulations introduce additional minimum liquidity requirements for the Group and licensed subsidiaries including;

- Liquidity coverage ratio – The liquidity coverage ratio (LCR) will require banks to have sufficient high-quality liquid assets to withstand a 30-day stressed funding scenario. The ratio comes into effect from January 2015 with a phased implementation to 2019. A minimum 60% of target will be required in January 2015;
- Net stable funding ratio - The net stable funding ratio (NSFR) requires banks to have sufficient quantities of funding from stable sources. The ratio is proposed to come into effect from January 2018; and
- the Capital Requirement Regulations that implement the Basel III liquidity requirements came into effect on 1 January 2014. The Group projects compliance with the ratios by the implementation dates and is reporting its progress in this regard to the CBI under the Advanced Monitoring Framework which replaced the PLAR requirements from September 2012.

Liquidity risk measurement *(audited)*
The Group's cash flow and liquidity reporting processes provide management with daily liquidity risk information by designated cash flow categories. These processes capture the cash flows from both on balance sheet and off balance sheet transactions. The tables below summarise the maturity profile of the Group's financial assets and liabilities, excluding those arising from insurance and participating investment contracts at 31 December 2013 and 31 December 2012 based on the remaining contractual maturity period at the balance sheet date (discounted) and the totals agree to the balance sheet on page 176. Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,460 million and €8,502 million respectively (31 December 2012: €5,256 million and €7,988 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts. The Group measures liquidity risk by adjusting the contractual cash flows on retail deposit books to reflect their inherent stability.

Customer accounts include a number of term accounts that contain access features. These allow the customer to access a portion or all of their deposits notwithstanding that this withdrawal could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the table below.

Liquidity risk (continued)

31 December 2013 **Maturities of financial assets and liabilities**	**Demand €m**	**Up to 3 months €m**	**3-12 months €m**	**1-5 years €m**	**Over 5 years €m**	**Total €m**
Assets						
Cash and balances at central banks	6,385	-	-	-	-	6,385
Trading securities	-	-	-	252	-	252
Derivative financial instruments	517	86	199	1,435	1,255	3,492
Other financial assets at fair value through profit or loss[1]	1,017	65	80	186	2,227	3,575
Loans and advances to banks	1,594	2,882	254	25	4	4,759
Available for sale financial assets[1]	14	200	166	7,990	3,734	12,104
NAMA senior bonds[2]	-	-	417	2,187	1,353	3,957
Loans and advances to customers (before impairment provisions)	5,627	8,115	6,098	24,147	48,768	92,755
Total	**15,154**	**11,348**	**7,214**	**36,222**	**57,341**	**127,279**
Liabilities						
Deposits from banks	358	3,267	1,975	198	-	5,798
Drawings from Monetary Authorities (gross) other	-	-	-	8,300	-	8,300
Drawings from Monetary Authorities (gross) IBRC	-	-	-	-	-	-
Customer accounts	43,527	16,950	9,135	4,085	170	73,867
Derivative financial instruments	388	72	127	1,134	1,507	3,228
Debt securities in issue	-	143	1,554	7,876	3,822	13,395
Subordinated liabilities	-	-	-	1,041	634	1,675
Total	**44,273**	**20,432**	**12,791**	**22,634**	**6,133**	**106,263**

Restated[3] 31 December 2012 Maturities of financial assets and liabilities	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Assets						
Cash and balances at central banks	8,472	-	-	-	-	8,472
Trading securities	-	-	35	39	69	143
Derivative financial instruments	713	150	274	2,454	2,256	5,847
Other financial assets at fair value through profit or loss[1]	737	98	87	355	1,878	3,155
Loans and advances to banks	2,130	3,988	3,329	7	48	9,502
Available for sale financial assets[1]	-	435	945	7,657	2,002	11,039
NAMA senior bonds[2]	-	-	667	1,880	1,881	4,428
Loans and advances to customers (before impairment provisions)	6,240	7,631	7,344	24,783	54,167	100,165
Total	18,292	12,302	12,681	37,175	62,301	142,751
Liabilities						
Deposits from banks	467	3,494	449	2,615	-	7,025
Drawings from Monetary Authorities (gross) other	-	-	-	12,300	-	12,300
Drawings from Monetary Authorities (gross) IBRC	-	3,060	-	-	-	3,060
Customer accounts	46,906	20,475	5,187	2,521	81	75,170
Derivative financial instruments	559	110	278	1,885	2,442	5,274
Debt securities in issue	-	528	4,513	8,078	3,694	16,813
Subordinated liabilities	-	-	-	1,051	656	1,707
Total	47,932	27,667	10,427	28,450	6,873	121,349

1 Excluding equity shares which have no contractual maturity.
2 The maturity date of the NAMA senior bonds is based on their assessed behavioural maturity.
3 As outlined in the Group accounting policies on page 186, comparative periods have been restated the impact of the adoption of 'IFRS 10' Consolidated Financial Statements. See note 58 for additional information.

Liquidity risk (continued)

Liquidity risk mitigation

Wholesale funding diversification
(unaudited)
The Group in the normal course aims to maintain funding diversification, minimise concentrations across funding sources and minimise refinancing maturity concentrations.

The Group returned to the public bond markets in November 2012 and the Group has issued debt across the capital structure. The maturity profile of this debt has extended from three to seven years.

Customer deposits *(unaudited)*
The Group's customer deposit strategy is focused on growing high quality stable deposits at acceptable pricing by leveraging the Group's extensive retail and corporate customer franchise in Ireland and by accessing the UK retail market through Bank of Ireland (UK) plc and particularly the Group's strategic partnership with the UK Post Office. The Group continues to focus on the growth of retail deposits and relationship- based corporate deposits which arise from the Group's broader lending and treasury risk management activities with a view to funding its core lending portfolios substantially through deposits and term funding.

Group customer deposits of €74 billion have decreased by €1 billion since 31 December 2012. Notwithstanding the expiry of ELG and actions to reduce the cost of deposits, balances in the Retail Ireland division have grown by €1 billion with a marginal decline in deposits more than offset by an increase in current account credit balances. The £3 billion reduction in UK Post Office deposits reflects the planned reduction of excess liquidity in Bank of Ireland (UK) plc. In addition, the positive market sentiment shown towards the Group has aided the growth of banking customer relationships in the Corporate and Treasury division, in Ireland, the UK and internationally.

Included within deposits is €0.5 billion relating to sale and repurchase agreements with financial institutions that do not hold a banking licence.

The Minister for Finance announced the withdrawal of the Eligible Liabilities Guarantee effective from midnight 28 March 2013, in late February 2013. The majority of personal and business customer deposits continued to be guaranteed under the statutory Deposit Guarantee Scheme. There was no adverse impact on volumes or pricing following the withdrawal of the ELG scheme.

Customer deposits	**31 December 2013 €bn**	31 December 2012 €bn
Retail Ireland	36	35
- Deposits	*24*	*24*
- Current account credit balances	*12*	*11*
Retail UK	26	30
Retail UK (Stg£bn equivalent)	22	25
- UK Post Office	*16*	*19*
- Other Retail UK	*6*	*6*
Corporate and Treasury	12	10
Total customer deposits	**74**	**75**
Loan to deposit ratio	**114%**	**123%**

Liquidity risk (continued)

Funding and liquidity position *(unaudited)*
The Group's credit ratings of BBB/BBB for Fitch and DBRS respectively have remained stable during 2013. The Group's Standard & Poor's credit rating outlook was revised to stable from negative following the revision of the Irish Sovereign outlook to positive in July 2013.

Moody's lowered the Group's credit rating from Ba2 to Ba3 in December 2013. Moody's revised the Irish Sovereign outlook to stable from negative in September 2013.

Ireland - Senior debt *(unaudited)*	**31 December 2013**	31 December 2012
Standard & Poor's	BBB+ (Positive)	BBB+ (Negative)
Moody's	Ba1 (Stable)[1]	Ba1 (Negative)
Fitch	BBB+ (Stable)	BBB+ (Stable)
DBRS	A (Low) (Negative trend)	A (Low) (Negative trend)

BOI - Senior debt *(unaudited)*	**31 December 2013**	31 December 2012
Standard & Poor's	BB+ (Stable)	BB+ (Negative)
Moody's	Ba3 (Negative)	Ba2 (Negative)
Fitch	BBB (Stable)	BBB (Stable)
DBRS	BBB (High) (Negative trend)	BBB (High) (Negative trend)

[1] *Subsequent to year end Moody's has upgraded the Irish Sovereign Rating from Ba1 to Baa3 on 17 January 2014.*

Funding position *(unaudited)*
The Group has access to the liquidity operations offered by Monetary Authorities using its pool of contingent collateral. The Group has decreased its usage of liquidity facilities made available by Monetary Authorities primarily by asset deleveraging and growing customer deposits. The Group's funding from Monetary Authorities decreased to €8 billion (net) from €12 billion (net and excluding the IBRC repo transaction) at 31 December 2012 and is all sourced via the ECB's Long Term Refinancing Operation (LTRO) facility. As described in note 52d, the Group participated in the ELG scheme, which guaranteed certain liabilities of Irish financial institutions. The scheme was withdrawn effective 28 March 2013. Any existing qualifying liabilities (i.e. those opened from 11 January 2010 up to and including 28 March 2013) will continue to be covered until maturity up to a limit of five years.

Deleveraging *(unaudited)*
The 2011 PCAR incorporates a deleveraging plan (PLAR) which anticipates a loan to deposit ratio of less than 122.5% for the Group by 31 December 2013. This plan included the proposed divestments of c.€10 billion of the non-core loan portfolios by 31 December 2013. As reported on 28 June 2012, the Group has achieved this divestment target. For further information see notes 14 and 16.

The CBI has also set a volume target for certain non-core portfolios which can be impacted, inter alia, by non-core mortgage redemptions and asset transfers to the UK subsidiary. This target expires on 31 July 2014.

Liquidity risk (continued)

Wholesale funding sources	**31 December 2013** €bn	%	31 December 2012 €bn	%
Secured funding	22	81%	31	79%
- Monetary Authority (gross) other	*8*	*30%*	*12*	*31%*
- Monetary Authority (gross) IBRC	*-*	*-*	*3*	*8%*
- Covered bonds	*7*	*26%*	*7*	*18%*
- Securitisations	*3*	*11%*	*4*	*10%*
- Private market repo	*4*	*14%*	*5*	*12%*
Unsecured funding	5	19%	8	21%
- Senior debt	*3*	*11%*	*6*	*16%*
- Bank deposits	*2*	*8%*	*2*	*5%*
Total wholesale funding	**27**	**100%**	**39**	**100%**
Wholesale funding > 1 year to maturity	20	72%	27	68%
Wholesale funding < 1 year to maturity	7	28%	12	32%
Drawings from Monetary Authorities (net)	8	-	15	-

At 31 December 2013 **Wholesale funding maturity analysis**	**Unsecured funding €bn**	**Secured funding from Monetary Authorities €bn**	**Secured funding private sources €bn**	**Total wholesale funding €bn**
Less than three months	1	-	2	3
3 months to one year	-	-	4	4
One to five years	4	8	6	18
More than five years	-	-	2	2
Wholesale funding	**5**	**8**	**14**	**27**

At 31 December 2012 Wholesale funding maturity analysis	Unsecured funding €bn	Secured funding from Monetary Authorities €bn	Secured funding private sources €bn	Total wholesale funding €bn
Less than three months	1	3	3	7
3 months to one year	2	-	3	5
One to five years	4	12	7	23
More than five years	1	-	3	4
Wholesale funding	8	15	16	39

Liquidity risk (continued)

Wholesale funding *(unaudited)*

Wholesale funding of €27 billion has decreased by €12 billion (net) since 31 December 2012 reflecting:

- the termination on a no gain / no loss basis of the IBRC repo transaction of €3.1 billion on 13 February 2013 (see note 52);
- the impact of lower net lending and the sale of assets from other Group entities to Bank of Ireland (UK) plc to the value of €1.5 billion, leading to a reduction in the liquid assets held by Bank of Ireland (UK) plc in excess of regulatory liquidity requirements; and
- the remaining reduction of €7 billion is primarily due to the reduction in funding requirements for the lending book.

At 31 December 2013, €19.9 billion or 72% of wholesale funding had a term to maturity of greater than one year (31 December 2012: €27 billion or 68%). Of the €7 billion of wholesale funding with less than one year to maturity €6 billion is secured funding of which €4 billion is Private market repo funding.

At 31 December 2013, €2.7 billion or 98% of wholesale funding covered by the ELG has a maturity date of greater than one year. Final maturity of the covered liabilities is expected to occur by December 2017, with c.80% of the covered liabilities of €3 billion expected to mature by 30 June 2015.

Other funding from Monetary Authorities (gross) of €8 billion has decreased by €4 billion since 31 December 2012 due to the repayment of amounts borrowed through the ECB's LTRO. At 31 December 2013, all of the Group's Monetary Authority drawings are under the LTRO and include €4.0 billion of funding related to NAMA senior bonds. Borrowings under the LTRO will mature by 26 February 2015.

During the year ended 31 December 2013, the Group has continued to access the longer term debt markets with:
€2 billion of Irish Mortgage Asset Covered Securities across three transactions:

- a €500 million five-year transaction in March 2013 at a price of 190 basis points above mid swaps;
- a €500 million seven-year transaction in September 2013 at a price of 195 basis points above mid swaps; and
- a €1 billion three and half-year transaction in November 2013 at a price of 120 basis points above mid swaps.

A €500 million three-year unguaranteed senior unsecured funding transaction in May 2013 at a price of 220 basis points above mid swaps, which was the Group's first fully unguaranteed senior unsecured term funding transaction since June 2008.

Since the year end the Group has issued a €750 million five year senior unsecured term funding transaction in January 2014 at a price of 210 basis points above mid swaps.

The Group repaid €2.8 billion of senior unsecured debt during 2013. As set out in note 52, the IBRC repo transaction was terminated by the Group on a no gain / no loss basis effective on 13 February 2013, reducing wholesale funding by €3.1 billion.

Liquidity risk reporting *(unaudited)*
The Group's liquidity risk appetite is defined by the Court of Directors to ensure that funding and liquidity are managed in a prudent manner. The Court monitors adherence to the liquidity risk appetite through the quarterly Court Risk Report. An annual review process is in place to enable the Court to assess the adequacy of the Group's liquidity risk management process.

Through this process, management advises the Court of any significant changes in the Group's funding or liquidity position. Management receive daily, weekly and monthly funding and liquidity reports which are monitored daily against the Group's risk appetite statement. It is the responsibility of ALCO to ensure that the measuring, monitoring and reporting of funding and liquidity is adequately performed and complies with the governance framework.

On a monthly basis, the Court and the CRC receive the results of liquidity stress tests which estimate the potential impact on Group liquidity in a range of scenarios. On a semi-annual basis, the Court and CRC review and approve the stress test results. The Court is also advised in the monthly CEO Report of emerging developments in the area of funding and liquidity in the markets in which the Group operates.

3.3 Market risk

Key points:
- The reduction in size of the balance sheet through de-leveraging and the normalisation of financial markets has materially reduced the Group's exposure to basis risk (including cross currency basis risk), which has been a central focus of market risk management in recent years. Nonetheless, this area of risk will continue to be actively monitored and managed.
- The Value at Risk (VaR) arising from discretionary risk remains at low levels, but this partly reflects the exceptionally low levels of interest rate volatility. The Group continues to take moderate trading positions in interest rate, foreign exchange (fx) and traded credit markets.
- In 2013, the Group devoted substantial resources to its preparations for the central clearing of standardised derivatives under the European Market Infrastructure Regulation (EMIR) and related obligations, notably trade reporting. The Group is well-positioned to manage its business and meet its regulatory obligations in the new environment.

Definition *(audited)*
Market risk is the risk of loss arising from movements in interest rates, fx rates or other market prices.

Market risk arises naturally through customer lending and deposit-taking, the servicing of customer fx and other customer risk management needs, wholesale funding and investment in securities for liquid asset purposes.

It is Group policy to minimise exposure to market risk, subject to a relatively conservative permission to take discretionary risk. Nonetheless, certain structural market risks remain and, in some cases, are difficult to eliminate fully. These structural risks arise inter alia from the presence of non-interest related assets and liabilities on the balance sheet, the multiplicity of pricing conventions for variable rate assets, liabilities and derivatives, the multi-currency mix of assets and liabilities and the requirement in the Group's case to fund sterling assets out of euro. In addition, the Group bears economic exposure to changes in the value of securities held as liquid assets or held in the non-linked book in New Ireland Assurance Company plc (NIAC) arising from credit spread movements.

Risk management, measurement and reporting *(audited)*
The management of market risk in the Group is governed by the Group's Risk Appetite Statement and by the Group Policy on Market Risk, both of which are approved by the Court. Market risk limits and other controls are set by the Group's Asset and Liability Committee (ALCO) which has primary responsibility for the oversight of market risk.

Group Market Risk is responsible for ensuring that Group identifies, understands and measures the market risks to which it is exposed. It is charged with maintaining a policy framework and a set of methods to quantify market risk that are appropriate and fit for purpose and with operating effective monitoring and reporting arrangements that ensures compliance with policy, limits and other controls. Management receives daily, weekly and monthly reports that show compliance with the Group's market risk limits on both discretionary and structural risks. On a quarterly basis, the Court monitors adherence to the defined risk appetite for market risk through the quarterly Court Risk Report.

In the case of the Group's banking business, interest rate risk arising on customer lending and term deposit-taking is centralised by way of internal hedging transactions with Bank of Ireland Global Markets (BoIGM), which is the treasury execution arm of the Group. Market risk also arises through wholesale funding, investment in securities for liquid asset purposes, the creation of certain savings products (mainly equity-linked) and through servicing the fx and interest-rate risk management needs of corporate and business customers.

With the exception of interest rate and cross-currency basis risk (which is discussed below under Structural Risks), these naturally arising market risks are hedged by BoIGM as a matter of course with external markets or – in the case of a small quantum of the risks concerned – are run as short-term discretionary risk positions subject to policy and limits.

Discretionary risk-taking is confined to interest rate, fx and traded credit risk.

Similarly, market risks in the Group's life assurance business, NIAC, are minimised. However, certain residual risks are inherent in this business, notably exposure to credit spreads on assets held in the non-unit linked book and indirect exposure to equity markets through changes in the discounted value of fees applied to equity assets held by policy holders in insurance contracts. This is discussed in greater detail below.

The activities set out above involve, in many instances, transactions in a range of derivative instruments. The Group makes extensive use of derivatives to hedge its balance sheet, service its customer needs and – to a much lesser extent – assume discretionary risk.

The Group's participation in derivatives markets is subject to policy approved by the GRPC. The Group makes a clear distinction between derivatives which must be transacted on a perfectly hedged basis and those whose risks can be managed within broader interest rate or foreign exchange books. Since these books can be structured to assume some degree of discretionary market risk, derivative positions held within them will not necessarily be exactly hedged. Discretionary market risk can only be assumed in clearly defined categories of derivatives which are traded in well-established liquid markets, supported by industry standard conventions and documentation and valued in accordance with generally accepted methods.

Market risk (continued)

Structural and other economic risks
(audited)
Notwithstanding the overriding objective of running minimal levels of market risk, certain structural market risks remain and are managed centrally as part of the Group's asset and liability management process. In addition, certain residual economic risks are inherent in the Group's balance sheet, notably exposure to changes in credit spreads in the case of securities and certain liabilities.

Structural interest rate risk
Structural interest rate risk arises from the existence of non-interest bearing liabilities and assets on the balance sheet. The principal non-interest bearing liabilities are equity and non-interest bearing current accounts; the principal assets are expected recoveries on impaired loans. It is Group policy to invest its net non-interest bearing liabilities (or free funds) in a portfolio of swaps with an average life of 3.5 years and a maximum life of 7 years. This has the effect of mitigating the impact of the interest rate cycle on net interest margin. The structural risk arising on impaired loans is managed with a combination of swaps and natural offsets on the liability side of the balance sheet.

Basis risk
The multiplicity of re-pricing conventions for variable rate assets, liabilities and derivatives creates an exposure to changes in the differential between these rates known as reset basis risk. In the Group's case, the principal rates used for product and derivative re-pricing are 1, 3 and 6 month Euribor and sterling Libor, the ECB Refinancing Rate and the Bank of England Base Rate. Changes in the level of systemic stress in financial markets, structural supply / demand factors and the policy actions of central banks can bring about sustained changes in the differential, or basis, between these different floating rate indices and this, in turn, can have an adverse impact on the Group's net interest margin. The Group employs selective hedging to reduce its exposure to reset basis risk.

In addition, the requirement to fund a material part of the Group's sterling balance sheet from euros creates a structural exposure to the cost of hedging this currency mismatch which is known as cross currency basis. The Group actively hedges this exposure to secure the funding of the sterling balance sheet and smooth the exposure to cross currency basis.

Structural foreign exchange risk
The Group defines structural foreign exchange risk as the exposure of its key capital ratios to changes in exchange rates. Changes in exchange rates can increase or decrease the overall euro-equivalent level of RWAs. It is Group policy to manage structural foreign exchange risk by ensuring that the currency composition of its RWAs and its structural net asset position by currency are broadly similar. This is designed to minimise the impact of the exchange rate movements on the principal capital ratios.

At 31 December 2013, the Group's structural net asset positions in sterling and US dollar are set out in the table below. This represents the Group's net investment in subsidiaries, associates and branches, the functional currencies of which are currencies other than euro.

Reflecting a range of initiatives, the Group has reduced its structural net asset positions, as set out in the table below:

Structural fx position	**31 December 2013 €m**	31 December 2012 €m
Sterling – net asset position	2,649	2,833
US dollar – net asset position	438	430
Total structural fx position	**3,087**	**3,263**

Unaudited:

A 10% strengthening in both sterling and US dollar against the euro would have resulted in an increase in the Group's Core tier 1 ratio of 7 basis points as at December 2013.

Market risk (continued)

Credit spread risk on available for sale assets (unaudited)
The Group bears economic exposure to changes in credit spreads on traded securities. Securities purchased as liquid assets are held at fair value on the balance sheet with movements in fair value (other than changes due to impairments) recognised in the reserves. At 31 December 2013, the Group held €12.1 billion in securities classified as available for sale financial assets (31 December 2012: €11.1 billion). A one basis point increase in the average spread to Euribor or Libor of the book at 31 December 2013 would have reduced its value by €4.6 million (31 December 2012: €4 million). Analogous economic risk exists in relation to securities held against the non-linked book in the NIAC, discussed below.

Discretionary market risk *(audited)*
Discretionary market risk is any risk that is voluntarily assumed in anticipation of a gain from favourable movements in financial markets. Discretionary risk can be taken by leaving naturally arising customer or wholesale-generated risks un-hedged for a period or by taking proprietary positions in the market.

Discretionary market risk is subject to strict controls which set out the markets and instruments in which risk can be assumed, the types of positions which can be taken and the limits which must be complied with. BoIGM's discretionary market risk is confined to interest rate risk, fx risk and credit spread exposure to sovereigns, financials and credit default swap (CDS) indices.

The Group does not seek to generate a material proportion of its earnings through discretionary risk taking and it has a low tolerance for earnings volatility arising from this activity which is reflected in policy, limits and other controls applied. Discretionary risk is discussed further below.

The Group employs a Value at Risk (VaR) approach to measure, and set limits on, discretionary market risk. This applies to risk taken in the Banking Book (naturally arising risk that is left un-hedged) or risk that is pro-actively assumed in the Trading Book.

The Group measures VaR for a one-day horizon at the 99% (two-tailed) level of statistical confidence. This means that, for a given set of market risk positions on a given day, the Group believes there is no more than a 1% chance of a gain or loss in excess of the VaR number over the following day.

The Group recognises that VaR is subject to certain inherent limitations and therefore VaR limits are supplemented by scenario-based stress tests and long run historic simulations. Position limits and ‘stop losses’ are also central to the control environment.

The Group’s peak, average and end-of-year one-day VaR is shown in the table below for interest rate and fx risk. In the case of interest rate risk, this distinguishes between overall interest rate risk (Trading plus Banking Book) and interest rate risk in the Trading Book.

The Group’s peak, average and end of period, 1 day VaR in the year ended 31 December 2013 and in the year ended 31 December 2012 are set out in the following table:

Value at risk	**Year ended 31 December 2013 €m**	Year ended 31 December 2012 €m
Overall interest rate VaR		
Peak	1.9	1.9
Average	0.7	0.8
End period	0.4	0.2
Trading book interest rate VaR		
Peak	1.4	1.8
Average	0.6	0.7
End period	0.2	0.2
Foreign exchange VaR		
Peak	1.3	0.9
Average	0.8	0.4
End period	0.3	0.3

Market risk (continued)

Market risk in NIAC *(unaudited)*
Life insurance risk is discussed in the section immediately to follow. The market risks inherent in life assurance are set out below.

NIAC's business consists of a non-unit linked protection policy book and a unit linked book.

Under IFRS, insurance contracts are accounted for on a discounted cash flow (DCF) basis. This means that any change in the discounted value of its liabilities that is not exactly matched by the combined effect of changes in the market value of its assets and the discounted value of certain future income streams will flow through to earnings. At 31 December 2013, NIAC's assets consisted of €890 million in a mix of eurozone sovereign bonds (31 December 2012: €813 million) and €287 million in non-sovereigns (31 December 2012: €178 million).

In managing the interest rate risk, in its non-linked book, NIAC has regard to the sensitivity of its solvency reserves as well as its IFRS earnings to market movements. These sensitivities will not typically be the same because there is not an exact correspondence between earnings and changes in reserves. NIAC follows a policy of close asset / liability matching to ensure that the exposure of its reserves to interest rate movements remains within prudent tolerances. This will tend to be associated with a somewhat higher sensitivity of IFRS earnings to interest rate movements.

Earnings on its non-linked book can also be affected by credit spread changes. A widening of sovereign – and to a much lesser extent corporate – credit spreads can adversely affect reserves and profitability. This is mitigated by diversification across eurozone sovereigns and between sovereigns and corporates, but it can not be fully eliminated.

At 31 December 2013, the impact on earnings of a 50 basis point parallel shift in yield curves, holding spread relationships constant, would have been €11 million negative for an upward shift and €11 million positive for a downward shift (31 December 2012: €9 million negative and €7 million positive respectively).

At the same time, a 50 basis point widening of all credit spreads (measured as bond yields minus the corresponding swap rate) would have had an impact on earnings of €21 million negative, by a 50 basis point tightening would have had a positive impact of €21 million (31 December 2012: €17 million negative and €23 million positive).

NIAC's earnings are also indirectly exposed to changes in equity markets. This arises because a management fee is charged on the value of €4 billion of equities held for policy holders and insurance contracts in its unit-linked book. As equity markets move up and down, this gives rise to a change in current and discounted future stream of equity-related fees which is reflected in NIAC's earnings. Every 1% fall in equity markets applied to positions at 31 December 2013 would have reduced NIAC's earnings by €2 million (31 December 2012: €1 million reduction). Every 1% increase would have had an equal and opposite impact.

3.4 Life insurance risk

Key points:
- The insurance market in Ireland remains challenging but with opportunities for well diversified, well focussed companies.
- Persistency rates improved during the year and were in line with the long term average assumptions and management of persistency remains a key focus.
- Solvency II will commence in 2016 and a number of interim measures will apply from 2014.

Definition *(audited)*
Life insurance risk is defined as the volatility in the amount and timing of claims caused by an unexpected change in mortality, longevity, persistency or morbidity. Mortality risk is the risk that the claim payments incurred by the business due to deaths of assured lives within the portfolio are greater than expected. Longevity risk is the risk that claim payments incurred by the business due to the rates of survival within the portfolio of annuitants within the portfolio are greater than expected. Morbidity risk, primarily critical illness risk, is the risk that claim payments incurred by the business due to critical illness events are greater than expected. Persistency or lapse risk is the risk that customers lapse their policies earlier than expected resulting in a loss of future anticipated fees.

Risk management *(audited)*
Life insurance risk is underwritten and managed by NIAC, a wholly owned subsidiary of the Group. The management of insurance risk is the responsibility of the Board of NIAC. Responsibilities delegated by the Board to the Reinsurance Committee include completing a review of the reinsurance arrangements at least annually and reporting on this review to the Board Risk Committee. This includes a review of the panel of reinsurers that may be used and the optimal structure of its reinsurance arrangements. The Reinsurance Committee comprises senior members of the management team with actuarial and underwriting expertise.

Risk measurement *(audited)*
The amount at risk on each life insurance policy is the difference between the sum assured payable on the insured event and the reserve held. Risk experience is monitored monthly. Actual claims experience is compared to the underlying risk assumptions (including difference between sum assured and reserves and expected movement in VIF). Risk profits and losses are reported to senior management and reflected in new business pricing and new product design.

Risk mitigation *(audited)*
NIAC mitigates the potential impact of insurance risk through a number of measures. These include reinsurance, underwriting, contract design and diversification.

Risk reporting *(audited)*
An update on the status of life insurance risk is included in the Court Risk Report which is presented to the GRPC, the CRC and the Court on a quarterly basis.

Future developments *(audited)*
Solvency II is the new pan European regulatory framework for insurance companies. When implemented, it will transition the regulatory framework to a more risk based system coupled with additional governance and disclosure requirements. It is expected that the new capital regime will apply from 1 January 2016. From 2014 onward companies are expected to demonstrate their readiness for Solvency II through compliance with the interim guidelines.

3.5 Regulatory risk

Key points:
- The regulatory environment continued to be challenging through 2013 as had been projected in 2012.
- The key focus during the year from a regulatory risk perspective was ensuring compliance with the existing regulatory requirements of the Central Bank of Ireland, the Financial Conduct Authority and Prudential Regulatory Authority of the UK.
- There remains a strong Group focus on ensuring compliance with regulatory obligations including upstream obligations. During the year the Group prepared for the implementation of Single European Payments Area (SEPA), Capital Requirements Directive IV (CRD IV) and European Market Infrastructure Regulation (EMIR) and this will continue in 2014
- The heavy regulatory and compliance agenda is expected to continue in 2014 and will be influenced by the creation of the Single Supervisory Mechanism. The Group will maintain its focus on continuing compliance and will ensure that enhancements are made where appropriate with respect to its oversight and management of its regulatory obligations.

Definition

Regulatory risk is the risk of failure to meet new or existing regulatory and / or legislative requirements and deadlines or to embed requirements into processes. It also includes the risk to the Group's capital, liquidity and profitability from the impact of future legislative and regulatory changes. It arises from a failure to comply with the laws, regulations or codes applicable to the financial services industry such as prudential, conduct and AML obligations, in the jurisdictions within which the Group operates. Non-compliance has adverse reputational and financial implications and may lead to fines, public reprimands, enforced suspension of operations or, in extreme cases, withdrawal of authorisation to operate.

Risk management, measurement and reporting

The Group manages regulatory risk under the Group risk management framework. The framework identifies the Group's formal governance process around risk, its framework for setting risk appetite and its approach to risk identification, assessment, measurement, management and reporting. This is implemented by accountable executives, monitored by the Group Regulatory Compliance and Operational Risk Committee (GRCORC), and within the overall Group risk governance structure outlined on page 70 and supported by the Group Regulatory Compliance and Operational Risk (GRCOR) function. The effective management of regulatory risk is primarily the responsibility of business management.

As detailed in the Group's risk appetite statement, the Group adopts a zero-tolerance to regulatory risk, however acknowledges that instances may occur as a consequence of being in business. The Group has therefore established a formal approach to ensure the identification, assessment, monitoring, management and reporting of these instances. The Group also undertakes risk based regulatory and compliance monitoring, and annual monitoring plans are in place and reviewed regularly to reflect changes or emerging risks. business unit regulatory compliance reports are analysed and reviewed at Divisional and Group levels. The current status of regulatory risk is reported to senior executives and Court members through the Court Risk Report on a quarterly basis.

Risk mitigation

Risk mitigants include the early identification, appropriate assessment and measurement and reporting of risks, however the primary risk mitigants for regulatory risk are the appropriate controls in place throughout the business. A robust mandatory training programme to support the Group's strong compliance culture is in place.

3.6 Operational risk

Key points:
- In support of effective mitigation and control of operational risk, the Group continued to enhance its operational risk management framework including organisational structures, risk identification process and systems in support of effective mitigation and control of operational risk.
- Throughout 2013, regulatory bodies within all relevant jurisdictions have continued their focus on overseeing the development of operational risk standards throughout 2013. The Group has maintained constructive engagements with supervisors and is focussed on meeting its regulatory obligations including fulfilling specified risk mitigation requirements within expected timeframes.

Definition
The Group faces operational risks in the normal pursuit of its business objectives. operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems, or from external events. As such, operational risk encompasses a very broad range of sources of potential financial loss which the Group actively seeks to mitigate, transfer and control including for instance, business disruption, financial crime, outsourcing, information security and technology risks.

Risk management
The Group faces operational risks in the normal pursuit of its business objectives. The primary goals of operational risk management and assurance are ensuring the sustainability of the Group's operations and the protection of its reputation; by controlling, mitigating or transferring the risk of financial losses. By its nature, operational risk cannot be fully eliminated, however the Group has established a formal approach to the management of operational risk in the form of an 'Operational Risk Management Framework' which defines the Group's approach to identifying, assessing, managing, monitoring and reporting the operational risks which may impact the achievement of the Group's business objectives. It consists of inter alia:
- formulation and dissemination of a Group Operational Risk policy specifying the risk management obligations of management within the Group;
- establishment of organisational structures for the oversight, monitoring and management of operational risk throughout the Group;
- embedding formal operational risk management processes and standards within business and support units throughout the Group; and
- maintaining competencies of relevant staff in the operational risk management process and awareness of potential exposures.

Operational risk policy
The Group's exposure to operational risk is governed by policy formulated by the GRCORC and approved by the CRC within the overall Group risk governance structure outlined on page 70.

Risk mitigation and transfer
In addition to business unit risk mitigation initiatives, the Group implements specific policies and risk mitigation measures for key operational risks, including financial crime, data protection and privacy, outsourcing and business disruption risks. This strategy is further supported by risk transfer mechanisms such as the Group's insurance programme, whereby selected risks are reinsured externally.

The Group holds Pillar I regulatory capital to cover the potential financial impact of operational risk events, and has adopted the Standardised Approach (TSA) to determine its capital requirement.

Operational risk events
An operational risk event is any circumstance where as a result of an operational risk materialising, the Group has, or could have made a gross, financial loss. A standard reporting threshold is used across the Group for recording such events and for standard inputs to Common Reporting (COREP) reporting to the CBI. Every business unit within the Group submits detailed operational risk event information. This information includes the gross loss amount, direct and indirect recoveries and causes and remediation initiatives.

Risk reporting
The Court receives a quarterly operational risk update via the Court Risk Report. In addition, there is an annual challenge and review process in place to enable the Court to consider the adequacy of Group-wide operational risk management processes and whether residual risks remain within the Group's Risk Appetite. The Head of the GRCOR function reports to the GRCORC on the status of operational risk in the Group, including the status of the top operational risks across the Group and the progress of associated risk mitigation initiatives, significant loss events and the nature, scale and frequency of overall losses.

3.7 Business and strategic risk

Key points:

- The Court initiated a major review of the Group's strategic objectives during 2013 and concluded that the strategic shape and focus of the Group remains appropriate.
- The Group's strategic positioning was reaffirmed in 2013 with the EC's approval of the retention of New Ireland Assurance.
- The Group made good progress in 2013 in improving its net interest margin despite very low official interest rates.
- The Group continues to effectively manage significant change and cost reduction programmes whilst investing in its infrastructure, complying with regulatory requirements and seeking to enhance the experience of the Group's customers in their dealings with the Group.

Definition

Business risk is defined as the risk to the Group (i.e. income, net worth or reputation) which could be associated with:

- a change in the operational economics of the Group; and / or
- exposure to an event which causes reputational damage to the Group.

The risk may arise from a change in the competitive environment, new market entrants, new products, or a failure to anticipate or mitigate a related risk. Typically business risk occurs in a one year time-frame and references the risk to earnings caused by changes in the above factors.

Strategic risk is defined as the risk to the Group (i.e. income, net worth or reputation) which could be associated with:

- failure to develop a strategy, leaving the Group exposed to developments that could have been foreseen including adverse macro-economic or market changes;
- poor execution of a chosen strategy, whatever the cause, including investments not aligned with strategic direction; and / or
- failing to realign a strategy, when one or several of the fundamental assumptions underpinning that strategy have changed, making that strategy inappropriate.

Strategic risk general relates to a longer timeframe than business risk.

Business and strategic risk is impacted by other risks that the Group faces that may contribute to an adverse change in the Group's revenues and / or costs if these risks were to crystallise. Examples include funding risk (through volatility in the cost of funding), interest rate risk, operational risk, regulatory and reputation risks.

Risk management, measurement and reporting

Business units and divisions are responsible for delivery of their business plans and management of such factors as pricing, sales volumes, operating expenses and other factors that can introduce earnings volatility.

The Group reviews business and strategic risk as part of the annual risk identification process. The risk is managed on a divisional basis, and measured quarterly, with a scorecard addressing moves in key indicators around income diversification, margin trends, customer advocacy, direct and indirect costs and staff turnover. Input from the Group's divisions is collated by Credit and Market Risk, who liaise with Group Finance to provide an overall group context and assess the impact of changes in the environment on the Group's business plan. An update is provided quarterly in the Court Risk Report.

Risk mitigation

The Group mitigates business risk through business planning methods, such as the diversification of revenue streams, cost base management and oversight of business plans which reflect expectations of the external environment and the Group's strategic priorities. At an operational level, the Group's annual budget process sets expectation at a business unit level for volumes and margins. The tracking of actual and regularly forecasted volumes and margins against budgeted levels is a key financial management process in the mitigation of business risk. In the case of strategic risk, this risk is mitigated through update to the Court on industry developments, regular updates on the key macro-economic environment impacting the Group's activities, a review of the competitive environment and strategies at a divisional and business unit level, and the Group's EU Restructuring Plan commitments. The Group's EU Restructuring Plan commitments are monitored by an EC appointed Monitoring Trustee with updates on progress provided to the Court through the monthly CEO Report.

3.8 Pension risk

Key point:

- Due to adverse market conditions impacting the value of liabilities, deficits exist in the majority of the Group sponsored Defined Benefit (DB) schemes. As the pension funds continue to be subject to market fluctuations, and interest rate and inflation risks, a level of volatility associated with defined benefit pension funding remains. Therefore, as a result of the current financial market difficulties and recent changes to both pension and accounting regulations, a review of the Group sponsored defined benefit pension schemes was initiated. During 2013, the Group completed a review of the main Group sponsored defined benefit pension scheme, the BSPF. The proposals arising from the review were accepted by the main trade union, the Irish Bank Officials Association.

Definition

Pension risk is the risk that the assets in the Group sponsored defined benefit pension schemes fail to generate returns that are sufficient to meet the schemes' liabilities and the Group, as sponsor, would elect to or may have to make up the shortfall, or a significant part of it.

Risk management, measurement and reporting

The Group sponsors a number of defined benefit pension schemes for past and current employees. The Group's net IAS 19 pension deficit at 31 December 2013 was €0.8 billion (31 December 2012: €1.2 billion). The investment policy pursued to meet the schemes' estimated future liabilities is a matter for the Trustees and the schemes' Investment Committees. The Group, as sponsor, has an opportunity to communicate its views on investment strategy to the Trustees and receives regular updates including scenario analysis of pension risk.

The Court receives monthly updates on movements in asset, liabilities and the size of the deficit and also quarterly updates through the Court Risk Report. In addition, there is an annual review of pension risk to ensure that the Court is satisfied with the processes in place to manage the risk and that residual risk is within the Group's risk appetite.

Risk mitigation

In order to mitigate pension risk, a new hybrid scheme was introduced in 2006 for all new entrants (see note 41) and the defined benefit schemes were closed to new entrants. In 2010 the Group carried out an extensive pensions review in order to address the pension deficit by a combination of benefits restructuring and additional employer contributions over a period of time. Since 2010 the Group has paid c.€400 million of additional employer contributions and expects to pay a further €350 million in the period to 2016. In 2013, a further review, which incorporated benefit restructuring, was carried out which reduced the pension deficit and is expected to further reduce the deficit through additional employer contributions which will broadly match this reduction. In addition, a defined contribution scheme is to be introduced for all new employees and, subject to the agreement of the scheme Trustees, there will be an acceleration of risk reduction in the asset portfolio. By December 2013, the Group has recognised a reduction in the pension deficit of €391 million net of directly related expenses.

However a deficit still exists and as the pension funds are subject to market fluctuations, and interest rate and inflation risks, a level of volatility associated with pension funding remains.

3.9 Reputation risk

Key points:

The Group's reputation continues to be influenced and shaped by a range of factors; macro-economic and political environment, media and public commentary and general sector developments. More specifically Bank of Ireland decisions and actions in pursuit of its strategic and tactical business objectives and their interaction with the external environment will also influence reputation.

Within this context, the actions and achievements of the Group over the past twelve months have succeeded in enhancing the Group's reputation, most notably:

- The only Irish bank with approved EU Restructuring Plans (subsequently amended and confirmed during the year) enabling the retention of NIAC.
- The Group's ability to generate and maintain customer deposits, following the exit from the Eligible Liabilities Guarantee.
- Demonstrated access to wholesale markets, with successful bond issuance across the corporate structure.
- Reimbursement of the Irish State's investment in the 2011 Contingent Capital Note and the 2009 Preference Shares.
- Investment in RoI and NI branch networks and further development of UK Post Office partnership.
- Meeting our target for new and increased lending to Irish SMEs and increasing share of SME and mortgage markets in Ireland.
- Addressing the IAS 19 pension deficit.
- Meeting CBI targets for mortgage arrears and SME resolution.

During the past year the Group has also managed the potential impact on its reputation when dealing with a number of challenges, for example:

- Increased pricing on some products, to more properly reflect funding costs.
- Migration to SEPA and related IT risks.
- Initial customer impact of changes to the Branch model, put in place to ensure the Group maintains its current distribution footprint.

Definition

Reputation risk is defined as the risk to earnings or franchise value arising from adverse perception of the Group's image on part of the customers, suppliers, counterparties, shareholders, investors, staff, legislators or regulators. This risk typically materialises through a loss of business in the areas affected.

Risk management, measurement and reporting

Group Communications is the primary function responsible for managing reputation risk in Bank of Ireland. It includes all external and internal communications, stakeholder and government relations, and corporate responsibility, helping to reinforce the Group's reputation with its employees, customers, government, general public and the wider community. Reputation risk indicators are tracked on an ongoing basis. These indicators include external market conditions and risk events which may have the potential to impact reputation.

The Group reviews reputation risk as part of the annual risk identification process. Quarterly updates are reported to the GRPC, the CRC and the Court as part of the Court Risk Report. In addition there is an annual review of reputation risk to ensure that the Court is comfortable with the processes in place to manage reputation risk and that residual risk is within the Group's risk appetite.

Risk mitigation

A wide range of processes and structures are used to identify, assess and mitigate the potential risk to the Group's reputation. Managing the Group in a manner that ensures that the potential impact on the Group's reputation is taken into account in decision making is paramount in mitigating against reputation risk.

4 Capital management

Key points:

- Common equity tier 1 (CET1) ratio is 12.3% on a pro forma basis under the Basel III / CRD IV transitional rules at 1 January 2014. On a pro forma full implementation basis including the 2009 Preference Stock the CET1 ratio is 9.0% at 31 December 2013. The observations from the CBI's BSA / AQR at 30 June 2013 have been addressed in these reported capital ratios.
- Leverage ratio is 4.9% on a Basel III / CRD IV pro forma transitional basis and 3.7% on a pro forma full implementation basis including 2009 Preference Stock.
- The Capital Requirements Regulation (CRR) was published in the Official Journal of the EU on 27 June 2013 and applies from 1 January 2014. The Group continues to expect to maintain a buffer above a CET1 ratio of 10% on a Basel III transitional basis.
- The CBI's BSA / AQR confirmed that the Group had adequate capital to meet the requirements determined under the BSA. The Group was not required to raise additional capital as a result of the BSA.
- On 4 December 2013, the Group announced a capital package in relation to the 2009 Preference Shares which had been agreed with the Irish State and the CBI, comprising (i) the placing of new units of ordinary stock to generate proceeds of c.€537 million (net of expenses), to redeem c.€537 million of the 2009 Preference Shares and (ii) the sale by the NPRFC of €1.3 billion 2009 Preference Shares to private investors. In addition, the Group stated its intention not to redeem the 2009 Preference Stock prior to January 2016, save in certain limited circumstances which would include changes in regulatory capital treatment, breach of waiver deed and taxation. The Group also advised the CBI that it is not the Group's intention to recognise the 2009 Preference Shares as regulatory CET1 capital after July 2016, unless de-recognition would mean that an adequate buffer can not be maintained above applicable regulatory requirements.

Capital management objectives and policies *(audited)*

The objectives of the Group's capital management policy are to ensure that the Group has sufficient capital to cover the risks of its business and support its strategy and at all times to comply with regulatory capital requirements. It seeks to minimise refinancing risk by managing the maturity profile of non-equity capital whilst the currency mix of capital is managed to ensure that the sensitivity of capital ratios to currency movements is minimised. The capital adequacy requirements set by the Central Bank of Ireland are used by the Group as the basis for its capital management. These requirements set a floor under which capital levels must not fall. The Group seeks to maintain sufficient capital to ensure that even under difficult conditions these requirements are met.

Unaudited:

The EU Capital Requirements Directive (CRD I) came into force on 1 January 2007 and is divided into three sections commonly referred to as Pillars.

- Pillar I introduced the Internal Ratings Based Approach (IRBA) which permits banks to use their own internal rating systems to calculate their capital requirements for credit risk. Use of IRBA is subject to regulatory approval Where credit portfolios are not subject to IRBA, the calculation of the minimum capital requirements is subject to the Standardised Approach;
- Pillar II of the CRD deals with the regulatory response to the first pillar whereby banks undertake an Internal Capital Adequacy Assessment Process (ICAAP) which is then subject to supervisory review; and
- Pillar III of the CRD (Market Discipline) involves the disclosure of a range of qualitative and quantitative information relating to capital and risk.

The CRD also introduced a requirement to calculate capital requirements, and to set capital aside, with respect to operational risk. In assessing capital adequacy the Group is also required to set capital aside for market risk. The Group considers other methodologies of capital metrics used by rating agencies. Separately it also calculates economic capital based on its own internal models. The Group stress tests the capital held to ensure that under difficult conditions, it continues to comply with regulatory minimum ratios.

Basel III / CRD IV *(unaudited)*

The Capital Requirements Directive IV (CRD IV) and the CRR were published in the Official Journal of the EU on 27 June 2013. The CRR had direct effect in EU member states and CRD IV was required to be implemented through national legislation in EU member states by 31 December 2013. CRD IV also includes requirements for regulatory and technical standards to be published by the European Banking Authority (EBA). Many of these have not yet been published or their impact is uncertain. The CRD IV legislation is being implemented on a phased basis from 1 January 2014, with full implementation by 2019.

The Group continues to expect to maintain a buffer above a CET1 ratio of 10% on a transitional basis. The Basel III / CRD IV transition rules results in a number of new deductions from CET1 capital being introduced on a phased basis typically with a 20% impact in 2014, 40% in 2015 and so on until 2018. The Central CBI published their 'Implementation of Competent Authority Discretions and Options in CRD IV and CRR' on 24 December 2013 which clarifies the application of transitional rules in Ireland under CRD IV.

Capital management (continued)

Regulatory initiatives *(unaudited)*
Ahead of Ireland's exit from the EU / IMF programme of support, the CBI undertook a BSA / AQR. The BSA / AQR was a point in time capital assessment as at 30 June 2013 and included an assessment by the CBI of risk classifications and provisions and a review of the appropriateness of calculations of RWAs. In December 2013, the CBI confirmed that Bank of Ireland had adequate capital as at 30 June 2013 to meet the requirements determined under the BSA. Consequently, the CBI did not require Bank of Ireland to raise additional capital as a result of the BSA.

As part of the BSA, the CBI also made a range of observations on the Group's treatment of expected loss on mortgage assets, the level of impairment provisions at 30 June 2013 and the Group's RWA calculations. The CBI requested that the Group consider these observations in preparing its financial results and Annual Report for the year ended 31 December 2013. The Group has done so by incorporating the updated treatment of expected loss and has taken the CBI's observations into consideration as part of its comprehensive process in setting the year end impairment provisioning stock and associated impairment charge for 2013. Further engagement in respect of risk weighted assets is envisaged with the Central Bank of Ireland during 2014 and, in the meantime, the Group has applied certain Central Bank of Ireland required BSA adjustments to the outputs of the Group's RWA calculations, which are also addressed in the Group's reported capital ratios at 31 December 2013.

The BSA also included a Data Integrity Verification (DIV) element to ensure key data, data fields and processes are robust. There were no findings or issues arising from the DIV that materially impact the BSA. The BSA represents a review under the CBI's Supervisory Review and Evaluation Process (SREP) and Full Risk Assessment (FRA) and, as such, the result may be considered by the CBI in determining the Pillar II capital requirements of the Group.

The European Central Bank (ECB) under the forthcoming Single Supervisory Mechanism (SSM) will also conduct a Comprehensive Assessment (CA) during 2014. The CA will include a balance sheet and risk assessment and is expected to encompass the European Banking Authority (EBA) and ECB EU-wide stress test.

Capital resources
The following table sets out the Group's capital resources.

Group capital resources	**31 December 2013 €m**	Restated[1] 31 December 2012 €m
Nominal amount outstanding of 2009 Preference Stock	1,300	1,837
Other equity (including equity reserves)	6,575	6,820
Stockholders' equity	7,875	8,657
Non-controlling interests – equity	(6)	(2)
Total equity	**7,869**	**8,655**
Undated subordinated loan capital	162	165
Dated subordinated loan capital	1,513	1,542
Total capital resources	**9,544**	**10,362**

[1] *As outlined in the Group accounting policies on page 186, the comparative period has been restated to reflect the adoption of IAS 19 Employee Benefits (Revised 2011) (IAS 19R) and IFRS 10 Consolidated Financial Statements. See note 58 for additional information.*

Unaudited:

In the year ended 31 December 2013 the Group's total capital resources decreased by €0.8 billion to €9.5 billion due primarily to:
- the loss after tax arising during the year ended 31 December 2013 driven by impairment charges on loans and advances to customers;
- the payment of €0.2 billion in dividends for the State's preference shares.

Governance

Corporate Governance Statement

The Court of Directors (the Court) is accountable to stockholders for the overall direction and control of the Group. It is committed to high standards of governance designed to protect the interests of stockholders and all other stakeholders while promoting the highest standards of integrity, transparency and accountability.

A key objective of the Group's governance framework is to ensure compliance with applicable legal and regulatory requirements. The Governor and Company of the Bank of Ireland (the Bank) is subject to the Central Bank of Ireland's Corporate Governance Code for Credit Institutions and Insurance Undertakings (the Irish Code which is available on www.centralbank.ie), including the additional requirements of Appendix 1 of the Irish Code for major institutions. It is also subject to the UK Corporate Governance Code 2012 published by the Financial Reporting Council in the UK (the UK Code which is available on www.frc.org.uk) and the Irish Corporate Governance Annex to the Listing Rules of the Irish Stock Exchange (the Irish Annex which is available on www.ise.ie).

The Directors believe that the Bank complied with the provisions of the Irish Code throughout 2013. They also believe the Bank complied with the provisions of the UK Code and the Irish Annex throughout 2013, otherwise than as set out herein:

- Tom Considine's membership of the Group Audit Committee and Joe Walsh's membership of the Group Remuneration Committee. As these directors were nominated by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Scheme, 2008 and are not required to stand for election or regular re-election by stockholders, they are not classified as independent non-executive directors. Both Committees benefit from the judgement and the quality of the contributions of Tom Considine and Joe Walsh and do comprise a minimum of three independent non-executive directors as per provisions D.2.1 and C.3.1 of the UK Code;
- provision B.7.1 of the UK Code requires annual election of directors by stockholders. In accordance with the Bye-Laws of the Bank, Tom Considine and Joe Walsh are not required to put themselves up for re-election on an annual basis and accordingly were not submitted for re-election at the Annual General Court held in 2013. In the case of both Directors, the requirement to stand for re-election is dispensed with for as long as they remain Government Appointees in accordance with the Bye-Laws of the Bank; and
- it is the Group's practice for all Directors to attend the Annual General Court of the Bank. In 2013 two Directors were unable to attend the Annual General Court due to separate personal issues. Both Directors conveyed their thoughts on the Group's strategy and progress to the Chairman who shared these views with attendees at the meeting.

Details of how the Bank applied the main and supporting principles of the UK Code throughout the year ended 31 December 2013 are set out in this report and in the Remuneration Report. These reports also cover the disclosure requirements set out in the Irish Annex, which supplement the requirements of the UK Code with additional corporate governance provisions.

The Group believes it has robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed and adequate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls. The system of governance is subject to regular internal review.

Directors are aware that, should they have any material concern about the overall corporate governance of the Group, it should be reported without delay to the Court and, should their concerns not be satisfactorily addressed within five business days, the Directors should report the concern to the Central Bank of Ireland.

The Court's oversight of risk and control is facilitated through delegation of certain responsibilities to Committees of the Court, the principal Committees being the Group Audit Committee, the Court Risk Committee, the Group Nomination and Governance Committee and the Group Remuneration Committee. Details of these Committees are set out on pages 129 to 137 and 153. The terms of reference of the Committees are reviewed annually by the Court and are available on the Group's website (www.bankofireland.com) or by request to the Group Secretary.

The Court of Directors

Board Size and Composition

At close of business on 31 December 2013, the Court comprised fourteen Directors: the Governor, who was independent on appointment, two Executive Directors and eleven non-executive Directors, seven of whom have been determined by the Court to be independent non-executive Directors in accordance with the requirements of the UK Code and Irish Code. All of the Directors except Davida Marston (who was appointed to the Court on 24 April 2013) and Brad Martin (who was appointed to the Court on 23 July 2013) served on the Court throughout the year ended 31 December 2013. Prem Watsa retired as a Director on 23 July 2013. Biographical details, including each Director's background, experience and independence classification, are set out on pages 146 to 152.

The composition of the Court and its Committees is reviewed by the Group Nomination and Governance Committee and the Court, on an annual basis, to ensure that there is an appropriate mix of skills and experience. This includes a review of tenure, an assessment of the skills profile of the Court and consideration of succession for key roles, to ensure the Court and Committees have a comprehensive understanding of the Group's activities and the risks associated with them. In addition, where any appointment or resignation will alter the overall size of the Court, a review is undertaken to ensure that the composition remains appropriate. In advance of the appointment of Davida Marston, the Court concluded that the increase in the total number of Directors to fourteen was appropriate having regard to the operations of the Bank. The Court regards its current size and composition as appropriate to provide the broad range of skills and experience necessary to govern the business effectively, while enabling full and constructive participation by all Directors.

In 2013 the Group completed a review of the on-going fitness and probity of persons in 'pre-approval controlled functions' whereby Directors were asked to confirm any changes in circumstances in respect of their compliance with the Fitness and Probity Standards issued by the Central Bank of Ireland (the Standards). All changes in circumstance disclosed were assessed and their materiality determined. In addition external checks on financial soundness and probity, involving a review of various publicly available sources, were completed. With reference to the review process conducted, the Court concluded that each of the Directors of the Court has the requisite standard of fitness, probity and financial soundness to perform their functions with reference to the Standards.

Role of the Court

The Court's role is to provide leadership of the Group within the boundaries of Risk Appetite and a framework of prudent and effective controls which enable risk to be identified, assessed, measured and controlled. The Court sets the Group's strategic aims, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives, and reviews management performance. The Court has a schedule of matters specifically reserved for its decision which is reviewed and updated regularly. Matters requiring Court approval include:

- the determination of strategy;
- determination of risk appetite, including approval of the Group's Risk Appetite Statement;
- reviewing and agreeing company values with management;
- overseeing the management of the business, including control systems and risk management;
- approval of the Group's business plans and budgets;
- overseeing corporate governance and succession planning;
- acquisitions or divestments of companies for sums greater than €40 million except for credit management purposes;
- approval of Core equity tier 1 capital investments of greater than €20 million in a regulated subsidiary and €40 million in any other subsidiary;
- approving capital expenditure (in excess of €40 million);
- approving guarantees entered into by the Group, other than in the normal course of business;
- approving changes in the funding / benefits of Group pension schemes;
- the approval of equity underwriting sums of greater than €20 million; and
- certain specified senior management appointments.

The Court is also responsible for endorsing the appointment of individuals who may have a material impact on the risk profile of the Group and monitoring on an on-going basis their appropriateness for the role. The removal from office of the head of a 'control function', as defined in the Irish Code, is also subject to Court approval.

The Court is responsible for approving high-level policy and strategic direction in relation to the nature and scale of risk that the Group is prepared to assume to achieve its strategic objectives. The Court ensures that an appropriate system of internal control is maintained and reviews its effectiveness. Specifically, the Court:

- sets the Group's Risk Appetite incorporating high level risk limits, thereby forming a boundary condition to strategy;
- approves the Group Risk Framework which identifies the Group's formal governance process around risk and the approach to risk identification, analysis, measurement, management and reporting;
- approves the projected balance sheets, income statements and capital projections including stress testing for the Group's Internal Capital Adequacy Assessment Process (ICAAP); and
- approves the Group Credit Policy (incorporating the Group Forbearance Policy), Group Country Risk Policy, Group Funding and Liquidity Policy and Group Market Risk Policy. The Court also approves the Group Impairment Policy.

The Court of Directors (continued)

The Court receives regular updates on the Group's risk environment and exposure to the Group's material risk types through a Court Risk Report reviewed quarterly (and monthly for liquidity, credit and capital).

The strategy of the Group continued to receive considerable focus throughout 2013. In addition the following are amongst matters which received Court attention during the year:

- the evolving capital and liquidity position throughout 2013 and implications of the Third Basel Accord on such requirements;
- the capital structure of the Bank, with particular focus on the assessment of options in relation to the 2009 Preference Shares and the successful execution of a €1.9 billion capital package in relation to these shares;
- the financial performance of the Group;
- the performance of the Group's business divisions and its major subsidiaries;
- the Mortgage Arrears Resolution Strategy (MARS);
- IT strategy;
- recovery and resolution planning;
- developments in the regulatory and corporate governance environment;
- EU restructuring plan revisions, including substitutions for the measure to divest of New Ireland Assurance Company plc (NIAC);
- review of the Group's Communications Strategy; and
- measures to address the pensions deficit.

Throughout 2013, the Court also received updates from the Group's principal businesses on the execution of their business strategy and considered reports from each of the principal Court Committees.

The Court held twelve scheduled meetings and three unscheduled meetings during the year ended 31 December 2013. To ensure oversight of major subsidiaries, the Court visited the registered office of its UK subsidiary, Bank of Ireland (UK) plc twice during the year and held a business review of NIAC.

Further details on the number of meetings of the Court and its Committees and attendance by individual Directors are set out on page 139.

The Group ensures that individual Directors of the Court have sufficient time to dedicate to their duties, having regard to applicable regulatory limits on the number of directorships held by any individual Director. As at 31 December 2013, Directors were within or had been granted a derogation / waiver from the limits set out for major institutions in the Irish Code, relating to restrictions on the number of directorships held in other financial and non-financial institutions. In the case of one Director, the Central Bank of Ireland granted a derogation / waiver from the requirements contained in paragraphs 7.7 and 7.8 respectively of Appendix 1 of the Irish Code.

Agendas and papers are circulated prior to each meeting to provide the Directors with relevant information to enable them to discharge fully their duties. The Group Secretary provides dedicated support for Directors on any matter relevant to the business on which they require advice separately from or additional to that available in the normal Court process. The Bank has in place Directors' and Officers' liability insurance in respect of legal actions against its Directors.

Governor, Deputy Governor and Group Chief Executive

The respective roles of the Governor, who is Chairman of the Court, and the Group Chief Executive, which are separate, are set out in writing and have been agreed by the Court. The Governor oversees the operation and effectiveness of the Court, including ensuring that agendas cover the key strategic items confronting the Bank and encouraging all Directors to participate fully in the discussions and activities of the Court. He also ensures that there is effective communication with stockholders and promotes compliance with corporate governance standards. The Governor commits a substantial amount of time to the Group and his role has priority over any other business commitment. There were no changes to the significant commitment of the Governor during the year ended 31 December 2013. During the year the Chairman and non-executive Directors met without the Executive Directors present, to discuss a range of business matters.

The Deputy Governor is the 'Senior Independent Director' ('SID'). The SID provides Court members, the Group Secretary, stockholders and customers with an additional channel, other than the Governor or the Group Chief Executive, through which to convey, should the need so arise, concerns affecting the Governorship or the Court, or any other issue.

The Group Chief Executive is responsible for execution of agreed strategy, holds delegated authority from the Court for the day to day management of the business and has ultimate executive responsibility for the Group's operations, compliance and performance. Procedures are in place to review the Group Chief Executive's contract at least every five years and this was last reviewed in 2010.

Board Balance and Independence

On appointment the independence status of each Director is considered by the Group Nomination and Governance Committee and the Court. In addition the independence status of each Director is reviewed on an annual basis to ensure that this remains appropriate. In 2013 the Court considered the principles relating to independence contained in the Irish Code and the UK Code and concluded that the previously determined independence status of each director was appropriate. Specifically the Court concluded that the Governor was independent on appointment, that each current non-executive Director, with the exception of Tom Considine, Joe Walsh, Wilbur L Ross Jr and Brad Martin, is independent within the meaning of the Irish Code and the UK Code. Tom Considine and Joe Walsh were nominated by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Scheme, 2008 and are

The Court of Directors (continued)

not required to stand for election or regular re-election by stockholders. Wilbur L Ross Jr and Brad Martin represent significant stockholders in the Bank. These Directors are not, therefore, considered independent by reference to the terms of the Irish Code and the UK Code. The Court values and benefits from their judgement and the quality of their contribution to the deliberations of the Court and, in the case of Tom Considine and Joe Walsh, its Committees.

Each of the Governor, Deputy Governor and all of the non-executive Directors bring independent challenge and judgement to the deliberations of the Court through their character, objectivity and integrity and all are considered independent of management in accordance with the criteria set out in the NYSE Corporate Governance Standards.

Credit Institutions (Stabilisation) Act 2010

The Credit Institutions (Stabilisation) Act 2010 (the Stabilisation Act) has given the Minister for Finance extensive powers regarding the affairs, assets and liabilities of certain covered financial institutions in Ireland, including the Bank. The period of effectiveness of the Stabilisation Act has been extended, by resolution of both houses of the Oireachtas (Irish Parliament), to 31 December 2014. Section 48 of the Stabilisation Act imposes a duty on the Directors of the Bank to align the activities of the Bank and the duties and responsibilities of the Directors, officers and employees of the Bank with the public interest and the other purposes of the Stabilisation Act (as set out in Section 4 of the Stabilisation Act). This duty is owed by the Directors to the Minister, on behalf of the State, and takes priority over any other duty of the Directors to the extent of any inconsistency. The statutory framework for a resolution regime dealing with failing credit institutions comprised in the Central Bank and Credit Institutions (Resolution) Act 2011 will apply to all authorised credit institutions in the State, including the Bank, once the Stabilisation Act expires, pending the implementation of the proposal for a Directive of The European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms.

Role of the Group Nomination and Governance Committee

The Group Nomination and Governance Committee is chaired by the Governor and its composition is fully compliant with the Irish Code and the UK Code. Biographical details, including each member's background and experience, are set out on pages 146 to 152. The Group Nomination and Governance Committee met six times in 2013, of which one meeting was unscheduled. The key responsibilities of the Committee include:

- satisfying itself that plans are in place for the orderly succession to the position of Group Chief Executive;
- leading the process for appointments and renewals for the Court and Court Committees;
- overseeing the process for key subsidiary Board non-executive director appointments and renewals;
- with the support of the Group Secretary, monitoring developments in corporate governance, assessing the implications of such developments for the Group and advising the Court accordingly;
- overseeing the Group's Corporate Responsibility Programme;
- reviewing the size, composition and balance of the Court and its principal Committees and recommending the appointment of any new Directors to the Court and its Committees;
- reviewing the independence of each non-executive Director;
- reviewing succession plans for the Court and its Committees in the context of the Group's strategy, with particular reference to the skills, knowledge, experience and diversity of current Directors, and making appropriate recommendations to the Court; and
- reviewing the succession plans of key subsidiaries.

The Court benefits from the diverse range of skills, knowledge and experience acquired by the non-executive Directors as Directors of other companies, both national and international, or as leaders in the public and private sectors. The effectiveness of the Court depends on ensuring the right balance of Directors with banking or financial services experience and broader commercial experience. Following review in 2013, the Committee determined that collectively the Court possesses the necessary skills and experience in the areas identified as relevant to the business of the Group including: financial services (incorporating retail, corporate and insurance sector experience), strategy development, finance, risk management, business experience, economics, corporate finance, human resources, customer relations, credit and IT skills. Directors bring their individual knowledge, skills and experience to bear in discussions on the major challenges facing the Group.

Following a review of composition of Court Committees in 2013, the Group Nomination and Governance Committee recommended the appointment of one additional independent non-executive Director to the Group Remuneration Committee. On 17 October 2013, the Court approved the appointment of Pat Butler to the Group Remuneration Committee with immediate effect.

The Group recognises the benefits of having a diverse board. During 2013 the Committee considered and recommended a Court Diversity Policy which was subsequently adopted by the Court. In reviewing Board composition and identifying suitable candidates, the Committee considers the benefits of all aspects of diversity including skills, regional and industry experience, background, race, gender and other relevant qualities in order to maintain an appropriate range and balance of skills, experience and background on the Court. During the year the Group Nomination and Governance Committee discussed the measurable objectives for achieving diversity on the Court, with a particular

The Court of Directors (continued)

focus on gender diversity. A target has been set of achieving and maintaining a minimum of 15% female representation on the Court by the end of 2015. The Bank remains committed to having a diverse board and to achieving the targets set in this regard.

Appointments to the Court

The Court is committed to identifying the people best qualified and available to serve on the Court and is responsible for the appointment of Directors (with the exception of the Government nominated Directors). The Court plans for its own renewal with the assistance of the Group Nomination and Governance Committee, which regularly reviews board composition, tenure and succession planning. In accordance with the Court Diversity Policy (which is available on the Group's website) all appointments are made on merit against objective criteria (including the skills and experience the Court as a whole requires to be effective) with due regard for the benefits of diversity on the Court.

Prior to the appointment of a Director, the Group Nomination and Governance Committee approves a job specification, assesses the time commitment involved and identifies the skills and experience required for the role, having regard to the formal assessment of the skills profile of the Court and succession planning. The recruitment process for non-executive Directors is supported by an experienced third party professional search firm which develops an appropriate pool of candidates and provides independent assessments of the candidates. The Group then works with that firm to shortlist candidates, conduct interviews / meetings (including meetings with members of the Committee) and complete comprehensive due diligence. The due diligence process completed is extensive and includes self-certification confirmations of probity and financial soundness and external checks involving a review of various publicly available sources. It also involves the Committee satisfying itself as to the candidate's ability to devote sufficient time to the role, independence, fitness and probity, and assessing and documenting its consideration of possible conflicts of interests. The Committee then makes a recommendation to the Court. Appointments will not proceed where conflicts emerge which are significant to the overall work of the Court.

The processes described above were followed in the selection and appointment of Davida Marston to the Court in 2013. Korn/Ferry Whitehead Mann, an external search consultancy firm which, among other suppliers, also assists with executive searches for the Group, was engaged in respect of this non-executive Director appointment.

The external search process described above was not employed in relation to Brad Martin who was appointed to the Court in 2013 as the representative of a significant stockholder. Following completion of an extensive due diligence process, the Nomination and Governance Committee considered fully the independence, fitness, probity and potential conflicts of interest of Brad Martin.

All newly-appointed Directors are provided with a comprehensive letter of appointment detailing their responsibilities as Directors, the terms of their appointment and the expected time commitment for the role. A copy of the standard terms and conditions of appointment of non-executive Directors can be inspected during normal business hours by contacting the Group Secretary. Directors are required to devote adequate time to the business of the Group, which includes attendance at regular meetings and briefings, preparation time for meetings and visits to business units. In addition, non-executive Directors (with the exception of Wilbur Ross Jr and Brad Martin) are normally required to sit on at least one Committee of the Court, which involves the commitment of additional time. Certain non-executive Directors, such as the Deputy Governor and Committee Chairmen, are required to allocate additional time in fulfilling those roles.

Induction and Professional Development

On appointment, all non-executive Directors receive a comprehensive induction programme designed to familiarise them with the Group's operations, management and governance structures, including the functioning of the Court and the role of the key committees. In addition, new non-executive Directors undertake significant induction in relation to risk and business matters, including visits to or presentations by Group businesses and briefings with senior management. Further meetings are arranged as required based on the particular circumstances of each Director. Following their appointment to the Court in 2013, both Davida Marston and Brad Martin received a bespoke and tailored induction programme as agreed with the Group Secretary.

On an on-going basis, briefings appropriate to the business of the Group are provided to all non-executive Directors. In order to ensure that the Directors continue to further their understanding of the issues facing the Group, Directors are provided with professional development sessions and briefings on a range of technical matters tailored to their particular requirements. During the year ended 31 December 2013, the modules attended by Directors included Market Risk Management and the Group's Use of Derivatives; Risk Framework and the Role of Risk Governance; Recovery Planning; Credit Processes and Accounting and Audit Update. Directors are also offered the option of attending suitable external educational courses, events or conferences designed to provide an overview of current issues of relevance to Directors including, for example, the Bank Director Programme organised through The Institute of Bankers in Ireland.

The Court of Directors (continued)

The Directors have access to the advice and services of the Group Secretary, who is responsible for advising the Court on all governance issues and for ensuring that the Directors are provided with relevant information on a timely basis to enable them to consider issues for decision and to discharge their oversight responsibilities. The Directors also have access to the advice of the Group Legal Adviser and to independent professional advice, at the Group's expense, if and when required. Committees of the Court have similar access and are provided with sufficient resources to undertake their duties.

Performance Evaluation
There is a formal process in place for annual evaluation of the Court's own performance, that of its principal Committees and of individual Directors (including the Governor). An evaluation of the Court's performance and that of its committees is conducted every year. In addition, an externally facilitated review is conducted at least every third year. The objective of these evaluations is to review past performance with the aim of identifying any opportunities for improvement and determining whether the Court as a whole is effective in discharging its responsibilities.

In 2013, a comprehensive process to review and evaluate available suppliers of this service was conducted, including third party referencing. ICSA Board Evaluation (ICSA) was commissioned to facilitate the review of the effectiveness of the Court and its Committees. ICSA has been conducting board evaluations for a number of years for a wide range of boards, including the boards of UK Regulators, UK and Irish corporations and major international financial services groups. ICSA is part of an organisation that supplies software solutions to the Group. The Group Nomination and Governance Committee, which oversaw the selection process, was satisfied that the annual value of the relevant contracts was not material to the Bank or ICSA. The process for these external reviews involved confidential one to one interviews with each Court member, conducted by the ICSA evaluator, with the aim of ascertaining views on current performance and identifying any underlying issues or concerns. In considering the effectiveness of the operation of the Court and its Committees the review considered:

- the role of the Court, its responsibilities and those of its Committees;
- oversight, covering how the Court oversees risk, business ethics and corporate governance and the arrangements for reviewing the performance of Directors and senior managers;
- the arrangements for and effectiveness of Court meetings;
- the support and training for the Court;
- Court composition, including the range of skills required, diversity, succession planning and effectiveness of the Chairman, Senior Independent Director and Committee Chairmen;
- how the Court works together and its engagement with shareholders; and
- outcomes and achievements including how the Court is perceived externally.

The ICSA report concluded that the Court's corporate governance policies and processes were of a high standard and that it had the appropriate skill sets amongst its members to be able to lead the future progress of the Bank.

The results, of the evaluation were presented, by the ICSA evaluator at a meeting of the Court for its review and consideration. Three recommendations, although not material to the effectiveness of the Court, were suggested as enhancements and accepted by the Court. The Court, taking account of the external evaluation report, concluded that it remains effective.

The annual individual Director performance evaluation involves the circulation of tailored questionnaires to Directors, one to one discussions between the Governor and each Director and presentation of the overall findings to the Court for consideration. The evaluation process seeks to establish whether each individual Director continues to make a valuable contribution to the deliberations of the Court, continues to be effective and demonstrates continuing commitment to the role.

As part of the overall performance evaluation process, each Director completes an assessment questionnaire and meets individually with the Senior Independent Director, to appraise the Governor's performance. The Senior Independent Director presents the results of these assessments to the Court for discussion, without the Governor being present. The Senior Independent Director then meets the Governor to present him with the Court's conclusions on his effectiveness. The Senior Independent Director also meets individual Directors on such other occasions as are deemed appropriate.

Term of Appointment and Re-election of Directors
Non-executive Directors are normally appointed for an initial three year term, with an expectation of a further term of three years, assuming satisfactory performance. Only in exceptional circumstances would a non-executive Director serve any longer than two terms. In respect of executive Directors, no service contract exists between the Bank and any Director which provides for a notice period from the Group of greater than one year. None of the non-executive Directors has a contract of service with the Group.

It is Group practice that all Court Directors, with the exception of the Government nominated Directors, are subject to annual re-election by stockholders. During the year all Directors in situ retired at the Annual General Court held on 24 April 2013, with the exception of Tom Considine and Joe Walsh, who were nominated to the Court by the Minister for Finance. In the case of Tom Considine and Joe Walsh, the requirement to stand for election and regular re-election is dispensed with for as long as they remain Government Appointees in accordance with the Bye-Laws of the Bank.

The Court of Directors (continued)

In 2013 the following directors, being eligible, offered themselves for election and were elected: Archie Kane, Wilbur Ross Jr and Prem Watsa. The following directors, being eligible, offered themselves for re-election and were re-elected: Kent Atkinson, Richie Boucher, Pat Butler, Patrick Haren, Andrew Keating, Patrick Kennedy, Patrick Mulvihill and Patrick O'Sullivan. In addition Davida Marston was proposed by the Directors for election to the Court and was duly elected by stockholders.

Remuneration

The Remuneration Report, incorporating the responsibilities of the Group Remuneration Committee, is set out on 154 to 164.

The Group Remuneration Committee has appointed Deloitte as remuneration consultants. Deloitte have no other remuneration consultancy connection with the Group. However during the financial period Deloitte provided corporate recovery services, regulatory and risk focused advisory services and IT consulting services.

Directors' Loans

The Companies Acts, International Accounting Standard 24 – Related Party Disclosures (IAS 24) and a condition imposed on the Bank's licence by the Central Bank of Ireland in August 2009 require the disclosure in the Annual Report of information on transactions between the Bank and its Directors and their connected persons. The amount of outstanding loans to Directors (and relevant loans to connected persons) is set out on pages 290 to 296.

A condition imposed on the Bank's licence by the Central Bank of Ireland in May 2010 requires the Bank to maintain a register of loans to Directors and relevant loans to their connected persons, which is updated quarterly and is available for inspection by stockholders on request for a period of one week following quarterly updates. The Group's process for ensuring compliance with the Central Bank of Ireland's Code of Practice on Lending to Related Parties (Related Party Lending Code) has been in place since 1 January 2011, and a Related Party Lending Committee of the Court is in place which is authorised to review and approve lending to Related Parties as more particularly defined in the Related Party Lending Code. The process was reviewed in 2013 to ensure compliance with the amended Related Party Lending Code issued by the Central Bank of Ireland effective 1 July 2013.

Accountability and Audit

The Report of the Directors, including a going concern statement, is set out on pages 140 to 145. This Corporate Governance Statement forms part of the Report of the Directors.

Internal Controls

The Directors acknowledge their overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. Such systems are designed to control, rather than eliminate, the risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material misstatement or loss. Such losses could arise because of the nature of the Group's business in undertaking a wide range of financial services that inherently involves varying degrees of risk.

The Court has obligations as a non-US registrant under US securities laws and regulations, including the requirement to comply, where applicable, with the Sarbanes-Oxley Act of 2002 (SOx). The Group has put in place a comprehensive framework to document and test its internal control structures and procedures in line with the requirements of Section 404 of SOx, which requires, among other things, certification by management regarding the effectiveness of internal controls over financial reporting. The Group's overall control systems include:

- a clearly defined organisation structure with defined authority limits and reporting mechanisms to higher levels of management and to the Court, which support the maintenance of a strong control environment;
- Court and Management Committees with responsibility for core policy areas;
- a comprehensive set of policies and procedures relating to financial controls, asset and liability management (including interest rate, foreign currency and liquidity risk), operational risk and credit risk management (further details are given in the Risk Management Report on pages 59 to 125); such procedures include the annual preparation of detailed operational budgets for the following year and projections for subsequent years;
- monthly reporting by business units which enables progress against business objectives to be monitored, trends to be evaluated and variances to be acted upon by the Court and relevant subsidiary Boards;
- regular meetings, prior to each Court or relevant subsidiary Board, of the senior management teams, where the Executive Directors and other senior executives responsible for running the Group's businesses, amongst other matters, review performance and explore strategic and operational issues;
- reconciliation of data, consolidated into the Group's financial statements, to the underlying financial systems. A review of the consolidated data is undertaken by management to ensure that the financial position and results of the Group are appropriately reflected, through compliance with approved accounting policies and the appropriate accounting for non-routine transactions; and
- a Code of Conduct setting out the standards of behaviour expected of all Directors, officers and employees. This covers arrangements, should the need arise, for the independent investigation and follow up of any concerns raised by staff regarding matters of financial and non-financial reporting.

The Group operates a comprehensive internal control framework over financial

The Court of Directors (continued)

reporting with documented procedures and guidelines to support the preparation of the consolidated financial statements. The main features are as follows:

- a comprehensive set of accounting policies relating to the preparation of the annual and interim financial statements in line with International Financial Reporting Standards as adopted by the European Union and as issued by the IASB;
- a Group Internal Audit function with responsibility for review and assessment of the Group's internal control framework, to provide independent, reasonable, risk based assurance to management and the Group Audit Committee (GAC) on the design and operating effectiveness of the Group's internal control framework;
- a SOx compliance framework incorporating the design and test of specific controls over key financial processes to confirm that the Group's SOx controls are appropriate to mitigate the financial reporting risks;
- a robust control process is followed as part of interim and annual financial statements preparation, involving the appropriate level of management review and attestation of the significant account line items, and where judgements and estimates are made they are independently reviewed to ensure that they are reasonable and appropriate. This ensures that the consolidated financial information required for the interim and annual financial statements is presented fairly and disclosed appropriately;
- the Annual Report, Form 20-F and Interim Report are also subject to detailed review and approval through a structured governance process involving senior and executive finance personnel;
- summary and detailed papers are prepared for review and approval by the GAC covering all significant judgmental and technical accounting issues together with any significant presentation and disclosure matters; and
- user access to the financial reporting system is restricted to those individuals that require it for their assigned roles and responsibilities.

The Directors confirm that the Court, through its Committees, has reviewed the effectiveness of the Group's systems of internal control for the year ended 31 December 2013. This review involved consideration of the reports of the internal audit and the risk management functions, (including operational risk, regulatory risk and compliance) and establishing that appropriate action is being taken by management to address issues highlighted. In addition, any reports of the external auditors which contain details of any material control issues identified arising from their work are reviewed by the GAC, if they arise. After each meeting of the GAC, its Chairman reports to the Court on all significant issues considered by the Committee and the minutes of meetings are circulated to all members of the Court.

Following the year ended 31 December 2013, the Court reviewed the GAC's conclusions in relation to the Group's systems of internal control and the appropriateness of the structures in place to manage and monitor them. This process involved a confirmation that a system of internal control in accordance with the Financial Reporting Council Guidance on Internal Control was in place throughout the year and up to the date of the signing of these financial statements. It also involved an assessment of the on-going process for the identification, evaluation and management of individual risks and of the roles of the various Committees and Group risk management functions and the extent to which various significant challenges facing the Group are understood and are being addressed.

Speak Up Policy

The Group has a Speak Up policy in place for all staff, which is in accordance with international practice and is compliant with the Sarbanes-Oxley Act. This policy is reviewed on an annual basis in line with the Group Code of Conduct policy.

The Speak Up policy gives an assurance that it is safe and acceptable to raise a concern about malpractice or potential wrongdoing and outlines how to speak up and raise a concern. The Court and Group Chief Executive are committed to this policy, which encourages staff to raise concerns openly and locally. Where this is not possible or the problem has not been resolved effectively at that level, there are clear alternative senior contacts within the Group to whom the concern may be addressed. If staff would prefer independent, confidential advice this is available from Public Concern at Work, an independent, not-for-profit organisation, through a free phone number and a dedicated email address. In the case of concerns regarding fraudulent financial reporting, fraudulent accounting or irregularities in audit work, these can be passed directly to the Chairman of the Group Audit Committee, an independent non-executive Director, whose contact details are available from Public Concern at Work.

Group Audit Committee (GAC)

At 31 December 2013, the GAC comprised six non-executive Directors. On her appointment to the Court on 24 April 2013 Davida Marston, an independent non-executive Director, joined the GAC. The Court believes that the Group Audit Committee members' collective skills and recent and relevant financial experience enables them to discharge their responsibilities. Biographical details, including each member's background and experience, are set out on pages 146 to 152.

One of the key responsibilities of the GAC is to assist the Court in monitoring the integrity of the financial statements and to recommend to the Court that it believes that the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for stockholders to assess the Group's performance, business model and strategy. To achieve this for the current reporting period, the GAC reviewed the Annual Report and

The Court of Directors (continued)

considered whether the financial statements were consistent with the operating and financial reviews elsewhere in the Annual Report. The GAC also reviewed the governance and approval processes in place in the Group. These governance and assurance measures include the completion by management of disclosure checklists to ensure all required disclosures from applicable company law, listing requirements and accounting standards are included and the review of the draft Annual Report by the SOx Disclosure Committee. In considering if the Annual Report was fair, balanced and understandable the GAC also had regard to the significant issues relating to the financial statements that are more particularly set out below.

The GAC considered, inter alia the following key significant accounting issues in its review of the financial statements for the year ended 31 December 2013. In addressing these issues, the GAC considered the appropriateness of management's judgements and estimates and, where appropriate, discussed those judgements and estimates with the external auditor.

Loan Impairment
The GAC considered the methodology for loan loss provisioning, including the specific trigger events which are considered as an indicator of impairment, as set out on pages 101 to 106. The GAC also discussed and challenged management's assumptions used in determining the overall level of impairments recognised in the financial year and the total impairment allowance at the year end with management noting the requirements of IAS 39 in respect of the timing of recognition of impairments (the incurred loss methodology) and the requirements of the Central Bank of Ireland.

The GAC focused on a number of critical assumptions such as the peak to trough assumption for Residential mortgages and the approach to valuing commercial property collateral.

The GAC reviewed management papers which considered arrears levels, forbearance measures and key assumptions and was satisfied that the level of loans classified as impaired at year end was consistent with the Group's methodology, and that the calculation and resulting provision recognised and disclosures were appropriate based on the requirements of IAS 39.

Deferred Tax Assets
The GAC considered the extent of deferred tax assets to be recognised in respect of unutilised tax losses, and in particular the projections for future taxable profits against which those losses may be utilised in the future. In order for the Group to recognise these assets it must have convincing evidence of sufficient future taxable profits against which the losses can be utilised.

The projections for future taxable profits incorporate economic factors (e.g. inflation, unemployment level, interest rates etc.) and expected performance measures from each business unit within the bank (e.g. expected new business, expected costs, loan losses etc.). The Group engaged international risk consultants to assist in the preparation of impairment projections, involving an extensive review of projection models for loan loss provisions and challenge of key assumptions and scenarios.
The Group's projections incorporate the Group's 2013 Internal Capital Adequacy Assessment Process (ICAAP), approved by the Court of Directors, as updated for any relevant information and changes in assumptions between the ICAAP submission date and 31 December 2013. The ICAAP projections are prepared for the purpose of the Group's assessment of its capital adequacy. They are subjected to considerable internal governance at a divisional and Group level and are reviewed in detail and approved by executive management and the Court. Management's assessment of the projections determined that it was probable that there would be sufficient taxable profits in the future to recover the deferred tax asset arising from unused tax losses.

The GAC discussed with management its assessment of the recoverability of the deferred tax asset and the related disclosures. The GAC concluded that it was probable that there would be sufficient taxable profits in the future to recover the deferred tax asset arising from unused tax losses, and that the related disclosures were as required under IAS 12.

Going Concern
The GAC considered management's assessment of the appropriateness of preparing the financial statements of the Group for the year ended 31 December 2013 on a going concern basis. In making this assessment, matters considered include the Group's business, profitability forecasts (which incorporate the Group's 2013 ICAAP), funding and capital plans, under both base and plausible stress scenarios, together with a range of other factors such as the outlook for the Irish economy taking due account of the impact of fiscal realignment measures, the availability of collateral to access the Eurosystem, together with the likely evolution and impact of the eurozone crisis. The detailed considerations assessed by the GAC are set out in the Going Concern disclosure within the Accounting Policies on pages 184 to 185 of the Consolidated Financial Statements.

On the basis of review performed and the discussions with management, the GAC was satisfied that there were no material uncertainties related to events or conditions that may cast significant doubt on the Group's and Bank's ability to continue as a going concern over the period of assessment. This assessment, together with the Going Concern disclosure (as set out on pages 184 and 185), was subsequently proposed to the Court of Directors for assessment and approval by the Directors.

Retirement benefit obligations
The GAC considered management's key assumptions and judgements used in determining the actuarial values of the liabilities of each of the Group's sponsored defined benefit pension schemes under

The Court of Directors (continued)

IAS 19 (Revised). Management considered advice from independent actuaries, Towers Watson, for the determination of actuarial assumptions including discount rates and inflation. The key assumptions proposed by management and considered by the GAC were the Irish and UK discount rates.

The GAC was satisfied that the discount rate and other significant assumptions are consistently applied and that the accounting for the Group's sponsored defined benefit pension schemes and related disclosures were in accordance with IAS 19 (Revised).

Further detail on the discount rate and other significant assumptions related to Retirement benefit obligations are set out in note 41 to the Consolidated Financial Statements.

Life assurance operations
The GAC considered management's key assumptions and judgements used in determining the value of in force business and insurance contract liabilities. The key assumptions in projecting future surpluses and other net cash flows attributable to the shareholder arising from business written were the risk discount rate, unit growth rate, realistic interest rate, lapse rates, mortality and expenses.

The GAC was satisfied that the significant assumptions are consistently applied and that the accounting for the Group's value of in force business and insurance contract liabilities is appropriate.

Further information on these significant items is set out in the Critical Accounting Estimates and Judgements on pages 209 to 211.

In close liaison with the Court Risk Committee, which advises the Court on establishing the Group's risk appetite and setting standards for the Group's risk control framework, the GAC is responsible for the appropriateness and completeness of the system of internal control, reviews the manner and framework in which management ensures and monitors the adequacy of the nature, extent and effectiveness of internal control systems, including accounting control systems, and thereby maintains an effective system of internal control.

In addition the GAC has responsibility for:
- assisting the Court in meeting obligations under relevant Stock Exchange listing rules and other applicable laws and regulations including the Sarbanes-Oxley Act in the US;
- monitoring and reviewing the effectiveness of the Group's Internal Audit function and its operations;
- discharging the statutory responsibility of the Bank under Section 42 of the Companies (Auditing and Accounting) Act, 2003 and other statutes or regulations; and
- overseeing compliance with Government requirements associated with their support for the Bank.

The GAC is also responsible for overseeing all matters relating to the relationship between the Group and its external auditor, including the external audit plan, terms of engagement, audit and non-audit fee budgets, interim findings and audit finding reports. The GAC also meets annually with the external auditors without management present.

PricewaterhouseCoopers (PwC) have been appointed as sole auditors of the Group since 1990. The external auditors are required to rotate the audit engagement partner every five years. The Group is committed to ensuring the independence and objectivity of the external auditor and on an annual basis the GAC formally reviews the effectiveness, independence and performance of the external auditor. This process is supported by questionnaires completed by GAC members and relevant senior management personnel. The responses received in 2013 were collated and presented to the GAC for discussion. As a result of the review process conducted and the GAC's own interactions with the external auditors, no issues were identified. The GAC concluded that they remain satisfied with the performance of PwC as external auditor.

As an additional check on independence, the GAC also reviews the procedures and processes by which non-audit services, if any, are provided by the external auditors in order to ensure, among other things, that auditor objectivity and independence are not compromised. In this regard, a key procedural control requires that any engagement of the external auditors to provide non-audit services must be pre-approved by the GAC. The GAC monitors compliance with the Group policy on the provision of non-audit services and receives reports on the performance of such services. Further details of non-audit services provided during the year are set out in note 12 'Auditors' remuneration'.

The Group last put its external audit contract out to tender in 1990. The requirement of the UK Code to put the external audit contract out to tender at least every ten years and relevant guidance issued by the Financial Reporting Council were considered by the GAC, including the suggested transitional arrangement that the timing of tenders could be aligned with the cycle for rotating the audit engagement partner. As the current Group Audit Partner's rotation is not due to end until the completion of the audit of the 2014 Annual Report and Accounts, the GAC did not recommend an audit contract tender in 2013. This position and relevant EU regulatory developments in this regard will continue to be monitored by the GAC on behalf of the Group.

The GAC met eight times in 2013. Matters considered at scheduled meetings included:
- year end, interim, and Form 20-F reporting, including the significant accounting issues detailed herein;
- the governance and approval arrangements underlying the fair, balanced and understandable assessment;
- the Group Impairment Policy;
- Group Internal Audit reports and findings;

The Court of Directors (continued)

- SOx Disclosure Committee findings and Corporate Controls review;
- the External Auditor's audit plan and external audit findings;
- the External Auditor's effectiveness, independence, audit fee and non-audit fee approval;
- reports from Group Regulatory Compliance and Operational Risk;
- the Group's Pillar 3 Disclosure Policy and disclosures; and
- subsidiary audit committee minutes.

The GAC was provided with a technical training session on accounting and audit updates during the year.

Court Risk Committee

The Court Risk Committee (CRC) is established to monitor risk governance and to assist the Court in discharging its responsibilities in ensuring that risks are properly identified, reported, and assessed; that risks are properly controlled; and that strategy is informed by and aligned with the Group's risk appetite.

On 24 April 2013 Davida Marston was appointed to the Court and the CRC, increasing the membership of the CRC to six non-executive Directors. This position remained unchanged as at 31 December 2013. Biographical details, including each member's background and experience, are set out on pages 146 to 152. To ensure co-ordination with the work of the GAC, the Chairman of the GAC is a member of the CRC and the Chairman of the CRC is a member of the GAC. At least one member of the CRC is also a member of the Group Remuneration Committee to ensure remuneration decisions are informed from a risk perspective. Membership, including balance, mix of skills and experience, is reviewed annually by the Group Nomination and Governance Committee.

The CRC makes recommendations to the Court on risk issues where the Court has reserved authority, maintains oversight of the Group's risk profile, including adherence to Group risk principles, policies and standards, and approves material risk policies within delegated discretion.

The CRC is responsible for reviewing and recommending the key risk statements, policies and frameworks that the Court has reserved authority to approve and has a strategic role in advising on the structure of the Risk Management Report in the Annual Report.

It maintains oversight of the Group's risk profile through review and consideration of the quarterly Court Risk Report and review and consideration of the minutes of the Group Risk Policy Committee.

The CRC approves the output of the annual risk identification process, thereby ensuring that risk is properly identified and assessed and that a framework is in place to ensure that risks are properly controlled and managed. Ten key risk types have been identified that the Group believes could have a material impact on earnings and ability to trade in the future. With the exception of credit, liquidity and market risks where the Court has reserved authority, the CRC is responsible for approving, where applicable, the key policies in relation to the Group's other identified material risks e.g. Group Operational Risk Policy, Group Model Risk Policy, Group Reputation Risk Policy.

It provides advice to the Group Remuneration Committee to inform remuneration decisions from a risk perspective, monitors the risk elements of any due diligence appraisal of any merger or acquisition activity, as required, and considers the findings of Group Internal Audit and Group Credit Review in respect of risk management.

The CRC met ten times in 2013, of which two meetings were unscheduled. Various risk specific training modules were also held during the year focusing on market risk management, credit processes and risk governance. In addition to the quarterly Court Risk Reports, Risk Appetite Statement, Group Risk Framework and Stress Testing Results, the CRC also considered, amongst other matters;

- the Group ICAAP Report and supporting documents;
- the Group Credit Policy (incorporating the Group Forbearance Policy) and the Group Country Risk Policy;
- management's assessment of risk in the Group, including management's view on the likelihood of occurrence and the mitigants available;
- the Group's asset quality. The results of this asset quality review were brought to the attention of the GAC in the context of its assessment of impairment provisions;
- the review and challenge process, through which the CRC satisfied itself that appropriate processes and monitoring policies are in place to meet the requirements of the Risk Appetite Statement;
- the quality of risk reporting;
- regular updates on interactions with the Regulator in relation to risk related matters; and
- minutes of risk committee meetings of material subsidiaries.

During 2013 the CRC also reviewed the terms of reference of the Group Risk Policy Committee (GRPC), and considered the findings of the GRPC annual review of effectiveness of its operations. On an on-going basis the CRC reviews decisions of the GRPC through its minutes as presented to the CRC and receives reports from the committee chairman.

Group Risk Policy Committee (GRPC)

The GRPC is the most senior management risk committee and reports to the CRC. All items approved by the GRPC are notified to the CRC through the GRPC minutes. Membership comprises members of the Group Executive team and group-wide divisional and control function executives. The GRPC is responsible for managing all risk types across the Group, including monitoring

The Court of Directors (continued)

and reviewing the Group's risk profile and compliance with risk appetite and other approved policy limits; approving risk policies and actions within discretion delegated from the CRC and making recommendations to the CRC on risk issues where the Court and the CRC has reserved authority. The GRPC in turn delegates specific responsibility for oversight of major classes of risk to specific committees that are accountable to it.

GRPC manages risk through review and consideration of the monthly and quarterly Court Risk Reports, consideration of reports and minutes of the GRPC appointed committees and through review and approval of business unit and sectoral loan portfolio reviews and credit policies. It also approves selected policies and actions within the boundary parameters of Risk Appetite limits and the policies approved by the Court and CRC, taking account of, as appropriate, capital and funding considerations (e.g. Group Derivatives Policy and the Group's Credit Concentration Risk Policy).

Group Investment Committee (GIC)
The GIC is responsible for evaluating all material investment, divestment and capital expenditure proposals, determining those within its authority and recommending those outside its authority to the Court for approval. It is also responsible for monitoring the implementation of such proposals and ensuring satisfactory delivery of expected benefits.

Relations with Stockholders
Communication with stockholders is given high priority. One of the responsibilities of the Governor is to ensure effective communication with stockholders and to ensure that Directors develop an understanding of the views of major investors. The Group seeks to provide through its Annual Report a fair, balanced and understandable assessment of the Group's performance and prospects. The Group uses its website (www.bankofireland.com) to provide stockholders and potential investors with recent and relevant financial information including annual reports, interim reports and Form 20-F filings. Copies of presentations to analysts and investors are also made available on the website, so that information is available to all stockholders. Annual and interim results presentations are webcast live so that all stockholders can receive the same information at the same time.

The Investor Relations section on the Group's website is updated with all stock exchange releases as they are made, presentations and press releases. It also contains dedicated investor relations contact details. The Group has an active and well developed Investor Relations programme, which involves regular meetings by Executive Directors, selected senior executives and the Head of Group Investor Relations with the Group's principal institutional stockholders, financial analysts and brokers. All meetings with stockholders are conducted in such a way as to ensure that price sensitive information is not divulged. A dedicated Debt Investor section of the Group website provides access to relevant information, including presentations, publications, bond tables and suitable treasury, capital and debt contacts within the Group.

Directors receive an investor relations update at all scheduled Board meetings. The content of this update is varied, based on recent investor activities, but can include market updates, equity investor interactions, debt investor interactions, roadshow / meeting feedback and relevant analyst reports. All Directors are encouraged and facilitated to hear the views of investors and analysts at first hand. The Governor met with major stockholders to discuss governance and remuneration issues in early 2014 and the Court was updated on the outcome of these discussions.

The Governor and / or the Senior Independent Director are available to all stockholders if they have concerns that cannot be resolved through the normal channels.

The aim of the Court is to make constructive use of the Annual General Court (AGC) and all stockholders are encouraged to participate. Questions are invited from stockholders in advance of the AGC, and a dedicated email address is provided for this purpose. A substantial part of the agenda of the AGC is dedicated to responding to stockholder questions. A 'Help Desk' facility is provided by the Group's registrar to assist stockholders to resolve any specific queries that they may have in relation to their stockholding. The AGC was held on 24 April 2013 in the Burlington Hotel, Dublin 4 (2013 AGC). In line with the Group's policy to issue notice of the Annual General Court at least 20 working days before the meeting, notice of the 2013 AGC was circulated to stockholders on 19 March 2013. The Governor and the Chairs of the Group Audit Committee, Court Risk Committee, Group Nomination and Governance Committee and Group Remuneration Committee were in attendance to hear the views of stockholders and answer queries. It is usual for all Directors on the Court at the time of the AGC to attend; however Wilbur Ross and Prem Watsa were unavailable to attend the 2013 AGC due to separate personal issues. Their personal regrets were conveyed by the Governor to attendees at this meeting.

At the 2013 AGC separate resolutions were proposed on each substantially separate issue and voting was conducted by way of poll. The results of every general court of the Bank, including details of votes cast for, against and withheld on each resolution, are posted on the Group's website and released to the Irish, London and New York Stock Exchanges. As soon as the results of the 2013 AGC were calculated and verified, these were released to applicable exchanges, as set out above, and were made available on the Group's website.

The AGC of the Bank in 2014 is scheduled to be held on 25 April 2014. Shareholders who will be unable to attend on this date are encouraged to submit queries and vote in advance to ensure continued participation.

The Court of Directors (continued)

New York Stock Exchange (NYSE) Corporate Governance Requirements
As a company formed by Charter in Ireland, listed on the Irish and London Stock Exchanges and with an ADR listing on the NYSE, the Group's corporate governance practices reflect Irish law (including the provisions of the Credit Institutions (Stabilisation) Act, 2010), the Listing Rules of the Irish Stock Exchange and the UK Listing Authority, the Irish Code, the Irish Annex and the UK Code. As a non-US company listed on the NYSE, the Bank is permitted to follow these home country corporate governance practices in lieu of most of the corporate governance standards set out in Section 303A of the NYSE corporate governance standards (NYSE Rules), which domestic US companies must follow. However, the Bank is required to submit an executed Annual Written Affirmation to the NYSE confirming compliance with applicable NYSE Rules and must also disclose any significant differences between its corporate governance practices and the requirements of the NYSE Rules applicable to US companies. Significant differences between the Group's practice and NYSE Rules arise in the following areas:

Board Committees:
Under NYSE Rules, listed companies must have a Nominating / Corporate Governance Committee and a Compensation Committee, both of which must be composed entirely of independent Directors. The Bank has a Nomination and Governance Committee and a Remuneration Committee, both of which are broadly similar in purpose and constitution to the Committees required by the NYSE Rules and whose terms of reference comply with the requirements of the Irish Code and the UK Code. As the Governor was independent on appointment, the UK Code permits him to chair the Group Nomination and Governance Committee and be a member of the Group Remuneration Committee. Joe Walsh, who is Chairman of the Group Remuneration Committee and a member of the Group Nomination and Governance Committee, was nominated by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Scheme, 2008, and is not considered independent by reference to the terms of the Irish Code and the UK Code, but is considered independent of management in accordance with the criteria set out in the NYSE Rules. There are no enhanced independence standards for members of the Group Remuneration Committee under the Irish Code or UK Code. In accordance with the UK Code, the Bank discloses in its annual report whether remuneration consultants are appointed and includes a statement as to whether they have any other connection with the Group. It is Group practice to review the independence and objectivity of any remuneration consultants; however there are no specific independence criteria for remuneration committee advisors as would be the case for domestic US companies.

Under NYSE Rules, listed companies must have an Audit Committee comprised solely of independent non-executive Directors. The GAC is composed entirely of non-executive Directors who are independent in accordance with NYSE Rules. However the Bank follows the UK Code recommendations, rather than the NYSE Rules, regarding the responsibilities of the Audit Committee, although both are broadly comparable. Tom Considine, who is a member of the GAC was nominated by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Scheme, 2008, and is not considered independent by reference to the terms of the Irish Code and the UK Code, but is considered independent of management in accordance with the criteria set out in the NYSE Rules.

Otherwise than as disclosed, the above-mentioned Committees are composed entirely of non-executive Directors whom the Board has determined to be independent by reference to the terms of the Irish Code and the UK Code.

Corporate Governance Guidelines:
The NYSE Rules require domestic US companies to adopt and disclose corporate governance guidelines. There is no equivalent requirement or recommendation in the Irish Code or UK Code. The Bank complies with corporate governance and disclosure requirements set out in the Irish Code, the UK Code and the Irish Annex except as set out herein.

Independence:
The NYSE Rules contain different tests for determining whether a director is independent. The UK Code and Irish Code set out their own factors relevant for determining independence but the Board is permitted to classify a director as independent notwithstanding the existence of such relationships or circumstances provided it states its reasons. The independence of non-executive Directors is reviewed annually and the conclusions of the Court on independence are set out in this report.

Attendance at scheduled and unscheduled meetings of the Court and its Committees during the year ended 31 December 2013

	Court Scheduled		Court Unscheduled		Group Audit Committee Scheduled		Group Audit Committee Unscheduled		Group Nomination and Governance Committee Scheduled		Group Nomination and Governance Committee Unscheduled		Group Remuneration Committee Scheduled		Group Remuneration Committee Unscheduled		Court Risk Committee Scheduled		Court Risk Committee Unscheduled	
Name	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Kent Atkinson	12	12	3	2	8	8	-	-	-	-	-	-	-	-	-	-	8	8	2	2
Richie Boucher	12	12	3	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pat Butler *(Appointed to the Group Remuneration Committee 17 October 2013)*	12	11	3	1	-	-	-	-	5	5	1	1	1	1	-	-	8	8	2	2
Tom Considine	12	12	3	3	8	8	-	-	-	-	-	-	-	-	-	-	8	8	2	2
Patrick Haren	12	12	3	3	8	8	-	-	-	-	-	-	4	4	-	-	-	-	-	-
Archie Kane	12	12	3	3	-	-	-	-	5	5	1	1	4	3	-	-	-	-	-	-
Andrew Keating	12	12	3	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Patrick Kennedy	12	12	3	3	-	-	-	-	-	-	-	-	4	4	-	-	8	8	2	2
Davida Marston *(Appointed 24 April 2013)*	7	7	3	2	5	4	-	-	-	-	-	-	-	-	-	-	5	4	1	1
Brad Martin *(Appointed 23 July 2013)*	5	5	2	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Patrick Mulvihill	12	12	3	3	8	8	-	-	-	-	-	-	-	-	-	-	8	8	2	2
Patrick O'Sullivan	12	10	3	3	8	8	-	-	5	4	1	1	-	-	-	-	-	-	-	-
Wilbur L Ross Jr	12	11	3	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Joe Walsh	12	12	3	3	-	-	-	-	5	5	1	1	4	4	-	-	-	-	-	-
Prem Wasta *(Retired 23 July 2013)*	7	5	1	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Column A *Indicates the number of meetings held during the period the Director was a member of the Court and / or the Committee and was eligible to attend.*
Column B *Indicates the number of meetings attended.*

Report of the Directors

Results
For the year ended 31 December 2013 the Group made a loss before tax of €525 million and an after tax loss of €490 million. A loss of €3 million is attributable to non-controlling interests, and a €487 million loss is attributable to ordinary stockholders, which has been transferred to retained earnings.

Dividends
No dividend on ordinary stock will be paid in respect of the year ended 31 December 2013.

Group activities
The Group provides a range of banking and other financial services. The Chairman's Review, Group Chief Executive's Review and the Operating and Financial Review (pages 4 to 57) contain a review of the results and operations of the Group, of most recent events, and of likely future developments.

In relation to the Group's business, no contracts of significance to the Group within the meaning of LR 6.8.1(9) of the Listing Rules existed at any time during the year ended 31 December 2013.

Principal risks and uncertainties
Information concerning the principal risks and uncertainties facing the Group is set out on pages 59 to 68 in the Risk Management Report .

Capital stock
As at 31 December 2013, the Group has 32,385,283,763 units of ordinary stock of €0.05 each of which 41,696,461 units were held in treasury stock.

Takeover Bids Regulations
The disclosures required by the European Communities (Takeover Bids (Directive 2004 / 25 / EC)) Regulations 2006 are set out in the Schedule to the Report of the Directors on pages 142 to 145.

Directors
The names of the members of the Court of Directors together with a short biographical note on each Director appear on pages 146 to 152.

At the Annual General Court (AGC) held on 24 April 2013, all Directors (with the exception of Joe Walsh and Tom Considine) retired. Archie Kane, Wilbur L. Ross Jr. and Prem Watsa were elected, having been appointed by the Court during the year, and Davida Marston was elected at the AGC. Kent Atkinson, Richie Boucher, Pat Butler, Patrick Haren, Andrew Keating, Patrick Kennedy, Patrick Mulvihill and Patrick O'Sullivan were re-elected.

Prem Watsa retired as a Director on 23 July 2013. Brad Martin was co-opted to the Court on 23 July 2013.

Remuneration
See Remuneration Report on pages 154 to 164.

Directors' interests
The interests of the Directors and Secretary in office at 31 December 2013 in the stock issued by the Bank as disclosed to the Bank under section 53 and extended by section 64 of the Companies Act 1990 are shown in the Remuneration Report on page 163.

Substantial stockholdings
There were 104,013 registered holders of the ordinary stock of the Bank at 31 December 2013. An analysis of these holdings is shown on page 429.
In accordance with LR 6.8.3 (2), details of notifications received by the Bank in respect of substantial interests in its ordinary stock are provided in the table below as at 31 December 2013 and 24 February 2014. Details of notifications of substantial interests in ordinary stock received by the Bank during the period from 31 December 2013 to 24 February 2014 are provided in the notes accompanying this table.

	31 December 2013 %	24 February 2014 %
National Pensions Reserve Fund Commission (NPRFC)[1] / Minister for Finance	14.08	13.95
Hamblin Watsa Investment Counsel Limited	8.67	8.67
Wilbur L. Ross, Jr. WLR Recovery Fund IV, L.P.	9.32	9.32
FMR LLC	7.98	7.98
The Capital Group Companies, Inc.[2]	8.96	7.93
EuroPacific Growth Fund[3]	*7.45*	*5.98*
MainStay Marketfield Fund, MainStay VP Marketfield Portfolio & Marketfield Dublin VP[4]	3.33	3.33

1 *On 7 January 2014, the NPRFC notified the Bank of a disposal of voting rights, reducing its holding to 13.95%.*
2 *On 25 January 2014, The Capital Group Companies Inc., notified the Bank of a disposal of voting rights, reducing its holding to 7.93%.*
3 *EuroPacific Growth Fund has granted proxy voting authority to The Capital Research and Management Company, its investment adviser, and consequently holds no voting rights. Notifications submitted in respect of the voting rights held by The Capital Group Companies, Inc. include EuroPacific Growth Fund's holdings. On 22 January 2014, EuroPacific Growth Fund notified the Bank of a disposal of shares, reducing its holding to 6.98%. On 13 February 2014, the Bank recieved a notification from EuroPacific Growth Fund of a disposal of shares, reducing its holding to 5.98%.*
4 *On 29 January 2014, the Bank received a notification from MainStay Marketfield Fund, MainStay VP Marketfield Portfolio and Marketfield Fund Dublin of an acquisition of voting rights resulting from a transaction on 5 December 2013.*

Corporate Governance
Statements by the Directors in relation to the Group's compliance with the Central Bank of Ireland's Corporate Governance Code for Credit Institutions and Insurance Undertakings, including the additional requirements of Appendix 1 applicable to major institutions, the UK Corporate Governance Code 2012 and the Irish Corporate Governance Annex of the Irish Stock Exchange are set out in the Corporate Governance Statement on pages 126 to 139. The Corporate Governance Statement forms part of the Report of the Directors.

Environment
The Group's environmental policy is accessible at www.bankofireland.com and details of its environmental activities are outlined in the Corporate Responsibility Report on page 165.

Political donations
Political donations are required to be disclosed under the Electoral Amendment Political Funding Act 2012. The Directors, on enquiry, have satisfied themselves that there were no political donations made during the year ended 31 December 2013.

Branches outside the State
The Bank has established branches in the UK, France, Germany and the US.

Going concern
The Directors have considered the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2013 on pages 184 to 185 which forms part of the Report of the Directors and on page 134 in the Corporate Governance Statement.

Books of account
The Directors ensure that proper books and accounting records are kept at the Bank's registered office, through the appointment of suitably qualified competent personnel, the implementation of appropriate computerised systems and the use of financial and other controls over the systems and the data.

Auditors
The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office in accordance with Section 160(2) of the Companies Act 1963.

Post Balance Sheet Events
These are described in note 60 to the financial statements.

Archie Kane
Governor

Patrick O'Sullivan
Deputy Governor
& Senior Independent Director

Bank of Ireland
Registered Office
40 Mespil Road,
Dublin 4

28 February 2014

Schedule to the Report of the Directors

Information required under the European Communities (Takeover Bids (Directive 2004 / 25 / EC)) Regulations 2006.

As required by these Regulations, the information contained below represents the position at 31 December 2013.

1. Structure of the Bank's capital

The capital of the Bank is divided into ordinary stock, non-cumulative dollar preference stock, non-cumulative sterling preference stock, non-cumulative euro preference stock (which includes the 2009 Preference Stock) undesignated dollar, euro and sterling preference stock, collectively '2005 preference stock' and deferred stock.

At 31 December 2013, there was no non-cumulative dollar preference stock in issue. At 31 December 2013, there were in issue 1,876,090 units of non-cumulative sterling preference stock and 3,026,598 units of non-cumulative euro preference stock. As at December 2013, there was no units of 2005 preference stock in issue. As at 31 December 2013, there were 1,300,000,000 units of 2009 Preference Stock in issue. As at 31 December 2013, there were 91,980,594,628 units of deferred stock.

In November 2012, the High Court of Ireland approved a reduction in the Bank's stock premium account of €3.92 billion from €5.117 billion to €1.197 billion.

Further detail on the structure of the Bank's capital is set out in note 44 to the consolidated financial statements.

(i) Rights and Obligations attaching to the classes of stock

Ordinary stock

Dividend rights

Under Irish law and under the Bye-Laws of the Bank, dividends are payable on the ordinary stock of the Bank only out of profits available for distribution. Holders of the ordinary stock of the Bank are entitled to receive such dividends as may be declared by the stockholders in General Court, provided that the dividend cannot exceed the amount recommended by the Directors. The Bank may pay stockholders such interim dividends as appear to the Directors to be justified by the profits of the Bank. No dividend on the ordinary stock may be declared unless the dividend on the dollar preference stock, the sterling preference stock, the euro preference stock (including the 2009 Preference Stock) and the 2005 Preference Stock most recently payable prior to the relevant General Court shall have been paid in cash. Any dividend which has remained unclaimed for twelve years from the date of its declaration may be forfeited and cease to remain owing by the Bank.

Voting rights

Voting at any General Court is by a show of hands or by poll. On a show of hands, every stockholder who is present in person or by proxy has one vote regardless of the number of units of stock held by him or her. On a poll, every stockholder who is present in person or by proxy has one vote for every unit of ordinary stock of €0.05 each.

A poll may be demanded by the Chairman of the meeting or by at least nine members of the Bank present in person or by proxy and entitled to vote on a poll. The necessary quorum for a General Court is ten persons present in person or by proxy and entitled to vote. All business is considered to be special business if it is transacted at an Extraordinary General Court as is all business transacted at an Annual General Court other than the declaration of a dividend, the consideration of the accounts, the balance sheet and reports of the Directors and Auditors, the election of Directors in the place of those retiring, the reappointment of the retiring Auditors, and the determination of the remuneration of the Auditors, all of which is deemed ordinary business. Special business is dealt with by way of an ordinary resolution save where a special resolution is expressly required by the Bye-Laws or the Companies Acts 1963 to 2013 in so far as they apply to the Bank from time to time (the Companies Acts). A special resolution must be passed by not less than three fourths of the votes cast by such members as being entitled so to do, vote in person or, where proxies are allowed, by proxy at a General Court at which not less than twenty one days' notice specifying the intention to propose a resolution as a special resolution has been duly given.

Ordinary business is dealt with by way of an ordinary resolution which requires a simple majority of the votes cast by the members voting in person or by proxy at a General Court. Where an equal number of votes have been cast on any resolution the Chairman of the meeting is entitled to a second or casting vote. An Extraordinary General Court (other than an Extraordinary General Court called for the passing of a special resolution) may be called on fourteen days' notice in writing, at least, where: (i) the Bank offers the facility for stockholders to vote by electronic means accessible to all stockholders; and (ii) a special resolution reducing the period of notice to fourteen days has been passed at the immediately preceding Annual General Court or at an Extraordinary General Court held since the immediately preceding Annual General Court.

Liquidation rights

In the event of any surplus arising on the occasion of the liquidation of the Bank, the ordinary stockholders would be entitled to a share in that surplus pro rata to their holdings of ordinary stock.

Renominalisation of ordinary stock - deferred stock

The Bank's ordinary stock was renominalised by Stockholders to €0.05 at the Extraordinary General Court held on 11 July 2011. Refer to note 44 for further information on the deferred stock created on the renominalisation.

The deferred stock created on the renominalisation has no voting or dividend rights and, on a return of capital on a winding up of the Bank, will have the right to receive the amount paid up thereon only after stockholders have received, in aggregate, any amounts paid up thereon plus €10 million per unit of €0.05 ordinary stock, the purpose of which is to ensure that the units of deferred stock have no economic value.

The deferred stock is not transferable at any time, other than with the prior written consent of the Directors. At the appropriate time, the Bank may redeem or repurchase the deferred stock, make an application to the High Court of Ireland for the deferred stock to be cancelled, or acquire or cancel or seek the surrender of the deferred stock (in each case for no consideration) using such other lawful means as the Directors may determine.

Preference stock
Any non-cumulative dollar preference stock issued will rank equivalently to the existing euro or sterling preference stock as regards entitlements to dividends.

The holders of non-cumulative sterling and euro preference stock are entitled to a fixed annual dividend, at the discretion of the Bank, in accordance with the terms and conditions relating to the issue of the particular class of preference stock. Any dividend which has remained unclaimed for twelve years from the date of its declaration may be forfeited and cease to remain owing by the Bank.

The non-cumulative sterling preference stock and the non-cumulative euro preference stock rank pari passu inter se and the right to a fixed dividend is in priority to the dividend rights of ordinary stock in the capital of the Bank. On a winding-up or other return of capital by the Bank, the non-cumulative sterling preference stockholders and the non-cumulative euro preference stockholders are entitled to receive, out of the surplus assets available for distribution to the Bank's members, an amount equal to the amount paid up on their preference stock including any preference dividend outstanding at the date of the commencement of the winding-up or other return of capital. Otherwise the preference stockholders are not entitled to any further or other right of participation in the assets of the Bank.

Bye-Law 7 enables the Directors to issue and allot new preference stock (2005 Preference Stock) which can be either redeemable or nonredeemable, and can be denominated in dollars, in euro or in sterling. Unless otherwise determined by the Directors prior to their allotment, any preference stock issued under Bye-Law 7 will rank equivalently to the existing euro and sterling preference stock as regards entitlements to dividends. Bye-Law 7 permits the substitution of all of the outstanding preferred securities in the event of the occurrence of a trigger event. A trigger event will occur when the capital adequacy requirements of the Central Bank of Ireland have been, or are expected to be, breached.

2009 Preference stock
On a winding up or other return of capital of the Bank, the repayment of paid up capital (inclusive of premium) on the 2009 Preference Stock ranks pari passu with repayment of paid up nominal value (excluding premium) of the ordinary stock. The 2009 Preference Stock ranks ahead of the Ordinary Stock as regards dividends and as regards the repayment of premium on Ordinary Stock on a winding up or other return of capital of the Bank and pari passu as regards dividends with other stock or securities constituting Core tier 1 capital of the Bank (other than Ordinary Stock and other than dividends to minority interests). The 2009 Preference Stock entitles the holders thereof to receive a non-cumulative cash dividend at a fixed rate of 10.25% per annum, payable annually in arrears on 20 February at the discretion of the Bank.

If a cash dividend is not paid by the Bank, the Bank shall issue units of Ordinary Stock to the holders of the 2009 Preference Stock to be settled on a day determined by the Bank, in its sole discretion, provided that this must occur no later than the day on which the Bank subsequently redeems or repurchases or pays a dividend on the 2009 Preference Stock or any class of capital stock. In such circumstances the Bank is precluded from paying dividends on Ordinary Stock until payment of dividends in cash on 2009 Preference Stock resumes. The Bank will also be precluded from paying any dividend on ordinary stock where the payment of such a dividend would reduce the distributable reserves of the Bank to such an extent that the Bank would be unable to pay the next dividend due for payment on the 2009 Preference Stock.

(ii) 2011 Agreements
On 17 October 2011, the NPRFC sold a portion of its holding in the Bank to a group of significant institutional investors and fund managers ('Investors'), thereby reducing its holding in the ordinary stock of the Bank from 36% to 15.13% on that date.

In a Deed of Undertaking executed contemporaneously with that sale the Bank agreed, inter alia, that it would issue relevant securities only on a pre-emptive basis up to 29 July 2016, subject to certain specified exceptions, including any issue pursuant to existing or future authorities granted by Stockholders at an annual general court or an extraordinary general court to permit the Bank to issue relevant securities on a non pre-emptive basis.

The Bank has in a separate agreement also agreed to file at the request of the Investors one or more registration statements under the U.S. Securities Act to facilitate resale of their ordinary stock by the Investors under the U.S. Securities Act subject to customary exceptions and procedures.

(iii) 2013 Capital Package
On 9 December 2013, the Bank issued 2,230,769,231 units of ordinary stock (the Placing Stock) with nominal value of €0.05 each and used proceeds from the issuance of the Placing Stock to redeem 537,041,304 units of the 2009 Preference Stock held by the NPRFC. On 11 December 2013, the NPRFC sold its remaining 1,300,000,000 units of the 2009 Preference Stock to Baggot Securities Limited (Baggot), a special purchase company, which funded the purchase using the proceeds of the issuance of €1,300,000,000 of 10.24% perpetual non-cumulative notes to private investors. Baggot has irrevocably waived in favour of the Bank its right to receive any redemption monies in respect of the 2009 Preference Stock in excess of €1.00 per unit.

(iv) Variation of class rights
The rights attached to the ordinary stock of the Bank may be varied or abrogated, either while the Bank is a going concern or during or in contemplation of a winding up, with the sanction of a resolution passed at a class meeting of the holders of the ordinary stock. Similarly, the rights, privileges, limitations or restrictions attached to the 2009 Preference Stock may be varied, altered or abrogated, either while the Bank is a going concern or during or in contemplation of a winding up, with the written consent of the holders of not less than 75% of such class of stock or with the sanction of a resolution passed at a class meeting at which the holders of 75% in nominal value of those in attendance vote in favour of the resolution.

(v) Percentage of the Bank's capital represented by class of stock
The ordinary stock represents 62% of the authorised capital stock and 63% of the issued capital stock. The preference stock represents 7% of the authorised capital stock and 0.8% of the issued capital stock, of which the 2009 Preference Stock represents 0.5% and 0.5% respectively. The deferred stock represents 31% of the authorised capital stock and 36% of the issued capital stock.

2. Restrictions on the transfer of stock in the Bank

There are no restrictions imposed by the Bank on the transfer of stock, nor are there any requirements to obtain the approval of the Bank or other stockholders for a transfer of stock, save in certain limited circumstances set out in the Bye-Laws. A copy of the Bye-Laws may be found on www.bankofireland.com or may be had on request from the Group Secretary.

3. Persons with a significant direct or indirect holding of stock in the Bank.

Details of significant stockholdings may be found on page 140.

4. Special rights with regards to the control of the Bank

There are no special rights with regard to control of the Bank.

5. Stock relating to an employee share scheme that carry rights with regards to the control of the Bank that are not directly exercisable directly by employees.

Details of shares relating to employees may be found in capital stock note 44.

6. Restrictions on voting rights

There are no unusual restrictions on voting rights.

7. Agreements between stockholders that are known to the Bank and may result in restrictions on the transfer of securities or voting rights.

There are no arrangements between stockholders, known to the Bank, which may result in restrictions on the transfer of securities or voting rights.

8. Rules of the Bank concerning the:

(a) appointment and replacement of directors,
With the exception of those Directors nominated by the Minister for Finance, all Directors nominated between Annual General Courts are submitted to stockholders for election at the first Annual General Court following their co-option. In accordance with the UK Code (adopted by the Irish Stock Exchange and the London Stock Exchange) all Directors other than those nominated by the Minister for Finance, retire by rotation every year and, if eligible, may offer themselves for re-election, subject to satisfactory performance evaluation. Directors nominated by the Minister for Finance are not subject to retirement by rotation but may not serve as a director of the Bank for a period longer than nine years after the date of his or her appointment. In proposing the election or re-election of any individual Director to the Annual General Court, the reasons why the Court believes that the individual should be elected or re-elected are provided in the Governor's Letter to stockholders.

(b) amendment of the Bank's Bye-Laws
The Bank's Bye-Laws may be amended by special resolution passed at an Annual General Court or Extraordinary General Court. An Annual General Court and a Court called for the passing of a special resolution shall be called on twenty one days' notice in writing at the least. Special resolutions must be approved by not less than 75% of the votes cast by stockholders entitled to vote in person or by proxy. No business may be transacted at any General Court unless a quorum of members is present at the time when the Court proceeds to business. Ten persons present in person or by proxy and entitled to vote shall constitute a quorum.

9. Powers of the Bank's Directors, including powers in relation to issuing or buying back by the Bank of its stock

Under its Bye-Laws, the business of the Bank is managed by the Directors, who exercise all powers of the Bank as are not, by the Charter, the Bank of Ireland Act 1929 (as amended) or the Bye-Laws, required to be exercised by the Bank in General Court. The Directors may exercise all the borrowing powers of the Bank and may give security in connection therewith. These borrowing powers may be amended or restricted only by the stockholders in General Court. The members of the Bank in General Court may at any time and from time to time by resolution enlarge the capital stock of the Bank by such amount as they think proper. The approval in writing of the Minister for Finance is required before any such resolution (a 'Capital Resolution') can be tabled at a General Court. Whenever the capital stock of the Bank is so enlarged, the Directors may, subject to various provisions of the Bye-Laws, issue stock to such amount not exceeding the amount of such enlargement as they think proper. All ordinary stock so issued shall rank in equal priority with existing ordinary stock.

Subject to provisions of the Companies Acts, to any rights conferred on any class of stock in the Bank and to the Bye-Laws, the Bank may purchase any of its stock of any class (including any redeemable stock) and may cancel any stock so purchased. The Bank may hold such stock as treasury stock, in accordance with Section 209 of the Companies Act, 1990 (the treasury stock) with liberty to re-issue any such treasury stock on such terms and conditions and in such manner as the Directors may from time to time determine. The Bank shall not make market purchases of its own stock unless such purchases shall have been authorised by a special resolution passed by the members of the Bank at a General Court (a Section 215 Resolution).

The 2009 Preference Stock may be repurchased at the option of the Bank, in whole or in part, at a price per unit equal to the issue price of €1.00 provided that the consent of the Central Bank of Ireland to the repurchase of the 2009 Preference Stock is obtained. Rights to receive any repurchase monies in excess of €1.00 per unit have been irrevocably waived. The 2009 Preference Stock will not be capable of being repurchased if it would breach or cause a breach of the capital adequacy requirements of the Central Bank of Ireland. The 2009 Preference Stock may be repurchased from profits available for distribution or from the proceeds of any issue of stock or securities that constitute capital.

The Group announced on 4 December 2013, that save in certain circumstances (including changes in the regulatory capital treatment of 2009 Preference Stock or taxation events) it does not intend to redeem the 2009 Preference Stock prior to 1 January 2016. The Group has advised the Central Bank of Ireland that it is not the Group's intention to recognise the 2009 Preference Stock as CET1 capital after July 2016, unless the de-recognition of the 2009 Preference Stock would mean that an adequate capital buffer can not be maintained above applicable regulatory requirements.

10. Significant agreements to which the Bank is a party that take effect, alter or terminate upon a change of control of the Bank following a bid and the effects of any such agreements.

Certain Group agreements may be altered or terminated upon a change of control of the Bank following a takeover. Those that may be deemed to be significant in terms of their potential impact on the business of the Group as a whole are the joint ventures between the Bank and Post Office Limited in the UK (in respect of foreign exchange and Post Office branded retail financial service products).

11. Agreements between the Bank and its Directors or employees providing for compensation for loss of office or employment that occurs because of a bid.

There are no agreements between the Bank and its Executive Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occur because of a bid. There are however provisions for early maturity of employee stock schemes in the event of a change of control.

The service contracts for non-executive Directors do make provision for benefits on termination in the event of a bid.

Court of Directors

Archie Kane (61)
Governor

Archie retired from Lloyds Banking Group plc in May 2011, where he was Group Executive Director—Insurance and Scotland. Prior to that, he held a number of senior and general management positions with Lloyds Banking Group plc and TSB Bank plc. He was Chairman of the Association of British Insurers. He is a former member of the UK Takeover Panel, the Financial Services Global Competitiveness Group, the Insurance Industry Working Group and HM Treasury and the Financial Services Advisory Board - Government of Scotland. He is a member of TheCityUK Advisory Council.

Archie has extensive experience of the financial services industry, having spent more than twenty five years in various senior commercial, strategic and operational roles in Lloyds Banking Group plc and TSB Bank plc. He is a member of the Institute of Chartered Accountants of Scotland.

Term of Office:
Appointed to the Court in June 2012. Appointed Governor on 29 June 2012 (1.5 years).

Independent:
On appointment

Committee Membership:
Chairman of the Group Nomination and Governance Committee and member of the Group Remuneration Committee from June 2012 (1.5 years).

Kent Atkinson (68)
Non-executive Director

Kent was Group Finance Director of Lloyds TSB Group between 1994 and 2002. Prior to that, he held a number of senior executive appointments in Retail Banking with Lloyds, including Regional Executive Director for their South East region, and worked for twenty two years in South America and the Middle East with the Group.

In addition to his extensive commercial and financial executive experience in the financial services industry, Kent has significant experience as a non-executive Director across a range of international companies. He currently serves as Senior Independent Director and Chairman of the Audit Committee of UK Asset Resolution Limited (which includes Bradford & Bingley plc and Northern Rock (Asset Management) plc). Previous board appointments include Coca-Cola HBC AG, Cookson Group plc, Gemalto N.V., Standard Life plc, Telent plc (formerly Marconi plc) and Millicom International Cellular S.A.

Kent has significant experience in governance, risk management and financial oversight, including in the capacity of Senior Independent Director, Chair of Audit Committee of a number of entities, and as a member of Risk, Strategy and M&A, Remuneration and Nomination Committees.

Term of Office:
Appointed to the Court in January 2012 (2 years).

Independent:
Yes

External Appointments:
Member of the Board of UK Asset Resolution Limited (which includes Bradford & Bingley plc and Northern Rock (Asset Management) plc), where he is the Senior Independent Director, Chairman of the Audit Committee and a member of the Risk Committee.

Committee Membership:
Member of the Group Audit Committee since January 2012 (2 years) and Chairman since April 2012. Member of the Court Risk Committee since January 2012 (2 years).

Richie Boucher (55)
Group Chief Executive Officer, Executive Director

Richie was appointed Group Chief Executive Officer in 2009. He joined the Group as Chief Executive, Corporate Banking in December 2003 from Royal Bank of Scotland. He was appointed Chief Executive, Retail Financial Services Ireland in January 2006. He is a past President of the Institute of Banking in Ireland (2008) and of the Irish Banking Federation (2006).

Richie has over thirty years' experience in all aspects of financial services. He has held a number of key senior management roles within the Bank of Ireland, Royal Bank of Scotland and Ulster Bank through which he has developed extensive leadership, strategy development, financial, people, operational and risk management skills. He is a Fellow of the Institute of Banking.

Term of Office:
Appointed to the Court in October 2006 (7.5 years) and appointed Group Chief Executive Officer in February 2009 (5 years).

Independent:
No

Committee Membership:
None

Pat Butler (53)
Non-executive Director

Pat is a partner of The Resolution Group, a financial services investment firm. Prior to this he spent twenty five years with McKinsey & Co., where he was a senior director and led the firm's UK Financial Services Practice and its EMEA Retail Banking Practice. At McKinsey & Co., he advised banks, insurance companies and asset managers in the UK, US, Australia, South Africa, Middle East and several European countries, as well as a range of companies outside financial services, on issues of strategy, operations, performance improvement and organisation.

Pat has considerable strategic experience in a broad range of industries with an international profile, and an in-depth strategic and operational knowledge of the European and International Banking sector in particular. He is a Fellow of Chartered Accountants Ireland.

Term of Office:
Appointed to the Court in December 2011 (2 years).

Independent:
Yes

External Appointments:
Chairman of the Investment Committee of Britain's Business Bank. Governor of the British Film Institute.

Committee Membership:
Member of the Group Nomination and Governance Committee and member of the Court Risk Committee since December 2011 (2 years). Member of the Group Remuneration Committee since October 2013 (0.5 year).

Tom Considine (69)
Non-executive Director

Tom is a former Secretary General of the Department of Finance and a former member of the Advisory Committee of the National Treasury Management Agency. He was also formerly a board member of the Central Bank and Financial Services Authority of Ireland and a former member of the Council of the Economic & Social Research Institute.

Tom was nominated as a Director of the Bank by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Act, 2008 and is not required to stand for election or regular re-election by stockholders. Apart from the information available in the public domain at the time of nomination, a description of the skills and expertise brought to the Board by this appointment was not provided by the Government. However, the Court notes the value and benefit gained from Tom's membership of the Court and its Committees through his judgement and quality of contribution.

Tom has extensive experience in the public service, including at the most senior level in the Department of Finance and representing Ireland at European Union level. He has experience in finance at a strategic level, financial regulation, fiscal policy and risk management. As a former Secretary General of the Department of Finance and board member of the Central Bank and Financial Services Authority, he has broad experience of the wider macroeconomic environment and related policy issues. He is a Fellow of the Association of Chartered Certified Accountants.

Term of Office:
Appointed to the Court in January 2009 (5 years).

Independent:
For the purposes of the CBI Irish Code and the UK Code – No
For the purposes of the NYSE Standards – Yes

External Appointments:
President of the Institute of Public Administration.

Committee Membership:
Chairman of the Court Risk Committee since July 2009 (4.5 years) and member of the Group Audit Committee since January 2009 (5 years).

Patrick Haren (63)
Non-executive Director

Patrick is a former CEO of the Viridian Group, having joined Northern Ireland Electricity (NIE) in 1992 as Chief Executive. He previously worked with the ESB, including as Director - New Business Investment and also served as a board member of Invest Northern Ireland for a number of years.

Patrick is an experienced Chief Executive Officer who has gained extensive strategic, corporate development and transactional experience, having led the privatisation of NIE by IPO in 1993 and grown the business under the new holding company Viridian through 2000 to 2007, positioning the company as the market leader in independent electricity generation and supply in competitive markets in Ireland, North and South. Patrick was appointed to the board of Bank of Ireland (UK) plc in June 2012.

Term of Office:
Appointed to the Court in January 2012 (2 years).

Independent:
Yes

Committee Membership:
Member of the Group Audit Committee and member of the Group Remuneration Committee since January 2012 (2 years).

Andrew Keating (43)
Group Chief Financial Officer, Executive Director

Andrew joined the Group in 2004, prior to which he held a number of senior finance roles with Ulster Bank, having qualified as a Chartered Accountant with Arthur Andersen. Prior to his appointment as Group Chief Financial Officer, Andrew held the role of Director of Group Finance.

Andrew is an experienced financial services professional who has held a number of senior finance roles in Bank of Ireland and Ulster Bank. He has in-depth knowledge of financial reporting and related regulatory and governance requirements. He is a Fellow of Chartered Accountants Ireland.

Term of Office:
Appointed to the Court in February 2012 (2 years).

Independent:
No

Committee Membership:
None

Patrick Kennedy (44)
Non-executive Director

Patrick is Chief Executive of Paddy Power plc since 2006. He has served as an Executive Director of Paddy Power plc since 2005 and a non-executive Director since 2004, during which time he served as Chairman of the Audit Committee. He has been a member of the Risk Committee of Paddy Power plc since 2006. Prior to joining Paddy Power plc, Patrick worked at Greencore Group plc for seven years where he was Chief Financial Officer and also held a number of senior strategic and corporate development roles. Patrick also worked with KPMG Corporate Finance in Ireland and the Netherlands and as a strategy consultant with McKinsey & Company in London, Dublin and Amsterdam.

As an experienced Chief Executive Officer and Finance Director, Patrick brings to the Board a background in international business, management, finance, corporate transactions, strategic development and risk management through his involvement in Paddy Power plc, Elan Corporation plc (where he was Chairman of the Leadership, Development and Compensation Committee and a member of the Transaction Committee), Greencore Group plc and McKinsey & Company. He is a Fellow of Chartered Accountants Ireland.

Term of Office:
Appointed to the Court in July 2010 (3.5 years).

Independent:
Yes

External Appointments:
Chief Executive of Paddy Power plc.

Committee Membership:
Member of the Group Remuneration Committee and member of the Court Risk Committee since January 2011 (3 years).

Davida Marston (60)
Non-executive Director

Davida is a non-executive Director of Liberbank S.A. and Mears Group plc (UK), where she chairs the Audit Committee. She is a former director of a number of companies, including CIT Bank Limited, ACE European Group Limited and Europe Arab Bank plc. She was a member of the UK senior management team of Citigroup's UK Corporate Bank (1990-2003), which included a period as Regional Head UK and Ireland for the Banks and Securities business, and a senior manager at Bank of Montreal (1981-1990).

Davida has considerable financial services experience, both as an executive and non-executive Director and as Chair of Audit and Risk Committees in financial services companies. She has extensive non-executive experience with banking, life assurance and non-financial services companies.

Term of Office:
Appointed to the Court in April 2013 (1 year).

Independent:
Yes

External Appointments:
Non-executive Director of Liberbank S.A. and non-executive Director and Chair of Audit Committee of Mears Group plc.

Committee Membership:
Member of the Group Audit Committee and member of the Court Risk Committee since April 2013 (1 year).

Brad Martin (54)
Non-executive Director

Brad is Vice President, Strategic Investments, Fairfax Financial Holdings Limited, a publicly traded financial services holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and investment management. Brad gained 11 years' experience with the Canadian Law Firm, Torys LLP, including a year on secondment to the Ontario Securities Commission, becoming a Partner in the firm in 1995. He has worked in a variety of senior roles in the Fairfax Financial Group and served on the boards of a number of companies in which Fairfax is a significant investor. He is the Chairman of Ridley Inc. and Resolute Forest Products Inc. and serves as a Director of HUB International Limited. Previous Board appointments include Odyssey Re Group Limited, Northbridge Financial Corporation, The Brick Limited and Chairman of Imvescor Restaurant Group Inc.

Brad is a highly qualified lawyer with strong experience in a legal professional firm and in-house with Fairfax Financial Holdings Limited. He has particular skills in the areas of corporate strategy, operations management, acquisitions, restructures, corporate finance, legal and corporate governance and people management.

Term of Office:
Appointed to the Court in July 2013 (0.5 year).

Independent:
For the purposes of the CBI Irish Code and the UK Code – No
For the purposes of the NYSE Standards - Yes

External Appointments:
Director of Fairfax, Inc., Chairman of Ridley Inc. and Resolute Forest Products Inc., Director of HUB International Limited, Cunningham Lindsey Group Limited, Blue Ant Media.

Committee Membership:
None

Patrick Mulvihill (51)
Non-executive Director

Patrick spent much of his career at Goldman Sachs, retiring in 2006 as Global Head of Operations covering all aspects of Capital Markets Operations, Asset Management Operations and Payment Operations. He previously held the roles of Co-Controller, Co-Head of Global Controller's Department, covering financial / management reporting, regulatory reporting, product accounting and payment services. He was also a member of the firm's Risk, Finance and Credit Policy Committees.

Patrick has over twenty years' experience of international financial services and has held a number of senior management roles based in London and New York with Goldman Sachs. As a result, he has an in-depth knowledge of financial and management reporting, regulatory compliance, operational, risk and credit matters within a significant financial institution with an international focus. Patrick is a Fellow of Chartered Accountants Ireland.

Term of Office:
Appointed to the Court in December 2011 (2 years).

Independent:
Yes

Committee Membership:
Member of the Group Audit Committee and member of the Court Risk Committee since December 2011 (2 years).

Patrick O'Sullivan (64)
Deputy Governor and Senior Independent Director, non-executive Director

From 2007 until 2009, Patrick was Vice Chairman of Zurich Financial Services Group where he had specific responsibility for its international businesses. He previously held roles at Zurich as Group Finance Director, CEO, General Insurance and Banking, of its UKISA division and CEO Eagle Star Insurance (London). Prior experience includes positions as Chief Operating Officer, Barclays DE Zoete Wedd Holdings (London); Managing Director, Financial Guaranty Insurance Company (part of GE Capital) (London & New York); Executive Director, Goldman Sachs International (London) and General Manager, Bank of America Futures (London).

Patrick has extensive international financial services experience gained over a period of more than thirty five years through his positions with Zurich, Old Mutual plc, Man Group plc, Goldman Sachs, Bank of America, Barclays and Eagle Star. As a Fellow of Chartered Accountants Ireland and a former member of the International Accounting Standards Board Insurance Working Group on IFRS, he has particular insight into accounting standards and their application in the financial services industry.

Term of Office:
Appointed to the Court in July 2009 (4.5 years).

Independent:
Yes

External Appointments:
Chairman of Old Mutual plc, Chairman of UK Government Shareholder Executive, Director of Equity Syndicate Management Limited and Executive Advisor to Aquiline Capital Partners LLC.

Committee Membership:
Member of the Group Audit Committee since August 2009 (4.5 years) and member of the Group Nomination and Governance Committee since June 2011 (2.5 years).

Wilbur L Ross Jr (76)
Non-executive Director

Wilbur is Chairman and Chief Executive Officer of WL Ross & Co., LLC which he established in 2000. He previously served as Executive Managing Director of Rothschild Inc.

Wilbur has significant international experience gained through his investment activities and serving on the boards of a number of companies operating over a range of industries. He has considerable commercial and restructuring experience having assisted in restructuring more than $300 billion of corporate liabilities.

Term of Office:
Appointed to the Court in June 2012 (1.5 years).

Independent:
For the purposes of the CBI Irish Code and the UK Code - No
For the purposes of the NYSE Standards - Yes

External Appointments:
Chairman and Chief Executive Officer of WL Ross & Co., LLC. Chairman of Invesco Private Capital, Inc. Chairman of Plascar Participacoes Industriais S.A., Diamond S. Shipping, International Textile Group, Inc. and the Brooking Economic Studies Council. Non-executive Director of BankUnited, Inc., ArcelorMittal, Sun Bancorp, Inc., Assured Guaranty Ltd., EXCO Resources, Inc. and Navigator Holdings Ltd.

Committee Membership:
None

Joe Walsh (70)
Non-executive Director

Joe served as Minister for Agriculture from 1992 to 1994 and from 1997 to 2004, having previously served as Minister for Food from 1987. He retired from the Cabinet in September 2004.

Joe was nominated as a Director of the Bank by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Act, 2008 and is not required to stand for election or regular re-election by stockholders. Apart from the information available in the public domain at the time of nomination a description of the skills and expertise brought to the Board by this appointment was not provided by the Government, however, the Court notes the value and benefit gained from Joe's membership of the Court and its Committees through his judgement and quality of contribution.

Joe has significant public service experience at local and European Union level, having served as both Minister for Agriculture and Minister for Food and having chaired the E.U. Council of Agriculture Ministers. These leadership roles provided experience at a strategic level and a deep understanding of the wider macroeconomic, political and regulatory environment. He is a Certified Bank Director with the Institute of Banking.

Term of Office:
Appointed to the Court in January 2009 (5 years).

Independent:
For the purposes of the CBI Irish Code and the UK Code - No
For the purposes of the NYSE Standards - Yes

External Appointments:
Chairman of Cork Racecourse (Mallow) Limited, the Irish Horse Board and the Irish Hunger Task Force. Director of SouthWestern Business Process Services Limited, HRI Racecourses Limited, Clonakilty Sports Association Limited and Cilcoone Limited.

Committee Membership:
Member of the Group Nomination and Governance Committee since January 2009 (5 years). Member of Group Remuneration Committee since January 2009 (5 years) and Chairman since December 2011 (2 years).

Senior Independent Director
Patrick O'Sullivan

Group Audit Committee (GAC)
Kent Atkinson (Chairman)
Tom Considine
Patrick Haren
Davida Marston
Patrick Mulvihill
Patrick O'Sullivan

Group Remuneration Committee (REM COM)
Joe Walsh (Chairman)
Pat Butler
Patrick Haren
Archie Kane
Patrick Kennedy

Group Nomination and Governance Committee (N&G)
Archie Kane (Chairman)
Pat Butler
Patrick O'Sullivan
Joe Walsh

Court Risk Committee (CRC)
Tom Considine (Chairman)
Kent Atkinson
Pat Butler
Patrick Kennedy
Davida Marston
Patrick Mulvihill

Directors who are Trustees of the Bank Staff Pensions Fund (BSPF)
Tom Considine
Patrick O'Sullivan

Group Risk Policy Committee
Vincent Mulvey (Chairman)
Richie Boucher
Sean Crowe
Des Crowley
Denis Donovan
Andrew Keating
Liam McLoughlin
Peter Morris
Senan Murphy
Declan Murray
Helen Nolan
Mick Sweeney
Michael Torpey

Group Investment Committee
Richie Boucher (Chairman)
Donal Collins (Secretary)
Des Crowley
Denis Donovan
Andrew Keating
Liam McLoughlin
Peter Morris
Vincent Mulvey
Senan Murphy
Helen Nolan
Julie Sharp

Group Executive

Group Chief Executive Officer	Richie Boucher
Head of Non-Core Division	Denis Donovan
Chief Executive, Retail (UK)	Des Crowley
Chief Executive, Retail (Ireland)	Liam McLoughlin
Head of Group Manufacturing	Senan Murphy
Group Chief Financial Officer	Andrew Keating
Chief Credit & Market Risk Officer	Vincent Mulvey
Chief Governance Risk Officer	Peter Morris
Head of Group Human Resources	Julie Sharp
Chief Executive, Corporate and Treasury Division	Michael Torpey

Remuneration Report

The Bank of Ireland Group's objective of attracting, retaining and motivating high calibre people is deemed fundamental to the achievement of our goals and objectives. We want to ensure we have the right people in the right roles and we recognise the importance that our shareholders place in the management of our remuneration strategy. To reflect this, we operate strong governance across the organisation on the management of remuneration.

Governance Structures

The Group Remuneration Committee holds delegated responsibility for the oversight of Group-wide remuneration policy with specific reference to the Governor, Directors and senior executives across the Group, and those employees whose activities have a material impact on the Group's risk profile.

It is the Group Remuneration Committee's responsibility to consider, agree and approve a remuneration strategy that supports the Group's objectives of long term sustainability and success, sound and responsible risk management and good corporate governance.

The remuneration of Non-Executive Directors is determined and approved by the Court. Neither the Governor nor any Director participates in decisions relating to their own personal remuneration.

During 2013 independent remuneration advice was received by the Bank from a number of external advisers on a range of issues relating to remuneration including career framework, mobility and performance management.

The Group Remuneration Committee met throughout 2013 and discussed the following key topics:

- Group Remuneration Committee. Terms of Reference.
- Group Remuneration Policy.
- The Governor's remuneration and expenses.
- Performance Reviews for the Group CEO and the Group Executive Committee.
- Remuneration of the Heads of Key Risk Control Functions.
- Group European Banking Authority (EBA) coded role list.
- Review of defined benefit pension schemes.
- Group risk profile and implications of remuneration policies for risk and risk management.
- Remuneration Review of Covered Institutions, Mercer Report on behalf of the Department of Finance.

European Banking Authority Remuneration Guidelines

EBA Guidelines on Remuneration were published on 10 December 2010 and came into effect from 1 January 2011. They were enacted into Irish Law in January 2011. The objective of these guidelines is to ensure that an institution's remuneration policies and practices are consistent with and promote sound and effective risk management. They apply to all institutions which are currently covered by the Capital Requirements Directive including the Bank of Ireland Group.

During 2013, the Group continued to apply the Guidelines to the performance and reward structures across the Group with the key areas of focus as follows:

Disclosure

The Group in 2013 complied with its annual requirements to provide disclosures relating to:

- Remuneration at Bank of Ireland
- Decision-making processes for remuneration policy
- Code staff
- Remuneration restrictions
- Link between pay and performance
- Group Remuneration Strategy
- Remuneration Expenditure

These disclosures were made as part of the Group's 2012 Pillar 3 disclosure in March 2013 which is available on the Group's website. The Group's 2013 Pillar 3 disclosures will be made during 2014.

As a significant institution in an Irish banking context, the Group is required to submit additional disclosures under the EBA Remuneration data collection exercises. The Group continued to comply with its annual reporting requirements in 2013, submitting the following reports to the Central Bank of Ireland (the Central Bank):

- 2012 European Benchmarking exercise; and
- 2012 High Earners (those earning €1 million and above) report.

Alignment of performance and reward with risk

The Group's Risk Appetite Statement as set out on page 69 forms an integral element of remuneration structures, practices and frameworks. The Group's Risk Appetite Statement has been cascaded, as appropriate, throughout the Group.

Involvement of Risk Function

The Chief Credit and Market Risk Officer attended the Group Remuneration Committee in 2013 to report on the Group's risk profile so that the Committee could consider the implications of remuneration policies for risk management within the Group.

Code Staff

In accordance with the Guidelines, the Group maintains a list of those employees deemed as being persons whose professional activities on behalf of the Group are deemed to have a material impact on the Group's risk profile.

Remuneration Restrictions

The Group is currently operating under a number of remuneration restrictions which cover all directors, senior executives, employees and service providers across the Group. In addition, variable incentive payments over a certain level which may be made to employees based in Ireland are currently subject to an additional tax charge. The remuneration restrictions were contained within the 'Subscription Agreement' with the Irish Government (March 2009) and subsequently in the 'Minister's Letter' (July 2011), under which the Group gave a number of commitments and undertakings to the Minister for Finance in respect of remuneration practices. The Group's obligation to comply with the remuneration restrictions contained within the Subscription Agreement ceased to apply once the State no longer held preference shares in the Group. However, these remuneration restrictions continue in force pursuant to the terms of the Minister's Letter. The Minister's Letter was a further condition of the Transaction and Underwriting Agreement entered into with the Irish Government (July 2011) during the 2011 Recapitalisation of the Group.

The Group considers itself to be in compliance with these remuneration restrictions.

Attraction, Motivation and Retention

The Group's success depends in part on the availability of skilled management and the continued services of key members of its management team, both at its head office and at each of its business units. If the Group fails to attract and appropriately train, motivate and retain highly skilled and qualified people, its businesses may be negatively impacted. Restrictions imposed on remuneration by Government, tax or regulatory authorities or other factors outside the Group's control in relation to the retention and recruitment of key executives and other skilled and qualified people may adversely impact on the Group's ability to attract and retain such staff.

Group Remuneration Strategy

The Group's Remuneration Strategy, which aims to support the Group's objectives of long term sustainability and success, sound and responsible risk management and good corporate governance, was reviewed in 2013. The application of this strategy is done in consideration of and in alignment with the Group's Risk Appetite Statement.

In addition the strategy seeks to ensure that:

- our efforts are aligned with, and contribute to, the long term sustainability, value creation and success of the Group
- where possible, we have the necessary platform to attract, retain and motivate high calibre employees
- where possible, we offer a competitive remuneration package across all markets, in a cost effective manner
- remuneration practices are simple, transparent, easy to understand and implement
- sound and effective risk management is reflected in performance management and remuneration structures and their alignment to performance targets and governance structures
- remuneration is applied in consideration of and in alignment with the Group's Risk Strategy and Appetite Statement and overall risk governance framework
- risk adjusted financial performance is an important measure when evaluating performance
- business and individual performance measures and targets are aligned with business objectives at either a Group or local business level, ensuring alignment with business strategy, risk measures and priorities and is based on a balanced scorecard approach
- all remuneration practices are subject to appropriate governance
- we are compliant with all applicable regulatory remuneration requirements as they relate to the Group
- remuneration policies, process, procedures, systems and controls support the fair treatment of customers and mitigate the potential for conflict between commercial and customer interests.

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

Performance Management

A robust performance management system and process, incorporating performance planning and review, remains critical and is a key pillar of the Group's compliance with the EBA guidelines (the 'guidelines').

The performance management system allows the Group to align individual, business unit and divisional performance to the Group's strategic objectives through an ongoing dialogue between managers and their direct team members ensuring a strong alignment to risk.

Managers and executives have mandatory risk goals which reflect the nature of their role and their seniority within the Group and have an appropriate weighting attached to them.

The Balanced Scorecard and Key Result Areas ('KRAs')
The Balanced Scorecard approach incorporated within the Group's Performance Planning and Review Process is consistent with the Guidelines. It ensures that:

- all key deliverables and accountabilities of a role are taken into account when performance is assessed. For example, financial results, risk management, impact on customers, leadership and development of people, regulatory and compliance requirements;
- a comprehensive view of an individual's performance is taken, rather than focusing on one or two key areas to the detriment of others; and
- organisational performance is continually enhanced by measuring both results and behaviours.

The Balanced Scorecard contains four Key Result Areas (KRAs), each with a minimum weighting of 10%, that apply to all executive and manager roles in the Group:

- Customer KRA
- Leadership and People Development KRA
- Financial / Revenue / Cost / Efficiency KRA
- Risk KRA (covers all areas of Risk including Credit, Regulatory and Operational Risk).

Goals set within these KRAs are linked to overall Divisional and Group Strategy, support the achievement of business unit objectives and are aligned to the Group's Risk Appetite Statement.

The KRAs are agreed between the manager / executive and his / her line manager at the beginning of the performance cycle. Regular informal reviews take place at times during the performance cycle. A formal end of year review occurs at the end of the performance cycle.

Remuneration packages for Executive Directors
There were no changes to the remuneration packages for Executive Directors during 2013.

For the year ended 31 December 2013, the remuneration packages for Executive Directors were governed by the Group's commitments under both the Subscription Agreement (March 2009), and the Minister's Letter (July 2011).

The key elements of the remuneration package in respect of the year ended 31 December 2013 were as follows (further detail is available in Table 1 on page 157):

- **Salary -** Salaries are paid monthly and reviewed annually by the Group Remuneration Committee; and
- **Retirement Benefits -** The Executive Directors are members of the Bank of Ireland Staff Pensions Fund, which is a contributory defined benefit scheme. In 2010, in line with the Group Pensions Review, all of the Executive Directors voluntarily agreed to a series of pension benefit reductions. These included, where applicable:
    - an initial freeze on salary; qualifying for pension purposes and following that freeze period, capping of any future salary increases qualifying for pension purposes; and
    - a freeze on increases to pension in payment for up to three years post-retirement; and
    - a cap on increases to pensions in payment following that three year period.

The Executive Directors voluntarily agreed to further changes to their defined benefit pension entitlements following the Group's Pensions 2013 review. These changes further restrict the level of salary increases qualifying for defined benefit pension purposes, and further restrict the level of pension increases payable post-retirement. A new defined contribution scheme will be introduced in 2014 for the portion of any future Basic Salary increases not pensionable on a defined benefit basis.

Other potential elements of the remuneration package for Executive Directors are as follows:

- **Performance-related bonus scheme** - A decision was taken by the Group Remuneration Committee that no bonuses would be paid to Executive Directors in respect of the year ended 31 December 2013. No bonuses have been paid to an Executive Director since 2008;
- **Long Term Incentive Plan (LTIP)** - No grants have been made under this plan since 2008. The plan has now lapsed. Under the LTIP, which is described in more detail in note 44 on page 272, conditional awards had previously been made to the Executive Directors. There are no outstanding grants to Executive Directors awaiting vesting under this scheme;
- **Executive Stock Option Scheme (ESOS)** - No awards have been made under this scheme since 2008 (for further details see note 44 on page 272). There are no outstanding grants to Executive Directors awaiting vesting under this scheme. The scheme has now lapsed;

Performance Management (continued)

- **Employee Stock Issue Scheme** - There was no stock issue award under the Employee Stock Issue Scheme in 2013 (for further details see note 44 on page 271). The last award made under the Employee Stock Issue Scheme was in 2008; and
- **Sharesave Scheme** - In 1999, the Group established a Sharesave Scheme (SAYE Scheme) for all eligible employees. Under the SAYE Scheme the Executive Directors and Group Secretary who participated were granted options over units of ordinary stock. No SAYE Scheme has been launched since the 2007 SAYE Scheme. At 31 December 2013, neither the Executive Directors nor the Group Secretary held any options under the scheme. The scheme has now lapsed.

The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 184.

Directors' remuneration for the year ended 31 December 2013 (all figures in €000s)

Table 1:

	Gross salary (1-3)	Fees (4)	Performance bonus (5)	Other remuneration (6)	Pension funding contributions (7)	Total 2013 before amounts waived	Amounts waived during the year (8)	Total 2013 (after amounts waived) (9)
Governor								
A Kane	394	59		37		490		490
Deputy Governor								
P O'Sullivan	126					126		126
Executive Directors								
R Boucher	690			34	186	910	(67)	843
A Keating	390			31	35	456		456
non-executive Directors								
K Atkinson		102				102		102
P Butler		80				80		80
T Considine		98				98		98
P Haren		148				148		148
P Kennedy		79				79		79
D Marston *(appointed 24 April 2013)*		*54				54		54
B Martin *(appointed 23 July 2013)*		*28				28		28
P Mulvihill		79				79		79
W L Ross Jr		63				63		63
J Walsh		90				90		90
P Watsa *(retired 23 July 2013)*		*35				35		35
Totals	**1,600**	**915**	**-**	**102**	**221**	**2,838**	**(67)**	**2,771**
Ex-gratia payments paid to former Directors / dependents						**219**		**219**

* *From date of appointment or to date of retirement as a non-executive Director, as indicated.*

Performance Management (continued)

Notes:

(1) The Governor and Deputy Governor, as Non-executive Officers of the Bank, are remunerated by way of non-pensionable salary.

A Kane receives an annual non-pensionable salary of €394,000 for his role as Governor. In addition he has a consultancy arrangement with Bank of Ireland (UK) plc in respect of which he receives an annual fee of €59,000. He also receives an accommodation, utilities and car allowance of €37,000 per annum.

(2) The Chief Executive Officer, R Boucher, has, with effect from 1 May 2009, waived a portion of his salary (€67,000 for the year ended 31 December 2013). The salary shown in the table is the gross amount before that waiver.

The voluntary waiver has been extended until 31 December 2014 for R Boucher.

(3) The Group Chief Financial Officer A Keating receives an annual salary of €390,000. His annual salary for pension purposes is €200,000 and the balance of his salary (€190,000) is excluded for pension purposes.

(4) Fees are paid to non-executive Directors and a basic fee of €63,000 per annum applies. Additional fees are paid to Committee Chairmen and for Committee membership. On 1 February 2009, all non-executive Directors agreed to reduce their fees by 25%. These reductions applied throughout 2013. The basic fee of €63,000 is the reduced fee.

In addition to the above, P Haren serves as non-executive Director and committee member of Bank of Ireland (UK) plc and received separate fees for these roles (Stg£58,000, equivalent €69,000 for the year ended 31 December 2013).

(5) No bonuses were awarded in respect of the year ended 31 December 2013.

(6) The figures include car allowances and, where applicable, benefits in kind.

(7) The amounts shown for R Boucher and A Keating relate to the Bank's pension funding contribution in respect of the pension benefit they accrued in line with their contractual entitlement during 2013.

All pension amounts have been determined by Towers Watson, the Group's actuary, and approved by the Group Remuneration Committee.

(8) Amounts of salary waived are as set out in note (2) above.

(9) In addition to the amounts shown, the Group bears the costs of Directors' travel to and from Court and committee meetings or while on the business of the Group.

Performance Management (continued)

Directors' remuneration for the year ended 31 December 2012 (all figures in €000s)

Table 2:

	Gross salary (1-3)	Fees (4)	Performance bonus (5)	Other remuneration (6)	Pension funding contributions (7)	Total 2012 before amounts waived	Amounts waived during the year (8)	Total 2012 (after amounts waived)
Governor								
P Molloy *(retired 29 June 2012)*	^*197					197		197
A Kane *(appointed 29 June 2012)*	+209	+31		+22		262		262
Deputy Governor								
P O'Sullivan	126					126		126
Executive Directors								
R Boucher	690			34	186	910	(67)	843
A Keating *(appointed 1 February 2012)*	**358			**28	**32	418		418
non-executive Directors								
K Atkinson *(appointed 20 January 2012)*		***91				91		91
P Butler		79				79		79
T Considine		98				98		98
P Haren *(appointed 20 January 2012)*		***103				103		103
J Kennedy *(retired 24 April 2012)*		***33				33		33
P Kennedy		79				79		79
P Mulvihill		79				79		79
W L Ross Jr *(appointed 20 June 2012)*		***33				33		33
J Walsh		90				90		90
P Watsa *(appointed 20 June 2012)*		***33				33		33
Totals	1,580	749	-	84	218	2,631	(67)	2,564
Ex-gratia payments paid to former Directors / dependents						284		284

^ *In addition to amounts shown, P Molloy was also in receipt of a pension from the Bank of Ireland Staff Pensions Fund relating to his previous employment with the Group.*
* *To date of retirement as Governor.*
\+ *A Kane was appointed a non-executive Director on 20 June and Governor on 29 June 2012. Please see note 1 on page 160.*
** *A Keating was appointed an Executive Director and Group Chief Financial Officer on 1 February 2012. Please see note 3 on page 160.*
*** *From date of appointment or to date of retirement as a non-executive Director, as indicated.*

Performance Management (continued)

Notes:

(1) The Governor and Deputy Governor, as non-executive Officers of the Bank, are remunerated by way of non-pensionable salary.

A Kane receives an annual non-pensionable salary of €394,000 for his role as Governor. In addition he has a consultancy arrangement with Bank of Ireland (UK) plc in respect of which he receives an annual fee of €59,000. He also receives an accommodation, utilities and car allowance of €37,000 per annum. He was paid a pro-rata equivalent amount from the date of his appointment to 31 December 2012 and these are shown in columns (1-3), (4) and (6) above.

(2) The Chief Executive Officer, R Boucher, has, with effect from 1 May 2009, waived a portion of his salary (€67,000 for the year ended 31 December 2012). The salary shown in the table is the gross amount before that waiver.

(3) A Keating receives an annual salary of €390,000 for his role as Group Chief Financial Officer. In addition he receives a car allowance of €27,500 per annum. He was paid a pro-rata equivalent amount from the date of his appointment to 31 December 2012 and these amounts are shown in columns (1-3), (6) and (7) above. His annual salary for pension purposes is €200,000, with the remaining balance of €190,000 of his salary being excluded for pension purposes.

(4) Fees are paid to non-executive Directors and a basic fee of €63,000 per annum applies. Additional fees are paid to Committee Chairmen and for Committee membership. On 1 February 2009, all non-executive Directors agreed to reduce their fees by 25%. These reductions applied throughout 2012. The basic fee of €63,000 is the reduced fee.

In addition to the above, P Haren had been appointed as non-executive Director of Bank of Ireland (UK) plc with effect from 29 June 2012 and received a separate fee for this role (Pro-rata Stg£23,000, equivalent €28,000 for the year ended 31 December 2012).

(5) No bonuses were awarded in respect of the year ended 31 December 2012.

(6) The figures include car allowances and, where applicable, benefits in kind.

(7) The amounts shown for R Boucher and A Keating relate to the Bank's pension funding contribution in respect of the pension benefit they accrued in line with their contractual entitlement during 2012. The amount shown for A Keating covers the period from date of appointment (1 February 2012).

All pension amounts have been determined by Towers Watson, the Group's actuary, and approved by the Group Remuneration Committee.

(8) Amounts of salary waived are as set out in note (2) above.

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Executive stock options held by Directors and Secretary

No awards have been made under this scheme since 2008. Options granted in 2008 matured on 3 June 2011 and did not vest, as the performance conditions were not achieved. This confirms the strong link between returns to stockholders and the remuneration of executives.

There are no outstanding grants awaiting vesting under this scheme.

Table 3:	Date of grant	Earliest exercise date	Expiry date	Exercise price €	Options at 1 January 2013	Granted in period	Exercised in year	Lapsed in period	Market price at exercise date €	Options at 31 December 2013
R Boucher	26 Jul 2004	26 Jul 2007	26 Jul 2014	€10.76	26,000					26,000
	21 Jun 2005	21 Jun 2008	21 Jun 2015	€12.85	23,000					23,000
	TOTAL				**49,000**					**49,000**
Secretary										
H Nolan	18 Jun 2003	18 Jun 2006	18 Jun 2013	€10.77	10,000			(10,000)		-
	26 Jul 2004	26 Jul 2007	26 Jul 2014	€10.76	12,000					12,000
	21 Jun 2005	21 Jun 2008	21 Jun 2015	€12.85	11,000					11,000
	TOTAL				**33,000**			**(10,000)**		**23,000**

The above options are pre the Group's 2010 Rights Issue and 2011 Rights Issue. The Group Remuneration Committee exercised its discretion to not make any technical adjustments to these grants in 2011. No other Directors have been granted options to subscribe for units of ordinary stock of the Bank or of other Group entities. The official closing price per unit of ordinary stock at 31 December 2013 was €0.252 (31 December 2012: €0.114).

Directors' pension benefits

Set out below are details of the change in accrued pension benefits for the Directors during the year ended 31 December 2013.

Table 4:	**(a) Additional inflation-adjusted accrued pension in the year €**	**(b) Increase / (decrease) in transfer value €**	**(c) Accrued pension benefits at 31 December 2013 €**
Executive Directors			
R Boucher	5,635	85,475	322,430
A Keating	2,994	20,939	30,911

Column (a) represents the inflation-adjusted increase in each individual's accrued pension benefit during the year. Increases are shown after the opening position has been adjusted for statutory revaluation, and comprise allowance for additional pensionable service, any increases in pensionable earnings and any agreed adjustment in the individual's pension accrual. This is in line with the requirements of the Listing Rules and the related actuarial professional guidance.

During 2013, both Directors' accrued pension amounts were negatively adjusted to reflect the passing on of the 2011 and 2012 instalments of the pensions levy to members. These adjustments are reflected in the figures in the table.

Column (b) is the additional / (reduced) capital value, less each Director's contributions, of Column (a) which could arise if the pension were to be transferred to another pension plan on the Director leaving the Group and is calculated using factors supplied by the actuary in accordance with actuarial guidance notes ASP PEN-2, and is based on leaving service pension benefits becoming payable at normal retirement date, age 60.

Column (c) is the aggregate pension benefits payable at normal retirement age based on each Director's pensionable service with the Group at 31 December 2013.

Directors' interests in stock

In addition to their interests in the ordinary stock through their holding of stock options as set out above, the interests of the Directors and Secretary in office at 31 December 2013, and of their spouses and minor children, in the stocks issued by the Bank are set out below:

Table 5:

	Units of €0.05 of ordinary stock at 31 December 2013 beneficial	**Units of €0.05 of ordinary stock at 1 January 2013 or at date of appointment beneficial**
DIRECTORS		
K Atkinson	2,000	2,000
R Boucher	380,957	380,957
P Butler	1,000	1,000
T Considine	57,500	57,500
P Haren	1,000	1,000
A Kane	11,074	11,074
A Keating	56,014	56,014
P Kennedy	254,642	254,642
D Marston	5,000	*5,000
B Martin	**100,000	-
P Mulvihill	5,000	5,000
P O'Sullivan	115,000	115,000
W L Ross Jr	^1,000	^1,000
J Walsh	123,427	123,427
SECRETARY		
H Nolan	80,043	80,043

* *Interest in units of €0.05 of ordinary stock at date of appointment.*

** *B Martin did not hold any units of ordinary stock at date of appointment (23 July 2013). Following the end of the 'close period' on 2 August 2013, he acquired 100,000 units of ordinary stock on 9 August 2013.*

^ *In addition to the holdings specified in the above table, W L Ross Jr had an interest in 2,933,635,858 units of ordinary stock of the Bank as at 31 December 2013, being ordinary stock owned by W L Ross Jr investment vehicles in which W L Ross Jr has beneficial interests.*

As at 31 December 2012, investment vehicles in which W L Ross Jr is interested also held rights of first refusal in respect of any transfer or conversion of the Convertible Contingent Capital Notes 2016[1] (the 'CCNs') of The Governor and Company of the Bank of Ireland held by the Minister of Finance, in respect of the portion of CCNs equal to the proportion of units or of ordinary stock purchased by these vehicles under the stock purchase agreements between the vehicles and the NPRFC, expressed as a percentage of the total issued ordinary stock of the Bank from time to time (the 'Pro-rata Share'). On 9 January 2013, the Minister for Finance sold the 100% of the CCNs to third parties and therefore these rights of refusal no longer apply.

In addition, as at 31 December 2013, there were 1,300,000,000 units of 2009 Preference Stock in issue. The 2009 Preference Stock entitles the holder (currently Baggot Securities Limited) to receive a non-cumulative dividend at a fixed rate of 10.25% per annum of the issue price comprising €0.01 nominal value and €0.99 premium, payable annually at the discretion of the Bank. If a cash dividend is not paid by the Bank, the Bank shall issue units of ordinary stock (the 'Bonus Stock') to Baggot Securities Limited to be settled on a day determined by the Directors', in their sole discretion, provided that this must occur no later than the day on which the Bank subsequently redeems or repurchases for cash or pays a cash dividend on the 2009 Preference Stock or any class of capital stock. Pursuant to an agreement between the Minister for Finance and investment vehicles in which W L Ross Jr is interested, the investment vehicles were entitled to purchase a proportion of units of Bonus Stock issued to a State entity equal to the proportion of units of ordinary stock purchased by these vehicles under the stock purchase agreements between the vehicles and NPRFC, expressed as a percentage of the total issued Ordinary stock of the Bank from time to time. On 11 December 2013, the NPRFC sold the 2009 Preference Stock in issue to Baggot Securities Limited and therefore this entitlement no longer applies.

[1] *Please see note 37 on page 252, for further details on the Convertible Contingent Capital Notes 2016.*

Apart from the interests set out above and in the previous section, the Directors and Secretary and their spouses and minor children had no other interests in the stock / securities of the Bank or its Group undertakings at 31 December 2013. There have been no changes in the stockholdings of the above Directors and Secretary between 31 December 2013 and 28 February 2014.

End of information in the Remuneration Report that forms an integral part of the audited financial statements.

Changes in the Directorate during the year

Table 6:	Executive Directors	Non-Executive Directors
Number at 31 December 2012	2	11
Changes during 2013		
Appointments		D Marston *(appointed 24 April 2013)*
		B Martin *(appointed 23 July 2013)*
Retirements		P Watsa *(retired 23 July 2013)*
Number at 31 December 2013	2	12
Average number during 2013	2	12
(Average number during 2012)	(2)	(10)

Corporate Responsibility

Bank of Ireland is playing a leadership role in enabling economic recovery and growth. We do so through practical support for our customers, both business and personal, and the communities in which they live and work. This report highlights the key elements of that support.

Supporting our customers

In 2013 we have made considerable progress on engagement with our customers who are experiencing financial difficulties, to ensure we support them with appropriate solutions.

As economic recovery takes hold we have focused on building our market leading positions in critical growth and job creation sectors such as the Small and Medium Enterprises (SME's) and the mortgage market. During 2013 we further strengthened our commitments with a number of important initiatives. Our twice yearly National Enterprise Programme delivered its most ambitious schedule of activities since inception. A unique feature of the programme is the tangible benefits it delivers for customers, affording them the opportunity to showcase their business while deepening their networks and acquiring new skills.

An important new dimension to this year's programme was the selection of Kells, Co. Meath as a pilot 'Enterprise Town'. This initiative is designed to harness and support local entrepreneurship and endeavour. Based on the success of the pilot the bank plans to roll out this initiative to other towns on a national basis in 2014.

Bank of Ireland continues to undertake a range of activities to support home ownership and to restore consumer confidence. In October 2012, Bank of Ireland launched a €2 billion First Time Buyer and Mover Fund. On 24 July 2013, Bank of Ireland launched an additional €2 billion fund in response to existing and anticipated demand.

Our commitment to our branch network - the most extensive of any bank operating in Ireland, our continued investments in those branches and our digital channels, underlines our recognition of the importance of enabling customers to access the bank and its services conveniently and efficiently.

Investing in our Communities

Our flagship community giving initiative, Give Together, continues to make a tangible contribution to a wide variety of deserving causes. During 2013, Bank of Ireland employees have been involved in raising more than €2.4 million for over 300 different causes. Side by side with these fundraising activities, many of our employees have taken their Give Together day to volunteer for causes that are close to their hearts. Since our Give Together initiative commenced in 2007 our people have been involved in fund raising over €22 million for 1,600 causes. In addition, employees participate in payroll giving schemes which donate a further €800,000 each year to causes both in Ireland and the developing world.

In partnership with Business in the Community Ireland, 232 representatives from 119 charity and community groups have participated in 22 different free one-day courses during 2013 in our Learning Zone. These programmes are designed to develop the skills and capabilities of participants.

104 Bank of Ireland business volunteers delivered our Financial Education, Learn to Earn programme in 205 secondary school classes, across 125 schools throughout Ireland during the 2012-2013 School Year. In Northern Ireland, 61 Bank of Ireland business volunteers taught 256 sessions in 79 schools during the 2012-2013 School Year.

Taking Care of the Environment

We are in the closing stages of integrating our ISO14001 Environmental Management System in the Operations Centre in Cabinteely with our OHSAS 18001 Health and Safety Management System. This combined system will come into effect in February 2014 with the main objective of streamlining the process involved in implementing our environmental initiatives such as a 10% reduction in overall waste being generated and maintaining a 96% recycling rate.

Our Group Technology & Change and Operations Centres in Cabinteely have maintained their certification to the ISO50001 International Energy Management standard following an audit by our external auditors in August 2013. To date we have realised savings of approximately 5% in energy costs in these buildings which account for 14% of our overall energy consumption. Our total Group energy consumption is 3.5% lower than the 2012 energy use figure.

In November we launched a €75 million home renovation fund to complement a government initiative in this area which has as one of its policy objectives upgrading the energy efficiency of residential homes.

Please see www.bankofireland.com for further information on corporate responsibility initiatives in Bank of Ireland. We welcome your feedback, please email to corporate.responsibility@boi.com.

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Financial Statements

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Independent Auditors' Report set out below, is made with a view to distinguishing for stockholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations adopted by the European Union (EU) and with those parts of the Companies Acts, 1963 to 2013 applicable to companies reporting under IFRS, the European Communities (Credit Institutions: Accounts) Regulations, 1992 and, in respect of the Consolidated financial statements, Article 4 of the IAS Regulation. In preparing these financial statements, the Directors have also elected to comply with IFRS issued by the International Accounting Standards Board (IASB).

Irish company law requires the Directors to prepare financial statements which give a true and fair view of the state of affairs of the Bank and the Group and of the profit or loss of the Group. In preparing these financial statements for the year ended 31 December 2013, the Directors are required to:
- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS adopted by the EU and IFRS issued by the IASB; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Bank will continue in business.

The Directors are responsible for ensuring that the Bank keeps books of account that disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements are prepared in accordance with IFRS and IFRIC interpretations adopted by the European Union and with those parts of the Companies Acts, 1963 to 2013 applicable to companies reporting under IFRS and the European Communities (Credit Institutions: Accounts) Regulations, 1992 and, in respect of the Consolidated financial statements, Article 4 of the IAS Regulation. The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and the requirements of the Listing Rules issued by the Irish Stock Exchange, the directors are also responsible for preparing a Directors' Report and reports relating to directors' remuneration and corporate governance. The Directors are also required by the Transparency (Directive 2004 / 109 / EC) Regulations 2007 and the Transparency Rules to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group. Statutory Instrument number 450 of European Communities (Directive 2006 / 46 / EC) Regulations 2009 (S.I. 450) requires the Directors to make a statement with a description of the main features of the internal control and risk management systems in relation to the process for preparing financial statements for the Group.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that, to the best of each Director's knowledge and belief:
- they have complied with the above requirements in preparing the financial statements;
- the financial statements, prepared in accordance with IFRS as adopted by the European Union and with IFRS as issued by the IASB, give a true and fair view of the assets, liabilities, financial position of the Group and the Bank and of the loss of the Group;
- the management report contained in the Business Review includes a fair review of the development and performance of the business and the position of the Group and the Bank, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Signed on behalf of the Court by
28 February 2014

Archie G Kane	***Patrick O'Sullivan***	***Richie Boucher***
Governor	*Deputy Governor*	*Group Chief Executive*

Independent Auditors' Report

to the members of the Governor and Company of the Bank of Ireland

Report on the financial statements

Our opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, of the state of the Group's affairs as at 31 December 2013 and of its loss and cash flows for the year then ended;
- the Bank financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2013, of the state of the Bank's affairs as at 31 December 2013 and of its cash flows for the year then ended; and
- the Group and Bank financial statements have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2013 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say below.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in the Basis of Preparation on page 184 of the Group financial statements, the Group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

What we have audited

The Group financial statements and Bank financial statements (the 'financial statements'), which are prepared by the Governor and Company of the Bank of Ireland (the 'Bank'), comprise:

- the Consolidated and Bank balance sheets as at 31 December 2013;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated and Bank statements of changes in equity and cash flow statements for the year then ended; and
- the Group accounting policies, critical accounting estimates and judgements and notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in their preparation comprises Irish law and IFRSs as adopted by the European Union and, as regards the Bank, as applied in accordance with the provisions of the Companies Acts 1963 to 2013.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report rather than in the notes to the financial statements and are described as being an integral part of the financial statements as set out in the Basis of Preparation on page 184. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Bank's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we set materiality for the Group financial statements as a whole at €50 million. In arriving at this judgement we have had regard to the Group's gross external revenue (as defined in note 1 on page 214) rather than profitability given the volatility in performance in recent periods. The materiality measure represents circa 1% of gross external revenue.

We agreed with the Group Audit Committee that we would report to them misstatements identified during our audit above €2.5 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group is structured along five operating segments being Retail Ireland, Bank of Ireland Life, Retail UK, Corporate and Treasury and Group Centre. The Group financial statements are a consolidation of the five operating segments, comprising the group's operating businesses and centralised functions. Each operating segment produces its own consolidated group reporting pack which is approved by segment management. We consider each individual operating segment to be a reporting unit.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at the reporting units by us, as the group engagement team, or component PwC auditors operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

All five reporting units were in scope for an audit of their complete financial information.

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Group Audit Committee.Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on pages 134 and 135.

Area of focus	**How the scope of our audit addressed the area of focus**
Impairment provisions on loans and advances to customers We focused on this area because economic uncertainty and the lack of liquidity for underlying security remain key characteristics of the main markets in which the Group operates. Accordingly, the judgements relating to (1) the determination of when a loan impairment has been incurred, therefore resulting in a provision and (2) the amount of loan impairment provisions required, are complex and subjective.	The impairment of financial assets accounting policy on page 196 sets out the Group's approach to determining whether an impairment event has occurred and the methodology for loan loss provisioning is set out on pages 101 to 106 of the Risk Management Report. We gained an understanding and tested the design and operating effectiveness of controls relating to the appropriateness of loan grading and the impairment provision calculations. Our testing incorporated the selection of a sample of individual loans to critically assess, by reference to the underlying documentation and discussion with the case manager where appropriate, the criteria for whether an impairment had occurred and to challenge the reasonableness of management's judgement. For provisions that are individually calculated, we evaluated management's provisions by considering the reasonableness of future cash flows underpinning the calculations and the valuation of collateral held in the context of the Group's strategy for these loans. Where appropriate we compared the assumptions used to external sources. For provisions determined by modelling techniques, which incorporate past experience and management judgement we gained an understanding and assessed the provisioning models and underlying assumptions used. We assessed whether past experience was reflective of current economic conditions and we agreed past data to the underlying records as appropriate. We challenged key assumptions by comparison to externally available information, where appropriate. Management's process includes a rationalisation of the overall provision levels to consider in particular whether all relevant risks are reflected in the provisions. We assessed the rationale for the judgements applied and the reasonableness of the total provisions having regard to available external data.

Area of focus	How the scope of our audit addressed the area of focus
Recoverability of the deferred taxation asset We focused on this area because the deferred tax asset primarily arises due to historical operating losses and a key judgement is whether there is convincing evidence of sufficient future taxable profits against which those losses can be utilised.	As set out on page 134 of the Corporate Governance Statement detailed projections of future taxable profits are prepared by the directors. We considered whether the projections provide convincing evidence that sufficient taxable profits will be available to utilise unused tax losses. In particular, we evaluated the relevant macro-economic assumptions and growth assumptions underlying the projections in the context of economic consensus forecasts.
Life insurance policyholder liabilities and the Value of In Force business ('VIF') asset We focused on these balances because the estimation of the insurance contracts liabilities and the valuation of the VIF asset (being the discounted future margins on insurance contracts or 'embedded value') are complex calculations and involve the use of complex methodologies, multiple assumptions and significant judgements.	We evaluated the processes and controls surrounding the selection and determination of the methodologies, assumptions and judgements applied. We tested the calculations underpinning the insurance contract liabilities and VIF asset. We used PwC actuarial specialists to assist the audit team in the assessment of the methodologies, assumptions and judgements applied and the evaluation of the results of the calculations. We assessed the bases used to set the underlying assumptions (the key assumptions being the risk discount rate, unit growth rate, realistic interest rate, mortality, morbidity and persistency) with reference to wider market practice and prevailing economic conditions.
Retirement Benefit Obligations We focused on this area because the valuation of the retirement benefit obligation is complex and requires judgement in choosing appropriate actuarial assumptions.	We considered the reasonableness of the key actuarial assumptions (principally the discount rate, inflation rate and mortality rate). We used PwC actuarial specialists to assist the audit team to challenge management in relation to the assumptions and methodology applied including benchmarking to external data as appropriate.
Fraud in revenue recognition ISAs (UK and Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. We focused on revenue where the quantum and timing of recognition involves judgement e.g. spreading / deferral of revenue on certain products.	We evaluated the relevant IT systems and tested certain internal controls over the completeness, accuracy and timing of revenue recognised in the financial statements. We also tested journal entries posted to revenue accounts to identify unusual or irregular items. We obtained and read significant contracts and considered the appropriateness of the accounting treatment adopted.
Risk of management override of internal controls. ISAs (UK and Ireland) require that we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to 'whistle-blow' inappropriate actions, and interviewed senior management and the Group's internal audit function. We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors that may represent a risk of material misstatement due to fraud (including but not limited to loan loss provisions). We also tested certain journal entries.

Business Review
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Other Information

Going Concern
Under the Listing Rules of the Irish Stock Exchange we are required to review the directors' statement as set out on pages 141, 184 and 185 in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the Group's and Bank's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Bank have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. In reaching this conclusion, the directors have considered:
- that the regulatory capital position of the Group is critical to the market maintaining confidence in the Group's ability to absorb losses that it may incur in a market stress; and
- the funding and liquidity position of the Group to be able to meet its liabilities as they fall due, including in a market stress.

This is an area of focus of our audit and we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and the Bank's ability to continue as a going concern. In drawing our conclusion, we critically assessed the going concern assessment undertaken by management and approved by the directors. As set out on page 134 of the Corporate Governance Statement a detailed analysis is performed which considers the Group's capital, profitability and funding projections (incorporating the Group's 2013 Internal Capital Adequacy Assessment Process (ICAAP)). As part of our assessment we have:
- critically assessed and challenged the appropriateness of the stress scenarios used and their impact on the Group's capital and liquidity position.
- understood and assessed key economic and other assumptions used in the Group's projections.
- substantiated the Group's unencumbered collateral position and potential to access required liquidity and funding from the ECB and Central Bank.

Matters on which we are required to report by the Companies Acts 1963 to 2013

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the Bank and proper returns adequate for our audit have been received from branches of the Bank not visited by us.
- The Bank balance sheet is in agreement with the books of account.
- In our opinion the information given in the Directors' Report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements is consistent with the Group financial statements.
- The net assets of the Bank, as stated in the Bank balance sheet, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2013 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Bank.

Matters on which we are required to report by exception

Directors' remuneration and transactions
Under the Companies Acts 1963 to 2013 we are required to report if, in our opinion, the disclosure of directors' remuneration and transactions specified by law have not been made, and under the Listing Rules of the Irish Stock Exchange we are required to review the six specified elements of disclosures in the report to shareholders by the Board on directors' remuneration. We have nothing to report arising from these responsibilities.

Corporate Governance Statement
Under the Listing Rules of the Irish Stock Exchange we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code') and the two provisions of the Irish Corporate Governance Annex specified for our review. We have nothing to report having performed our review.

On page 168 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On pages 134 and 135, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK and Ireland) we are required to report to you if, in our opinion:
- the statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Bank acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 168, the directors are responsible for the preparation of the Group and Bank financial statements giving a true and fair view.

Our responsibility is to audit and express an opinion on the Group and Bank financial statements in accordance with Irish law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Bank's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

John McDonnell
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
28 February 2014

Consolidated financial statements

Consolidated income statement
for the year ended 31 December 2013

	Note	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Interest income	2	3,669	4,006
Interest expense	3	(1,665)	(2,560)
Net interest income		**2,004**	**1,446**
Net insurance premium income	4	1,073	1,156
Fee and commission income	5	493	515
Fee and commission expense	5	(192)	(215)
Net trading income / (expense)	6	12	(275)
Life assurance investment income, gains and losses	7	531	678
Other operating income	8	68	148
Total operating income		**3,989**	**3,453**
Insurance contract liabilities and claims paid	9	(1,470)	(1,725)
Total operating income, net of insurance claims		**2,519**	**1,728**
Other operating expenses	10	(1,581)	(1,638)
Impact of amendments to defined benefit pension schemes	41	274	-
Cost of restructuring programme	11	(90)	(150)
Operating profit / (loss) before impairment charges on financial assets and loss on deleveraging		**1,122**	**(60)**
Impairment charges on financial assets	13	(1,665)	(1,769)
Loss on deleveraging of financial assets	14	(3)	(326)
Operating loss		**(546)**	**(2,155)**
Share of results of associates and joint ventures (after tax)	15	31	46
Loss on disposal / liquidation of business activities	16	(10)	(69)
Loss before tax		**(525)**	**(2,178)**
Taxation credit	17	35	337
Loss for the year		**(490)**	**(1,841)**
Attributable to stockholders		(487)	(1,835)
Attributable to non-controlling interests		(3)	(6)
Loss for the year		**(490)**	**(1,841)**
Earnings per unit of €0.05 ordinary stock	18	(2.3c)	(6.7c)
Diluted earnings per unit of €0.05 ordinary stock	18	(2.3c)	(6.7c)

* *As outlined in the Group accounting policies on page 186, comparative years have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

Archie G Kane	***Patrick O'Sullivan***	***Richie Boucher***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Consolidated statement of comprehensive income for the year ended 31 December 2013

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Loss for the year	**(490)**	**(1,841)**
Other comprehensive income, net of tax:		
Items that may be reclassified to profit or loss in subsequent years:		
Available for sale reserve, net of tax:		
Changes in fair value	361	889
Transfer to income statement		
- Asset disposal	(44)	(53)
- Impairment	-	39
Net change in available for sale reserve	**317**	**875**
Cash flow hedge reserve, net of tax:		
Changes in fair value	230	546
Transfer to income statement	(411)	(398)
Net change in cash flow hedge reserve	**(181)**	**148**
Foreign exchange reserve:		
Foreign exchange translation (losses) / gains	(93)	80
Transfer to income statement on liquidation of non-trading entities	12	56
Net change in foreign exchange reserve	**(81)**	**136**
Total items that may be reclassified to profit or loss in subsequent years	**55**	**1,159**
Items that will not be reclassified to profit or loss in subsequent years:		
Remeasurement of the net defined benefit pension liability	(117)	(775)
Revaluation of property, net of tax	-	(1)
Total items that will not be reclassified to profit or loss in subsequent years	**(117)**	**(776)**
Other comprehensive income for the year, net of tax	**(62)**	**383**
Total comprehensive income for the year, net of tax	**(552)**	**(1,458)**
Total comprehensive income attributable to equity stockholders	(549)	(1,452)
Total comprehensive income attributable to non-controlling interests	(3)	(6)
Total comprehensive income for the year, net of tax	**(552)**	**(1,458)**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

The effect of tax on these items is shown in note 17.

Archie G Kane	***Patrick O'Sullivan***	***Richie Boucher***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Consolidated balance sheet as at 31 December 2013

	Note	31 December 2013 €m	Restated* As at 31 December 2012 €m	Restated* As at 1 January 2012[1] €m
Assets				
Cash and balances at central banks	49	6,385	8,472	8,181
Items in the course of collection from other banks		363	448	443
Trading securities	19	252	143	6
Derivative financial instruments	20	3,492	5,847	6,362
Other financial assets at fair value through profit or loss	21	10,306	9,460	8,914
Loans and advances to banks	22	4,759	9,502	8,051
Available for sale financial assets	23	12,104	11,093	10,262
NAMA senior bonds	24	3,957	4,428	5,016
Loans and advances to customers	25	84,514	92,621	99,314
Interest in associates	27	89	91	79
Interest in joint ventures	28	209	227	245
Intangible assets	29	374	371	393
Investment properties	30	805	848	995
Property, plant and equipment	31	322	333	336
Current tax assets		28	33	9
Deferred tax assets	40	1,714	1,640	1,371
Other assets	32	2,460	2,405	2,269
Retirement benefit asset	41	4	2	8
Assets classified as held for sale		-	-	2,446
Total assets		**132,137**	**147,964**	**154,700**
Equity and liabilities				
Deposits from banks	33	12,213	21,125	31,382
Customer accounts	34	73,867	75,170	70,506
Items in the course of transmission to other banks		147	268	271
Derivative financial instruments	20	3,228	5,274	6,018
Debt securities in issue	35	15,280	18,073	19,124
Liabilities to customers under investment contracts	36	5,460	5,256	4,954
Insurance contract liabilities	36	8,502	7,988	7,037
Other liabilities	38	2,841	3,137	3,106
Current tax liabilities		28	23	86
Provisions	39	90	119	38
Deferred tax liabilities	40	92	92	88
Retirement benefit obligations	41	845	1,077	348
Subordinated liabilities	37	1,675	1,707	1,426
Liabilities classified as held for sale		-	-	13
Total liabilities		**124,268**	**139,309**	**144,397**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

[1] *Opening balance sheet as at 1 January 2012 reflects the Group's restated closing balance as at 31 December 2011.*

Consolidated balance sheet as at 31 December 2013 (continued)

	Note	31 December 2013 €m	Restated* As at 31 December 2012 €m	Restated* As at 1 January 2012 €m
Equity				
Capital stock	44	2,558	2,452	2,452
Stock premium account	45	1,135	1,210	5,127
Retained earnings		3,791	4,673	3,571
Other reserves		404	336	(869)
Own stock held for the benefit of life assurance policyholders		(13)	(14)	(15)
Stockholders' equity		**7,875**	**8,657**	**10,266**
Non-controlling interests		(6)	(2)	37
Total equity		**7,869**	**8,655**	**10,303**
Total equity and liabilities		**132,137**	**147,964**	**154,700**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

Archie G Kane	**Patrick O'Sullivan**	**Richie Boucher**	**Helen Nolan**
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Consolidated statement of changes in equity for the year ended 31 December 2013

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Capital stock		
Balance at the beginning of the year	2,452	2,452
Issue of ordinary stock (note 43)	111	-
Redemption of the 2009 Preference Stock (note 43)	(5)	-
Balance at the end of the year	**2,558**	**2,452**
Stock premium account		
Balance at the beginning of the year	1,210	5,127
Issue of ordinary stock (note 43)	469	-
Transaction costs on issue of ordinary stock (note 43)	(12)	-
Redemption of the 2009 Preference Stock (note 43)	(532)	-
Transfer to retained earnings (note 45)	-	(3,920)
Transaction costs on transfer to retained earnings (note 45)	-	3
Balance at the end of the year	**1,135**	**1,210**
Retained earnings		
Balance at the beginning of the year (prior to restatement)	4,607	3,507
Effect of change in accounting policy*	66	64
Balance at the beginning of the year (restated)	4,673	3,571
Loss retained	(727)	(2,031)
- Loss for year attributable to stockholders	*(487)*	*(1,835)*
- Dividends on 2009 Preference Stock and other preference equity interests paid in cash	*(240)*	*(196)*
Transfer to capital reserve	(17)	(47)
Transaction costs on the transfer of the 2009 Preference Stock	(27)	-
Remeasurement of the net defined benefit pension liability	(117)	(775)
Transfer from share based payment reserve	4	-
Other movements	2	(4)
Transfer from stock premium account	-	3,920
Purchase of non-controlling interest	-	39
Balance at the end of the year	**3,791**	**4,673**
Other Reserves:		
Available for sale reserve		
Balance at the beginning of the year	150	(725)
Net changes in fair value	414	1,015
Transfer to income statement (pre tax)		
- Asset disposal (note 8)	(50)	(60)
- Impairment (note 13)	-	45
Deferred tax on reserve movements	(47)	(125)
Balance at the end of the year	**467**	**150**
Cash flow hedge reserve		
Balance at the beginning of the year	227	79
Changes in fair value	259	590
Transfer to income statement (pre tax)		
- Net trading income (foreign exchange)	(329)	(473)
- Net interest income (note 2)	(132)	56
Deferred tax on reserve movements	21	(25)
Balance at the end of the year	**46**	**227**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

Consolidated statement of changes in equity for the year ended 31 December 2013 (continued)

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Foreign exchange reserve		
Balance at the beginning of the year	(726)	(862)
Exchange adjustments during the year	(93)	80
Transfer to income statement on liquidation of non-trading entities (note 16)	12	56
Balance at the end of the year	**(807)**	**(726)**
Capital contribution	**116**	**116**
Capital reserve		
Balance at the beginning of the year	557	510
Transfer from retained earnings	17	47
Balance at the end of the year	**574**	**557**
Share based payment reserve		
Balance at the beginning of the year	7	7
Transfer to retained earnings	(4)	-
Balance at the end of the year	**3**	**7**
Revaluation reserve		
Balance at the beginning of the year	5	6
Revaluation of property	-	(2)
Deferred tax on revaluation of property	-	1
Balance at the end of the year	**5**	**5**
Total other reserves	**404**	**336**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

Consolidated statement of changes in equity for the year ended 31 December 2013 (continued)

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Own stock held for the benefit of life assurance policyholders		
Balance at the beginning of the year	(14)	(15)
Changes in value and amount of stock held	1	1
Balance at the end of the year	**(13)**	**(14)**
Total stockholders' equity excluding non-controlling interests	**7,875**	**8,657**
Non-controlling interests		
Balance at the beginning of the year (prior to restatement)	13	50
Effect of change in accounting policy*	(15)	(13)
Balance at the beginning of the year (restated)	(2)	37
Share of net loss	(3)	(6)
Capital contribution by non-controlling interest	-	14
Purchase of non-controlling interest	-	(47)
Other movements	(1)	-
Balance at the end of the year	**(6)**	**(2)**
Total equity	**7,869**	**8,655**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

Archie G Kane	***Patrick O'Sullivan***	***Richie Boucher***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Consolidated cash flow statement for the year ended 31 December 2013

	Note	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Cash flows from operating activities			
Loss before tax		(525)	(2,178)
Share of results of associates and joint ventures	15	(31)	(46)
Loss on disposal / liquidation of business activities	16	10	69
Depreciation and amortisation		118	142
Impairment charges on financial assets	13	1,665	1,769
Loss on deleveraging of financial assets	14	3	326
Charge arising on revaluation of property	31	1	11
Revaluation of investment property	30	32	25
Interest expense on subordinated liabilities	3	178	159
Charge for retirement benefit obligation	10	133	70
Impact of amendments to defined benefit pension schemes	41	(274)	-
Gain on liability management exercises	8	(4)	(69)
Charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	6	154	297
Gain on Contingent Capital Note	3	-	(79)
Net change in accruals and interest payable		(464)	30
Other non-cash items		78	109
Cash flows from operating activities before changes in operating assets and liabilities		**1,074**	**635**
Net change in items in the course of collection from other banks		(41)	(4)
Net change in trading securities		(109)	(137)
Net change in derivative financial instruments		481	(111)
Net change in other financial assets at fair value through profit or loss		(848)	(545)
Net change in loans and advances to banks		3,189	(3,107)
Net change in loans and advances to customers		5,301	5,467
Net change in other assets		382	414
Net change in deposits from banks		(8,901)	(10,265)
Net change in customer accounts		(687)	3,970
Net change in debt securities in issue		(2,477)	(509)
Net change in liabilities to customers under investment contracts		204	302
Net change in insurance contract liabilities		514	951
Net change in other liabilities		25	(433)
Effect of exchange translation and other adjustments		(405)	(679)
Net cash flow from operating assets and liabilities		**(3,372)**	**(4,686)**
Net cash flow from operating activities before tax		**(2,298)**	**(4,051)**
Tax paid		(50)	(36)
Net cash flow from operating activities		**(2,348)**	**(4,087)**
Investing activities (section a below)		(766)	3,150
Financing activities (section b below)		(694)	(751)
Net change in cash and cash equivalents		**(3,808)**	**(1,688)**
Opening cash and cash equivalents	49	14,328	15,764
Effect of exchange translation adjustments		234	252
Closing cash and cash equivalents	49	**10,754**	**14,328**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

Consolidated cash flow statement for the year ended 31 December 2013 (continued)

	Note	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
(a) Investing activities			
Additions to available for sale financial assets	23	(3,346)	(5,570)
Disposal / redemption of available for sale financial assets	23	2,549	6,013
Additions to property, plant and equipment[1]	31	(33)	(42)
Disposal of property, plant and equipment	31	2	6
Additions to intangible assets	29	(84)	(78)
Disposals of intangible assets	29	-	3
Disposal of investment property		12	127
Dividends received from joint ventures	28	50	60
Net change in interest in associates		(2)	(5)
Net proceeds from disposal of loan portfolios	14	86	1,981
Net proceeds from disposal of business activities		-	655
Cash flows from investing activities		**(766)**	**3,150**
(b) Financing activities			
Redemption of the 2009 Preference Stock	43	(537)	-
Transaction costs on the transfer of the 2009 Preference Stock	43	(27)	-
Net proceeds from issue of ordinary stock	43	568	-
Interest paid on subordinated liabilities		(159)	(136)
Dividend paid on 2009 Preference Stock and other preference equity interests		(240)	(196)
Consideration paid in respect of liability management exercises		(299)	(680)
Proceeds from issue of new subordinated liabilities		-	250
Capital contribution by non-controlling interest		-	14
Consideration paid in respect of purchase of non-controlling interest		-	(3)
Cash flows from financing activities		**(694)**	**(751)**

** As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

[1] Excludes €1 million (year ended 31 December 2012: €12 million) of property, plant and equipment acquired under finance lease agreements (note 31).

Archie G Kane	**Patrick O'Sullivan**	**Richie Boucher**	**Helen Nolan**
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Group accounting policies

Accounting policies

The following are Bank of Ireland Group's principal accounting policies.

Basis of preparation

The financial statements comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Bank balance sheets, the Consolidated and Bank statements of changes in equity, the Consolidated and Bank cash flow statements, the Group and Bank accounting policies and critical accounting estimates and judgements, the notes to the Consolidated financial statements on pages 212 to 316 and notes to the Bank financial statements on pages 323 to 369. The financial statements include the information that is described as being an integral part of the audited financial statements contained in: (i) Sections 3.1, 3.2, 3.3, 3.4 and 4 of the Risk Management Report as described further on the bottom of page 58; (ii) the Remuneration Report as described further on page 157; and (iii) Other Information - Group exposures to selected countries as described further on the top of page 370. The financial statements also include the Tables in Other Information - Supplementary Asset Quality Disclosures that are described as being an integral part of the audited financial statements as described further on the top of page 381.

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) and with those parts of the Companies Acts, 1963 to 2013 applicable to companies reporting under IFRS, with the European Communities (Credit Institutions: Accounts) Regulations, 1992 and with the Asset Covered Securities Acts, 2001 to 2007. The EU adopted version of IAS 39 currently relaxes some of the hedge accounting rules in IAS 39 'Financial Instruments - Recognition and Measurement'. The Group has not availed of this, hence these financial statements comply with both IFRS as adopted by the EU and IFRS as issued by the IASB.

The financial statements have been prepared under the historical cost convention as modified to include the fair valuation of certain financial instruments and land and buildings.

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. A description of the critical estimates and judgements is set out on pages 209 to 211.

References to 'the State' throughout this document should be taken to refer to the Republic of Ireland, its Government and, where and if relevant, Government departments, agencies and local Government bodies.

Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2013 is a period of twelve months from the date of approval of these financial statements ('the period of assessment').

In making this assessment, the Directors considered the Group's business, profitability projections, funding and capital plans, under both base and plausible stress scenarios, together with a range of other factors such as the outlook for the Irish economy, taking due account of the impact of fiscal realignment measures and the availability of collateral to access the Eurosystem together with the likely evolution and impact of the eurozone crises. The matters of primary consideration by the Directors are set out below:

Capital
On 2 December 2013, the Central Bank of Ireland's Balance Sheet Assessment (BSA)/Asset Quality Review (AQR) confirmed that the Bank had adequate capital as at 30 June 2013 to meet the requirements determined under the BSA, and consequently the Central Bank of Ireland did not require the Bank to raise additional capital as a result of the BSA.

A European-wide stress test is currently expected during 2014 and the phased implementation of CRD IV impacts the Group's capital position during the period of assessment. The Group has developed capital plans under base and stress scenarios and expects to maintain a buffer over regulatory minima throughout the period of assessment.

During December 2013, the Group successfully executed a Capital Package in relation to the 2009 Preference Stock comprising the placing of new units of ordinary stock to generate proceeds of c.€537 million (net of expenses), to redeem c.€537 million of 2009 Preference Stock, and the sale by the National Pensions Reserve Fund Commission of €1.3 billion of 2009 Preference Stock to private investors. The Capital Package was substantially oversubscribed.

The Directors believe this satisfactorily addresses the capital risk.

Liquidity and funding

During 2013 the Group accessed wholesale funding markets through both secured and unsecured issuances, with a further unsecured issuance in January 2014.

The Group's drawings from Monetary Authorities reduced by €4 billion during the year ended 31 December 2013, from €12 billion at 31 December 2012 (excluding €3 billion relating to the IBRC repo transaction) to €8 billion at 31 December 2013. The €8 billion of Monetary Authority funding matures in the period of assessment, in line with the ECB's 3-year LTRO. The ECB fixed rate full allotment policy in respect of its main refinancing operations, which roll on a short term basis, has been extended to July 2015 at the earliest and is available to the Group during the period of assessment.

It is expected that the Group will continue to require access to the Monetary Authorities for funding during the period of assessment. In addition, in the context of its assessment of going concern, the Group discussed the relevant public announcements from the ECB, the EC and the IMF and the Minister for Finance (together the announcements) with the Central Bank and it sought assurance on the continued availability of required liquidity from the Eurosystem during the period of assessment. The Directors are satisfied, based on the announcements and the clarity of confirmations received from the Central Bank, that, in all reasonable circumstances, the required liquidity and funding from the ECB and the Central Bank will be available to the Group during the period of assessment.

The Directors believe that this satisfactorily addresses the liquidity risk.

Conclusion

On the basis of the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Group's and Bank's ability to continue as a going concern over the period of assessment.

Adoption of new accounting standards

The following amendments to standards have been adopted by the Group during the year ended 31 December 2013:

Recently adopted accounting pronouncements

During the year ended 31 December 2013, the Group adopted the following standards and amendments to standards:

- IAS 19 (Revised 2011) Employee Benefits (IAS 19R);
- IFRS 10 Consolidated Financial Statements and IAS 27: Separate Financial Statements;
- IFRS 13 Fair Value Measurement;
- Amendment to IAS 1: Presentation of Financial Statements;
- Amendment to IAS 34: Interim Financial Reporting;
- Amendment to IFRS 7: Offsetting Financial Assets and Financial Liabilities;
- IFRS 11 Joint Arrangements and IAS 28: Investments in Associates and Joint Ventures;
- IFRS 12 Disclosure of Interests in Other Entities; and
- Annual Improvements 2009-2011 (Annual Improvements).

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the consolidated financial statements of the Group.

New accounting pronouncements

The nature and the impact of each new standard / amendment is described below:

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R eliminated the option for deferred recognition of all changes in the present value of the defined benefit obligation and in the fair value of plan assets (including the corridor approach, which was not applied by the Group). On the adoption of the new standard, capitalised future administration expenses relating to deferred and retired members were removed from the measurement of defined benefit plan obligations as such expenses are now recognised as incurred. In addition, the amended standard requires a net interest approach (based off high quality corporate bonds), which replaces the expected return on plan assets, with no change to the interest on pension obligations, and requires enhanced disclosures for defined benefit plans.

The main impacts for the Group on transition to IAS 19R were:

- Restatement of the Retirement Benefit Obligation at 31 December 2012, as capitalised future administration expenses relating to deferred and retired members are removed from the measurement of defined benefit plan obligations; and
- An increase in the costs of providing defined retirement benefits in the income statement, as the expected return on plan assets is replaced by a net interest charge.

The financial statements for the comparative period have been restated to reflect this change. The effect of the adoption of IAS 19R is explained further in note 58.

IAS 19R also changes the recognition criteria for termination benefits. Certain termination benefits will now be recognised at a later date unless they form part of a restructuring as defined in IAS 37. This had no impact on the Group's financial position or performance as the Group's restructuring programme, which includes termination benefits, meets the definition of a restructuring under IAS 37.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 supersedes IAS 27, 'Consolidated and Separate Financial Statements' and SIC-12, 'Consolidation – Special Purpose Entities'. It establishes a single control model that applies to all entities, including those that were previously considered special purpose entities under SIC-12. An investor controls an investee when it is exposed, or has rights to variable returns from the investee, and has the ability to affect those returns through its power over the investee. The assessment of control is based on all facts and circumstances and the conclusion is reassessed if there is an indication that there are changes in facts and circumstances.

The impact of the new standard has been to deconsolidate certain entities with interests in an international investment property. Under IFRS 10, the Group is not considered to control these entities and the investment has been equity accounted as an investment in associate. The financial statements for the comparative period have been restated to reflect this change. The effect of the adoption of IFRS 10 is explained further in note 58.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7: Financial Instruments: Disclosures. The Group provides these disclosures in note 48.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendment to IAS 1

This amendment to IAS 1 introduces a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g. exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available for sale financial assets) now have to be presented separately from items that will not be reclassified (e.g. remeasurement of the net defined benefit pension liability and revaluation of property). The amendment had no impact on the Group's financial position or performance but rather has changed the presentation.

IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a reportable segment need to be disclosed in the Interim Financial Statements only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The amendment had no impact on the Group's financial position or performance.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendment to IFRS 7

The amendment requires an entity to disclose information about rights to set off financial instruments and related arrangements (e.g. collateral agreements). The disclosures provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. The application of this amendment had no impact on the financial position of the Group. The Group provides these disclosures in note 56.

IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures

IFRS 11 supersedes IAS 31, 'Interests in Joint Ventures' and SIC-13, 'Jointly-controlled Entities – Nonmonetary Contributions by Venturers'. IFRS 11 classifies joint arrangements as either joint operations or joint ventures and focuses on the nature of the rights and obligations of the arrangement. IFRS 11 requires the use of the equity method of accounting for joint arrangements by eliminating the option to use the proportionate consolidation method, which was not applied by the Group. The application of this new standard had no impact on the financial position of the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The application of this new standard had no impact on the financial position of the Group. The Group provides these disclosures in note 54.

Annual Improvements 2009-2011 (the Annual Improvements)

The annual improvements process provides a vehicle for making non-urgent but necessary amendments to IFRSs. These amendments have had no impact on the financial position of the Group.

Comparatives

Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current period.

Comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'.

See note 58 for additional information.

Group accounts

(1) Subsidiaries
Subsidiary undertakings are investees (including structured entities) controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it controls an investee when facts and circumstances indicate that there are changes to one or more elements of control.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such entities by considering factors such as the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns from the entity.

Assets, liabilities and results of all Group undertakings have been included in the Group financial statements on the basis of financial statements made up to the end of the financial period.

The existence and effect of potential voting rights are considered when assessing whether the Group controls an investee only if the rights are substantive.

Business combinations
Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. In addition, foreign exchange gains and losses which arise on the retranslation to functional currency of intercompany monetary assets and liabilities are not eliminated.

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

Upon adoption of IFRS, the Group availed of the exemption not to restate the Group financial statements for any acquisitions or business combinations that took place prior to 1 April 2004.

(2) Associates and Joint Ventures
Associates are all entities over which the Group has significant influence but not control, over the entity's financial and operating decisions, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint arrangement is an arrangement of which two or more parties have joint control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. Under this method, the Group's share of the post-acquisition profits or losses in associates and joint ventures is recognised in the Group's income statement, its share of other comprehensive income is recognised in the Group's other comprehensive income and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate or joint venture.

The Group utilises the venture capital exemption for investments where significant influence is present and the business operates as a venture capital business. These investments are designated at initial recognition at fair value through profit or loss.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associate / joint venture; unrealised losses are also eliminated on the same basis unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates and joint ventures includes goodwill (net of any accumulated impairment losses) on acquisition.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in joint operations in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Accounting policies of associates and joint ventures have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

(3) Non-controlling Interests

Transactions with non-controlling interests where the Group has control over the entity are accounted for using the Economic entity model. This accounting model requires that any surplus or deficit that arises on any transaction(s) with non-controlling interests to dispose of or to acquire additional interests in the entity, is settled through equity.

(4) Securitisations

Certain Group undertakings have entered into securitisation transactions in order to finance specific loans and advances to customers. All financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction, unless:

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

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

Common control transactions

A business combination involving entities or businesses under common control is excluded from the scope of IFRS 3: Business Combinations. The exemption is applicable where the combining entities or businesses are controlled by the same party both before and after the combination. Where such transactions occur, the Bank, in accordance with IAS 8, uses its judgement in developing and applying an accounting policy that is relevant and reliable. In making this judgement management considers the requirements of IFRS dealing with similar and related issues and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the framework. Management also considers the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, to the extent that these do not conflict with the IFRS framework or any other IFRS or interpretation.

Accordingly the Bank has applied the guidance as set out in FRS 6 'Acquisitions and Mergers' as issued by the Accounting Standards Board. Where the transactions meet the definition of a group reconstruction or achieves a similar result, predecessor accounting is applied. The assets and liabilities of the business transferred are measured in the acquiring entity upon initial recognition at their existing book value in the Group, as measured under IFRS. The Bank incorporates the results of the acquired businesses only from the date on which the business combination occurs.

Foreign currency translation

Items included in the financial statements of each entity of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements of the Group and the financial statements of the Bank are presented in euro.

Foreign currency transactions are translated into functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equities, classified as available for sale, are recognised in other comprehensive income. Exchange differences arising on translation to presentation currency and on consolidation of overseas net investments, are recognised in other comprehensive income.

Assets, liabilities and equity of all the Group entities that have a functional currency different from the presentation currency (foreign operations) are translated at the closing rate at the balance sheet date and items of income and expense are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions). All resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation the amount accumulated in the separate component of equity is reclassified from equity to profit or loss. The Group may dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital, abandonment or through loss of control or significant influence

The Group availed of the exemption to deem all accumulated balances arising from translation of foreign subsidiaries to be nil on transition to IFRS on 1 April 2004.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The principal rates of exchange used in the preparation of the financial statements are as follows:

	31 December 2013		31 December 2012	
	Average	**Closing**	Average	Closing
€ / Stg£	0.8493	0.8337	0.8109	0.8161
€ / US$	1.3281	1.3791	1.2848	1.3194

Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment loss. Where the Group revises its estimates of payments or receipts on a financial instrument measured at amortised cost, the carrying amount of the financial instrument (or group of financial instruments) is adjusted to reflect actual and revised estimated cash flows. The Group recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised in profit or loss as income or expense.

Fee and commission income

Fees and commissions which are not an integral part of the effective interest rate of a financial instrument are generally recognised as the related services are provided. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts usually on a time apportioned basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Loan commitment fees for loans that are likely to be drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan once drawn.

Operating loss / profit

Operating loss / profit includes the Group’s earnings from ongoing activities after impairment charges and loss on deleveraging of financial assets, and before share of profit or loss on associates and joint ventures (after tax) and loss on disposal / liquidation of business activities.

Leases

(1) A Group company is the lessee
The total payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

The corresponding rental obligations, net of finance charges, are included in long term payables. The interest element of the finance costs is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(2) A Group company is the lessor
When assets are held under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is included within net interest income and is recognised over the term of the lease reflecting a constant periodic rate of return on the net investment in the lease.

Financial assets

(1) Classification, Recognition and Measurement
The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; and available for sale financial assets. The Group determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss can either be held for trading, if acquired principally for the purpose of selling in the short term, or designated at fair value through profit or loss at inception.

A financial asset may be designated at fair value through profit or loss only when:
(i) it eliminates or significantly reduces a measurement or recognition inconsistency, (an accounting mismatch), that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis; or
(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or
(iii) a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

The principal category of assets designated at fair value through profit or loss are those held by the Group's life assurance business, which are managed on a fair value basis.

Regular way purchases and sales of financial assets at fair value through profit or loss are recognised on trade date: the date on which the Group commits to purchase or sell the asset. Thereafter they are carried on the balance sheet at fair value, with all changes in fair value included in the income statement.

Financial assets may not be transferred out of this category, except for non-derivative financial assets held for trading, which may be transferred out of this category where:
(i) in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the short term; or
(ii) they are no longer held for trading, they meet the definition of loans and receivables at the date of reclassification and the Group has the intention and ability to hold the assets for the foreseeable future or until maturity.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans are recorded at fair value plus transaction costs when cash is advanced to the borrowers. They are subsequently accounted for at amortised cost using the effective interest method.

(c) Available for sale

Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of available for sale financial assets are recognised on trade date. They are initially recognised at fair value plus transaction costs. Fair value movements are recognised in other comprehensive income. Interest is calculated using the effective interest method and is recognised in the income statement.

If an available for sale financial asset is derecognised or impaired the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement.

Dividends on available for sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

Available for sale financial assets that would have met the definition of loans and receivables may be reclassified to loans and receivables if the Group has the intention and ability to hold the asset for the foreseeable future or until maturity.

(2) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities

The Group has two categories of financial liabilities: those that are carried at amortised cost and those that are carried at fair value through profit or loss. Financial liabilities are initially recognised at fair value, (normally the issue proceeds i.e. the fair value of consideration received) less, in the case of financial liabilities subsequently carried at amortised cost, transaction costs. For liabilities carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement using the effective interest method.

Preference shares which carry a mandatory coupon are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest method.

A liability may be designated as at fair value through profit or loss only when:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency, (an accounting mismatch), that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis; or

(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or

(iii) a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

The Group designates certain financial liabilities at fair value through profit or loss as set out in note 47 to the financial statements. Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

Valuation of financial instruments

The Group recognises trading securities, other financial assets and liabilities designated at fair value through profit or loss, derivatives and available for sale financial assets at fair value in the balance sheet. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date.

The fair values of financial assets and liabilities traded in active markets are based on unadjusted bid and offer prices respectively. If an active market does not exist, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Group uses estimates based on the best information available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price in an arm's length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which uses only observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Group recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price. Any day one profit is deferred and recognised in the income statement to the extent that it arises from a change in a factor that market participants would consider in setting a price. Straight line amortisation is used where it approximates to that amount. Subsequent changes in fair value are recognised immediately in the income statement without the reversal of deferred day one profits or losses.

Where a transaction price in an arm's length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

For liabilities designated at fair value through profit or loss, the fair values reflect changes in the Group's own credit spread.

The fair values of the Group's financial assets and liabilities are disclosed within note 48 together with a description of the valuation technique used for each asset or liability category. For assets or liabilities recognised at fair value on the balance sheet, a description is given of any inputs into valuation models that have the potential to significantly impact the fair value, together with an estimate of the impact of using reasonably possible alternative assumptions.

Transfers between levels of the fair value hierarchy
The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. The Group provides these disclosures in note 48.

Sale and repurchase agreements and lending of assets

Assets sold subject to repurchase agreements (repos) are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate.

Securities purchased under agreements to resell (reverse repos) are treated as collateralised loans and recorded as loans and advances to banks or customers, as appropriate.

The difference between sale and repurchase price is treated as interest and recognised in the income statement over the life of the agreement using the effective interest method.

Securities lent to counterparties are also retained on the balance sheet. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return the securities is recorded at fair value as a trading liability.

Issued debt and equity securities

The classification of instruments as a financial liability or an equity instrument is dependent upon the substance of the contractual arrangement. Instruments which carry a contractual obligation to deliver cash or another financial asset to another entity are classified as financial liabilities. The coupons on these instruments are recognised in the income statement as interest expense using the effective interest method. Where the Group has absolute discretion in relation to the payment of coupons and repayment of principal, the instrument is classified as equity and any coupon payments are classified as distributions in the period in which they are made.

If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in other operating income, net of any costs or fees incurred.

Debt for debt exchanges

Where the Group and an existing lender agree to exchange financial liabilities and where the terms of the original financial liability and the new financial liability are substantially different, the exchange is treated as an extinguishment of the original financial liability and the recognition of a new financial liability. The Group considers both quantitative and qualitative measures in determining whether the terms are substantially different. The difference between the carrying amount of the financial liability extinguished and the consideration paid, including any non-cash asset transferred or liabilities assumed, is recognised in profit or loss. Any costs or fees incurred are recognised as part of the gain or loss on extinguishment.

Debt for equity exchanges

Where the Group settles a liability through the issuance of its own equity instruments, the difference between the carrying amount of the financial liability and the fair value of equity instruments issued is recognised in profit or loss. If the fair value of the equity instruments cannot be reliably measured then the fair value of the existing financial liability is used to measure the gain or loss.

Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Certain derivatives embedded in other financial instruments are separated from the host contract and accounted for as derivatives, when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss.

Fair value gains or losses on derivatives are normally recognised in the income statement. However where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

The Group designates certain derivatives as either:

(i) hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge); or

(ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge).

Hedge accounting is applied to these derivatives provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

(b) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in other comprehensive income are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised in the income statement when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately reclassified to the income statement.

Impairment of financial assets

Assets carried at amortised cost
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:
(i) delinquency in contractual payments of principal or interest;
(ii) cash flow difficulties;
(iii) breach of loan covenants or conditions;
(iv) deterioration of the borrower’s competitive position;
(v) deterioration in the value of collateral;
(vi) external rating downgrade below an acceptable level;
(vii) initiation of bankruptcy proceedings; and
(viii) granting a concession to a borrower, for economic or legal reasons relating to the borrower’s financial difficulty that would otherwise not be considered.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement. When a loan is deemed uncollectible, it is derecognised and the provision for impairment is utilised. Subsequent recoveries decrease the amount of the charge for loan impairment in the income statement.

Forbearance

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change ('forbearance measure') to a loan for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance has not occurred if the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower.

Prior to any decision to grant forbearance the Group performs an assessment of a customer's financial circumstances and ability to repay. This assessment includes an individual assessment for impairment of the loan. If the Group determines that no objective evidence of impairment exists for an individually assessed forborne asset, whether significant or not, it includes the asset in a group of loans with similar credit risk characteristics and collectively assesses them for impairment.

Where the forborne loan is considered to be impaired the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate before the modification of terms. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a forborne asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract before the modification of terms. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

Where a forborne loan in the non-mortgage book is subject to forbearance and no specific provision is required, the asset is reported as forborne. However, where a specific provision is required the asset is reported as impaired and is not reported as forborne. For residential mortgages, exposures that are subject to forbearance and have a specific provision are reported as both forborne and impaired.

Assets to which forbearance has been applied continue to be reported as forborne until the forbearance measure expires or the asset is repaid.

Where the cash flows from a forborne loan are considered to have expired, the original asset is derecognised and a new asset is recognised, initially measured at fair value. Any difference between the carrying value of the original asset and the fair value of the new asset on initial recognition are recognised in the income statement. Interest accrues on the new asset based on the current market rates in place at the time of the renegotiation.

Non-forbearance renegotiation
Where a concession or agreed change to a loan is not directly linked to apparent financial stress or distress, these amendments are not considered forbearance. Any changes in expected cash flows are accounted for under IAS 39 i.e. the carrying amount of the asset is adjusted to reflect any change to estimated cash flows discounted at the original effective interest rate, before the modification of terms. If a renegotiated asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Any difference between the asset's carrying amount and the present value of estimated future cash flows is reflected in the income statement. However, where cash flows on the original asset have considered to have expired, the original asset is derecognised and a new asset is recognised at fair value. Any difference arising between the derecognised asset and the new asset is recognised in the income statement.

Available for sale financial assets
The Group assesses at each balance sheet date whether there is objective evidence that an available for sale financial asset is impaired. In addition to the factors set out above, a significant or prolonged decline in the fair value of an investment in an available for sale equity instrument below its cost is considered in determining whether an impairment loss has been incurred. If an impairment loss has been incurred, the cumulative loss that had been recognised in other comprehensive income is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Property, plant and equipment

Freehold land and buildings are initially recognised at cost, and subsequently are revalued annually to open market value by independent external valuers. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the open market value at the balance sheet date.

All other property, plant and equipment, including freehold and leasehold adaptations, are stated at historical cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on the revaluation of land and buildings are recognised in other comprehensive income. Decreases that offset previous increases on the same asset are recognised in other comprehensive income: all other decreases are charged to the income statement.

The Directors consider that residual values of freehold and long leasehold property based on prices prevailing at the time of acquisition or subsequent valuation are such that depreciation is not material.

Depreciation is calculated on the straight line method to write down the carrying value of other items of property, plant and equipment to their residual values over their estimated useful lives as follows:
- adaptation works on freehold and leasehold property - fifteen years, or the remaining period of the lease; and
- computer and other equipment - maximum of ten years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or its value in use.

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit before tax. If the asset being disposed of had previously been revalued then any amount in other comprehensive income relating to that asset is reclassified directly to retained earnings on disposal rather than the income statement.

Investment property

Property held for long term rental yields and capital appreciation is classified as investment property. Investment property comprises freehold and long leasehold land and buildings. It is carried at fair value in the balance sheet based on annual revaluations at open market value and is not depreciated. Changes in fair values are recorded in the income statement. Rental income from investment properties is recognised as it becomes receivable over the term of the lease.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates or joint ventures is included in 'investments in associates' and 'investments in joint ventures' as appropriate. The carrying amount of goodwill in the Irish GAAP balance sheet as at 31 March 2004 was brought forward without adjustment on transition to IFRS.

Goodwill is tested annually for impairment or more frequently if there is any indication that it may be impaired, and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units (CGU) for the purpose of impairment testing. The CGU is considered to be the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The Group impairment model compares the recoverable amount of the CGU with the carrying value at the review date. An impairment loss arises if the carrying value of the CGU exceeds the recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use, where the value in use is the present value of the future cash flows expected to be derived from the CGU.

Gains and losses on the disposal of an entity are recognised having taken account of the carrying amount of goodwill relating to the entity sold.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives, which is normally five years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development, employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight line method over their useful lives, which is normally between five and ten years.

Computer software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

(c) Other intangible assets

Other intangible assets are carried at cost less amortisation and impairment, if any and, are amortised on a straight line basis over their useful lives which range from five years to twenty years and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or its value in use.

Assets and liabilities classified as held for sale

An asset or a disposal group is classified as held for sale if the following conditions are met:

- its carrying amount will be recovered principally through sale rather than continuing use;
- it is available for immediate sale; and
- the sale is highly probable within the next twelve months.

When an asset (or disposal group) is initially classified as held for sale, it is measured at the lower of its carrying amount or fair value less costs to sell at the date of classification, except for deferred tax assets, financial assets, investment properties, insurance contracts and assets arising from employee benefits, which are measured in accordance with the accounting policies applied to those assets prior to their classification as held for sale.

Impairment losses on initial classification of an asset (or disposal group) as held for sale, and on subsequent remeasurement of the asset (or disposal group), are recognised in the income statement. Increases in fair value less costs to sell of an asset (or disposal group) that have been classified as held for sale are recognised in the income statement to the extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset (or disposal group).

Impairment losses are allocated to non-current assets within the measurement scope of IFRS 5 and the amount recognised in the financial statements is limited to the carrying value of those assets. Other assets and liabilities are measured in accordance with applicable IFRSs in both initial and subsequent measurement of the asset (or disposal group) held for sale. As a result, in accordance with IFRS 5 any impairment losses in excess of the carrying value of the non-current assets in the scope measurement of IFRS 5 are not recognised until disposal.

When an asset (or disposal group) is classified as held for sale, amounts presented in the balance sheet for the prior period are not reclassified.

Where the criteria for the classification of an asset (or disposal group) as held for sale cease to be met, the asset (or disposal group) is reclassified out of held for sale and included in the appropriate balance sheet headings.

A discontinued operation is a cash-generating unit or a group of cash-generating units that either has been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to resale.

The results of discontinued operations are shown as a single amount on the face of the income statement comprising the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operation.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provision is made for the anticipated costs of restructuring, including related redundancy costs, when an obligation exists. An obligation exists when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

Employee benefits

(a) Pension obligations

The Group companies operate various pension schemes. The schemes are funded and the assets of the schemes are held in separate trustee administered funds. The Group has both defined contribution and defined benefit plans. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Service cost and net interest on the net defined benefit liability / (asset) are recognised in profit or loss, within operating expenses.

Remeasurements of the net defined benefit liability / (asset), including:
- actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions; and
- the return on plan assets, excluding amounts included in net interest on the net defined benefit liability / (asset);

are recognised in other comprehensive income.

Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment, and is recognised as an expense at the earlier of:
- when the plan amendment or curtailment occurs; and
- when the Group recognises related restructuring costs or termination benefits.

Past service cost is recognised within operating expenses unless it meets the criteria for separate presentation as set out in IAS 1.

A plan amendment occurs when the Group introduces, or withdraws, a defined benefit plan, or changes the benefits payable under an existing plan. A curtailment occurs when the Group significantly reduces the number of employees covered by a plan. Past service cost may be either positive or negative.

For defined contribution plans, once the contributions have been paid, the company has no further payment obligations. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Equity compensation benefits

The Group has a number of equity settled share based payment schemes. The fair value at the date of grant of the employee services received in exchange for the grant of the options or shares is recognised as an expense. The total amount to be expensed over the vesting period is determined on the date the options or shares are granted by reference to their fair value, excluding the impact of any non-market vesting conditions (for example, growth in EPS). Non-market vesting conditions are included in assumptions about the number of options or shares that are expected to vest. At each balance sheet date, the Group revises its estimate of the number of options or shares that are expected to vest. It recognises the impact of the revision of the original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

Where an option is cancelled, the Group immediately recognises, as an expense, the amount of the expense that would have otherwise been recognised over the remainder of the vesting period. When options are exercised, new shares are issued.

The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the share price over the life of the option and other relevant factors.

Upon transition to IFRS, the Group availed of the exemption only to apply IFRS 2 to share based payments which were granted on or after 7 November 2002 that had not yet vested by 1 January 2005.

(c) Short term employee benefits

Short term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period in which the employees' service is rendered. Bonuses are recognised where the Group has a legal or constructive obligation to employees that can be reliably measured.

(d) Termination payments

Termination payments are recognised as an expense at the earlier of:

- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits

For this purpose, in relation to termination benefits for voluntary redundancies, the Group is considered to be no longer able to withdraw the offer on the earlier of the following dates:

- when the employee accepts the offer; and
- when a restriction (e.g. a legal, regulatory or contractual requirement) on the Group's ability to withdraw the offer takes effect.

Termination benefits are recognised within operating expenses unless they meet the criteria for separate presentation as set out in IAS 1.

The Group measures termination benefits on initial recognition, and measures and recognises subsequent changes, in accordance with the nature of the benefit.

Income taxes

(a) Current income tax

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Tax provisions are provided on a transaction by transaction basis using a best estimate approach.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised and by reference to the expiry dates (if any) of the relevant unused tax losses or tax credits. Deferred tax assets and liabilities are not discounted.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax on items taken to other comprehensive income is also recognised in other comprehensive income and is subsequently reclassified to the income statement together with the deferred gain or loss.

(c) Investment tax credits

Investment tax credits are not recognised until there is reasonable assurance that: (a) the Group has complied with the conditions attaching to them; and (b) the credits will be received. They are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the credits are intended. Investment tax credits related to assets are presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and balances with central banks and post office banks which can be withdrawn on demand. It also comprises balances with an original maturity of less than three months.

Capital stock and reserves

(1) Equity transaction costs

Incremental external costs directly attributable to equity transactions, including the issue of new equity stock or options, are shown as a deduction from equity, net of tax.

(2) Dividends on ordinary stock and preference stock

Dividends on ordinary stock and preference stock are recognised in equity in the period in which they are approved by the Bank's stockholders or the Court of Directors, as appropriate.

(3) Treasury stock

Where the Bank or its subsidiaries purchases the Bank's equity capital stock, the consideration paid is deducted from total stockholders' equity as treasury stock until they are cancelled. Where such stock is subsequently sold or reissued, any consideration received is included in stockholders' equity. Any changes in the value of treasury stock held are recognised in equity at the time of the disposal and dividends are not recognised as income or distributions. This is particularly relevant in respect of Bank of Ireland stock held by Bank of Ireland Life for the benefit of policyholders.

(4) Capital Reserve

The capital reserve represents transfers from retained earnings and other reserves in accordance with relevant legislation. The capital reserve is not distributable.

(5) Foreign exchange reserve

The foreign exchange reserve represents the cumulative gains and losses on the translation of the Group's net investment in its foreign operations since 1 April 2004. Gains and losses accumulated in this reserve are reclassified to the income statement when the Group loses control, joint control or significant influence over the foreign operation or on disposal or partial disposal of the operation.

(6) Revaluation reserve

The revaluation reserve represents the cumulative gains and losses on the revaluation of property occupied by Group businesses, included within property, plant and equipment and non-financial assets classified as held for sale.

(7) Available for sale reserve

The available for sale reserve represents the cumulative change in fair value of available for sale financial assets together with the impact of any fair value hedge accounting adjustments.

(8) Cash flow hedge reserve

The cash flow hedge reserve represents the cumulative changes in fair value, excluding any ineffectiveness, of cash flow hedging derivatives. These are transferred to the income statement when the hedged transactions impact the Group's profit or loss.

(9) Share based payment reserve

The share based payment reserve represents amounts expensed in the income statement in connection with share based payments, net of transfers to retained earnings on the exercise, lapsing or forfeiting of share awards.

(10) Capital Contribution

Where a financial instrument is issued by the Group to a party acting in its capacity as a stockholder, a portion of the proceeds received, equal to the initial fair value of the financial instrument, is considered to be consideration for the issuance of the financial instrument, with any amount received in excess of this considered to be a capital contribution from the stockholder, and credited directly to this reserve.

(11) Stock Premium Account
Where, pursuant to Section 72 of the Companies Act 1963, there has been a reduction of the Bank's share capital by the cancellation of stock premium, the resulting profits available for distribution, as defined by Section 45 of the Companies (Amendment) Act 1983, are reclassified from the Stock Premium Account to Retained Earnings.

Life assurance operations

In accordance with IFRS 4, the Group classifies all life assurance products as either insurance or investment contracts for accounting purposes.

Insurance contracts are those contracts that transfer significant insurance risk. These contracts are accounted for using an embedded value basis.

Investment contracts are accounted for in accordance with IAS 39. All of the Group's investment contracts are unit linked in nature. These contracts are accounted for as financial liabilities whose value is contractually linked to the fair value of the financial assets within the policyholders' unit linked funds. The value of the unit linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the balance sheet date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable.

The Group recognises an asset for deferred acquisition costs relating to investment contracts. Upfront fees received for investment management services are deferred. These amounts are amortised over the period of the contract.

Non-unit linked insurance liabilities are calculated using either a gross premium or net premium method of valuation. The assumptions are also set in accordance with the guidelines in the Insurance Regulations and contain a margin for adverse development. The key assumptions used in the valuation of insurance contract liabilities are:

Interest rate	The interest rates are derived in accordance with the guidelines in the Insurance Regulations. Margins for risk are allowed for in the derived interest rates.
Mortality and morbidity	The mortality and morbidity assumptions, which include an allowance for improvements in longevity for annuitants, are set with regard to the Group's actual experience and / or relevant industry data.
Maintenance expenses	Allowance is made for future policy costs and expense inflation explicitly.

The Group recognises the value of in force life assurance business asset as the present value of future profits expected to arise from contracts classified as insurance contracts under IFRS 4. The asset has been calculated in accordance with the embedded value achieved profits methodology in the Statement of Recommended Practice issued by the Association of British Insurers which came into force in 2002. The asset is determined by projecting the future statutory surpluses attributable to stockholders estimated to arise from insurance contracts. The surpluses are projected using appropriate assumptions as to future investment returns, persistency, mortality and expense levels and include consideration of guarantees and options. These surpluses are then discounted at a risk adjusted rate. Thus, the use of best estimate assumptions in the valuation of the value of in force asset ensures that the net carrying amount of insurance liabilities less the value of in force asset is adequate.

The value of in force asset in the consolidated balance sheet and movements in the asset in the income statement are presented on a gross of tax basis. The tax charge comprises both current and deferred tax expense and includes tax attributable to both stockholders and policyholders for the period.

Premiums and claims
Premiums receivable in respect of non-unit linked insurance contracts are recognised as revenue when due from policyholders. Premiums received in respect of unit linked insurance contracts are recognised in the same period in which the related policyholder liabilities are created. Claims are recorded as an expense when they are incurred.

Reinsurance
Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group are dealt with as insurance contracts, subject to meeting the significant insurance risk test in IFRS 4. Outward reinsurance premiums are accounted for in accordance with the contract terms when due for payment.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right of set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Collateral

The Group enters into master agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis. The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customers' assets and gives the Group a claim on these assets for both existing and future liabilities. The collateral is, in general, not recorded on the Group balance sheet.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts, in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet, with a corresponding liability recognised within deposits from banks or deposits from customers. Any interest payable arising is recorded as interest expense.

In certain circumstances, the Group pledges collateral in respect of liabilities or borrowings. Collateral pledged in the form of securities or loans and advances continues to be recorded on the balance sheet. Collateral placed in the form of cash is recorded in loans and advances to banks or customers. Any interest receivable arising is recorded as interest income.

Financial guarantees

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities (facility guarantees), and to other parties in connection with the performance of customers under obligations related to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties. Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee is given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

Any increase in the liability relating to guarantees is taken to the income statement and recognised on the balance sheet within provisions for undrawn contractually committed facilities and guarantees.

Operating segments

The segment analysis of the Group's results and financial position is set out in note 1. The Group has identified five reportable operating segments, which are as follows: Retail Ireland, Bank of Ireland Life, Retail UK, Corporate and Treasury and Group Centre.

These segments have been identified on the basis that the chief operating decision-maker uses information based on these segments to make decisions about assessing performance and allocating resources. The analysis of results by operating segment is based on management accounts information.

Transactions between the operating segments are on normal commercial terms and conditions. Internal charges and transfer pricing adjustments have been reflected in the performance of each segment. Revenue sharing agreements are used to allocate external customer revenues to operating segments on a reasonable basis.

Materiality

In its assessment of materiality, the Group considers the impact of any misstatements based on both:

- the amount of the misstatement originating in the current year income statement; and
- the effects of correcting the misstatement existing in the balance sheet at the end of the current year irrespective of the year in which the misstatement occurred.

Impact of new accounting standards

The following standards, interpretations and amendments to standards will be relevant to the Group but were not effective at 31 December 2013 and have not been applied in preparing these financial statements. The Group's initial view of the impact of these accounting changes is outlined below.

Pronouncement	Nature of change	Effective date	Impact
Amendments to IAS 32 'Financial Instruments' on Asset and Liability Offsetting	The IASB has issued amendments to IAS 32 'Financial Instruments: Presentation' that provide clarifications on the application of the offsetting rules. The revised standard was endorsed by the EU on 13 December 2012.	Financial periods beginning on or after 1 January 2014	Not significant.
Amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets' on impaired assets disclosures	These narrow-scope amendments to IAS 36, 'Impairment of Assets' require disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The scope of these disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The revised standard was endorsed by the EU on 19 December 2013.	Financial periods beginning on or after 1 January 2014.	Not significant.
Amendment to IAS 39 'Novation of derivatives and continuation of hedge accounting'	This narrow scope amendment to IAS 39 allows hedge accounting to continue where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. A novation in this context indicates that parties to a contract agree to replace their original counterparty with a new one. The revised standard was endorsed by the EU on 19 December 2013.	Financial periods beginning on or after 1 January 2014.	Not significant.
IFRIC Interpretation 21: Levies	This interpretation deals with accounting for levies imposed by governments, principally when an entity should recognise a liability to pay a levy. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The new interpretation is still subject to EU endorsement.	Financial periods beginning on or after 1 January 2014.	Not significant.

Pronouncement	Nature of change	Effective date	Impact
Amendments to IAS19 'Defined benefit plans employee contributions'	The narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The revised standard is still subject to EU endorsement.	Financial periods beginning on or after 1 July 2014.	Not significant.
Annual improvements 2010 - 2012	The annual improvements process provides a vehicle for making non-urgent but necessary amendments to IFRSs. The amendments are subject to EU endorsement. Annual Improvements to IFRSs 2010–2012 Cycle is a collection of amendments to IFRSs in response to eight issues addressed during the 2010–2012 cycle for annual improvements to IFRSs.	Financial periods beginning on or after 1 July 2014.	Not significant.
Annual improvements 2011-2013	The annual improvements process provides a vehicle for making non-urgent but necessary amendments to IFRSs. The amendments are subject to EU endorsement. Annual Improvements to IFRSs 2011–2013 Cycle is a collection of amendments to IFRSs in response to four issues addressed during the 2011–2013 cycle.	Financial periods beginning on or after 1 July 2014.	Not significant.

Pronouncement	Nature of change	Effective date	Impact
IFRS 9, 'Financial instruments'	IFRS 9 is the standard which will replace IAS 39, 'Financial instruments: recognition and measurement'. The first stage of IFRS 9 dealt with the classification and measurement of financial assets and was issued in November 2009. An addition to IFRS 9 dealing with financial liabilities was issued in October 2010. In November 2013, further guidance was given on hedging and Own Credit Risk for financial liabilities at fair value. The main changes from IAS 39 are summarised as follows: • the multiple classification model in IAS 39 is replaced with a single model that has only two classification categories: amortised cost and fair value; • classification under IFRS 9 is driven by the entity's business model for managing financial assets and the contractual characteristics of the financial assets; • the requirement to separate embedded derivatives from financial asset hosts is removed; • the cost exemption for unquoted equities is removed; • most of IAS 39's requirements for financial liabilities are retained, including amortised cost accounting for most financial liabilities; • guidance on separation of embedded derivatives will continue to apply to host contracts that are financial liabilities; • fair value changes attributable to changes in own credit risk for financial liabilities designated under the fair value option other than loan commitments and financial guarantee contracts are required to be presented in the statement of comprehensive income unless the treatment would create or enlarge an accounting mismatch in profit or loss. These amounts are not subsequently reclassified to the income statement but may be transferred within equity. This change can now be early adopted; and • new general hedge accounting model. The completed standard has not yet been published and is still subject to EU endorsement.	The IASB has tentatively decided that the effective date is 1 January 2018.	The Group is assessing the impact of adopting IFRS 9. The impact of IFRS 9 is expected to change when the completed standard is published.

Critical accounting estimates and judgements

In preparing the financial statements, the Group makes estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As management judgement involves an estimate of the likelihood of future events, actual results could differ from those estimates, which could affect the future reported amounts of assets and liabilities. The estimates and judgements that have had the most significant effect on the amounts recognised in the Group's financial statements are set out below.

(a) Impairment charges on financial assets
The Group reviews its loan portfolios for impairment on an ongoing basis. The Group first assesses whether objective evidence of impairment exists. This assessment is performed individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The use of historical loss experience is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to differ from those suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess inherent loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances by adjusting the impairment loss derived solely from historical loss experience.

A key judgemental area is in relation to the Residential mortgages portfolio, which has been significantly impacted by the current economic climate, due to a considerable reduction in security values and very low levels of activity in the sector. At 31 December 2013, the Residential mortgages portfolio before impairment provisions amounted to €52 billion (31 December 2012: €55 billion), against which were held provisions for impairment of €2.0 billion (31 December 2012: €1.6 billion). A key assumption used in the calculation of the impairment charge for Residential mortgages is the expected decline in the value of the underlying residential properties securing the loans. At 31 December 2013, the assumption adopted by the Group in respect of the expected average decline in the value of Irish residential properties was 55% from their peak in 2007. The assumptions relating to the anticipated peak to trough house price decline, together with all other key impairment provisioning model factors, continue to be reviewed as part of the Group's year-end and half year financial reporting cycle. A 2% decline in average values beyond this assumed level would give rise to additional impairment provisions of c.€70 million to €80 million. At 31 December 2013 a 2% decline in average values in UK Residential properties beyond the assumed peak to trough would give rise to additional impairment provisions of c.£4 million to £6 million.

Residential mortgage impairment charges, in addition to containing judgements in relation to expected declines in residential property prices, also contain key assumptions relating to 'Time to Sale' and 'Loss Emergence periods'. The impairment charges can be sensitive to movements in these assumptions.

'Time to Sale' assumptions estimate the period of time taken from the recognition of the impairment charge to the sale of that collateral. An increase of three months in this assumption for Irish Residential mortgage properties would give rise to additional impairment provisions of c.€8 million to €12 million. An increase of three months in this assumption for UK Residential mortgage properties would give rise to additional impairment provisions of c.£1.5 million to £2.5 million.

'Loss emergence periods' refer to the period of time between the occurrence and reporting of a loss event. An increase of one month in this assumed loss emergence period for Irish Residential properties would give rise to additional impairment provisions of c.€5 million to €15 million. An increase of one month in this assumed loss emergence period for UK residential properties would give rise to additional impairment provisions of c.£0.5 million to £1.5 million.

'Weighted average cure rate' assumptions refer to the percentage of loans estimated to return from default to less than 30 days past due and satisfactorily complete a twelve month probation period. A 1% increase in this factor for Irish Residential mortgage properties would give rise to a release of impairment provisions of c.€8 million to €10 million.

A further important judgemental area is in relation to the level of impairment provisions applied to the Property and construction portfolio. The loans in this portfolio have been similarly affected by the current economic climate. Property and construction loans before impairment provisions at 31 December 2013 amounted to €16.8 billion (31 December 2012: €19.2 billion), against which were held provisions for impairment of €4.1 billion (31 December 2012: €3.9 billion).

In the case of the Property and construction portfolio a collective impairment provision is also made for impairment charges that have been incurred but not reported (IBNR). A key assumption used in calculating this charge is the emergence period between the occurrence and reporting of the loss event. An increase of one month in this emergence period beyond this assumed level would give rise to additional impairment provisions of c.€40 million to €45 million.

The estimation of impairment charges is subject to uncertainty, which has increased in the current economic environment, and is highly sensitive to factors such as the level of economic activity, unemployment rates, bankruptcy trends, property price trends and interest rates. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment charges are reviewed regularly in the light of differences between loss estimates and actual loss experience.

In the case of the non-property SME and corporate portfolio a collective impairment provision is also made for impairment charges that have been IBNR. A key assumption used in calculating this charge is the emergence period between the occurrence and reporting of the loss event. An increase of one month in this emergence period beyond this assumed level would give rise to additional impairment provisions of c.€30 million to €35 million.

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Group's impairment charge on financial assets are set out in the Credit Risk Methodologies section on pages 100 to 106 of the Risk Management Report.

(b) Taxation

The taxation charge accounts for amounts due to fiscal authorities in the various territories in which the Group operates and includes estimates based on a judgement of the application of law and practice in certain cases to determine the quantification of any liabilities arising. In arriving at such estimates, management assesses the relative merits and risks of tax treatments assumed, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice. There is a risk that the final taxation outcome could be different to the amounts currently recorded.

At 31 December 2013, the Group had a net deferred tax asset of €1,622 million (31 December 2012: €1,548 million (restated)), of which €1,650 million (31 December 2012: €1,500 million) related to trading losses. See note 40.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unutilised tax losses can be utilised. In order for the Group to recognise an asset for unutilised losses it must have convincing evidence of sufficient future taxable profits against which the losses can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of future taxable profits, and the future reversals of existing taxable temporary differences.

To the extent that the recognition of a deferred tax asset is dependent on sufficient future profitability, a degree of estimation and the use of assumptions are required. The Group's judgement takes into consideration the impact of both positive and negative evidence, including historical financial performance, projections of future taxable income, the impact of tax legislation and future reversals of existing taxable temporary differences.

The most significant judgement relates to the Group's assessment of the recoverability of the portion of the deferred tax asset relating to trading losses. Under current Irish and UK tax legislation there is no time restriction on the utilisation of these losses. The Finance (No 2) Act 2013 abolished the tax provision applicable to financial institutions participating in NAMA which restricted by 50% the amount of profits against which the carried forward trading losses could be utilised. The effect of this change is to accelerate the Group's ability to utilise its tax losses carried forward and shorten the recovery period of the deferred tax asset. The Group expects to recover a significant portion of the deferred tax asset in a period more than ten years from the balance sheet date, however it expects that the greater part of the deferred tax asset will be recovered within ten years of the balance sheet date. Of the Group's total deferred tax asset of c.€1.6 billion at 31 December 2013, c.€1.3 billion related to Irish tax losses.

Based on its projections of future taxable income, the Group has concluded that it is probable that sufficient taxable profits will be generated to recover this deferred tax asset and it has been recognised in full.

(c) Retirement benefits

The Group operates a number of defined benefit pension schemes. In determining the actual pension cost, the actuarial values of the liabilities of the schemes are calculated by external actuaries. This involves modelling their future growth and requires management to make assumptions as to discount rates, price inflation, salary and pensions increases, and employee mortality. There are acceptable ranges in which these estimates can validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used. An analysis of the sensitivity of the defined benefit pension liability to changes in the key assumptions is set out in note 41 on retirement benefit obligations.

(d) Life assurance operations

The Group accounts for the value of the stockholders' interest in long term assurance business using the embedded value basis of accounting. Embedded value is comprised of the net tangible assets of Bank of Ireland Life and the present value of in force business. The value of in force business is calculated by projecting future surpluses and other net cash flows attributable to the shareholder arising from business written up to the balance sheet date and discounting the result at a rate which reflects the shareholder's overall risk premium, before provision has been made for taxation.

Future surpluses will depend on experience in a number of areas such as investment returns, lapse rates, mortality and investment expenses. Surpluses are projected by making assumptions about future experience, having regard to both actual experience and forecast long term economic trends.

Changes to these assumptions may cause the present value of future surpluses to differ from those assumed at the balance sheet date and could significantly affect the value attributed to the in force business. The value of in force business could also be affected by changes in the amounts and timing of other net cash flows (principally annual management charges and other fees levied upon the policyholders) or the rate at which the future surpluses and cash flows are discounted. In addition, the extent to which actual experience is different from that assumed will be recognised in the income statement for the period. An analysis of the sensitivity of profit after tax and stockholders' equity to changes in the key life assurance assumptions is set out in note 57 on the life assurance business.

(e) Fair value of financial instruments

The Group measures certain of its financial instruments at fair value on the balance sheet. This includes trading securities, other financial assets and liabilities at fair value through profit or loss, all derivatives and available for sale financial assets. The fair values of financial instruments are determined by reference to observable market prices where available and where an active market exists. Where market prices are not available or are unreliable, fair values are determined using valuation techniques including discounted cash flow models which, to the extent possible, use observable market inputs. Where valuation techniques are used they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparable market prices. Using valuation techniques may necessitate the estimation of certain pricing inputs, assumptions or model characteristics such as credit risk, volatilities and correlations and changes in these assumptions could affect reported fair values.

The fair value movements on assets and liabilities held at fair value through profit or loss, including those held for trading, are included in net trading income.

The most significant area of judgement is in relation to certain financial assets and liabilities classified within level 3 of the 3-level fair value hierarchy. Further details are set out in note 48 on fair value of financial assets and financial liabilities.

An analysis of the sensitivity of the fair value movements of level 3 financial instruments to the use of reasonably possible alternative assumptions is also set out in note 48.

Notes to the consolidated financial statements

1 Operating segments

The Group has five reportable operating segments which reflect the internal financial and management reporting structure and are organised as follows:

Retail Ireland
Retail Ireland incorporates the Group's branch network and Direct Channels (mobile, online and phone), Mortgage Business, Consumer Banking, Business Banking and Private Banking activities in the Republic of Ireland and is built on a broad distribution platform and a comprehensive suite of retail and business products and services.

As set out in note 59, on 9 July 2013 the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which permitted the retention of New Ireland Assurance Company plc (NIAC) its life assurance company which distributes protection, investment and pension products to the Irish market, through independent brokers, its financial advisors (direct sales force) and the Group's branch network, but required a range of substitution measures. One of these substitution measures is that the Group will exit from the origination of new mortgages through its intermediary channel, including the sale (or retirement) of the ICS Building Society's distribution platform together with the sale, if required by the acquirer, of up to €1.0 billion of intermediary originated mortgage assets and matched deposits.

Bank of Ireland Life (BoI Life)
Bank of Ireland Life comprises the life assurer, NIAC which distributes protection, investment and pension products to the Irish market, through independent brokers, its financial advisors (direct sales force) and the Group's branch network.

As set out in note 59, on 9 July 2013 the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which permitted the retention of NIAC but required a range of substitution measures (see page 316).

Retail UK
The Retail UK Division incorporates the financial services relationship and foreign exchange joint venture with the UK Post Office, the UK Residential mortgage business, the Group's branch network in Northern Ireland and the Group's business banking business in Great Britain and Northern Ireland. The Retail UK division includes the activities of Bank of Ireland (UK) plc, the Group's wholly owned UK licensed banking subsidiary.

As set out in note 59, on 9 July 2013, the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which permitted the retention of NIAC but required a range of substitution measures. One of these substitution measures is that the Group will exit its existing Great Britain based business banking activities, with gross assets of c.£3 billion, which form part of the Retail UK division. This measure does not impact on the Group's consumer banking business in Great Britain including its partnership with the Post Office, or its activities in Northern Ireland.

Corporate and Treasury
The Corporate and Treasury Division comprises Corporate Banking, Global Markets and IBI Corporate Finance.

As set out in note 59, on 9 July 2013, the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which permitted the retention of NIAC but required a range of substitution measures. One of these substitution measures is that the Group will exit from its Great Britain based Corporate banking activities, which form part of the Corporate and Treasury division. This measure does not impact on the Group's Leveraged Acquisition Finance business.

Group Centre
Group Centre comprises capital management activities, unallocated Group support costs and the cost associated with schemes such as the ELG scheme, the Deposit Guarantee Scheme (DGS) and the UK Financial Services Compensation Scheme (FSCS).

Other reconciling items
Other reconciling items represent inter segment transactions which are eliminated upon consolidation.

1 Operating segments (continued)

Basis of preparation of segmental information

The analysis of results by operating segment is based on the information used by the chief operating decision maker to allocate resources and assess performance. Transactions between the business segments are on normal commercial terms and conditions. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

The measures of segmental assets and liabilities provided to the chief operating decision maker are not adjusted for transfer pricing adjustments or revenue sharing agreements as the impact on the measures of segmental assets and liabilities is not significant.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

The Group's management reporting and controlling systems use accounting policies that are the same as those referenced in 'Group accounting policies' on pages 184 to 208. On an ongoing basis, the Group reviews the methodology for allocating funding and liquidity costs in order to ensure that the allocations continue to reflect each division's current funding requirement. During the year ended 31 December 2013, the Group amended the allocation of funding and liquidity costs across the divisions resulting in a reduction of €39 million (31 December 2012: €nil) in net interest income in the Retail UK division with a corresponding increase in net interest income in the Retail RoI and Corporate and Treasury divisions of €32 million (31 December 2012: €nil) and €7 million (31 December 2012: €nil) respectively.

Gross external revenue comprises interest income, net insurance premium income, fee and commission income, net trading income, life assurance investment income gains and losses, other operating income and share of results of associates and joint ventures.

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as 'Underlying profit' in its internal management reporting systems. Underlying profit or loss excludes:

- Impact of changes to pension benefits in the Bank sponsored defined benefit schemes;
- Change arising on the movement in the Group's credit spreads;
- Cost of restructuring programme;
- Gross-up for policyholder tax in the Life business;
- Loss on disposal / liquidation of business activities;
- Loss on deleveraging of financial assets;
- Gain on liability management exercises;
- Investment return on treasury stock held for policyholders; and
- Gain on Contingent Capital Note.

1 Operating segments (continued)

Year ended 31 December 2013	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Net interest income	**886**	**48**	**572**	**617**	**(120)**	**1**	**2,004**
Other income, net of insurance claims	326	149	3	174	(6)	(4)	642
Total operating income, net of insurance claims	**1,212**	**197**	**575**	**791**	**(126)**	**(3)**	**2,646**
Other operating expenses	(759)	(86)	(312)	(167)	(139)	-	(1,463)
Depreciation and amortisation	(32)	(4)	(32)	(5)	(45)	-	(118)
Total operating expenses	**(791)**	**(90)**	**(344)**	**(172)**	**(184)**	**-**	**(1,581)**
Underlying operating profit / (loss) before impairment charges on financial assets	**421**	**107**	**231**	**619**	**(310)**	**(3)**	**1,065**
Impairment charges on financial assets	(1,109)	-	(424)	(132)	-	-	(1,665)
Share of results of associates and joint ventures	(9)	-	40	-	-	-	31
Underlying (loss) / profit before tax	**(697)**	**107**	**(153)**	**487**	**(310)**	**(3)[1]**	**(569)**

Reconciliation of underlying loss before tax to loss before tax	**Group €m**
Underlying loss before tax	(569)
Impact of changes to pension benefits in the Group sponsored defined benefit schemes	274
Change arising on the movement in the Group's credit spreads	(154)
Cost of restructuring programme	(90)
Gross-up for policyholder tax in the Life business	26
Loss on disposal / liquidation of business activities	(10)
Loss on deleveraging of financial assets	(3)
Gain on liability management exercises	4
Investment return on treasury stock held for policyholders	(3)
Loss before tax	**(525)**

[1] *This relates to segmental income on certain inter-segment transactions, which is eliminated at a Group level.*

1 Operating segments (continued)

Restated[1] Year ended 31 December 2012	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Net interest income	674	38	368	633	(347)	1	1,367
Other income, net of insurance claims	309	151	31	58	(35)	(19)	495
Total operating income, net of insurance claims	983	189	399	691	(382)	(18)	1,862
Other operating expenses	(786)	(87)	(349)	(177)	(97)	-	(1,496)
Depreciation and amortisation	(43)	(6)	(35)	(7)	(51)	-	(142)
Total operating expenses	(829)	(93)	(384)	(184)	(148)	-	(1,638)
Underlying operating profit / (loss) before impairment charges on financial assets	154	96	15	507	(530)	(18)	224
Impairment charges on financial assets	(1,149)	-	(423)	(157)	(40)	-	(1,769)
Share of results of associates and joint ventures	6	-	40	-	-	-	46
Underlying (loss) / profit before tax	(989)	96	(368)	350	(570)	(18)[2]	(1,499)

Reconciliation of underlying loss before tax to loss before tax	Group €m
Underlying loss before tax	(1,499)
Change arising on the movement in the Group's credit spreads	(297)
Cost of restructuring programme	(150)
Gross-up for policyholder tax in the Life business	16
Loss on disposal / liquidation of business activities	(69)
Loss on deleveraging of financial assets	(326)
Gain on liability management exercises	69
Investment return on treasury stock held for policyholders	(1)
Gain on Contingent Capital Note	79
Loss before tax	(2,178)

[1] *From 1 January 2013, the Group adopted IFRS 10, which resulted in the deconsolidation of certain entities with interests in an international investment property within Retail Ireland. The impact of this has been to reclassify the income statement lines relating to these entities to share of results of associates and joint ventures (after tax), but with no impact on underlying loss before tax. The comparative figures for the year ended 31 December 2012 for Retail Ireland have been restated to reflect this, resulting in a €9 million increase in Net interest income, a €26 million decrease in Other income, net of insurance claims, an €11 million decrease in Other operating expenses and a €5 million increase in share of results of associates and joint ventures (after tax) (see note 58).*

From 1 January 2013, the Group adopted IAS 19 Employee Benefits (Revised 2011) which resulted in an increase totalling €11 million across the segments in the pension charge included within Other operating expenses for the year ended 31 December 2012 (see note 58).

The total loss on sale of assets to NAMA of €1 million for the year ended 31 December 2012 which had previously been reported across the segments as a separate line item is now included in Other income, net of insurance claims under each impacted division.

[2] *This relates to segmental income on certain inter-segment transactions, which is eliminated at a Group level.*

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1 Operating segments (continued)

Year ended 31 December 2013 Analysis by operating segment	**Retail Ireland €m**	**Bank of Ireland Life €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Group Centre €m**	**Other reconciling items €m**	**Group €m**
Investment in associates and joint ventures	**196**	**36**	**66**	**-**	**-**	**-**	**298**
External assets	40,514	13,153	43,928	30,222	4,320	-	132,137
Inter segment assets	51,134	2,397	23,000	103,403	35,394	(215,328)	-
Total assets	**91,648**	**15,550**	**66,928**	**133,625**	**39,714**	**(215,328)**	**132,137**
External liabilities	47,421	14,438	29,836	29,929	2,630	14	124,268
Inter segment liabilities	43,920	321	34,731	102,861	33,489	(215,322)	-
Total liabilities	**91,341**	**14,759**	**64,567**	**132,790**	**36,119**	**(215,308)**	**124,268**

Restated* Year ended 31 December 2012 Analysis by operating segment	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Investment in associates and joint ventures	210	42	66	-	-	-	318
External assets	43,292	12,288	51,193	37,264	3,927	-	147,964
Inter segment assets	51,267	2,558	43,589	129,317	40,830	(267,561)	-
Total assets	94,559	14,846	94,782	166,581	44,757	(267,561)	147,964
External liabilities	47,059	13,644	34,213	42,031	2,349	13	139,309
Inter segment liabilities	47,608	389	58,387	123,888	37,289	(267,561)	-
Total liabilities	94,667	14,033	92,600	165,919	39,638	(267,548)	139,309

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

1 Operating segments (continued)

Year ended 31 December 2013 **Gross revenue by operating segments**	**Retail Ireland €m**	**Bank of Ireland Life €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Group Centre €m**	**Other reconciling items €m**	**Group €m**
Gross external revenue	1,739	1,615	1,450	1,059	17	(3)	5,877
Inter segment revenues	792	142	769	1,493	302	(3,498)	-
Gross revenue	**2,531**	**1,757**	**2,219**	**2,552**	**319**	**(3,501)**	**5,877**
Insurance contract liabilities and claims paid	-	(1,466)	-	-	(4)	-	(1,470)
Gross revenue after claims paid	**2,531**	**291**	**2,219**	**2,552**	**315**	**(3,501)**	**4,407**
Capital expenditure	**24**	**1**	**18**	**3**	**72**	**-**	**118**

Restated* Year ended 31 December 2012 Gross revenue by operating segments	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Gross external revenue	1,726	1,861	1,750	1,073	(122)	(14)	6,274
Inter segment revenues	1,168	148	1,244	2,262	339	(5,161)	-
Gross revenue	2,894	2,009	2,994	3,335	217	(5,175)	6,274
Insurance contract liabilities and claims paid	-	(1,720)	-	-	(5)	-	(1,725)
Gross revenue after claims paid	2,894	289	2,994	3,335	212	(5,175)	4,549
Capital expenditure	28	3	12	2	87	-	132

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

1 Operating segments (continued)

The analysis below is on a geographical basis - based on the location of the business unit where revenues are generated.

Year ended 31 December 2013 Geographical analysis	**Republic of Ireland €m**	**United Kingdom €m**	**Rest of World €m**	**Other reconciling items €m**	**Total €m**
Gross external revenue	4,268	1,534	78	(3)	5,877
Inter segment revenues	182	510	36	(728)	-
Gross revenue	4,450	2,044	114	(731)	5,877
Insurance contract liabilities and claims paid	(1,466)	-	(4)	-	(1,470)
Gross revenue after claims paid	**2,984**	**2,044**	**110**	**(731)**	**4,407**
Capital expenditure	**100**	**18**	**-**	**-**	**118**
External assets	84,726	45,963	1,448	-	132,137
Inter segment assets	27,446	11,179	2,418	(41,043)	-
Total assets	**112,172**	**57,142**	**3,866**	**(41,043)**	**132,137**
External liabilities	92,257	31,317	694	-	124,268
Inter segment liabilities	15,159	23,523	2,361	(41,043)	-
Total liabilities	**107,416**	**54,840**	**3,055**	**(41,043)**	**124,268**

Restated* Year ended 31 December 2012 Geographical analysis	Republic of Ireland €m	United Kingdom €m	Rest of World €m	Other reconciling items €m	Total €m
Gross external revenue	4,337	1,860	77	-	6,274
Inter segment revenues	435	930	61	(1,426)	-
Gross revenue	4,772	2,790	138	(1,426)	6,274
Insurance contract liabilities and claims paid	(1,720)	-	(5)	-	(1,725)
Gross revenue after claims paid	3,052	2,790	133	(1,426)	4,549
Capital expenditure	120	12	-	-	132
External assets	92,587	54,237	1,140	-	147,964
Inter segment assets	34,774	14,347	2,727	(51,848)	-
Total assets	127,361	68,584	3,867	(51,848)	147,964
External liabilities	102,569	35,544	1,196	-	139,309
Inter segment liabilities	18,438	30,969	2,441	(51,848)	-
Total liabilities	121,007	66,513	3,637	(51,848)	139,309

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

2 Interest income

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Loans and advances to customers	3,128	3,332
Available for sale financial assets	389	466
Finance leases and hire purchase receivables	101	104
Loans and advances to banks	51	104
Interest income	**3,669**	**4,006**

Interest income recognised on loans and advances to customers

Interest income recognised on loans and advances to customers includes:

- €212 million (year ended 31 December 2012: €231 million) of interest recognised on impaired loans and advances to customers on which a specific impairment provision has been recognised at the year end. €165 million of this amount (year ended 31 December 2012: €189 million) relates to loans on which specific provisions have been individually assessed and €47 million (year ended 31 December 2012: €42 million) relates to loans on which specific provisions have been collectively assessed;
- €77 million of interest recognised on loans and advances to customers classified as greater than 90 days past due but on which a specific impairment provision has not been recognised at the year end; and
- €331 million of interest recognised on loans and advances to customers classified as forborne and which are not in default at the year end.

For the year ended 31 December 2013, interest recognised on total forborne loans and advances to customers was €379 million.

Interest income received on loans and advances to customers

For the year ended 31 December 2013:

- €291 million of interest income was received on impaired loans and advances to customers on which a specific impairment provision has been recognised at the year end;
- €67 million of interest income was received on loans and advances to customers classified as greater than 90 days past due but on which a specific impairment provision has not been recognised at the year end; and
- €320 million of interest income was received on arising on loans and advances to customers classified as forborne and which are not in default at the year end.

For the year ended 31 December 2013, interest income received on total forborne loans and advances to customers was €358 million.

Interest income recognised on available for sale financial assets

Interest income of €15 million (year ended 31 December 2012: €17 million) relates to interest on impaired available for sale financial assets on which an individually assessed specific impairment charge has been recognised.

Transferred from cash flow hedge reserve

Net interest income also includes €132 million (year ended 31 December 2012: €56 million) transferred from the cash flow hedge reserve (see page 178).

3 Interest expense

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Customer accounts	1,066	1,659
Debt securities in issue	283	450
Deposits from banks	138	371
Subordinated liabilities	178	80
- Gross interest expense on subordinated liabilities	*178*	*159*
- Gain on Contingent Capital Note	-	*(79)*
Interest expense	**1,665**	**2,560**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

Included within interest expense for the year ended 31 December 2013 is an amount of €129 million (year ended 31 December 2012: €388 million) relating to the cost of the Eligible Liabilities Guarantee Scheme (ELG). The cost of this scheme is classified as interest expense as it is directly attributable and incremental to the issue of specific financial liabilities. Further information on this scheme is outlined in note 52.

Interest expense on subordinated liabilities for the year ended 31 December 2012 includes a gain of €79 million in relation to a change in the expected cashflows of future coupon payments on the Convertible Contingent Capital Note 2016 (see note 37).

4 Net insurance premium income

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Gross premiums written	1,297	1,241
Ceded reinsurance premiums	(224)	(89)
Net premiums written	1,073	1,152
Change in provision for unearned premiums	-	4
Net insurance premium income	**1,073**	**1,156**

5 Fee and commission income and expense

Income	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Retail banking customer fees	395	384
Insurance commissions	22	61
Credit related fees	34	44
Asset management fees	4	5
Brokerage fees	2	3
Other	36	18
Fee and commission income	**493**	**515**

Included in other fees is an amount of €1 million (year ended 31 December 2012: €2 million) related to trust and other fiduciary fees.

Expense

Fee and commission expense of €192 million (year ended 31 December 2012: €215 million) primarily comprises brokerage fees, sales commissions and other fees paid to third parties.

6 Net trading income / (expense)

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Financial assets designated at fair value	13	4
Financial liabilities designated at fair value		
- Credit spreads relating to the Group's liabilities designated at fair value through profit or loss (see table below)	(112)	(245)
- Other	(86)	(116)
Related derivatives held for trading	3	38
	(182)	**(319)**
Other financial instruments held for trading	195	33
Net fair value hedge ineffectiveness	3	11
Cash flow hedge ineffectiveness	(4)	-
Net trading income / (expense)	**12**	**(275)**

Net trading income / (expense) includes the gains and losses on financial instruments held for trading and those designated at fair value through profit or loss (other than unit linked life assurance assets and investment contract liabilities). It includes the gains and losses arising on the purchase and sale of these instruments, the interest income receivable and expense payable and the fair value movement on these instruments, together with the funding cost of the trading instruments. It also includes €34 million (year ended 31 December 2012: €32 million) in relation to net gains arising from foreign exchange.

Net trading income / (expense) includes the total fair value movement (including interest receivable and payable) on liabilities that have been designated at fair value through profit or loss. The interest receivable on amortised cost assets, which are funded by those liabilities, is reported in net interest income.

Net trading income / (expense) also includes the total fair value movements on derivatives that are economic hedges of assets and liabilities which are measured at amortised cost, the net interest receivable or payable on which is also reported within net interest income. The net amount reported within net interest income relating to these amortised cost instruments was €10 million (year ended 31 December 2012: €87 million).

Net fair value hedge ineffectiveness reflects a net gain from hedging instruments of €24 million (year ended 31 December 2012: net charge of €65 million) offsetting a net charge from hedged items of €21 million (year ended 31 December 2012: net gain of €76 million).

The table below sets out the impact on the Group's income statement of the (charges) / gains arising on the movement in credit spreads on the Group's own debt and deposits:

Credit spreads relating to the Group's liabilities designated at fair value through profit or loss	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Recognised in		
- Net trading expense	(112)	(245)
- Insurance contract liabilities and claims paid	(36)	(47)
- Other operating income	(6)	(5)
	(154)	**(297)**
Cumulative (charges) / gains arising on the movement in credit spreads relating the Group's liabilities designated at fair value through profit or loss	(26)	128

7 Life assurance investment income, gains and losses

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Gross life assurance investment income, gains and losses	532	679
Elimination of investment return on treasury stock held for the benefit of policyholders in the Life businesses	(1)	(1)
Life assurance investment income, gains and losses	**531**	**678**

Life assurance investment income, gains and losses comprise the investment return, realised gains and losses and unrealised gains and losses which accrue to the Group on all investment assets held by Bank of Ireland Life, other than those held for the benefit of policyholders whose contracts are considered to be investment contracts.

IFRS requires that Bank of Ireland stock held by the Group, including that held by Bank of Ireland Life for the benefit of policyholders, is reclassified as treasury stock and accounted for as a deduction from equity. The impact on the Group income statement for the year ended 31 December 2013 is that the gain arising on life assurance investment income, gains and losses of €532 million is reduced by €1 million which is the change in the value of Bank of Ireland stock held under insurance contracts.

8 Other operating income

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Transfer from available for sale reserve on asset disposal (note 23)	50	60
Other insurance income	32	27
Dividend income	5	2
Movement in value of in force asset (note 57)	(21)	(1)
Gain on liability management exercises[1]	4	69
Elimination of investment return on treasury stock held for the benefit of policyholders in the Life businesses	(2)	-
Other income	-	(9)[2]
Other operating income	**68**	**148**

** As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

1 Included within other operating income is a gain on liability management exercises of €4 million (year ended 31 December 2012: €69 million). These gains were previously shown on a separate line item on the face of the income statement. During the year ended 31 December 2013, the Group repurchased debt securities for cash generating gains before tax of €4 million (year ended 31 December 2012: €69 million) being the difference between the consideration paid of €299 million (year ended 31 December 2012: €680 million) and the carrying value of the securities repurchased of €303 million (year ended 31 December 2012: €749 million).

2 Included in other income is a loss of €1 million for the year ended 31 December 2012 in relation to adjustments to the consideration in respect of assets previously transferred to NAMA. These losses were previously shown on a separate line item.

There was no charge relating to the Group's share of joint operations (JO) during the year ended 31 December 2013 (year ended 31 December 2012: €2 million charge) (see note 54).

9 Insurance contract liabilities and claims paid

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Claims paid		
Policy surrenders	(895)	(856)
Death and critical illness claims	(126)	(145)
Annuity payments	(59)	(48)
Policy maturities	(1)	(1)
Other claims	(29)	(25)
Gross claims paid	**(1,110)**	**(1,075)**
Recovered from reinsurers	71	69
Net claims paid	**(1,039)**	**(1,006)**
Change in insurance contract liabilities		
Gross liabilities	(514)	(951)
Reinsured liabilities	83	232
Net change in insurance contract liabilities	**(431)**	**(719)**
Insurance contract liabilities and claims paid	**(1,470)**	**(1,725)**

10 Other operating expenses

Administrative expenses and staff costs	**Year ended 31 December 2013 €m**	Restated* Year ended 31 December 2012 €m
Staff costs excluding cost of restructuring programme	824	841
Amortisation of intangible assets (note 29)	78	101
Depreciation of property, plant and equipment (note 31)	40	41
Revaluation of property	1	11
Other administrative expenses excluding cost of restructuring programme	638	644
Total	**1,581**	**1,638**
Total staff costs are analysed as follows:		
Total staff costs excluding restructuring	824	841
- Wages and salaries	*613*	*686*
- Social security costs	*67*	*73*
- Retirement benefit costs (defined benefit plans) (note 41)	*132*	*69*
- Retirement benefit costs (defined contribution plans)	*1*	*1*
- Other staff costs	*11*	*12*
Staff costs included in cost of restructuring programme (note 11)	48	134
Total staff costs	**872**	**975**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

10 Other operating expenses (continued)

Retirement benefit costs exclude a gain of €274 million in relation to the impact of amendments to the Group's sponsored defined benefit pension scheme, the Bank of Ireland Staff Pensions Fund (BSPF). The Group completed a review of the Group sponsored BSPF during 2013 and made amendments to benefits to partly address the scheme deficit. Based on the status of implementation of the amendments and assumption changes made at 31 December 2013, the Group recognised a reduction in the scheme deficit of €394 million, of which €274 million has been recognised within the income statement as a separate line item, net of any directly related expenses, and €117 million has been recognised within other comprehensive income. Further details are set out in note 41 on page 256.

Defined benefit retirement benefit costs of €132 million for the year ended 31 December 2013 (year ended 31 December 2012: €69 million) includes a trustee approved recovery of €28 million in respect of the Irish pension levy in respect of 2013 for the BSPF and 2011, 2012 and 2013 for a number of smaller schemes (year ended 31 December 2012: €43 million) (note 41).

Other administrative expenses includes an amount of €70 million (year ended 31 December 2012: €60 million) relating to operating lease payments.

Also included in other administrative expenses is an amount of €5 million (year ended 31 December 2012: €2 million) relating to the Group's share of joint operation (JO) (see note 54).

Staff numbers

At 31 December 2013, the number of staff (full time equivalents) was 11,255 (31 December 2012: 12,016).

The average number of staff (full time equivalents) during the year was 11,831 (year ended 31 December 2012: 13,091) categorised as follows in line with the operating segments as stated in note 1.

Average number of staff (full time equivalents)	**Year ended 31 December 2013**	Year ended 31 December 2012
Retail Ireland	4,794	4,887
Retail UK	1,446	2,112
Bank of Ireland Life	968	1,023
Corporate and Treasury	580	686
Group Centre	4,043	4,383
Total	**11,831**	**13,091**

11 Cost of restructuring programme

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Staff costs (note 10)	48	134
Property and other	42	16
	90	**150**

12 Auditors' remuneration (excluding VAT)

	Notes	RoI (i) €m	Overseas (ii) €m	Year ended 31 December 2013 Total €m	Year ended 31 December 2012 Total €m
Audit and assurance services					
Statutory audit		2.1	0.8	2.9	3.1
Assurance services					
- Assurance services relating to Capital Package		1.1	-	1.1	-
- Assurance services relating to IBRC transaction	(iii)	-	-	-	0.6
- Other assurance services	(iv)	2.3	0.3	2.6	3.0
		5.5	**1.1**	**6.6**	**6.7**
Other services					
Taxation services		0.1	-	0.1	0.1
Other non-audit services	(v)	-	0.1	0.1	0.3
Auditors' remuneration		**5.6**	**1.2**	**6.8**	**7.1**

The figures in the above table relate to fees paid to PricewaterhouseCoopers (PwC). The Group Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors.

(i) Fees paid to the Statutory Auditor, PricewaterhouseCoopers Ireland;
(ii) Fees to overseas auditors principally consist of fees to PricewaterhouseCoopers in the UK;
(iii) These fees are in respect of transaction services relating to the securities repurchase transaction between the Group and Irish Bank Resolution Corporation Limited (IBRC), see note 52. Under the terms of the transaction agreement, costs reasonably incurred in relation to the transaction, including this fee, were recovered from IBRC;
(iv) Other assurance services consist primarily of fees in connection with reporting to regulators including the Central Bank of Ireland, review of the interim financial statements, letters of comfort, review of compliance with Government Guarantee Schemes, reporting on Sarbanes-Oxley, reporting accountants' work and other accounting matters; and
(v) Other non-audit services consist primarily of fees for translation services and other assignments.

13 Impairment charges on financial assets

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Loans and advances to customers (note 26)	1,665	1,724
Available for sale financial assets (AFS)	-	45
Impairment charges on financial assets	**1,665**	**1,769**

Included within impairment charges on available for sale financial assets is a charge of €nil (year ended 31 December 2012: €40 million) relating to the NAMA subordinated bonds.

14 Loss on deleveraging of financial assets

During 2013, the Group undertook deleveraging of certain financial assets, all of which had been completed and settled at the balance sheet date. An analysis of the deleveraging completed during the year ended 31 December 2013 and the year ended 31 December 2012 (which includes the sale of loan portfolios to third parties together with managed refinancing decisions taken by the Group) is set out below:

Loss on deleveraging of financial assets	**Year ended 31 December 2013 €m**	Year ended 31 December 2012 €m
Corporate and Treasury	1	203
Retail UK	2	123
Loss on deleveraging of financial assets	**3**	**326**

Year ended 31 December 2013

Corporate and Treasury

Loans with a carrying value of €87 million were derecognised through individual sales and managed refinancing decisions. The Group received consideration (net of costs) of €86 million for these loans, giving rise to a loss on deleveraging of €1 million.

Retail UK

During the year ended 31 December 2013, UK Intermediary Mortgages with a carrying value of €180 million were deleveraged through managed refinancing resulting in a loss of €2 million.

Year ended 31 December 2012

Corporate and Treasury

Corporate and Treasury loans and associated derivatives with a carrying value of €1,588 million were derecognised during the year ended 31 December 2012. The Group received consideration (net of costs) of €1,385 million, through sales and managed refinancing, giving rise to a loss on deleveraging after transaction costs of €203 million.

Retail UK

Retail UK loans with a carrying value of €719 million were derecognised during the year ended 31 December 2012. The Group received €596 million, through sales and managed refinancing, giving rise to a loss on deleveraging after transaction costs of €123 million.

15 Share of results of associates and joint ventures (after tax)

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
First Rate Exchange Services (note 28)	40	40
Property unit trust (note 28)	(5)	(1)
Associates	(4)	7
Share of results of associates and joint ventures (after tax)	**31**	**46**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

16 Loss on disposal / liquidation of business activities

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Corporate and Treasury Division		
Burdale	-	(14)
Bank of Ireland Asset Management (BIAM)	1	(1)
Bank of Ireland Securities Services (BOISS)	1	2
Transfer of foreign exchange reserve to income statement on liquidation of non-trading entities	**(12)**	**(56)**
Loss on disposal / liquidation of business activities	**(10)**	**(69)**

Transfer of foreign exchange reserve to income statement on liquidation of non-trading entities

As part of the Group's focus on simplifying its corporate structure, the Group has an ongoing programme of winding up a number of wholly owned, dormant and non-trading companies, a number of which are foreign operations. During this process, the Group voluntarily appointed a liquidator to manage the winding up. Upon appointment of the liquidator, the Group is considered to have lost control of the companies and has accounted for this loss of control as a disposal. In accordance with IAS 21, the Group has reclassified net cumulative foreign exchange losses of €12 million relating to these companies from the foreign exchange reserve to the income statement during the year ended 31 December 2013 (year ended 31 December 2012: €56 million) (page 179).

17 Taxation

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Current tax		
Irish Corporation Tax		
- Current year	(20)	(20)
- Adjustments in respect of prior year	-	24
- Transfer from deferred tax	6	11
Double taxation relief	2	2
Foreign tax		
- Current year	(25)	(9)
- Adjustments in respect of prior year	(44)	6
- Transfer from deferred tax	19	34
	(62)	**48**
Deferred tax		
- Current year losses	175	363
- Impact of Corporation Tax rate change (see note 40)	(58)	(33)
- Origination and reversal of temporary differences	(66)	(14)
- Transfer to current tax	(25)	(45)
- Reassessment of the value of tax losses carried forward (see note 40)	65	-
- Adjustments in respect of prior year	6	18
Taxation credit	**35**	**337**

The reconciliation of tax on the loss before taxation at the standard Irish corporation tax rate to the Group's actual tax credit for the years ended 31 December 2013 and 31 December 2012 is as follows:

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Loss before tax multiplied by the standard rate of corporation tax in Ireland of 12.5% (2012: 12.5%)	66	271
Effects of:		
Reassessment of the value of tax losses carried forward	65	-
Foreign earnings subject to different rates of tax	15	66
Other adjustments for tax purposes	(8)	9
Share of results of associates and joint ventures shown post tax in the income statement	5	5
Impact of corporation tax rate change on deferred tax	(58)	(33)
Adjustments in respect of prior year	(38)	48
Bank of Ireland Life companies - different basis of accounting	(12)	(21)
Gain / (loss) on disposal / liquidation of business activities	-	(8)
Taxation credit	**35**	**337**

The effective taxation rate on a statutory basis for the year ended 31 December 2013 is 7% (tax charge) (year ended 31 December 2012: 16% (tax credit)). However excluding the impact of amendments to defined benefit pension schemes, the gain on liability management exercises, the loss on deleveraging of financial assets, the charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss', the loss on disposal / liquidation of business activities, the gross-up for policyholder tax in the Life business, the cost of the restructuring programme, the gain on the Contingent Capital Note and the investment return on treasury stock held for policyholders the effective taxation rate was 12% (tax credit) for the year ended 31 December 2013 (year ended 31 December 2012: 17% (tax credit)).

17 Taxation (continued)

The tax effects relating to each component of other comprehensive income are as follows:

	Year ended 31 December 2013			Restated* Year ended 31 December 2012		
	Pre tax €m	**Tax €m**	**Net of tax €m**	Pre tax €m	Tax €m	Net of tax €m
Available for sale reserve						
Changes in fair value	414	(53)	361	1,015	(126)	889
Transfer to income statement						
- On asset disposal	(50)	6	(44)	(60)	7	(53)
- Impairment	-	-	-	45	(6)	39
Net change in reserve	**364**	**(47)**	**317**	**1,000**	**(125)**	**875**
Remeasurement of the net defined benefit pension liability	**(130)**	**13**	**(117)**	**(892)**	**117**	**(775)**
Cash flow hedge reserve						
Changes in fair value	259	(29)	230	590	(44)	546
Transfer to income statement	(461)	50	(411)	(417)	19	(398)
Net change in cash flow hedge reserve	**(202)**	**21**	**(181)**	**173**	**(25)**	**148**
Net change in foreign exchange reserve	**(81)**	**-**	**(81)**	**136**	**-**	**136**
Net change in revaluation reserve	**-**	**-**	**-**	**(2)**	**1**	**(1)**
Other comprehensive income for the year	**(49)**	**(13)**	**(62)**	**415**	**(32)**	**383**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)'. See note 58 for additional information.*

18 Earnings per share

The calculation of basic earnings per unit of €0.05 ordinary stock is based on the loss attributable to ordinary stockholders divided by the weighted average number of units of ordinary stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders.

The diluted earnings per share is based on the loss attributable to ordinary stockholders divided by the weighted average number of units of ordinary stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders adjusted for the effect of all dilutive potential ordinary stock.

For the year ended 31 December 2013 and the year ended 31 December 2012 there was no difference in the weighted average number of units of stock used for basic and diluted earnings per share as the effect of all potentially dilutive ordinary units of stock outstanding was anti-dilutive.

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Basic and diluted earnings per share		
Loss attributable to stockholders	(487)	(1,835)
Dividend on 2009 Preference Stock	(185)	(188)
Adjustment on partial redemption of 2009 Preference Stock[1]	(23)	-
Dividend on other preference equity interests	(7)	(7)
Loss attributable to ordinary stockholders	**(702)**	**(2,030)**
	Units (millions)	Units (millions)
Weighted average number of units of stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders[2]	30,252[3]	30,109
Basic and diluted earnings per share (cent)	**(2.3c)**	**(6.7c)**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. The restatement has had no impact on the basic or diluted earnings per share in the current or prior period. See note 58 for additional information.*

[1] *537,041,304 units of 2009 Preference Stock were redeemed at the subscription price of €1 per unit. This was greater than its carrying value of €0.9577 per unit due to transaction costs and warrants issued on the issue of the stock on 31 March 2009. Under IAS 33 , the difference of €23 million on redemption has been reflected in the EPS calculation by reducing the profit or loss attributable to ordinary equity holders of the parent entity.*

[2] *The weighted average number of units of treasury stock and own stock held for the benefit of life assurance policyholders amounted to 42.9 million units (year ended 31 December 2012: 45.3 million).*

[3] *The weighted average number of units of stock in issue is calculated based on daily averages. As a result the number of weighted average number of units of stock in issue reflect c.20 days of the units of the Placing Stock (see note 43).*

As at 31 December 2013, the Convertible Contingent Capital Note (see note 37) and options over 1.2 million units of potential ordinary stock (31 December 2012: 2.7 million units) could potentially have a dilutive impact in the future, but were anti-dilutive in the year ended 31 December 2013 and the year ended 31 December 2012.

19 Trading securities

	31 December 2013 €m	31 December 2012 €m
Debt securities — listed	252	143
Trading securities	**252**	**143**

For the purpose of disclosure of credit risk exposures, trading securities are included within other financial instruments of €29.5 billion (31 December 2012: €35.5 billion) in the Risk Management Report on page 99.

20 Derivative financial instruments

The Group's use of objectives and policies on managing the risks that arise in connection with derivatives, including the policies for hedging, are included in the Risk Management Report on page 114. The notional amounts of certain types of derivatives do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit risk. The derivative instruments give rise to assets or liabilities as a result of fluctuations in market rates or prices relative to their terms.

The notional amounts and fair values of derivative instruments held by the Group are set out in the following tables:

		Fair Values	
31 December 2013	**Contract / notional amount €m**	**Assets €m**	**Liabilities €m**
Derivatives held for trading			
Foreign exchange derivatives			
Currency forwards	8,722	46	67
Currency swaps	577	41	28
Over the counter currency options	348	2	2
Total foreign exchange derivatives held for trading	**9,647**	**89**	**97**
Interest rate derivatives			
Interest rate swaps	150,071	1,906	2,191
Cross currency interest rate swaps	5,508	365	289
Forward rate agreements	1,651	-	1
Over the counter interest rate options	5,136	40	35
Total interest rate derivatives held for trading	**162,366**	**2,311**	**2,516**
Equity contracts and credit derivatives			
Equity index-linked contracts held	3,886	239	40
Equity conversion feature in Contingent Capital Note	1,000	50	-
Credit derivatives	134	2	2
Total equity contracts and credit derivatives	**5,020**	**291**	**42**
Total derivative assets / liabilities held for trading	**177,033**	**2,691**	**2,655**
Derivatives held for hedging			
Derivatives designated as fair value hedges			
Interest rate swaps	19,520	387	375
Cross currency interest rate swaps	75	6	-
Total designated as fair value hedges	**19,595**	**393**	**375**
Derivatives designated as cash flow hedges			
Interest rate swaps	17,835	334	93
Cross currency interest rate swaps	7,744	74	105
Currency forwards	11	-	-
Total designated as cash flow hedges	**25,590**	**408**	**198**
Total derivative assets / liabilities held for hedging	**45,185**	**801**	**573**
Total derivative assets / liabilities	**222,218**	**3,492**	**3,228**

20 Derivative financial instruments (continued)

31 December 2012	Contract / notional amount €m	Fair Values Assets €m	Fair Values Liabilities €m
Derivatives held for trading			
Foreign exchange derivatives			
Currency forwards	7,247	69	33
Currency swaps	563	32	36
Over the counter currency options	392	2	2
Total foreign exchange derivatives held for trading	8,202	103	71
Interest rate derivatives			
Interest rate swaps	131,870	2,580	2,610
Cross currency interest rate swaps	6,820	540	373
Forward rate agreements	2,003	-	-
Over the counter interest rate options	5,616	94	86
Total interest rate derivatives held for trading	146,309	3,214	3,069
Equity contracts and credit derivatives			
Equity index-linked contracts held	4,688	171	45
Equity conversion feature in Contingent Capital Note	1,000	62	-
Credit derivatives	17	-	-
Total equity contracts and credit derivatives	5,705	233	45
Total derivative assets / liabilities held for trading	160,216	3,550	3,185
Derivatives held for hedging			
Derivatives designated as fair value hedges			
Interest rate swaps	18,198	600	583
Cross currency interest rate swaps	465	56	2
Total designated as fair value hedges	18,663	656	585
Derivatives designated as cash flow hedges			
Interest rate swaps	76,096	1,581	1,247
Cross currency interest rate swaps	12,813	59	257
Currency forwards	15	1	-
Total designated as cash flow hedges	88,924	1,641	1,504
Total derivative assets / liabilities held for hedging	107,587	2,297	2,089
Total derivative assets / liabilities	267,803	5,847	5,274

Derivatives held for trading above comprise derivatives entered into with trading intent as well as derivatives entered into with economic hedging intent to which the Group does not apply hedge accounting. Derivatives classified as held for hedging in the table above comprise only those derivatives to which the Group applies hedge accounting.

The Group uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of €3.5 billion at 31 December 2013 (31 December 2012: €5.8 billion):

- €2 billion (31 December 2012: €3.6 billion) are available for offset against derivative liabilities under master netting arrangements. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities; and
- €1.5 billion (31 December 2012: €2.2 billion) are not covered by master netting arrangements or relate to counterparties covered by master netting arrangements with whom a net asset position was held at the balance sheet date.

At 31 December 2013, cash collateral of €0.9 billion (31 December 2012: €1.1 billion) was held against these assets and is reported within deposits from banks (see note 33).

Placements with other banks includes cash collateral of €1.1 billion (31 December 2012: €1.7 billion) placed with derivative counterparties in respect of a net derivative liability position of €1.3 billion (31 December 2012: €1.7 billion).

20 Derivative financial instruments (continued)

The Group designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships.

Fair value hedges
Certain interest rate and cross currency interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate and foreign exchange exposure on the Group's fixed rate debt held and debt issued portfolios.

Cash flow hedges
The Group designates certain interest rate and currency derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets and liabilities and from foreign currency assets. Movements in the cash flow hedge reserve are shown in the Consolidated statement of changes in equity (page 178).

The years in which the hedged cash flows are expected to occur are shown in the table below:

31 December 2013	**Up to 1 year €m**	**1 to 2 years €m**	**2 to 5 years €m**	**Over 5 years €m**	**Total €m**
Forecast receivable cash flows	5,971	1,843	674	352	8,840
Forecast payable cash flows	(29)	(31)	(127)	(352)	(539)

31 December 2012	Up to 1 year €m	1 to 2 years €m	2 to 5 years €m	Over 5 years €m	Total €m
Forecast receivable cash flows	6,801	4,937	1,757	545	14,040
Forecast payable cash flows	(66)	(74)	(233)	(573)	(946)

The hedged cash flows are expected to impact the income statement in the following years:

31 December 2013	**Up to 1 year €m**	**1 to 2 years €m**	**2 to 5 years €m**	**Over 5 years €m**	**Total €m**
Forecast receivable cash flows	8,062	98	349	331	8,840
Forecast payable cash flows	(41)	(28)	(130)	(340)	(539)

31 December 2012	Up to 1 year €m	1 to 2 years €m	2 to 5 years €m	Over 5 years €m	Total €m
Forecast receivable cash flows	13,024	128	364	524	14,040
Forecast payable cash flows	(90)	(69)	(228)	(559)	(946)

During the years ended 31 December 2013 and 31 December 2012 there were no forecast transactions to which the Group has applied hedge accounting which were no longer expected to occur.

21 Other financial assets at fair value through profit or loss

	31 December 2013 €m	31 December 2012 €m
Assets linked to policyholder liabilities		
Equity securities	6,735	6,305
Government bonds	933	993
Unit trusts	994	713
Debt securities	381	290
	9,043	**8,301**
Other financial assets		
Government bonds	890	810
Other	373	349
	1,263	**1,159**
Other financial assets at fair value through profit or loss	**10,306**	**9,460**

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying investment is held by the Group, but the inherent risks and rewards in the investments are borne by the policyholders. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal change in the value of the amounts due to policyholders. The associated liabilities are included in liabilities to customers under investment contracts and insurance contract liabilities on the balance sheet. At 31 December 2013, such assets amounted to €9,043 million (31 December 2012: €8,301 million).

Other financial assets of €1,263 million (31 December 2012: €1,159 million) primarily relate to assets held by the Group's life assurance business for solvency margin purposes or as backing for non-linked policyholder liabilities.

22 Loans and advances to banks

	31 December 2013 €m	Restated* 31 December 2012 €m
Placements with other banks	3,264	4,436
Securities purchased with agreement to resell		
- IBRC repo transaction (note 52)	-	3,060
- Other	184	332
Mandatory deposits with central banks	1,311	1,293
Funds placed with central banks	-	381
Loans and advances to banks	**4,759**	**9,502**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

22 Loans and advances to banks (continued)

Placements with other banks includes cash collateral of €1.1 billion (31 December 2012: €1.7 billion) placed with derivative counterparties in relation to net derivative liability positions (note 20).

The Group has entered into transactions to purchase securities with agreement to resell and has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The fair value of this collateral at 31 December 2013 was €207 million (31 December 2012: €3,863 million).

Mandatory deposits with central banks includes €1,134 million relating to collateral in respect of the Group's issued bank notes in circulation in Northern Ireland (31 December 2012: €1,051 million).

Loans and advances to banks of €4,759 million (31 December 2012: €9,502 million) included €312 million (31 December 2012: €350 million) of assets held on behalf of Bank of Ireland Life policyholders.

For the purpose of disclosure of credit risk exposures, loans and advances to banks are included within other financial instruments of €29.5 billion (31 December 2012: €35.5 billion) in the Risk Management Report on page 99.

23 Available for sale financial assets

	31 December 2013 €m	31 December 2012 €m
Government bonds	6,619	5,642
Other debt securities		
- listed	5,251	5,120
- unlisted	198	277
Equity securities		
- listed	4	1
- unlisted	32	53
Available for sale financial assets	**12,104**	**11,093**

At 31 December 2013, available for sale financial assets with a fair value of €4 billion (31 December 2012: €6.7 billion) had been pledged to third parties in sale and repurchase agreements. The Group has not derecognised any securities delivered in such sale and repurchase agreements.

Included within unlisted debt securities are subordinated bonds issued by NAMA with a fair value of €132 million (31 December 2012: €117 million) and a nominal value of €281 million (31 December 2012: €281 million). These bonds represented 5% of the nominal consideration received for assets sold to NAMA, with the remaining 95% received in the form of NAMA senior bonds (note 24). The subordinated bonds are not guaranteed by the State, they are not marketable and the payment of interest and repayment of capital is dependent on the performance of NAMA. During the years ended 31 December 2013 and 31 December 2012, no interest was paid by NAMA on subordinated bonds. During the year ended 31 December 2013, the Group did not incur any impairment charge on the NAMA subordinated bonds (year ended 31 December 2012: €40 million) (see note 13).

Further details on the Group's available for sale financial assets are set out on pages 375.

23 Available for sale financial assets (continued)

The movement on available for sale financial assets is analysed as follows:

	31 December 2013 €m	31 December 2012 €m
At beginning of year	11,093	10,262
Revaluation, exchange and other adjustments	159	1,202
Additions	3,346	5,570
Redemptions	(1,422)[1]	(1,874)
Sales	(1,127)[1]	(4,139)
Amortisation	55	72
At end of year	**12,104**	**11,093**

[1] *During the year ended 31 December 2013, the Group sold/redeemed available for sale assets of €2.5 billion which resulted in a gain of €50 million (see note 8).*

During the year ended 31 December 2013, the Group reclassified available for sale financial assets with a carrying amount and fair value of €40 million to loans and advances to customers. At the date of this reclassification, the effective interest rate on reclassified assets was 5.17% with expected recoverable cash flows of €52 million. At the date of this reclassification, the Group had the intention and ability to hold these assets for the foreseeable future or until maturity.

	31 December 2013		31 December 2012	
	Carrying amount €m	**Fair Value €m**	Carrying amount €m	Fair Value €m
AFS financial assets reclassified to loans and advances to customers	40	40	-	-

Interest income of €2 million has been recognised in the income statement for the year ended 31 December 2013 in relation to these assets. If the assets had not been reclassified a fair value gain of €nil would have been recognised in Other comprehensive income.

During the year ended 31 March 2009, the Group reclassified available for sale financial assets with a carrying amount and fair value of €419 million to loans and advances to customers. At the date of this reclassification, the effective interest rate on reclassified assets ranged from 0.73% to 7.12% with expected recoverable cash flows of €753 million. At the date of this reclassification, the Group had the intention and ability to hold these assets for the foreseeable future or until maturity.

	31 December 2013		31 December 2012	
	Carrying amount €m	**Fair Value €m**	Carrying amount €m	Fair Value €m
AFS financial assets reclassified to loans and advances to customers	203	192	215	281

Interest income of €23 million (year ended 31 December 2012: €56 million) and a release of an impairment charge of €12 million (year ended 31 December 2012: €4 million charge) have been recognised in the income statement for the year ended 31 December 2013 in relation to these assets. If the assets had not been reclassified a fair value gain of €18 million (year ended 31 December 2012: €22 million) would have been recognised in Other comprehensive income and a release of an impairment charge of €12 million would have been recognised (year ended 31 December 2012: €3 million charge).

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24 NAMA senior bonds

	31 December 2013 €m	31 December 2012 €m
NAMA senior bonds	**3,957**	**4,428**

The Group received as consideration for the assets transferred to NAMA a combination of Government guaranteed bonds (NAMA senior bonds) issued by NAMA (95% of the nominal consideration), and non-guaranteed subordinated bonds issued by NAMA (5% of nominal consideration).

At 31 December 2013, €2.8 billion of NAMA senior bonds had been pledged to Monetary Authorities in sale and repurchase agreements.

The interest rate on the NAMA senior bonds is six month Euribor, set semi-annually on 1 March (0.336%) and 1 September (0.345%). The contractual maturity of these bonds is 1 March 2014. NAMA may, only with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

During the year ended 31 December 2013, NAMA redeemed senior bonds held by the Group with a nominal value of €484 million (year ended 31 December 2012: €615 million).

25 Loans and advances to customers

	31 December 2013 €m	31 December 2012 €m
Loans and advances to customers	91,214	98,658
Finance leases and hire purchase receivables (see below)	1,541	1,507
	92,755	100,165
Less allowance for impairment charges on loans and advances to customers (note 26)	(8,241)	(7,544)
Loans and advances to customers	**84,514**	**92,621**
Amounts include		
Due from joint ventures and associates	170	102

25 Loans and advances to customers (continued)

Finance leases and hire purchase receivables
Loans and advances to customers include finance leases and hire purchase receivables, which are analysed as follows:

	31 December 2013 €m	31 December 2012 €m
Gross investment in finance leases:		
Not later than 1 year	701	703
Later than 1 year and not later than 5 years	991	862
Later than 5 years	5	5
	1,697	1,570
Unearned future finance income on finance leases	(156)	(63)
Net investment in finance leases	**1,541**	**1,507**
The net investment in finance leases is analysed as follows:		
Not later than 1 year	637	675
Later than 1 year and not later than 5 years	899	828
Later than 5 years	5	4
	1,541	**1,507**

The Group's material leasing arrangements include the provision of instalment credit and leasing finance for both consumer and business customers.

At 31 December 2013, the accumulated allowance for uncollectable minimum lease payments receivable was €25 million (31 December 2012: €31 million).

Securitisations
Loans and advances to customers include balances that have been securitised but not derecognised, comprising both Residential mortgages and commercial loans. In general, the assets, or interests in the assets, are transferred to structured entities, which then issue securities to third party investors or to other entities within the Group. All of the Group's securitisation structured entities are consolidated.

26 Impairment provisions

The following tables show the movement in the impairment provisions on total loans and advances to customers during the year ended 31 December 2013 and 31 December 2012.

31 December 2013	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total impairment provisions €m
Provision at 1 January 2013	1,594	1,836	3,876	238	7,544
Exchange adjustments	(3)	(12)	(22)	(1)	(38)
Charge against income statement	573	468	583	41	1,665
Provisions utilised	(187)	(579)	(233)	(89)	(1,088)
Other movements	26	196	(86)	22	158
Provision at 31 December 2013	**2,003**	**1,909**	**4,118**	**211**	**8,241**

26 Impairment provisions (continued)

31 December 2012	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total impairment provisions €m
Provision at 1 January 2012	1,159	1,723	3,205	278	6,365
Exchange adjustments	3	8	23	1	35
Charge against income statement	462	413	797	52	1,724
Provisions utilised	(51)	(376)	(164)	(115)	(706)
Release of provision on loan book disposals	-	-	(18)	-	(18)
Other movements	21	68	33	22	144
Provision at 31 December 2012	1,594	1,836	3,876	238	7,544

Provisions include specific and 'incurred but not reported' (IBNR) provisions. IBNR provisions are recognised on all categories of loans for incurred losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Provisions utilised reflect impairment provisions which have been utilised against the related loan balance; the utilisation of a provision does not alter a customer's obligations nor does it impact on the Group's rights to take relevant enforcement action.

27 Interest in associates

	31 December 2013 €m	Restated* 31 December 2012 €m
At beginning of year	91	78
Share of results and associates	(4)	7
Increase in investments	13	11
Fair value and other movements	(10)	(4)
Decrease in investments	(1)	(1)
At end of year	**89**	**91**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

In presenting details of the associates of the Group, the exemption permitted by Regulation 10 of the European Communities (Credit Institutions: Accounts) Regulations, 1992 has been availed of and the Group will annex a full listing of associates to its annual return to the Companies Registration Office.

For further information on associates refer to note 54 - Interests in other entities.

28 Interest in joint ventures

Joint ventures (JV)	**31 December 2013 €m**	31 December 2012 €m
At beginning of year	227	245
Exchange adjustments	(3)	3
Share of results after tax (note 15)	35	39
- First Rate Exchange Services	*40*	*40*
- Property unit trust	*(5)*	*(1)*
Dividends received	(50)	(60)
At end of year	**209**	**227**

For further information on joint ventures refer to note 54 - Interests in other entities.

29 Intangible assets

	Computer software externally purchased €m	**Computer software internally generated €m**	**Other externally purchased intangible assets €m**	**Total €m**
Cost				
At 1 January 2013	**160**	**967**	**172**	**1,299**
Exchange adjustments	(1)	(3)	(3)	(7)
Additions	-	78	6	84
Disposals / write-offs	(14)	(10)	-	(24)
At 31 December 2013	**145**	**1,032**	**175**	**1,352**
Accumulated amortisation				
At 1 January 2013	**(147)**	**(697)**	**(84)**	**(928)**
Exchange adjustments	1	1	2	4
Disposals / write-offs	14	10	-	24
Charge for the year (note 10)	(7)	(61)	(10)	(78)
At 31 December 2013	**(139)**	**(747)**	**(92)**	**(978)**
Net book value at 31 December 2013	**6**	**285**	**83**	**374**

Intangible assets predominantly comprise of computer software that is developed internally by the Group and purchased computer software.

Impairment review - intangible assets

Intangible assets have been reviewed for any indication that impairment may have occurred. Where any such indication exists impairment has been measured by comparing the carrying value of the intangible asset to its recoverable amount. There was no impairment identified in the year ended 31 December 2013 (year ended 31 December 2012: €nil).

29 Intangible assets (continued)

	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total €m
Cost				
At 1 January 2012	171	905	160	1,236
Exchange adjustments	1	4	3	8
Additions	-	69	9	78
Disposals / write-offs	(12)	(11)	-	(23)
At 31 December 2012	160	967	172	1,299
Accumulated amortisation				
At 1 January 2012	(147)	(625)	(71)	(843)
Exchange adjustments	(1)	(2)	(1)	(4)
Disposals / write-offs	9	11	-	20
Charge for the year (note 10)	(8)	(81)	(12)	(101)
At 31 December 2012	(147)	(697)	(84)	(928)
Net book value at 31 December 2012	13	270	88	371

30 Investment properties

	31 December 2013 €m	Restated* 31 December 2012 €m
At beginning of year	848	995
Exchange adjustment	-	(1)
Revaluation	(32)	(25)
Disposals	(11)	(121)
At end of year	**805**	**848**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

Rental income from investment property amounted to €52 million for the year ended 31 December 2013 (year ended 31 December 2012: €63 million (restated*)). Expenses directly attributable to investment property generating rental income amounted to €8 million for the year ended 31 December 2013 (year ended 31 December 2012: €5 million (restated*)). There were no expenses directly attributable to investment properties which are not generating rental income for the year ended 31 December 2013 or the year ended 31 December 2012.

Of the €805 million (31 December 2012: €848 million) of investment properties held by the Group, €681 million (31 December 2012: €730 million) is held on behalf of Bank of Ireland Life policyholders.

31 Property, plant and equipment

	Freehold land and buildings and long leaseholds (held at fair value) €m	Adaptations (at cost) €m	Computer and other equipment (at cost) €m	Finance lease assets (at cost) €m	Payments on accounts and assets in the course of construction (at cost) €m	Total €m
Cost or valuation						
At 1 January 2013	**135**	**177**	**470**	**17**	**10**	**809**
Exchange adjustments	(1)	(1)	(2)	-	-	(4)
Additions	-	1	3	1	29	34
Disposals / write-offs	(1)	(10)	(19)	-	-	(30)
Revaluation						
- Recognised in the income statement	(1)	-	-	-	-	(1)
Reclassifications	-	8	25	-	(33)	-
At 31 December 2013	**132**	**175**	**477**	**18**	**6**	**808**
Accumulated depreciation						
At 1 January 2013	**-**	**(101)**	**(369)**	**(6)**	**-**	**(476)**
Exchange adjustments	-	-	2	-	-	2
Disposals / write-offs	-	9	19	-	-	28
Charge for the year (note 10)	-	(13)	(23)	(4)	-	(40)
At 31 December 2013	**-**	**(105)**	**(371)**	**(10)**	**-**	**(486)**
Net book value at 31 December 2013	**132**	**70**	**106**	**8**	**6**	**322**

Property, plant and equipment at 31 December 2013 held at fair value was €132 million (31 December 2012: €135 million). The historical cost of property, plant and equipment held at fair value at 31 December 2013 was €89 million (31 December 2012: €91 million). The net book value of property, plant and equipment at 31 December 2013 held at cost less accumulated depreciation and impairment amounted to €190 million (31 December 2012: €198 million).

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31 Property, plant and equipment (continued)

	Freehold land and buildings and long leaseholds (held at fair value) €m	Adaptations (at cost) €m	Computer and other equipment (at cost) €m	Finance lease assets (at cost) €m	Payments on accounts and assets in the course of construction (at cost) €m	Total €m
Cost or valuation						
At 1 January 2012	151	164	522	5	16	858
Exchange adjustments	1	-	3	-	1	5
Additions	-	-	7	12	35	54
Disposals / write-offs	(4)	(8)	(83)	-	-	(95)
Revaluation						
- Recognised in the income statement	(11)	-	-	-	-	(11)
- Recognised in other comprehensive income	(2)	-	-	-	-	(2)
Reclassifications	-	21	21	-	(42)	-
At 31 December 2012	135	177	470	17	10	809
Accumulated depreciation						
At 1 January 2012	-	(95)	(424)	(3)	-	(522)
Exchange adjustments	-	-	(2)	-	-	(2)
Disposals / write-offs	-	8	81	-	-	89
Charge for the year (note 10)	-	(14)	(24)	(3)	-	(41)
At 31 December 2012	-	(101)	(369)	(6)	-	(476)
Net book value at 31 December 2012	135	76	101	11	10	333

Property

A revaluation of Group property was carried out as at 31 December 2013.

Future capital expenditure

The table below shows future capital expenditure in relation to both property, plant and equipment and intangible assets.

	31 December 2013 €m	31 December 2012 €m
Future capital expenditure:		
- contracted but not provided for in the financial statements	13	5
- authorised by the Directors but not contracted	72	84

31 Property, plant and equipment (continued)

Operating leases

The Group leases a number of branch and office premises to carry out its business. The commercial leases typically are 25 to 35 year operating leases with five-yearly rent reviews. The majority of the rent reviews are on an upwards only basis. Some leases also include break options. The Group also holds a number of short term leases for less than ten years and a number of long term leases at market rent with less than 140 years unexpired. On expiry of long term leases greater than ten years the Group has rights of renewal in the majority of the leases.

Minimum future rentals are the rentals payable under operating leases up to the next available break option where this exists or to expiry date of the lease. Both the required break option notice period and the amount of any penalty rent have been included in the amounts payable below.

The Group has entered into a small number of sub-leases as lessor which represent properties and components of properties surplus to the Group's own requirements.

Minimum future rentals under non-cancellable operating leases are as follows:

	Payable 31 December 2013 €m	**Receivable 31 December 2013 €m**	Payable 31 December 2012 €m	Receivable 31 December 2012 €m
Not later than 1 year	61	3	64	3
Later than 1 year and not later than 5 years	225	7	224	5
Later than 5 years	498	5	455	1

Included in the operating lease rental receivable is an amount of €14 million in relation to sub-lease rental (31 December 2012: €8 million).

Finance leases

The Group leases computer equipment under finance lease agreements. The leases range from one to five years, contain no material contingent rents or restrictions imposed by lease agreements and contain standard terms of renewal.

	At 31 December 2013			At 31 December 2012		
	Total minimum future payments €m	**Future finance charges €m**	**Present value of finance lease commitments €m**	Total minimum future payments €m	Future finance charges €m	Present value of finance lease commitments €m
Not later than 1 year	4	-	4	3	-	3
Later than 1 year not later than 5 years	6	(1)	5	9	(1)	8
Later than 5 years	-	-	-	-	-	-

The net carrying amount of the assets held under finance leases at 31 December 2013 was €9 million (31 December 2012: €11 million).

As outlined in note 41, a Group pension scheme has a charge over a portfolio of Group assets (a contingent asset) with a value of €375 million at 31 December 2013 (31 December 2012: €250 million) including Group properties with a fair value of €42 million at 31 December 2013 (31 December 2012: €42 million).

32 Other assets

	31 December 2013 €m	Restated* 31 December 2012 €m
Reinsurance asset	1,023	940
Value in force of life assurance business (note 57)	497	518
Interest receivable	425	469
Sundry and other debtors	364	316
Accounts receivable and prepayments	151	162
Other assets	**2,460**	**2,405**
Other assets are analysed as follows:		
Within 1 year	843	835
After 1 year	1,617	1,570
	2,460	**2,405**
The movement in the reinsurance asset is noted below:		
At beginning of year	940	708
New business	94	122
Changes in business	(11)	110
At the end of the year	**1,023**	**940**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

For the purpose of disclosure of credit risk exposures, the reinsurance asset is included within other financial instruments of €29.5 billion (31 December 2012: €33.5 billion) in the Risk Management Report on page 99.

Included in other assets is an amount of €2 million (31 December 2012: €9 million) relating to the Group's share of the assets of the joint operation (JO) (see note 54).

33 Deposits from banks

	31 December 2013 €m	Restated* 31 December 2012 €m
Securities sold under agreement to repurchase	10,533	19,307
Monetary Authorities		
- IBRC repo transaction (note 52)	*-*	*3,060*
- Other	*6,415*	*11,040*
Private market repos	*4,118*	*5,207*
Deposits from banks	1,537	1,602
Other bank borrowings	143	216
Deposits from banks	**12,213**	**21,125**

* *As outlined in the Group accounting policies on page 186 comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

At 31 December 2013, total drawings from Monetary Authorities amounted to €8 billion (net) (31 December 2012: €15 billion (net)), of which €2 billion (31 December 2012: €1 billion) is included in debt securities in issue (note 35). €8 billion is on a term funding basis, utilising the ECB's three year Long Term Refinancing Operation (LTRO). The LTRO matures in two tranches in January and February 2015. The Group has an option, from February 2013, to repay these facilities at an earlier date.

Deposits from banks include cash collateral of €0.9 billion (31 December 2012: €1.1 billion) received from derivative counterparties in relation to net derivative asset positions (see note 20).

34 Customer accounts

	31 December 2013 €m	31 December 2012 €m
Term deposits and other products	37,056	42,318
Demand deposits	19,453	17,647
Current accounts	17,358	15,205
Customer accounts	**73,867**	**75,170**
Amounts include;		
Due to associates and joint ventures	55	36

Deposit accounts where a period of notice is required to make a withdrawal are classified within term deposits and other products. An analysis of the contractual maturity profile of customer accounts is set out in note 46.

Term deposits and other products include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the liquidity risk and profile note (see page 273).

At 31 December 2013, the Group's largest 20 customer deposits amounted to 7% (31 December 2012: 5%) of customer accounts. Information on the contractual maturities of customer accounts is set out on page 109 in the Risk Management Report.

Included within Term deposits and other products is €0.5 billion (31 December 2012: €1 billion) relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

35 Debt securities in issue

	31 December 2013 €m	31 December 2012 €m
Bonds and medium term notes	11,548	14,687
Monetary Authorities - LTRO (note 33)	1,885	1,260
Other debt securities in issue	1,847	2,126
Debt securities in issue	**15,280**	**18,073**

During the year ended 31 December 2013, the Group issued €4,465 million (year ended 31 December 2012: €2,317 million) of new debt, repurchases amounted to €303 million (year ended 31 December 2012: €749 million), redemptions amounted to €6,658 million (year ended 31 December 2012: €2,988 million) and other movements of €297 million (year ended 31 December 2012: €369 million).

36 Liabilities to customers under investment and insurance contracts

Investment contract liabilities	31 December 2013 €m	31 December 2012 €m
Liabilities to customers under investment contracts, at fair value	**5,460**	**5,256**

The movement in gross life insurance contract liabilities can be analysed as follows:

Insurance contract liabilities	31 December 2013 €m	31 December 2012 €m
At beginning of year	7,988	7,037
New business	1,148	1,210
Changes in existing business	(634)	(259)
At end of year	**8,502**	**7,988**

Bank of Ireland Life (BoI Life) writes the following life assurance contracts that contain insurance risk:

Non-unit linked life assurance contracts
These contracts provide the policyholder with insurance in the event of death, critical illness or permanent disability (principally mortality and morbidity risk).

Non-unit linked annuity contracts
These contracts provide the policyholder with an income until death (principally longevity and market risk).

Linked insurance contracts
These contracts include both policies primarily providing life assurance protection and policies providing investment but with a level of insurance risk deemed to be significant (principally mortality and market risk).

Insurance contract liabilities, which consist of both unit linked and non-unit linked liabilities, are calculated in accordance with the Insurance Regulations. Unit linked liabilities reflect the value of the underlying funds in which the policyholder is invested. Non-unit linked liabilities are calculated using either a gross premium or net premium method of valuation.

36 Liabilities to customers under investment and insurance contracts (continued)

The assumptions are also set out in accordance with the guidelines within the Insurance Regulations and contain a margin for adverse development. The key assumptions used in the valuation of insurance contract liabilities are:

Interest rate:	The interest rates are derived in accordance with the guidelines in the Insurance Regulations. Margins for risk are allowed for in the derived interest rates.
Mortality and morbidity:	The mortality and morbidity assumptions, which include an allowance for improvements in longevity for annuitants, are set with regard to the Group's actual experience and / or relevant industry data.
Maintenance expenses:	Allowance is made for future policy costs and expense inflation explicitly.

Options and guarantees
The company has a very limited range of options and guarantees in its business portfolio as the bulk of the business is unit linked without investment guarantees. Where investment guarantees do exist they are either hedged with an outside party or matched through appropriate investment assets.

Uncertainties associated with insurance contract cash flows and risk management activities
For life assurance contracts where death is the insured risk, the most significant factors that could adversely affect the frequency and severity of claims are the incidence of disease and general changes in lifestyle. Where the insured risk is longevity, advances in medical care is the key factor that increases longevity. The Group manages its exposures to insurance risks through a combination of applying strict underwriting criteria, asset and liability matching, transferring risk to reinsurers and the establishment of prudent insurance contract liabilities.

Credit risk
Reinsurance programmes are in place to restrict the amount of cover on any single life. The Group uses a panel of highly rated reinsurance companies to diversify credit risk.

Capital management and available resources
The Group holds technical reserves to meet its liabilities to policyholders based on prudent actuarial assumptions. In addition, the Central Bank requires the Group's life assurance operation to hold shareholder equity that exceeds a statutory margin, the required minimum regulatory solvency margin. The table below sets out the shareholder equity held by the Group's life assurance business compared to the required minimum regulatory solvency margin as at 31 December 2013.

	31 December 2013 €m	31 December 2012 €m
Minimum regulatory solvency margin	175	177
Shareholder equity held for life business	354	329

37 Subordinated liabilities

	Notes	31 December 2013 €m	31 December 2012 €m
Undated loan capital			
Bank of Ireland UK Holdings plc			
€600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities	a, b	32	32
Bank of Ireland			
Stg£75 million 13⅜% Perpetual Subordinated Bonds	c	91	93
Bristol & West plc			
Stg£32.6 million 8⅛% Non-Cumulative Preference Shares	d	39	40
		162	**165**
Dated loan capital			
CAD$400 million Fixed / Floating Rate Subordinated Notes 2015		63	64
€1,000 million 10% Convertible Contingent Capital Note 2016	e	977	986
€600 million Subordinated Floating Rate Notes 2017		1	1
€1,002 million 10% Fixed Rate Subordinated Notes 2020		230	239
Stg£197 million 10% Fixed Rate Subordinated Notes 2020		2	2
€250 million 10% Fixed Rate Subordinated Notes 2022		240	250
		1,513	**1,542**
Total subordinated liabilities		**1,675**	**1,707**

Subordinated liabilities in issue at 31 December 2013

Undated loan capital

The principal terms and conditions of the subordinated liabilities which were in issue by the Group at 31 December 2013 are set out below.

(a) The securities are redeemable in whole or in part at the option of the Issuer subject to the prior consent of the Central Bank of Ireland and of the Bank, at their principal amount together with any outstanding payments on any coupon payment date. They bear interest at a rate of three month Euribor plus 3.26% per annum and reset quarterly each year on 7 March, 7 June, 7 September and 7 December.

(b) The rights and claims of the holder of the Preferred Securities are subordinated to the claims of the senior creditors of the Issuer or of the Bank (as the case may be) in that no payment in respect of the Preferred Securities or the guarantee in respect of them shall be due and payable except to the extent that the Issuer or the Bank (as applicable) is solvent and could make such payment and still be solvent immediately thereafter. Upon any winding up of the Issuer or the Bank (in respect of claims under the guarantee), the holders of the Preferred Securities will rank pari passu with the holders of the most senior class or classes of preference shares or stock (if any) of the Issuer or of the Bank then in issue and in priority to all other shareholders of the Issuer and of the Bank.

(c) The 13⅜% Perpetual Subordinated Bonds were revalued as part of the fair value adjustments on the acquisition by Bristol & West plc of the business of Bristol & West Building Society in July 1997. Bank of Ireland became the issuer of these bonds in 2007 in connection with the transfer of the business of Bristol & West plc to Bank of Ireland.

(d) These Preference Shares which are non-redeemable, non-equity shares rank equally amongst themselves as regards participation in profits and in priority to the ordinary shares of Bristol & West plc.

Holders of the Preference Shares are entitled to receive, in priority to the holders of any other class of shares in Bristol & West plc, a non-cumulative preference dividend at a fixed rate per annum payable in equal half yearly instalments in arrears on 15 May and 15 November each year. The preference dividend on the Preference Shares will only be payable to the extent that payment can be made out of profits available for distribution as at each dividend payment date in accordance with the provisions of the UK Companies Acts.

On 1 October 2007 in connection with the transfer of the business of Bristol & West plc to Bank of Ireland, Bank of Ireland entered into a Guarantee and Capital Maintenance Commitment (the Guarantee) with respect to the Preference Shares. Under the terms of the Guarantee, the liability of Bristol & West plc in relation to the ongoing payment of dividends and any repayment of capital in relation to

37 Subordinated liabilities (continued)

the preference shares that remained following the transfer of business would be protected. Under the Guarantee, Bank of Ireland agreed, subject to certain conditions, to (i) contribute capital to Bristol & West plc to the extent required to ensure that Bristol & West plc has sufficient distributable reserves to pay the dividends on the preference shares and to the extent required, repay the preference share capital and (ii) guarantee Bristol & West plc's obligations to make repayment of the dividends and preference share capital.

In this connection the Guarantee contains provisions to the effect that the rights of Bank of Ireland's creditors under the Guarantee are subordinated to (i) unsubordinated creditors and debtors of Bank of Ireland and (ii) subordinated creditors of Bank of Ireland other than those whose claims rank, or are expressed to rank pari passu or junior to the payments under the Guarantee.

Dated loan capital
Dated loan capital, which includes bonds and notes, constitute unsecured obligations of the Bank subordinated in right of payments to the claims of depositors and other unsubordinated creditors of the Bank and rank pari passu without any preference among themselves. Interest rates on the floating rate and fixed rate subordinated liabilities (accommodated through swaps) are determined by reference to the relevant currency reference rate.

The table on page 251 provides a description of the dated loan capital, including:
- the currency of the issue;
- if the issue is fixed, floating or a combination of both; and
- maturity.

All of the dated notes in issue at 31 December 2013 with the exception of the Convertible Contingent Capital Note 2016 were issued under the Bank's Euro Note Programme.

(e) Convertible Contingent Capital Note 2016
During the year ended 31 December 2011, the Group issued a Contingent Capital Note to the State to satisfy the requirements of the 2011 PCAR. The nominal value of this note is €1 billion and cash proceeds of €985 million were received (net of a fee paid to the State of €15 million). The note has a term of five years and an annual coupon of 10%, which could have been increased to a market rate subject to a maximum coupon of 18% if the State sold the note to a third party.

If the Core tier 1 capital ratio (or the transitional Common equity tier 1 ratio from the commencement of the Capital Requirement Regulations) of the Group (as calculated under the terms of the instrument) falls below 8.25%, the note automatically converts to units of ordinary stock. The conversion price at which the note would convert is the volume-weighted average price (VWAP) of the ordinary stock over the 30 days prior to conversion, subject to a current minimum conversion price of €0.05 per unit.

The Group measured the Contingent Capital Note at fair value at initial recognition. As the note did not initially trade in an active market, and was issued to a related party, the fair value was established using a valuation technique. The key inputs into the valuation technique were the expected interest payments over the life of the note, the estimated market yield for the instrument at the date of issuance and the estimated market yield for a subordinated liability without an equity conversion feature. The fair value of the note at initial recognition was €869 million.

The difference of €116 million between the fair value of the note on initial recognition and the net amount received from the State was treated as a capital contribution and credited directly to other reserves, as the State is a significant investor in the Group and was considered to be acting in that capacity.

The equity conversion feature of the note is considered to be an embedded derivative requiring separation, initially an asset with a fair value of €91 million. This derivative has been separated from the host instrument and is subsequently measured at fair value through profit or loss. The fair value of the derivative is established using a valuation technique. The host subordinated liability was measured on initial recognition as the residual after separation of the embedded derivative at an amount of €960 million, and is subsequently measured at amortised cost. At 31 December 2013, the fair value of the embedded derivative was €50 million (31 December 2012: €62 million) (see note 20).

The Group recognised a gain of €79 million in interest expense during the year ended 31 December 2012, reflecting a decrease arising on the remeasurement of the carrying value of the note as a result of a fall in the expected future coupon payments.

On 9 January 2013, the State sold its entire holding of the note to a diverse group of international institutional investors, thereby fixing all future cash coupon payments on the notes at 10% per annum. The option to increase the market rate noted above was not exercised and lapsed on the sale.

38 Other liabilities

	31 December 2013 €m	Restated* 31 December 2012 €m
Accrued interest payable	690	1,104
Notes in circulation	991	930
Sundry creditors	420	274
Accruals and deferred income	172	211
Finance lease obligations	9	11
Other	559	607
Other liabilities	**2,841**	**3,137**
Other liabilities are analysed as follows:		
Within 1 year	2,535	2,905
After 1 year	306	232
	2,841	**3,137**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

The Bank was authorised to issue bank notes in Northern Ireland under the Banking Act 2009. As from 15 May 2012, under the Bank of Ireland (UK) plc Act 2012, that authority to issue bank notes and the liability for existing issued bank notes transferred from the Bank in Northern Ireland to the Bank of Ireland (UK) plc.

Included in other liabilities is an amount of €8 million (31 December 2012: €14 million) relating to the Group's share of the liabilities of the joint operation (JO) (see note 54).

39 Provisions

	Restructuring €m	Onerous contracts €m	Legal €m	Other €m	Total €m
As at 1 January 2013	65	19	2	33	119
Charge to income statement	90	-	2	11	103
Utilised during the year	(88)	(7)	(1)	(27)	(123)
Unused amounts reversed during the year	-	(7)	-	(2)	(9)
As at 31 December 2013	**67**	**5**	**3**	**15**	**90**

Of the €67 million closing provision for restructuring, €24 million relates to staff exits and €43 million relates to property and other costs.

Expected utilisation	Restructuring €m	Onerous contracts €m	Legal €m	Other €m	Total €m
Less than 1 year	38	1	2	14	55
1 to 2 years	13	1	1	1	16
2 to 5 years	9	1	-	-	10
5 to 10 years	6	1	-	-	7
More than 10 years	1	1	-	-	2
Total	**67**	**5**	**3**	**15**	**90**

39 Provisions (continued)

The Group has recognised provisions in relation to restructuring costs, onerous contracts, legal and other. Such provisions are sensitive to a variety of factors, which vary depending on their nature. The estimation of the amounts of such provisions is judgemental because the relevant payments are due in the future and the quantity and probability of such payments is uncertain.

The methodology and the assumptions used in the calculation of provisions are reviewed regularly and, at a minimum, at each reporting date.

40 Deferred tax

	31 December 2013 €m	Restated* 31 December 2012 €m
The movement on the deferred tax account is as follows:		
At beginning of year	1,548	1,293
Income statement credit for year	97	289
Pension	16	106
Available for sale financial assets – charge to other comprehensive income	(47)	(125)
Cash flow hedges – charge to other comprehensive income	21	(25)
Revaluation / reclassification of property during the year	-	1
Other movements	(13)	9
At end of year	**1,622**	**1,548**
Deferred tax assets and liabilities are attributable to the following items:		
Deferred tax assets		
Unutilised tax losses	1,650	1,500
Pensions and other post retirement benefits	115	148
Accelerated capital allowances on equipment used by the Group	20	12
Provision for loan impairment	12	12
Cash flow hedge reserve	3	-
Other temporary differences	-	19
Deferred tax assets	**1,800**	**1,691**
Deferred tax liabilities		
Available for sale reserve	(72)	(25)
Life companies	(69)	(54)
Property revaluation surplus	(9)	(10)
Accelerated capital allowances on finance leases	(5)	(13)
Cash flow hedge reserve	-	(18)
Other temporary differences	(23)	(23)
Deferred tax liabilities	**(178)**	**(143)**
Represented on the balance sheet as follows:		
Deferred tax assets	1,714	1,640
Deferred tax liabilities	(92)	(92)
	1,622	**1,548**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

40 Deferred tax (continued)

In accordance with IAS 12, in presenting the deferred tax balances above the Group offsets deferred tax assets and liabilities where:

- an entity has a legally enforceable right to set off current tax assets against current tax liabilities, and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred tax liabilities have not been recognised for tax that may be payable if earnings of certain overseas subsidiaries were remitted to Ireland as the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Unremitted earnings for overseas subsidiaries totalled €121 million (31 December 2012: €164 million).

The deferred tax asset of €1,714 million (31 December 2012: €1,640 million (restated)) shown on the balance sheet is after netting by jurisdiction (€1,800 million before netting by jurisdiction, 31 December 2012: €1,691 million (restated)). This includes an amount of €1,650 million at 31 December 2013 (31 December 2012: €1,500 million) in respect of operating losses which are available to relieve future profits from tax. In order for the Group to recognise an asset for unutilised losses it must have convincing evidence of sufficient future taxable profits against which the losses can be utilised. The deferred tax asset has been recognised on the basis that it is probable it will be recovered as the Directors are satisfied that it is probable that the Group will have sufficient future taxable profits against which the unutilised losses can be utilised.

Under current Irish and UK tax legislation there is no time restriction on the utilisation of trading losses. The Finance (No 2) Act 2013 abolished the tax provision applicable to financial institutions participating in NAMA which restricted by 50% the amount of profits against which the carried forward trading losses could be utilised. The effect of this change is to accelerate the Group’s ability to utilise its tax losses carried forward and shorten the recovery period of its deferred tax asset. The Group expects to recover a significant portion of the deferred tax asset in a period more than ten years from the balance sheet date, however it expects that the greater part of the deferred tax asset will be recovered within ten years of the balance sheet date. The deferred tax asset has been recognised on the basis that it is probable the tax losses will be recovered as the Directors are satisfied that it is probable that the Group will have sufficient future taxable profits against which the deferred tax assets can be utilised to the extent they have not already reversed. Under accounting standards these assets are measured on an undiscounted basis.

The Group’s projections of future taxable profits incorporate estimates and assumptions on economic factors such as employment levels and interest rates as well as other measures such as loan volumes and impairment losses. The Group projections are based on the current business plan for the four years to 2017. The Group assumes long term growth in profitability thereafter. The use of alternative assumptions representing reasonably possible alternative outcomes would not impact the recognition of the Group’s deferred tax assets, although they could increase or decrease the recovery period. If the projected rate of growth of taxable profits was increased or decreased by 2 percentage points, the Group estimates that this would respectively decrease or increase the recovery period by up to 2 years.

The UK Government announced that the main rate of corporation tax would reduce to 21% from 1 April 2014 and 20% for years beginning on or after 1 April 2015. The reduction in the corporation tax rate to 20% from 1 April 2015 was substantively enacted at the balance sheet date and the effect of this change has been to reduce the deferred tax asset at 31 December 2012 by €66 million.

Deferred tax assets have not been recognised in respect of US tax losses of €73 million (31 December 2012: €70 million) and US temporary differences of €2 million (31 December 2012: €4 million). €27 million (31 December 2012: €23 million) of the tax losses expire in the period 2020 to 2028 with €46 million due to expire in 2029. There is no expiry date on the tax credits. Deferred tax assets have not been recognised in respect of these losses due to an annual limitation on use.

The amount of the deferred tax asset expected to be recovered after more than one year is c.€1.7 billion (31 December 2012: c.€1.7 billion). The amount of deferred tax liability expected to be settled after more than one year is c.€0.2 billion (31 December 2012: c.€0.1 billion).

40 Deferred tax (continued)

The deferred tax credit in the income statement comprises the following temporary differences:

	31 December 2013 €m	Restated* 31 December 2012 €m
Current year losses	175	363
Reassessment of the value of tax losses carried forward	65[1]	-
Impact of corporation tax rate change	(58)	(33)
Pensions and other retirement benefits	(50)	(20)
Life companies	(15)	(8)
Accelerated tax depreciation	14	15
Other temporary differences	(15)	(1)
Transfer to current tax	(25)	(45)
Adjustments in respect of prior year	6	18
Total deferred tax	**97**	**289**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

1 *During the year the Group's assessment of the value of UK losses has increased by €65 million.*

41 Retirement benefit obligations

The Group sponsors a number of defined benefit and defined contribution schemes in Ireland and overseas. The defined benefit schemes are funded and the assets of the schemes are held in separate trustee administered funds. In determining the level of contributions required to be made to each scheme and the relevant charge to the income statement the Group has been advised by independent actuaries, which in the case of the majority of the Group's schemes is Towers Watson.

The most significant defined benefit scheme in the Group is the Bank of Ireland Staff Pensions Fund (BSPF) which accounts for approximately 71% of the pension deficit on the consolidated Group balance sheet at 31 December 2013. The BSPF was closed to new members from 1 October 2006, with the exception of a number of new entry-level employees (who joined from 1 October 2006 to 21 November 2007), who were offered a one-off option to join the scheme. All new employees in the Group from 21 November 2007 are eligible to become members of the Bank of Ireland Group Pensions Fund (BIGPF) or the Bank of Ireland Group UK Pension Fund. The BIGPF is a hybrid scheme which includes elements of both a defined benefit and a defined contribution scheme.

Retirement benefits under the BSPF and a majority of the other defined benefit plans are calculated by reference to pensionable service and pensionable salary at normal retirement date.

During the year ended 31 December 2013, the Group adopted IAS19 Employees Benefits (Revised 2011) (IAS19R), see Impact of adopting new accounting standards (note 58) and Group accounting policies on page 186.

Regulatory Framework

The Group operates the defined benefit plans under broadly similar regulatory frameworks. Benefits under the BSPF are paid to members from a fund administered by Trustees, who are responsible for ensuring compliance with the Pensions Act 1990 and other relevant legislation. These responsibilities include ensuring that contributions are received, investing the scheme assets and making arrangements to pay the benefits. Plan assets are held in trusts and are governed by local regulations and practice in each country.

In order to assess the level of contributions required, triennial valuations are carried out with plan obligations generally measured using prudent assumptions and discounted based on the return expected from assets held in accordance with the actual scheme investment policy.

41 Retirement benefit obligations (continued)

The BSPF is also subject to an annual valuation under the Irish Pensions Board Minimum Funding Standard (MFS). The MFS valuation is designed to provide a check that a scheme has sufficient funds to provide a minimum level of benefits in a wind-up scenario. If the MFS valuation indicates a funding level of below 100%, action would be required. This generally takes the form of agreeing a 'Funding Proposal' with the Trustees with the aim of meeting the MFS at a specified future point in time.

The responsibilities of the Trustees, and the regulatory framework, are broadly similar for the Group's other defined benefit schemes and take account of pension regulations in each specific jurisdiction. The Group works closely with the Trustees of each scheme to manage the plans.

The nature of the relationship between the Group and the Trustees is governed by local regulations and practice in each country and by the respective legal documents underpinning each plan.

Actuarial Valuation of the BSPF

The last formal Triennial valuation of the BSPF, using the Attained Age method, was carried out as at 31 December 2012. The Attained Age method measures liabilities taking account of the projected future levels of pensionable earnings at the time of commencement of benefits i.e. at normal retirement date. For measurement of the obligation in the financial statements under IAS 19R the defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The Triennial valuation disclosed that the fair value of scheme assets represented 88% of the benefits that had accrued to members after allowing for expected future increases in earnings and pensions. The valuation did not take account of the impact of changes in the pension benefits set out below as negotiations in relation to the Pensions 2013 Review (see below) with staff representative bodies had not concluded by the valuation due date. Following conclusion of the valuation the actuary recommended that the future service contribution rate increase to 21.7% of basic salaries (inclusive of employee contributions), from 19.8% previously.

The actuarial valuations are available for inspection by members but are not available for public inspection.

Following acceptance of the Pensions 2013 Review by the largest staff representative body, the IBOA, the actuary recalculated the joint future service contribution rate and the funding level of the scheme, taking account of the impact of post-retirement changes to benefits and assumptions as set out below. The fair value of the scheme assets represented 97% of the liabilities on this revised basis. The actuary recommended a joint contribution rate of 19.8% following this change (unchanged from 19.8% at the previous triennial valuation). Following the conclusion of the staff acceptance process in relation to the pensionable salary changes outlined in the Pensions 2013 Review (see below), a revised contribution rate and schedule of deficit-reducing contributions are expected to be agreed with the Trustees during 2014.

In addition to the future service contributions the Group continues to make additional contributions of €25.75 million per quarter to mid-2016 to the BSPF arising from the 2010 Group Pensions Review.

The next formal triennial valuation of the BSPF will be carried out during 2016 with an effective date no later than 31 December 2015.

The MFS valuation of the BSPF disclosed that the fund satisfied the statutory Funding Standard at 31 December 2012.

Pension levy

The Irish Finance (No. 2) Act 2011 introduced a stamp duty levy of 0.6% on the market value of assets under management in Irish pension funds, for the years 2011 to 2014 (inclusive). The levy is based on scheme assets as at 30 June in each year, or as at the end of the preceding scheme financial year.

The Group has recognised a charge of €24 million in respect of the 2013 pension levy through other comprehensive income for the year ended 31 December 2013.

41 Retirement benefit obligations (continued)

During 2012 and 2013, the Group and the Trustees of the Bank of Ireland Staff Pensions Fund (BSPF) agreed that in exchange for additional security for scheme members, the cost of the pension levies incurred to date would be borne by the relevant Republic of Ireland scheme members, in the form of adjustments to members' benefits. The additional security was provided by a charge over a portfolio of Group assets (a contingent asset) with an initial value of €250 million which increased to €375 million at 31 December 2013, including Group properties with a fair value of €42 million at 31 December 2013 (31 December 2012: €42 million), which will remain in place until the scheme's assets exceed the core liabilities under the Minimum Funding Standard by a satisfactory margin. The Trustees of the BIF, ICS and BAPF schemes have also agreed that the cost of the levies incurred to date would be borne by the relevant Republic of Ireland scheme members, in the form of an adjustment to member's benefits.

The Group has recognised a negative past service cost of €28 million in the income statement during the year ended 31 December 2013 (31 December 2012: €43 million) in relation to these benefit adjustments.

Pensions 2013 Review

During 2013, the Group completed a review of the BSPF and the IAS 19R deficit of same. This review involved communication with the members of the scheme, together with an extensive process of consultation with staff representative bodies and other stakeholders. The proposals arising from the review were accepted by the largest staff representative body, the IBOA.

The objectives of this review were to continue to sponsor competitive pension arrangements and benefits and help secure the future viability of the scheme, while recognising the need to substantially reduce the IAS 19R deficit and associated volatility.

Arising from this review the Group proposed a number of amendments to the scheme. These amendments involved the employee members of the BSPF agreeing to some changes to how potential future salary increases qualify for pension. The Group has also advised members of changes to how increases to pensions in payment will be determined. The Group also made certain assumption changes following the review.

In return for agreement from employee members to changes in how potential future salary increases qualify for pension, the Group has agreed to increase its support for the BSPF, above existing support arrangements, so as to broadly match the IAS 19R deficit reductions arising from changes to potential benefits. It is also intended, subject to consultation with the BSPF's Trustees, that there will be reductions in the proportion of the BSPF's assets which are invested in return seeking assets. This has had no accounting impact as at 31 December 2013.

By 31 December 2013, the amendments and changes in assumptions in respect of future levels of pension increases had been implemented.

The impact of the Pensions 2013 Review at 31 December 2013 has been to reduce the Group's pension deficit by €394 million, which was recognised as follows:

	€m
Income Statement	
Amendment to future pension increases	251
Amendment to future increases in members' pensionable salary	26
Negative past service cost	277
Directly related costs	(3)
Total recognised in the income statement, net of directly related costs	274
Statement of comprehensive income	
Change in assumptions in respect of future pension increases	117
Total reduction in pension deficit	**394**

In relation to the amendment to future increases in members' pensionable salaries, active members in RoI were asked to individually accept the changes during 2013. As at 31 December 2013, 19% of those members had accepted the changes and the defined benefit pension scheme deficit at 31 December 2013 reflects this level of acceptances. This has been recognised as a negative past service cost of €26 million. As at 28 February 2014, the acceptance level had increased to over 95%, giving rise to an estimated further negative past service cost of c.€81 million.

41 Retirement benefit obligations (continued)

In relation to the negotiated package of pension amendments, the IBOA recommended the solution to its members and the changes were put to ballot in late November 2013. The ballot was passed in early December 2013. By 31 December 2013, the amendments to future levels of pension increases had been implemented. As a result, a negative past service cost of €251 million has been recognised in the income statement at 31 December 2013.

The total income statement impact of the amendments, net of directly related expenses, amounted to a gain of €274 million.

In addition, the Pensions 2013 Review outcome also resulted in a financial assumption change. As a result, at 31 December 2013, €117 million has been recognised in other comprehensive income.

Plan details
The following table sets out details of the membership of the BSPF.

Plan details at last valuation date	Number of members	Proportion of funding liability
Active members	8,598	37%
Deferred members	6,380	19%
Pensioner members	3,097	44%
Total	**18,075**	**100%**

Financial and Demographic assumptions
The assumptions used in calculating the accounting costs and obligations of the Group's defined benefit pension plans, as detailed below, are set by the Directors after consultation with independent actuaries.

Discount rates are determined in consultation with the Group's independent actuary with reference to market yields at the balance sheet date on high quality corporate bonds (AA rated or equivalent) with a term corresponding to the term of the benefit payments. The yield curve is extrapolated when the term of the benefit payments is longer than the term of available bonds and the single discount rate specified takes the shape of the yield curve and the benefit payments into account. The assumption for ROI price inflation is set by reference to the European Central Bank inflation target for eurozone countries, which is to maintain inflation at below 2% per annum, and to the long term expectation for eurozone inflation as implied by the difference between eurozone fixed interest and indexed linked bonds. The assumptions for UK price inflation are set by reference to the difference between yields on longer-term conventional government bonds and index-linked bonds with appropriate adjustments to reflect distortions due to supply and demand, except for UK CPI inflation, which is set by reference to RPI inflation, with an adjustment applied, as no CPI-linked bonds exist.

The salary assumption takes into account inflation, seniority, promotion and current employment markets relevant to the Group.

41 Retirement benefit obligations (continued)

The financial assumptions used in measuring the Group's defined benefit pension liability under IAS 19 are set out in the table below.

Financial assumptions	**31 December 2013 % p.a.**	31 December 2012 % p.a.
Irish schemes		
Inflation rate	2.00	2.00
Discount rate	3.65	3.90
Rate of general increase in salaries	*2.50	*2.50
Rate of increase in pensions in payments	*1.24	*1.90
Rate of increase to deferred pensions	1.90	1.90
UK schemes		
Consumer Price Inflation	2.70	2.40
Retail Price Inflation	3.60	2.90
Discount rate	4.45	4.60
Rate of general increase in salaries	*4.10	*3.40
Rate of increase in pensions in payments	*2.49	*2.70
Rate of increase to deferred pensions	2.70	2.40

* *Weighted average increase across all Group schemes.*

Mortality assumptions

The mortality assumptions adopted for Irish pension arrangements are based on the results of the Society of Actuaries in Ireland mortality investigation.

	31 December 2013 €m	31 December 2012 €m
Longevity at age 70 for current pensioners		
Males	17.5	17.3
Females	18.9	18.7
Longevity at age 60 for active members currently aged 60 years		
Males	27.1	26.9
Females	28.7	28.5
Longevity at age 60 for active members currently aged 40 years		
Males	29.6	29.5
Females	30.8	30.7

41 Retirement benefit obligations (continued)

Amounts recognised in financial statements

The table below outlines where the Group's defined benefit plans are recognised in the financial statements

31 December 2013	Irish Pension Plans €m	UK Pension[1] Plans €m	Total €m
Income statement credit / (charge)			
- Other operating expenses	(110)	(22)	(132)
- Impact of amendments to the defined benefit pension scheme, net of directly related expenses	237	37	274
- Cost of restructuring programme	3	2	5
Statement of other comprehensive income			
Impact of remeasurement	(106)	(23)	(129)
Balance sheet obligations	(747)	(94)	(841)
This is shown on the balance sheet as:			
Retirement benefit obligation			(845)
Retirement benefit asset			4
Total net liability			**(841)**

All figures above are shown before deferred tax.

Restated* 31 December 2012	Irish Pension Plans €m	UK Pension[1] Plans €m	Total €m
Income statement credit / (charge)			
- Other operating expenses	(45)	(24)	(69)
- Cost of restructuring programme	2	(1)	1
Statement of other comprehensive income			
- Impact of remeasurement	(869)	(25)	(894)
Balance sheet obligations	(954)	(121)	(1,075)
This is shown on the balance sheet as:			
Retirement benefit obligation			(1,077)
Retirement benefit asset			2
Total net liability			(1,075)

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)'. See note 58 for additional information.*

[1] *The UK Pension Plans include a portion of the BSPF which relates to UK members.*

41 Retirement benefit obligations (continued)

The movement in the net defined benefit obligation over the year in respect of the Group's defined benefit plans is as follows:

	Present value of obligation	Fair value of plan assets	(Surplus) / deficit of plans
At 1 January 2013	**(6,137)**	**5,062**	**(1,075)**
Impact of Pensions 2013 Review	394	-	394
- Negative past service cost (income statement)	*277*	*-*	*277*
- Change in financial assumptions (other comprehensive income)	*117*	*-*	*117*
Cost of restructuring programme	5	-	5
- Negative past service cost	*5*	*-*	*5*
Other operating expenses	(333)	201	(132)
- Current service cost	*(122)*	*-*	*(122)*
- Negative past service cost	*28*	*-*	*28*
- Interest (expense) / income	*(239)*	*201*	*(38)*
Return on plan assets not included in income statement	-	85	85
Change in demographic assumptions	-	-	-
Other changes in financial assumptions	(355)	-	(355)
Experience gains	8	-	8
Employer contributions	-	213	213
- Deficit clearing[1]	*-*	*119*	*119*
- Other	*-*	*94*	*94*
Employee contributions	(13)	13	-
Benefit payments	153	(153)	-
Changes in exchange rates	25	(9)	16
At 31 December 2013	**(6,253)**	**5,412**	**(841)**

The above amounts are recognised in the financial statements as follows: (charge) / credit

	Present value of obligation	Fair value of plan assets	(Surplus) / deficit of plans
Other operating expenses	(333)	201	(132)
Impact of amendments to defined benefit pension schemes, net of directly related costs	274	-	274
Cost of restructuring programme	5	-	5
Total amount recognised in income statement	**(54)**	**201**	**147**
Changes in financial assumptions	(238)	-	(238)
Return on plan assets not included in income statement	-	85	85
Change in demographic assumptions	-	-	-
Changes in exchange rates	25	(9)	16
Experience gains	8	-	8
Total remeasurements in other comprehensive income	**(205)**	**76**	**(129)**

Total Negative past service cost comprises

Impact of amendments to defined benefit pension schemes	277
Impact of restructuring programme	5
Other operating expenses	28
Total	**310**

[1] *Deficit reducing contributions are additional contributions related to the Group's Pensions Reviews.*

41 Retirement benefit obligations (continued)

Restated*	Present value of obligation	Fair value of plan assets	(Surplus) / deficit of plans
At 1 January 2012	(4,802)	4,463	(339)
Cost of restructuring programme	1	-	1
- Negative past service cost	*1*	*-*	*1*
Other operating expenses	(306)	237	(69)
- Current service cost	*(99)*	*-*	*(99)*
- Negative past service cost	*43*	*-*	*43*
- Interest (expense) / income	*(250)*	*237*	*(13)*
Return on plan assets not included in income statement	-	268	268
Change in demographic assumptions	-	-	-
Other changes in financial assumptions	(1,162)	-	(1,162)
Experience gains	16	-	16
Employer contributions	-	226	226
- Deficit clearing[1]	*-*	*120*	*120*
- Other	*-*	*106*	*106*
Employee contributions	(14)	14	-
Benefit payments	155	(155)	-
Changes in exchange rates	(25)	9	(16)
At 31 December 2012	(6,137)	5,062	(1,075)

The above amounts are recognised in the financial statements as follows: (charge) / credit

Other operating expenses	(306)	237	(69)
Cost of restructuring programme	1	-	1
Total amount recognised in income statement	(305)	237	(68)
Changes in financial assumptions	(1,162)	-	(1,162)
Return on plan assets not included in income statement	-	268	268
Change in demographic assumptions	-	-	-
Changes in exchange rates	(25)	9	(16)
Experience gains	16	-	16
Total remeasurements in other comprehensive income	(1,171)	277	(894)

Total Negative past service cost comprises	
Impact of restructuring programme	1
Other operating expenses	43
Total	44

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)'. See note 58 for additional information.*

[1] *Deficit reducing contributions are additional contributions related to the Group's Pensions Reviews.*

41 Retirement benefit obligations (continued)

Asset breakdown	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Equities (quoted)	2,375	2,372
Liability Driven Investment (unquoted)	1,219	1,382
Corporate bonds (quoted)	318	315
Property (unquoted)	314	252
Government bonds (quoted)	283	282
Cash (quoted)	251	225
Senior secured loans (unquoted)	197	-
Reinsurance (unquoted)	196	-
Hedge funds (unquoted)	193	184
Private equities (unquoted)	66	51
Total fair value of assets	**5,412**	**5,063**

The retirement benefit schemes' assets include Bank of Ireland stock amounting to €7 million (31 December 2012: €3 million) and property occupied by Bank of Ireland Group companies to the value of €25 million (31 December 2012: €24 million).

Sensitivity of defined benefit obligation to key assumptions
The table below sets out how the defined benefit obligation would have been affected by changes in the significant actuarial assumptions that were reasonably possible at 31 December 2013:

Impact on defined benefit obligation	Change in assumption	Impact on actuarial liabilities €m
Discount rate	0.25% decrease	318
RPI inflation*	0.10% decrease	(111)
Salary growth	0.10% decrease	(21)
Life expectancy	1 year increase	152

* *Including other inflation-linked assumptions (CPI inflation, pension increases, salary growth)*

The sensitivity analysis is prepared by the independent actuaries calculating the defined benefit obligation under the alternative assumptions.

While the table above shows the estimated impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

Some of the above changes in assumptions may have an impact on the value of the schemes' investment holdings. For example, the plans hold a proportion of their assets in corporate bonds. A fall in the discount rate as a result of lower corporate bond yields would be expected to lead to an increase in the value of these assets, thus partly offsetting the increase in the defined benefit obligation. The extent to which these sensitivities are managed is discussed further below.

41 Retirement benefit obligations (continued)

Future cash flows

The plans' liabilities represent a long-term obligation and most of the payments due under the plans will occur several decades into the future.

The duration, or average term to payment for the benefits due weighted by liability, is c.20 years for the Irish plans and c.21 years for the UK plans.

Expected employer contributions for the year ended 31 December 2014 are €214 million, inclusive of €131 million of additional contributions related to the Group pensions reviews. Expected employee contributions for the year ended 31 December 2014 are €13 million.

Risks and risk management

The Group's defined benefit pension plans have a number of areas of risk. The key areas of risk, and the ways in which the Group has sought to manage them, are set out in the table below.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements.

41 Retirement benefit obligations (continued)

Risk	Description
Asset volatility	The defined benefit pension plans hold a significant proportion of their assets in equities and other return-seeking assets. The returns on such assets tend to be volatile. For the purposes of the triennial valuation, the defined benefit liabilities, however, are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. For measurement of the obligation in the financial statements under IAS 19R the defined benefit obligation is calculated using a discount rate set with reference to high-quality corporate bond yields. The movement in the asset portfolio is not fully correlated with the movement in the two liability measures and this means that the funding level is likely to be volatile in the short-term, potentially resulting in short-term cash requirements and an increase in the net defined benefit deficit recorded on the balance sheet. In order to limit the volatility in asset returns, the schemes' assets are well-diversified by investing in a range of asset classes, including listed equity, private equity, hedge funds, infrastructure, reinsurance, property, government bonds and corporate bonds. The investment in bonds is discussed further below.
Changes in bond yields	Interest rate and inflation risks, along with equity risk, are the defined benefit schemes' largest risks. From an accounting liability perspective, the schemes are also exposed to movements in corporate bond spreads. As part of its Risk Management the largest Group sponsored pension scheme, the BSPF has invested 29% in a Liability Driven Investment (LDI) approach to help manage its interest rate and inflation risk. The LDI approach invests in cash, sovereign bonds and interest rate and inflation swaps to create a portfolio which is both euro inflation-linked and of significantly longer duration than possible in the physical bond market. The portfolio will broadly hedge against movements in long-term interest rates and inflation expectations. The LDI portfolio only hedges a portion of the BSPF's interest rate and inflation risks. Furthermore, the portfolio does not hedge against changes in the credit spread on corporate bonds used to derive the accounting liabilities, nor protect against differences between expectations for eurozone average inflation and the Fund's Irish inflation exposure. However, the investment in corporate and government bonds offers a further degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is further reduced.
Inflation risk	The majority of the plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plans against high inflation and the Pensions 2013 Review changes have further limited this exposure.
Life expectancy	The majority of the plans' obligations are to provide a pension for the life of the member, which means that increases in life expectancy will result in an increase in the plans' liabilities.

Although investment decisions are the responsibility of the trustees, the Group takes an active interest to support the efficient management of risk including through the appointment of a Group Pensions Chief Investment Officer. The role of Group Pensions Chief Investment Officer is to advise and support the Trustees of the Group sponsored pension schemes in the design, implementation and management of investment strategy to meet the various scheme liabilities. The duties include, but not are limited to, the identification and management of risks such as the risk of insufficient asset returns, changing interest rates, inflation, counterparty exposures, geographical risk, asset concentration risk, liquidity risk, regulatory risk, manager risk and longevity risk.

42 Contingent liabilities and commitments

The table below gives the contract amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

	31 December 2013 Contract amount €m	31 December 2012 Contract amount €m
Contingent liabilities		
Acceptances and endorsements	9	9
Guarantees and irrevocable letters of credit	819	742
Other contingent liabilities	327	349
	1,155	**1,100**
Commitments		
Documentary credits and short term trade related transactions	85	93
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- revocable or irrevocable with original maturity of 1 year or less	13,043	13,284
- irrevocable with original maturity of over 1 year	2,764	3,202
	15,892	**16,579**

In common with other banks, the Group conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

An **acceptance** is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. **Endorsements** are residual liabilities of the Group in respect of bills of exchange, which have been paid and subsequently rediscounted.

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Other contingent liabilities primarily include performance bonds and are generally short term commitments to third parties which are not directly dependent on the customers' credit worthiness. The Group is also party to legal, regulatory and other actions arising out of its normal business operations. In this context, the Group has received correspondence from certain parties considering taking legal action against the Group with respect to their participation in Tier 1 and Tier 2 security exchanges in June 2011. The Group considers that it has a robust defence to any such claims and will defend them vigorously, should they arise.

Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions.

43 Capital Package in relation to 2009 Preference Stock

The 2009 Preference Stock was issued by the Bank on 31 March 2009. At 31 December 2012, the National Pensions Reserve Fund Commission (NPRFC) held 1,837,041,304 units of the 2009 Preference Stock, which could be repurchased at the option of the Bank, in whole or in part, at a price per unit equal to the issue price of €1.00 per unit before 31 March 2014 and thereafter at a price per unit of €1.25 (a 'step-up' of 25% of par value), subject in either case to the consent of the Central Bank of Ireland being obtained.

Having considered its options, the Bank agreed a Capital Package with the NPRFC and the Central Bank of Ireland (CBI) which it implemented in December 2013 which included the following:

(i) the placing of new units of ordinary stock (the Placing Stock) to generate proceeds of c.€537 million (net of expenses), to redeem c.€537 million of the 2009 Preference Stock;

(ii) the sale by the NPRFC of €1.3 billion 2009 Preference Stock to Baggot Securities Limited (Baggot), a special purpose company, which funded the purchase using the proceeds of the issuance of €1.3 billion 10.24% perpetual non-cumulative notes (the Notes) to private investors. Baggot irrevocably waived its rights to the step-up by Waiver Deed (the Waiver Deed) in favour of the Bank;

(iii) the Bank advised CBI that it is not the Bank's intention to recognise 2009 Preference Stock as regulatory Common equity tier 1 (CET1) capital after July 2016, unless derecognition would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements; and

(iv) the Bank announced that it does not expect to redeem the €1.3 billion of the 2009 Preference Stock sold to Baggot prior to 1 January 2016, save in certain limited circumstances[1].

- **Issue of Ordinary Stock:** On 4 December 2013, a total of 2,230,769,231 units of Placing Stock were placed at a price of 26 cent per unit of ordinary stock (being a discount of 3% to the previous days closing price), generating gross proceeds of €580 million. The Placing Stock represented approximately 7.4% of the Group's issued ordinary stock prior to the issue. The Placing Stock ranks pari passu in all respects with the existing ordinary stock of the Group, including the right to receive all dividends and other distributions declared, made or paid on or in respect of such stock after the date of issue of the Placing Stock.

- **Redemption of the 2009 Preference Stock:** On 9 December 2013, net proceeds of €537,041,304 from the issue of the Placing Stock were used to redeem 537,041,304 units of the 2009 Preference Stock at the initial issue price of €1.00 per unit. In addition to redeeming 2009 Preference Stock, the Group paid the dividend accrued up to that date, amounting to €44 million to the NPRFC, representing the 10.25% interest over 288 days since 20 February 2013.

- **Transfer of the 2009 Preference Stock to private investors:** The State sold its holding of 1.3 billion units of the 2009 Preference Stock to Baggot, a structured entity, not controlled by the Group. The Group mandated a team of investment banks to manage and underwrite the sale to private investors of the Notes which are secured on 1.3 billion units of the 2009 Preference Stock. The sale was structured so that Baggot has waived its rights to the step-up and consequently, none of Baggot or the private investors is entitled to receive or seek the step-up. The costs of the sale of the 2009 Preference Stock to Baggot were paid by the Group, but otherwise, the sale had no impact on the financial statements of the Group. The State generated a gain of €62 million on the sale.

[1] *These circumstances would include changes in regulatory capital treatment, breach of Waiver Deed and taxation.*

The following table shows the impact for the year ended 31 December 2013 of the redemption and sale of the 2009 Preference Stock on capital stock, stock premium and retained earnings.

	Capital stock		Stock premium	Retained earnings	
	Number	€m	€m	€m	Total
Issue of ordinary stock	2,230,769,231	111	469	-	**580**
Redemption of the 2009 Preference Stock	(537,041,304)	(5)	(532)	-	**(537)**
Dividend paid on redemption of the 2009 Preference Stock		-	-	(44)	**(44)**
Transaction costs		-	(12)	(27)	**(39)**
Total		**106**	**(75)**	**(71)**	**(40)**

44 Capital stock

Authorised	31 December 2013	31 December 2012
Eur€	**€m**	€m
90 billion units of ordinary stock of €0.05 each	4,500	4,500
228 billion units of deferred stock of €0.01 each	2,280	2,280
100 million units of non-cumulative preference stock of €1.27 each	127	127
100 million units of undesignated preference stock of €0.25 each	25	25
3.5 billion units of non-cumulative 2009 Preference Stock of €0.01 each	35	35
Stg£	**£m**	£m
100 million units of non-cumulative preference stock of Stg£1 each	100	100
100 million units of undesignated preference stock of Stg£0.25 each	25	25
US$	**$m**	$m
8 million units of non-cumulative preference stock of US$25 each	200	200
100 million units of undesignated preference stock of US$0.25 each	25	25

Allotted and fully paid	31 December 2013 €m	31 December 2012 €m
32.344 billion units of €0.05 ordinary stock (31 December 2012: 30.109 billion units)	1,616	1,505
91.981 billion units of €0.01 deferred stock	920	920
41.696 million units of €0.05 treasury stock (31 December 2012: 45.586 million units)	2	2
1.9 million units of non-cumulative preference stock of Stg£1 each	3	3
3.0 million units of non-cumulative preference stock of €1.27 each	4	4
1.3 billion units of non-cumulative 2009 Preference Stock of €0.01 each (31 December 2012: 1.837 billion units)	13	18
	2,558	**2,452**

Ordinary stock

All units of ordinary stock carry the same voting rights.

The weighted average number of units of ordinary stock in issue at 31 December 2013, used in the earnings per share calculation, excludes treasury stock which does not represent ordinary stock in issue. Treasury stock does not rank for dividend. While own stock held for the benefit of life assurance policyholders legally ranks for dividend, in line with accounting standards any dividend would not accrue in the Group financial statements.

	Ordinary Stock		Treasury Stock	
Movements in ordinary and treasury stock (units)	**31 December 2013**	31 December 2012	**31 December 2013**	31 December 2012
At beginning of year	30,108,928,692	30,109,381,214	45,585,840	45,133,318
Issue of ordinary stock	2,230,769,231	-	-	-
Stock (purchased) / sold and held for the benefit of life assurance policyholders	3,889,379	(452,522)	(3,889,379)	452,522
At end of year	**32,343,587,302**	**30,108,928,692**	**41,696,461**	**45,585,840**

On 9 December 2013, the Bank issued 2,230,769,231 units of ordinary stock (the ‘Placing Stock’) with nominal value of €0.05 each. Following the issuance of the Placing Stock the Bank’s total ordinary stock in issue is 32,343,587,302 units (net of stock held for the benefit of life assurance policyholders).

At 31 December 2013, New Ireland Assurance Company plc held 19,687,771 units of ordinary stock as ‘own shares’ (31 December 2012: 23,577,150 units).

44 Capital stock (continued)

Deferred stock
The total authorised deferred stock is 228 billion units at a par value of €0.01 per unit. The deferred stock has no voting or dividend rights and, on a winding up of, or other return of capital (other than on a redemption of stock of any class in the capital of the Bank) by the Bank, the deferred stockholders will be entitled to receive the amount paid up or credited as paid up on such unit of deferred stock only after ordinary stockholders have received, in aggregate, any amounts paid up or credited as paid up on those units of ordinary stock held by them at that time, plus €10 million in cash per unit of €0.05 ordinary stock, the purpose of which is to ensure that the units of deferred stock have no economic value.

The deferred stock is not transferable at any time, other than with the prior written consent of the Directors. At the appropriate time, the Bank may redeem or repurchase the deferred stock, make an application to the High Court of Ireland for the deferred stock to be cancelled, or acquire, cancel or seek the surrender of the deferred stock (in each case for no consideration) using such other lawful means as the Directors may determine.

2009 Preference Stock
On 9 December 2013, net proceeds of €537,041,304 from the issue of capital stock were used to redeem 537,041,304 units of the 2009 Preference Stock at the initial issue price of €1.00 per unit. In addition to redeeming 2009 Preference Stock, the Group paid the dividend accrued up to that date, amounting to €44 million to the NPRFC.

On 11 December 2013, the balance of 1,300,000,000 units of the 2009 Preference Stock was sold by the NPRFC to Baggot Securities Limited (Baggot) a special purpose company, which funded the purchase using the proceeds of the issuance of €1,300,000,000 of 10.24% perpetual non-cumulative notes to private investors. Baggot has irrevocably waived its right to receive any redemption monies in respect of the 2009 Preference Stock in excess of €1.00 per unit.

On 20 February 2014, the Group paid a cash dividend of €133.3 million (20 February 2013: €188.3 million to the NPRFC) on the 2009 Preference Stock to Baggot.

The terms and conditions attaching to the 2009 Preference Stock are outlined below:

The 2009 Preference Stock entitles the holder to receive a non-cumulative cash dividend at a fixed rate of 10.25% per annum payable annually in arrears on 20 February at the discretion of the Bank. If a cash dividend is not paid by the Bank, the Bank shall issue units of ordinary stock to the holder to be settled on a day determined by the Bank, in its sole discretion, provided that this must occur no later than the day on which the Bank subsequently redeems or repurchases or pays a dividend on the 2009 Preference Stock or any class of capital stock. The number of units of ordinary stock that the Bank would be required to issue in the event of non-payment of a cash dividend is calculated by dividing the amount of the unpaid dividend by the Thirty Day Average Price.

If the dividend on the 2009 Preference Stock is not paid in any particular year, the Bank is precluded from paying any dividend on ordinary stock until the Bank resumes the payment of dividends on the 2009 Preference Stock in cash. The Bank will also be precluded from paying any dividend on ordinary stock where the payment of such a dividend would reduce the distributable reserves of the Bank to such an extent that the Bank would be unable to pay the next dividend due for payment on the 2009 Preference Stock.

The repayment of the capital paid up (inclusive of premium) on the 2009 Preference Stock ranks pari passu with the repayment of the paid up nominal value (excluding premium) of the ordinary stock on a winding up or other return of capital of the Bank.

The 2009 Preference Stock ranks ahead of ordinary stock as regards dividends and the repayment of premium on the ordinary stock on a winding up or other return of capital of the Bank. It ranks pari passu as regards dividends with other stock or securities which constitute Core tier 1 capital of the Bank (other than ordinary stock and other than dividends to Non-controlling Interests).

The 2009 Preference Stock is transferable in minimum lots of 50,000 units.

44 Capital stock (continued)

The 2009 Preference Stock may be repurchased in whole or in part at the option of the Bank at a price per unit equal to €1.00 per unit before 31 March 2014 and thereafter at a price per unit of €1.25, representing a 25% step-up per unit provided in either case that the consent of the CBI to the repurchase of the 2009 Preference Stock is obtained. Baggot, the current holder of the 2009 Preference Stock, has waived its rights to receive redemption monies in excess of €1.00 per unit. The 2009 Preference Stock is not capable of being repurchased if it would breach or cause a breach of Irish banking capital adequacy requirements from time to time applicable to the Bank subject to regulatory approval. The Bank may only redeem the 2009 Preference Stock in accordance with company law, and with the approval of the CBI, out of profits available for distribution or the proceeds of a fresh issue of stock or an issue of securities treated by the CBI as constituting Core tier 1 capital.

If the ordinary stock to be issued in the event of non-payment of cash dividends on the 2009 Preference Stock is not settled on the dividend payment date to which it relates, the holder is entitled to exercise the voting rights of that as yet unissued ordinary stock from the dividend payment date. Such voting rights will have no effect on the Bank's unfettered discretion in respect of (i) the payment of dividends on the 2009 Preference Stock or any other securities of the Bank ranking pari passu with, or junior to, the 2009 Preference Stock or the issuance of ordinary stock in the event of non-payment of cash dividends on the 2009 Preference Stock; or (ii) the redemption or repurchase of the 2009 Preference Stock or any other securities of the Bank ranking pari passu with, or junior to, the 2009 Preference Stock.

Preference stock – Stg£1 each and €1.27 each

The preference stock is non-redeemable. The holders of preference stock are entitled to receive at the discretion of the Bank a non-cumulative preferential dividend, which in the case of the sterling preference stock is payable in sterling, in a gross amount of Stg£1.2625 per unit per annum and in the case of euro preference stock is payable in euro in a gross amount of €1.523686 per unit per annum, in equal semi-annual instalments, in arrears, on 20 February and 20 August in each year.

On a winding up of, or other return of capital by, the Bank (other than on a redemption of stock of any class in the capital of the Bank) the holders of preference stock will be entitled to receive an amount equal to the amount paid up or credited as paid up on each unit of the preference stock held (including the premium) out of the surplus assets available for distribution to the Bank's members. Subject to the Bank's Bye-Laws, the preference stockholders may also be entitled to receive a sum in respect of dividends payable.

The preference stockholders are not entitled to vote at any General Court except in certain exceptional circumstances. Such circumstances did not arise during 2013 and consequently the preference stockholders were not entitled to vote at the Annual General Court held on 24 April 2013.

As at 31 December 2013 and 31 December 2012, 1,876,090 units of sterling preference stock and 3,026,598 units of euro preference stock were in issue.

Use of ordinary stock in employee schemes

(a) Employee Stock Issue Scheme

Under this scheme, each year the Court may set aside an element of Group profit before taxation for allocation to the trustees of the scheme to enable them to acquire units of ordinary stock on behalf of the scheme participants.

In addition, if an employee elects for any such free stock award, they become eligible to purchase additional stock at market price from gross salary subject to Revenue Commissioners and HM Revenue & Customs rules respectively.

The maximum award permitted under the scheme is 6% of a participant's salary. There have been no awards to employees under the employee stock issue scheme since 2008.

44 Capital stock (continued)

(b) Executive Stock Option Scheme (ESOS)

The last grant of options under this Scheme were made in 2008. Options granted in 2006, 2007 and 2008 lapsed as the performance conditions were not achieved. The performance conditions for options granted in 1996 up to and including 2005 were satisfied. Options may not be transferred or assigned and may be exercised only between the third and tenth anniversaries of their grant. No options were either granted or exercised in the year ended 31 December 2013 or in the year ended 31 December 2012.

Under this Scheme, which was approved by stockholders, key executives may be granted options to subscribe for units of ordinary stock at the discretion of the Remuneration Committee. Under this scheme, the total value of options granted in a year may not exceed 100% of an executive's annual salary at the time of the award. The subscription price per unit of stock shall not be less than the market value of the stock at the date of grant.

	31 December 2013		31 December 2012	
	Number of options	**Weighted average exercise price (€)**	Number of options	Weighted average exercise price (€)
Outstanding at beginning of year	2,686,513	€11.45	3,113,513	€11.59
Expired during year	(1,456,499)	€11.17	(427,000)	€12.46
Outstanding at end of year	1,230,014	€11.79	2,686,513	€11.45
Exercisable at end of year	1,230,014	€11.79	2,686,513	€11.45

The options above are before the Group's 2010 and 2011 Rights Issues. The Group Remuneration Committee exercised its discretion not to make any technical adjustments to these grants.

Exercise Price Range (€)	**Number of options**
10.76 - 13.68	1,230,014
Total	**1,230,014**

Outstanding options under the Stock Option Scheme are exercisable at price ranges above. The weighted average remaining contractual life of the outstanding options under the Stock Option Scheme is less than three years.

(c) Long Term Incentive Plan

The Bank of Ireland Group Long Term Incentive Plan – 2004 (LTIP) was approved by the stockholders at the Annual General Court in July 2004. The LTIP links the number of units of stock receivable by participants to the Group's Total Shareholder Return (TSR). TSR represents stock price growth plus dividends.

Under this Plan key senior executives may receive a conditional award of a number of units of ordinary stock. The maximum award for executive Directors and Group Executive Committee members, cannot exceed 100% (150% for the Group CEO) of their annual salary at the time of the award.

The performance conditions for awards in 2006, 2007 and 2008 were not met and subsequently all conditional awards lapsed. There have been no further awards under the Group LTIP since 2008.

(d) Limitations on Employee Stock Issue and Stock Option Schemes

All of the above stock issue and stock option schemes are subject to a range of flow rate controls approved by the stockholders and which conform to current institutional investor guidelines.

45 Stock premium account

	31 December 2013 €m	31 December 2012 €m
Stock premium account		
Balance at the beginning of the year	1,210	5,127
Issue of ordinary stock	469	-
Redemption of the 2009 Preference Stock	(532)	-
Transaction costs, net of tax	(12)	3
Reduction in stock premium transferred to retained earnings	-	(3,920)
Balance at the end of the year	**1,135**	**1,210**

During the year ended 31 December 2012, the Irish High Court approved the application by the Bank for a reduction in the Stock premium account of €3,920 million. As a result, this amount was transferred to retained earnings.

46 Liquidity risk and profile

The tables below summarise the maturity profile of the Group's financial liabilities (excluding those arising from insurance and investment contracts in Bank of Ireland Life) at 31 December 2013 and 31 December 2012 based on contractual undiscounted repayment obligations. The Group does not manage liquidity risk on the basis of contractual maturity. Instead the Group manages liquidity risk based on expected cash flows.

Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,460 million and €8,502 million respectively (31 December 2012: €5,256 million and €7,988 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts.

Customer accounts include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the table below.

The balances will not agree directly to the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

As at 31 December 2013 **Contractual maturity**	**Demand €m**	**Up to 3 months €m**	**3-12 months €m**	**1-5 years €m**	**Over 5 years €m**	**Total €m**
Deposits from banks	361	3,284	2,008	211	-	5,864
Drawings from Monetary Authorities (gross)	-	-	-	8,439	-	8,439
Customer accounts	43,457	17,258	9,210	4,151	170	74,246
Debt securities in issue	-	460	1,569	8,274	4,399	14,702
Subordinated liabilities	-	28	133	1,513	764	2,438
Contingent liabilities	1,155	-	-	-	-	1,155
Commitments	13,043	-	-	2,764	-	15,807
Total	**58,016**	**21,030**	**12,920**	**25,352**	**5,333**	**122,651**

46 Liquidity risk and profile (continued)

Restated* As at 31 December 2012 Contractual maturity	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Deposits from banks	468	3,517	507	2,690	-	7,182
Drawings from Monetary Authorities (gross)	-	3,080[1]	62	12,411	-	15,553
Customer accounts	46,979	20,512	5,329	2,658	134	75,612
Debt securities in issue	-	656	4,872	8,430	4,248	18,206
Subordinated liabilities	-	22	138	1,598	780	2,538
Contingent liabilities	1,100	-	-	-	-	1,100
Commitments	13,377	-	-	3,202	-	16,579
Total	61,924	27,787	10,908	30,989	5,162	136,770

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*
[1] *Includes €3,060 million related to the IBRC repo transaction which was terminated in February 2013. See note 52.*

As set out in note 20, derivatives held for trading comprise derivatives entered into with trading intent as well as derivatives entered with economic hedging intent to which the Group does not apply hedge accounting. Derivatives held with hedging intent also include all derivatives to which the Group applies hedge accounting.

The tables below summarise the maturity profile of the Group's derivative liabilities. The Group manages liquidity risk based on expected cash flows, therefore the undiscounted cash flows payable on derivatives liabilities held with hedging intent are classified according to their contractual maturity, while derivatives held with trading intent have been included at fair value in the 'demand' time bucket.

As at 31 December 2013 Derivative financial instruments	**Demand €m**	**Up to 3 months €m**	**3-12 months €m**	**1-5 years €m**	**Over 5 years €m**	**Total €m**
Derivatives held with hedging intent						
Gross settled derivative liabilities - outflows	-	4,140	2,373	3,570	381	10,464
Gross settled derivative liabilities - inflows	-	(4,032)	(2,299)	(3,369)	(333)	(10,033)
Gross settled derivative liabilities - net flows	-	108	74	201	48	431
Net settled derivative liabilities	-	213	435	1,192	1,071	2,911
Total derivatives held with hedging intent	**-**	**321**	**509**	**1,393**	**1,119**	**3,342**
Derivative liabilities held with trading intent	796	-	-	-	-	796
Total derivative cash flows	**796**	**321**	**509**	**1,393**	**1,119**	**4,138**

As at 31 December 2012 Derivative financial instruments	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Derivatives held with hedging intent						
Gross settled derivative liabilities - outflows	-	3,530	1,493	6,180	530	11,733
Gross settled derivative liabilities - inflows	-	(3,453)	(1,340)	(5,904)	(525)	(11,222)
Gross settled derivative liabilities - net flows	-	77	153	276	5	511
Net settled derivative liabilities	-	175	713	1,873	381	3,142
Total derivatives held with hedging intent	-	252	866	2,149	386	3,653
Derivative liabilities held with trading intent	1,508	-	-	-	-	1,508
Total derivative cash flows	1,508	252	866	2,149	386	5,161

47 Measurement basis of financial assets and financial liabilities

The table below analyses the carrying amounts of the financial assets and financial liabilities by accounting treatment and by balance sheet heading.

	At fair value through profit or loss			At fair value through Other Comprehensive income (OCI)				
31 December 2013	**Derivatives designated as fair value hedging instruments €m**	**Held for trading €m**	**Designated upon initial recognition €m**	**Available for sale €m**	**Cash flow hedge derivatives €m**	**Held at amortised cost €m**	**Insurance contracts €m**	**Total €m**
Financial assets								
Cash and balances at central banks	-	-	-	-	-	6,385	-	6,385
Items in the course of collection from other banks	-	-	-	-	-	363	-	363
Trading securities	-	252	-	-	-	-	-	252
Derivative financial instruments	393	2,691	-	-	408	-	-	3,492
Other financial assets at fair value through profit or loss	-	-	10,306	-	-	-	-	10,306
Loans and advances to banks	-	-	-	-	-	4,759	-	4,759
Available for sale financial assets	-	-	-	12,104	-	-	-	12,104
NAMA senior bonds	-	-	-	-	-	3,957	-	3,957
Loans and advances to customers	-	-	-	-	-	84,514	-	84,514
Interest in associates	-	-	41	-	-	48	-	89
Total financial assets	**393**	**2,943**	**10,347**	**12,104**	**408**	**100,026**	**-**	**126,221**
Financial liabilities								
Deposits from banks	-	-	143	-	-	12,070	-	12,213
Customer accounts	-	-	1,832	-	-	72,035	-	73,867
Items in the course of transmission to other banks	-	-	-	-	-	147	-	147
Derivative financial instruments	375	2,655	-	-	198	-	-	3,228
Debt securities in issue	-	-	519	-	-	14,761	-	15,280
Liabilities to customers under investment contracts	-	-	5,460	-	-	-	-	5,460
Insurance contract liabilities	-	-	-	-	-	-	8,502	8,502
Subordinated liabilities	-	-	63	-	-	1,612	-	1,675
Other short positions	-	8	-	-	-	-	-	8
Total financial liabilities	**375**	**2,663**	**8,017**	**-**	**198**	**100,625**	**8,502**	**120,380**

47 Measurement basis of financial assets and financial liabilities (continued)

Restated* 31 December 2012	At fair value through profit or loss: Derivatives designated as fair value hedging instruments €m	At fair value through profit or loss: Held for trading €m	At fair value through profit or loss: Designated upon initial recognition €m	At fair value through Other Comprehensive income (OCI): Available for sale €m	At fair value through Other Comprehensive income (OCI): Cash flow hedge derivatives €m	Held at amortised cost €m	Insurance contracts €m	Total €m
Financial assets								
Cash and balances at central banks	-	-	-	-	-	8,472	-	8,472
Items in the course of collection from other banks	-	-	-	-	-	448	-	448
Trading securities	-	143	-	-	-	-	-	143
Derivative financial instruments	656	3,550	-	-	1,641	-	-	5,847
Other financial assets at fair value through profit or loss	-	-	9,460	-	-	-	-	9,460
Loans and advances to banks	-	-	-	-	-	9,502	-	9,502
Available for sale financial assets	-	-	-	11,093	-	-	-	11,093
NAMA senior bonds	-	-	-	-	-	4,428	-	4,428
Loans and advances to customers	-	-	-	-	-	92,621	-	92,621
Interest in associates	-	-	91	-	-	-	-	91
Total financial assets	656	3,693	9,551	11,093	1,641	115,471	-	142,105
Financial liabilities								
Deposits from banks	-	-	216	-	-	20,909	-	21,125
Customer accounts	-	-	1,910	-	-	73,260	-	75,170
Items in the course of transmission to other banks	-	-	-	-	-	268	-	268
Derivative financial instruments	585	3,185	-	-	1,504	-	-	5,274
Debt securities in issue	-	-	521	-	-	17,552	-	18,073
Liabilities to customers under investment contracts	-	-	5,256	-	-	-	-	5,256
Insurance contract liabilities	-	-	-	-	-	-	7,988	7,988
Subordinated liabilities	-	-	64	-	-	1,643	-	1,707
Other short positions	-	76	-	-	-	-	-	76
Total financial liabilities	585	3,261	7,967	-	1,504	113,632	7,988	134,937

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

47 Measurement basis of financial assets and financial liabilities (continued)

The fair value and contractual amount due on maturity of financial liabilities designated at fair value upon initial recognition are shown in the table below.

	31 December 2013		31 December 2012	
	Fair values €m	**Contractual amount due on maturity €m**	Fair values €m	Contractual amount due on maturity €m
Deposits from banks	143	143	216	216
Customer accounts	1,832	1,827	1,910	1,967
Liabilities to customers under investment contracts	5,460	5,460	5,256	5,256
Debt securities in issue	519	524	521	613
Subordinated liabilities	63	67	64	75
Financial liabilities designated at fair value through profit or loss	**8,017**	**8,021**	**7,967**	**8,127**

For financial assets and financial liabilities which are recognised and subsequently measured at fair value through profit or loss or through other comprehensive income, a description of the methods and assumptions used to calculate those fair values is set out in note 48.

48 Fair values of assets and liabilities

Fair value of financial assets and financial liabilities
The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where possible, the Group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation techniques which may include discounted cash flow models or comparisons to instruments with characteristics either identical or similar to those of the instruments held by the Group or of recent arm's length market transactions. These fair values are classified within a three-level fair value hierarchy, based on the inputs used to value the instrument. Where the inputs might be categorised within different levels of the fair value hierarchy, the fair value measurement in its entirety is categorised in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. The levels are defined as:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

Transfers between different levels are assessed at the end of all reporting periods.

(a) Financial assets and financial liabilities recognised and subsequently measured at fair value
All financial instruments are initially recognised at fair value. The Group subsequently measures trading securities, other financial assets and financial liabilities designated at fair value through profit or loss, derivatives and available for sale financial assets at fair value in the balance sheet. These instruments are shown as either at fair value through profit or loss (FVTPL) or at fair value through the statement of comprehensive income.

48 Fair values of assets and liabilities (continued)

A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below. For fair value measurements categorised within level 3 of the fair value hierarchy, the valuation policies and procedures are developed by the management of the relevant business unit. The valuation process is documented before being reviewed and approved by senior management to ensure that the valuation method is consistent with market practice, that the output is reasonable and that the methodology is consistent both across the Group and compared to prior reporting periods.

Financial assets held for trading
These instruments are valued using observable market prices (level 1 inputs), directly from a recognised pricing source or an independent broker or investment bank.

Derivative financial instruments
The Group's derivative financial instruments are valued using valuation techniques commonly used by market participants. These consist of discounted cash flow and options pricing models, which typically incorporate observable market data, principally interest rates, basis spreads, foreign exchange rates, equity prices and counterparty credit (level 2 inputs).

The fair values of the Group's derivative financial liabilities reflect the impact of changes in own credit spreads derived from observable market data (debit valuation adjustment). The impact of the cost of funding derivative positions is also taken into account in determining the fair value of derivative financial instruments (funding valuation adjustment). The funding cost is derived from observable market data; however the model may perform numerical procedures in the pricing such as interpolation when market data input values do not directly correspond to the exact parameters of the trade. Both methodologies are considered to use level 2 inputs.

Certain derivatives are valued using unobservable inputs relating to counterparty credit such as credit grade, which are significant to their valuation. The effect of using reasonably possible alternative assumptions in the valuation of these derivatives would be to increase their fair value by up to €15 million or decrease their fair value by up to €15 million, with a corresponding impact on the income statement. Where the impact of unobservable inputs is material to the valuation of the asset or liability, it is categorised as level 3 on the fair value hierarchy.

In addition a small number of derivative financial instruments are valued using significant unobservable inputs other than counterparty credit (level 3 inputs). However, changing one or more assumptions used in the valuation of these derivatives would not have a significant impact as they are entered into to hedge the exposure arising on certain customer accounts (see below), leaving the Group with no net valuation risk due to the unobservable inputs.

Other financial assets at fair value through profit or loss
These consist of assets designated at fair value through profit or loss, which are predominantly held for the benefit of unit linked policyholders, with any changes in valuation accruing to the policyholders. These assets consist principally of bonds, equities and unit trusts, which are traded on listed exchanges, are actively traded and have readily available prices. Substantially all of these assets are valued using valuation techniques which use observable market data i.e. level 1 or level 2 inputs.

Available for sale financial assets
For available for sale financial assets for which an active market exists, fair value has been determined directly from observable market prices (level 1 inputs) or yields through a recognised pricing source or an independent broker, price-provider or investment bank (level 2 inputs).

A small number of assets have been valued using vendor prices, which are not considered to represent observable market data (level 3 inputs).

NAMA subordinated debt does not trade in an active market for which observable market data is available. Its fair value has been estimated using a discounted cash flow valuation technique i.e. level 3 inputs. A 1% increase / (decrease) in the discount rate used to value the debt would result in a decrease of €7 million / (increase of €7 million) in its fair value, with a corresponding impact on other comprehensive income.

48 Fair values of assets and liabilities (continued)

Interest in associates

Investments in associates which are venture capital investments are accounted for at fair value and are valued in accordance with the 'International Private Equity and Venture Capital Valuation Guidelines'. This requires the use of various inputs such as discounted cash flow analysis and comparison with the earnings multiples of listed comparative companies amongst others. Although the valuation of unquoted equity instruments is subjective by nature, the relevant methodologies are commonly applied by other market participants and have been consistently applied over time. Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. As the inputs are unobservable, the valuation is deemed to be based on level 3 inputs.

Customer accounts and deposits by banks

Customer accounts and deposits by banks designated at fair value through profit or loss consist of deposits which contain an embedded derivative (typically an equity option). These instruments are typically valued using valuation techniques which use observable market data. The Group incorporates the effect of changes in its own credit spread when valuing these instruments. The Group estimates this spread by reference to recent transactions in the same instrument or in similar instruments issued by the Group (level 2 inputs).

A small number of customer accounts are valued using additional non-observable inputs (level 3 inputs). However, changing one or more assumptions used in the valuation of these customer accounts would not have a significant impact as these customer accounts are hedged with offsetting derivatives (see below), leaving the Group with no net valuation risk due to those non-observable inputs.

Liabilities to customers under insurance and investment contracts

In line with the accounting policy set out on page 204 of the Group's Annual Report for the year ended 31 December 2013, the fair value of liabilities to customers under both insurance and investment unit linked contracts is contractually linked to the fair value of the financial assets within the policyholders' unit linked funds. The value of the unit linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the balance sheet date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable.

Debt securities in issue and subordinated liabilities

These instruments comprise debt securities in issue and subordinated liabilities with a fair value of €582 million (31 December 2012: €585 million) which are measured at fair value through profit or loss, the fair value of which is based on valuation techniques incorporating significant unobservable market data (level 3 inputs). The significant unobservable input is the Group's credit spread, the estimation of which is judgemental in current market circumstances. The Group estimates this spread by reference to recent transactions in the same instrument or in similar instruments issued by the Group. In addition the Group considers the credit spread applicable to Irish Government bonds. A 1% increase / (decrease) in the estimated credit spread at 31 December 2013 would result in a decrease of €25 million / (increase of €25 million) in the fair value of the liabilities, with a corresponding impact on the income statement.

(b) Financial assets and liabilities held at amortised cost

For financial assets and financial liabilities which are not subsequently measured at fair value on the balance sheet, the Group discloses their fair value in a way that permits them to be compared to their carrying amounts. The methods and assumptions used to calculate the fair values of these assets and liabilities are set out below.

Loans and advances to banks

The estimated fair value of floating rate placements and overnight placings is their carrying amount. The estimated fair value of fixed interest bearing placements is based on discounted cash flows using prevailing money market interest rates for assets with similar credit risk and remaining maturity (level 2 inputs).

48 Fair values of assets and liabilities (continued)

Loans and advances to customers

Loans and advances are carried net of provisions for impairment. The fair value of both fixed and variable rate loans and advances to customers is estimated using valuation techniques which include:

- the discounting of estimated future cash flows at current market rates, incorporating the impact of current credit spreads and margins. The fair value reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans (level 3 inputs); and
- recent arm's length transactions in similar assets (level 2 inputs).

NAMA senior bonds

NAMA senior bonds are classified as loans and receivables and are carried net of provisions for impairment. As with all financial assets, NAMA senior bonds are measured at fair value at initial recognition. The bonds do not trade in an active market. Their fair value has been estimated by using a valuation technique which takes into consideration the contractual maturity date of the bonds, the Government guarantee, collateral and other support, valuations in the repo market and the yield on Irish Government bonds of similar maturity (level 2 inputs). The bonds are subsequently measured at amortised cost.

Deposits from banks and customer accounts

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounted cash flows using interest rates for new deposits with similar remaining maturity (level 2 inputs).

Debt securities in issue and subordinated liabilities

The fair values of these instruments are calculated based on quoted market prices where available (level 1 inputs). For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate to the Group for the remaining term to maturity. The yield curve used incorporates the effect of changes in the Group's own credit spread (level 2 and level 3 inputs).

(c) Fair value on offsetting positions

Where the Group manages certain financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Group applies the exception allowed under paragraph 48 of IFRS 13. That exception permits the Group to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. Accordingly, the Group measures the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

(d) Fair value of non-financial assets

Investment properties

Investment properties are carried at fair value as determined by external qualified property surveyors appropriate to properties held. Fair values have been calculated using current trends in the market of property sales and rental yields in the retail, office and industrial property markets (level 2 inputs). Other inputs take into consideration occupancy rate forecasts, sales price expectations and letting prospects (level 3 inputs).

Property

A revaluation of Group property was carried out as at 31 December 2013. All freehold and long leasehold commercial properties were valued by Lisney as external valuers, with the exception of some select properties which were valued internally by the Bank's qualified surveyors. Lisney valuations were made on the basis of observable inputs such as comparable lettings and sales (level 2 inputs). Unobservable inputs such as profile, lot size, layout and presentation of accommodation are also used (level 3 inputs).

48 Fair values of assets and liabilities (continued)

31 December 2013	Quoted prices in active market Level 1 €m	Valuation techniques observable inputs Level 2 €m	Valuation techniques unobservable inputs Level 3 €m	Total €m
Financial assets held at fair value				
Trading securities	252	-	-	252
Derivative financial instruments	-	3,142	350	3,492
Other financial assets at FVTPL	9,635	654	17	10,306
AFS financial assets	11,615	314	175	12,104
Interest in associates	-	-	41	41
Non-financial assets held at fair value				
Investment property	-	-	805	805
Property held at fair value	-	-	132	132
	21,502	**4,110**	**1,520**	**27,132**
Financial liabilities held at fair value				
Deposits from banks	-	143	-	143
Customer accounts	-	1,809	23	1,832
Derivative financial instruments	-	3,147	81	3,228
Liabilities to customers under investment contracts	-	5,460	-	5,460
Insurance contract liabilities	-	8,502	-	8,502
Debt securities in issue	-	-	519	519
Subordinated liabilities	-	-	63	63
Other short positions	8	-	-	8
	8	**19,061**	**686**	**19,755**
Fair value of financial assets held at amortised cost				
Cash and balances at central banks	6,385	-	-	6,385
Items in the course of collection from other banks	363	-	-	363
Loans and advances to banks	-	4,759	-	4,759
Loans and advances to customers	-	-	74,548	74,548
NAMA senior bonds	-	3,986	-	3,986
Interests in associates	48	-	-	48
Fair value of financial liabilities held at amortised cost				
Deposits from banks	-	12,070	-	12,070
Customer accounts	-	72,168	-	72,168
Items in the course of transmission to other banks	147	-	-	147
Debt securities in issue	9,629	4,917	94	14,640
Subordinated liabilities	-	1,779	-	1,779

48 Fair values of assets and liabilities (continued)

31 December 2012	Quoted prices in active market Level 1 €m	Valuation techniques observable inputs Level 2 €m	Valuation techniques unobservable inputs Level 3 €m	Total €m
Financial assets held at fair value				
Trading securities	143	-	-	143
Derivative financial instruments	1	5,337	509	5,847
Other financial assets at FVTPL	8,753	691	16	9,460
AFS financial assets	10,430	442	221	11,093
Interest in associates	-	-	39	39
	19,327	6,470	785	26,582
Financial liabilities held at fair value				
Deposits from banks	-	216	-	216
Customer accounts	-	1,898	12	1,910
Derivative financial instruments	-	5,227	47	5,274
Liabilities to customers under investment contracts	-	5,256	-	5,256
Insurance contract liabilities	-	7,988	-	7,988
Debt securities in issue	-	-	521	521
Subordinated liabilities	-	-	64	64
Other short positions	76	-	-	76
	76	20,585	644	21,305

48 Fair values of assets and liabilities (continued)

Movements in level 3 assets

31 December 2013	Other financial assets at FVTPL €m	Derivative financial instruments €m	Available for sale financial assets €m	Interest in associates €m	Investment property €m	Property held at fair value €m	Total €m
Opening Balance	16	509	221	39	848	135	1,768
Exchange Adjustment	-	(8)	-	-	-	(1)	(9)
Reclassifications	-	-	(44)[1]	-	-	-	(44)
Total gains or losses in:							
Profit or loss							
- Net trading income / (expense)	-	(65)	-	-	-	-	(65)
- Other income	-	-	-	-	5	-	5
- Interest income	-	-	16	-	-	-	16
- Share of results of associates	-	-	-	(4)	-	-	(4)
- Life assurance investment income and gains	-	-	-	-	(20)	-	(20)
- Other operating income	1	-	-	-	(17)	-	(16)
- Other operating expenses	-	-	-	-	-	(1)	(1)
Other comprehensive income - AFS reserve	-	-	6	-	-	-	6
Additions	-	-	4	7	-	-	11
Disposals	-	-	(1)	(1)	(11)	(1)	(14)
Redemptions	-	(6)	(30)	-	-	-	(36)
Transfers out of level 3							
- from level 3 to level 2	-	(110)	-	-	-	-	(110)
Transfers into level 3							
- from level 1 to level 3	-	-	3	-	-	-	3
- from level 2 to level 3	-	30	-	-	-	-	30
Closing balance	**17**	**350**	**175**	**41**	**805**	**132**	**1,520**
Total gains and losses for the year included in profit or loss for assets held in level 3 at the end of the reporting year							
- Net trading income / (expense)	-	90	-	-	-	-	90
- Other income	-	-	-	-	5	-	5
- Interest income	-	-	16	-	-	-	16
- Share of results of associates	-	-	-	(4)	-	-	(4)
- Life assurance investment income and gains	-	-	-	-	(20)	-	(20)
- Other operating income	1	-	-	-	(17)	-	(16)
- Other operating expenses	-	-	-	-	-	(1)	(1)

[1] *In accordance with IAS 39, the Group reclassified available for sale financial assets with a carrying amount and fair value of €44 million to loans and advances to customers, with effect from 31 December 2013. At the date of this reclassification, the Group had the intention and ability to hold these assets for the foreseeable future or until maturity.*

At the date of reclassification, the effective interest rate on the reclassified asset was 5.17% with expected recoverable cash flows of €52 million. At 31 December 2013, a fair value loss of €12 million (year ended 31 December 2012: loss of €nil) has been recognised in the available for sale reserve within shareholders' equity in relation to these reclassified assets.

The transfer from level 3 to level 2 arose as a result of the availability of observable market prices at 31 December 2013 which were unavailable at 31 December 2012 or as a result of unobservable inputs becoming less significant to the fair value measurement of these assets.

The transfer from level 1 to level 3 is as a result of the unavailability of a level 1 pricing source as the balance sheet date for that security.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

There were no transfers between levels 1 and 2.

48 Fair values of assets and liabilities (continued)

Movements in level 3 assets

31 December 2012	Other financial assets at FVTPL €m	Derivative financial instruments €m	Available for sale financial assets €m	Interest in associates €m	Total €m
Opening Balance	17	531	174	31	753
Exchange Adjustment	-	7	-	-	7
Total gains or losses in:					
Profit or loss					
- Net trading income / (expense)	-	(6)	-	-	(6)
- Other income	-	-	16	-	16
- Impairment charges	(1)	-	-	-	(1)
- Share of results of associates	-	-	-	(2)	(2)
Other comprehensive income - AFS reserve	-	-	(12)	-	(12)
Additions	-	34	49	11	94
Disposals	-	-	(6)	(1)	(7)
Redemptions	-	(37)	-	-	(37)
Transfers out of level 3					
- from level 3 to level 2	-	(78)	-	-	(78)
Transfers into level 3					
- from level 2 to level 3	-	58	-	-	58
Closing balance	16	509	221	39	785
Total gains for the year included in profit or loss for assets held in level 3 at the end of the reporting year					
- Net trading income / (expense)	-	168	-	-	168

The transfer from level 3 to level 2 arose as a result of the availability of observable market prices at 31 December 2012 which were unavailable at 31 December 2011 or as a result of unobservable inputs becoming less significant to the fair value measurement of these assets.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

There were no transfers between levels 1 and 2.

48 Fair values of assets and liabilities (continued)

Movements in level 3 liabilities

31 December 2013	**Customer accounts €m**	**Derivative financial instruments €m**	**Debt securities in issue €m**	**Subordinated liabilities €m**	**Total €m**
Opening Balance	12	47	521	64	644
Exchange adjustments	-	1	-	(4)	(3)
Total gains or losses in:					
Profit or loss					
- Net trading income / (expense)	-	39	40	7	86
- Other income	-	-	-	-	-
- Revaluation	-	-	-	(4)	(4)
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Redemptions and maturities	(11)	-	(42)	-	(53)
Transfers out of level 3					
- from level 3 to level 2	-	(10)	-	-	(10)
Transfers into level 3					
- from level 2 to level 3	22	4	-	-	26
Closing balance	**23**	**81**	**519**	**63**	**686**
Total gains / (losses) for the year included in profit or loss for liabilities held at the end of the reporting year					
- Net trading income / (expense)	(2)	109	54	(4)	157

The transfer from level 3 to level 2 arose as a result of an ability to obtain observable market prices at 31 December 2013 which were unavailable at 31 December 2012.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to their fair value measurement.

There were no transfers between levels 1 and 2.

48 Fair values of assets and liabilities (continued)

Movements in level 3 liabilities 31 December 2012	Customer accounts €m	Derivative financial instruments €m	Debt securities in issue €m	Subordinated liabilities €m	Total €m
Opening Balance	11	50	457	27	545
Exchange adjustments	-	-	-	1	1
Total gains or losses in:					
Profit or loss					
- Net trading income / (expense)	1	-	90	36	127
Additions	-	7	-	-	7
Redemptions and maturities	-	(12)	(26)	-	(38)
Transfers out of level 3					
- from level 3 to level 2	-	(2)	-	-	(2)
Transfers into level 3					
- from level 2 to level 3	-	4	-	-	4
Closing balance	12	47	521	64	644
Total gains / (losses) for the year included in profit or loss for liabilities held at the end of the reporting year					
- Net trading income / (expense)	(1)	5	(105)	-	(101)

The transfer from level 3 to level 2 arose as a result of an ability to obtain observable market prices at 31 December 2012 which were unavailable at 31 December 2011.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to their fair value measurement.

There were no transfers between levels 1 and 2.

48 Fair values of assets and liabilities (continued)

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Level 3 assets	Fair value €m	Valuation technique	Unobservable input	Range %
Derivative financial assets	350	Discounted cash flow	Credit spread[1]	0% - 14%
		Option pricing model	Credit spread[1]	0% - 14%
Other financial assets at fair value through profit or loss	17	Discounted cash flow	Discount rate[2]	Third party pricing
AFS financial assets	175	Discounted cash flow	Discount rate[2]	10% - 13%
		Vendor valuations	EBITDA multiple[3]	Third party pricing
			Liquidity factor	Third party pricing
Interest in associates	41	Market comparable companies	Price of recent investment	Third party pricing
			Earnings multiple[3]	Third party pricing
			Revenue multiple[3]	Third party pricing
Investment property	805	Market comparable property transactions	Property valuation assumptions	Third party pricing
Property held at fair value	132	Market comparable property transactions	Property valuation assumptions	Third party pricing

Level 3 liabilities	Fair value €m	Valuation technique	Unobservable input	Range %
Customer accounts	23	Discounted cash flow	Credit spread[1]	1% - 4%
Derivative financial liabilities	81	Discounted cash flow	Credit spread[1]	1% - 4%
		Option pricing model	Credit spread[1]	Third party pricing
Debt securities in issue	519	Discounted cash flow	Credit spread[1]	2% - 4%
Subordinated liabilities	63	Market comparable companies	Credit spread[1]	Third party pricing

[1] The Group's credit spread represents the range of credit spreads that market participants would use in valuing these contracts.
[2] The Group's discount rate represents a range of discount rates that market participants would use in valuing these investments.
[3] The Group's multiples represents multiples that market participants would use in valuing these investments.

Note: 100 basis points = 1%

48 Fair values of assets and liabilities (continued)

The carrying amount and the fair value of the Group's assets and liabilities as at 31 December 2013 and 31 December 2012 are set out in the table below.

	31 December 2013		Restated* 31 December 2012	
	Carrying amount €m	**Fair values €m**	Carrying amount €m	Fair values €m
Financial instruments held for trading				
Trading securities[1]	252	252	143	143
Derivative financial instruments - trading				
Foreign exchange contracts[1]	(8)	(8)	32	32
Interest rate contracts[1]	(205)	(205)	144	144
Equity and commodity contracts[1]	249	249	188	188
Non-trading financial instruments				
Assets				
Cash and balances at central banks[1]	6,385	6,385	8,472	8,472
Items in course of collection from other banks[1]	363	363	448	448
Loans and advances to banks[1]	4,759	4,759	9,502	9,502
Loans and advances to customers	84,514	74,548	92,621	80,440
Available for sale financial assets[1]	12,104	12,104	11,093	11,093
NAMA senior bonds	3,957	3,986	4,428	4,467
Other financial assets at fair value through profit or loss[1]	10,306	10,306	9,460	9,460
Liabilities				
Deposits from banks	12,213	12,213	21,125	21,152
Customer accounts	73,867	74,000	75,170	75,425
Items in the course of transmission to other banks[1]	147	147	268	268
Liabilities to customers under investment contracts[1]	5,460	5,460	5,256	5,256
Insurance contract liabilities[1]	8,502	8,502	7,988	7,988
Debt securities in issue	15,280	15,159	18,073	17,513
Subordinated liabilities	1,675	1,842	1,707	1,677
Derivative financial instruments - hedging				
Interest rate contracts and foreign exchange contracts[1]	228	228	207	207
Non-financial assets				
Investment property	805	805		
Property held at fair value	132	132		

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

[1] *The fair value of these financial instruments is equal to the carrying value. These instruments are either carried at market value or have minimal credit losses and are either short term in nature or repriced frequently.*

49 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	31 December 2013 €m	Restated* 31 December 2012 €m
Cash and balances at central banks	6,385	8,472
Loans and advances to banks (with an original maturity of less than 3 months)	4,369	5,856
Cash and cash equivalents	**10,754**	**14,328**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

Cash and balances at central banks is made up as follows:

Cash and balances at central banks	**Year ended 31 December 2013 €m**	Year ended 31 December 2012 €m
United Kingdom (Bank of England)	4,903	8,002
Republic of Ireland (Central Bank of Ireland)	663	-
United States (Federal Reserve)	484	128
Other (cash holdings)	335	342
Total	**6,385**	**8,472**

50 Profit or loss of the parent company

The parent company of the Group is the Governor and Company of the Bank of Ireland (the Bank). In accordance with Section 148(8) of the Companies Act, 1963 and Section 7(1A) of the Companies (Amendment) Act, 1986, the Bank is availing of the exemption of presenting its individual income statement to the Annual General Court and from filing it with the Registrar of Companies. The Bank's loss after tax for the year ended 31 December 2013 determined in accordance with IFRS is €661 million (31 December 2012: €1,311 million*).

The Bank is a corporation established in Ireland in 1783 under Royal Charter with a primary listing on the Irish Stock Exchange and a premium listing on the London Stock Exchange.

In the US the Bank's ordinary stock is traded on the New York Stock Exchange in the form of American Depository Shares (ADSs). Each ADS represents the right to receive 40 units of ordinary stock and evidenced by American Depository Receipts (ADRs).

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)'. See note 58 for additional information.*

51 Related party transactions

A number of banking transactions are entered into between the Bank and its subsidiaries in the normal course of business. These include loans, deposits and foreign currency transactions. The amounts outstanding at 31 December 2013 are set out in notes 25 and 34.

(a) Associates, joint ventures and joint operations

The Group provides to and receives from its associates, joint ventures and joint operations certain banking and financial services, which are not material to the Group, on similar terms to third party transactions. These include loans, deposits and foreign currency transactions. The amounts outstanding at the 31 December 2013 are set out in notes 27 and 28.

Where appropriate under tax rules, the Group claims from or surrenders tax losses to its associates and joint ventures. In these cases, payments, equal to the value of the losses claimed or surrendered, are made to or received from the associates or joint ventures concerned.

(b) Pension funds

The Group provides a range of normal banking and financial services, which are not material to the Group, to various pension funds operated by the Group for the benefit of its employees (principally to the Bank of Ireland Staff Pensions Fund (BSPF)), which are conducted on similar terms to third party transactions. Details on the Group's contributions to the pension funds are set out in note 41.

The Group occupies a number of premises owned by the Group's pension schemes. The total value of these properties at 31 December 2013 is €25 million (31 December 2012: €24 million). The total rental income paid to the Group's pension schemes during the year ended 31 December 2013 was €2.1 million (year ended 31 December 2012: €2.1 million).

As outlined in note 41 a Group pension scheme has a charge over a portfolio of Group assets (a contingent asset) with a value of €375 million at 31 December 2013 (31 December 2012: €250 million) including Group properties with a fair value of €42 million at 31 December 2013 (31 December 2012: €42 million).

The Group's pension schemes assets included Bank of Ireland stock amounting to €7.1 million at 31 December 2013 (31 December 2012: €3.2 million).

During the year ended December 2013, no fees were paid to the Group by the BSPF for services carried out by the Group relating to the administration of the pension schemes (year ended 31 December 2012: €nil).

(c) Transactions with the State

The State, through both the Group's participation in the ELG scheme[1] and the investment by the NPRFC in the 2009 Preference Stock of the Bank up to 11 December 2013, is a related party of the Group.

Details of individually or collectively significant transactions with the State and entities under its control or joint control are set out in note 52.

(d) Transactions with Directors and Key Management Personnel

(i) Loans to Directors

The following information is presented in accordance with the Companies Act 1990, as amended. For the purposes of the Companies Acts disclosures, Directors means the Court of Directors and any past Directors who were Directors during the relevant period.

Directors' emoluments are set out in the Remuneration Report on pages 157 to 160.

[1] This includes all existing term deposits and eligible liabilities up to the date of withdrawal of the scheme for new liabilities from midnight 28 March 2013.

51 Related party transactions (continued)

Where no amount is shown in the tables below, this indicates either a credit balance, a balance of nil, or a balance of less than €500.

Companies Acts disclosure Loans	Balance as at 1 January 2013[1] €'000	Balance as at 31 December 2013[1] €'000	Aggregate maximum amount outstanding during the year ended 31 December 2013[2] €'000
Directors at 31 December 2013			
R Boucher			
Mortgage total	145	113	145
Other loans total[3]	609	276	609
Credit card total	4	-	4
Total	**758**	**389**	**758**
T Considine			
Credit card total	1	2	2
Total	**1**	**2**	**2**
A Keating			
Credit card total[4]	1	3	4
Total	**1**	**3**	**4**
P Kennedy			
Mortgages total	4,761	3,023	4,761
Credit card total	8	-	9
Current account total	-	-	274
Total	**4,769**	**3,023**	**5,044**
P Mulvihill			
Credit card total[3]	-	-	-
Total	**-**	**-**	**-**
J Walsh			
Credit card total	1	-	2
Total	**1**	**-**	**2**

[1] *Balance includes principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*
[3] *Foreign currency amounts are converted into euro using exchange rates at 31 December 2013, 31 December 2012 and the average exchange rate for the year as appropriate.*
[4] *On terms similar to those available to staff generally.*

P Watsa (retired 23 July 2013), K Atkinson, P Butler, P Haren, A Kane, D Marston, B Martin, P O'Sullivan and W L Ross Jr had no loans from the Group during the year ended 31 December 2013.

All Directors except T Considine have other transactions with the Bank. The nature of these transactions includes investments, pension funds, deposits, general insurance, life assurance and current accounts with credit balances. The relevant balances on these accounts are included in the aggregate figure for deposits on page 296.

Other than as indicated, all loans to Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons unconnected with the Bank and of similar financial standing and do not involve more than the normal risk of collectability.

51 Related party transactions (continued)

There are no provisions or expenses in respect of any failure or anticipated failure to repay any of the above loans or interest thereon. There is no interest which having fallen due on the above loans has not been paid.

Where no amount is shown in the tables below, this indicates either a credit balance, a balance of nil, or a balance of less than €500.

Companies Acts disclosure Loans	Balance as at 1 January 2012[1] €'000	Balance as at 31 December 2012[1] €'000	Aggregate maximum amount outstanding during the year ended 31 December 2012[2] €'000
Directors at 31 December 2012			
R Boucher			
Mortgage total	176	145	176
Other loans total[3]	660	609	660
Credit card total	2	4	12
Total	838	758	848
T Considine			
Credit card total	3	1	4
Total	3	1	4
A Keating			
Credit card total[4]	1	1	7
Total	1	1	7
P Kennedy			
Mortgages total	5,046	4,761	5,046
Credit card total	16	8	20
Current account total	-	-	-
Total	5,062	4,769	5,066
P Mulvihill			
Credit card total[3]	-	-	-
Total	-	-	-
J Walsh			
Credit card total	2	1	3
Current account total	8	-	8
Total	10	1	11

[1] *Balance includes principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*
[3] *Foreign currency amounts are converted into euro using exchange rates at 31 December 2012, 31 December 2011 and the average exchange rate for the year as appropriate.*
[4] *On terms similar to those available to staff generally.*

51 Related party transactions (continued)

Companies Acts disclosure Loans	Balance as at 1 January 2012[1] €'000	Balance as at 31 December 2012[1] €'000	Aggregate maximum amount outstanding during the year ended 31 December 2012[2] €'000
Directors no longer in office at 31 December 2012			
J Kennedy (retired 24 April 2012)			
Mortgages total	651	651	651
Other loans total	-	70	70
Credit card total	3	-	3
Current account total	-	-	2
Total	654	721	726
P Molloy (retired 29 June 2012)			
Credit card total	10	9	10
Total	10	9	10

[1] Balance includes principal and interest.
[2] These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.

K Atkinson, P Butler, P Haren, A Kane, P O'Sullivan, W L Ross Jr and P Watsa had no loans from the Group during the year ended 31 December 2012.

All Directors except T Considine and W L Ross Jr had other transactions with the Bank. The nature of these transactions included investments, pension funds, deposits, general insurance, life assurance and current accounts with credit balances. The relevant balances on these accounts are included in the aggregate figure for deposits on page 296.

Other than as indicated, all loans to Directors were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons unconnected with the Bank and of similar financial standing and did not involve more than the normal risk of collectability.

There were no provisions or expenses in respect of any failure or anticipated failure to repay any of the above loans or interest thereon. There was no interest which having fallen due on the above loans had not been paid.

51 Related party transactions (continued)

(ii) Loans to connected persons on favourable terms

2013	**Balance as at 31 December 2013[1] €'000**	**Maximum amounts outstanding during the year ended 31 December 2013[2] €'000**	**Number of persons as at 31 December 2013**	**Maximum number of persons during the year ended 31 December 2013**
Connected Persons[3] of the following Directors:				
J Walsh	1	1	1	1

2012	Balance as at 31 December 2012[1] €'000	Maximum amounts outstanding during the year ended 31 December 2012[2] €'000	Number of persons as at 31 December 2012	Maximum number of persons during the year ended 31 December 2012
Connected Persons[3] of the following Directors:				
P Molloy	2	7	1	2

[1] *Balance includes principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*
[3] *Connected persons of Directors are defined by Section 26 of the Companies Act 1990 as the Director's spouse, civil partner, parent, brother, sister, child, a trustee where the beneficiaries of the trust are the Director, his spouse, children or a company which the Director controls, or a company controlled by the Director or a person in partnership within the meaning of the Partnership Act 1890.*

While the above arrangements are on favourable terms the terms are similar to those available to staff generally.

(iii) Loans to connected persons - Central Bank licence condition disclosures

Under its banking licence, the Bank is required to disclose in its annual audited financial statements details of:

(a) the aggregate amount of lending to all connected persons, as defined in Section 26 of the Companies Act 1990 and
(b) the aggregate maximum amount outstanding during the period for which those financial statements are being prepared.

Disclosure is subject to certain de minimis exemptions and to exemptions for loans relating to principal private residences where the total of such loans to an individual connected person does not exceed €1 million.

The following information is presented in accordance with this licence condition.

51 Related party transactions (continued)

2013	Balance as at 31 December 2013[1] €'000	Maximum amounts outstanding during the year ended 31 December 2013[2] €'000	Number of persons as at 31 December 2013	Maximum number of persons during the year ended 31 December 2013
Connected persons[3] of the following Directors				
Persons connected to P Butler	493	521	1	1
Persons connected to P Kennedy	1,937	2,017	1	1
Persons connected to J Walsh	216	227	1	1

2012	Balance as at 31 December 2012[1] €'000	Maximum amounts outstanding during the year ended 31 December 2012[2] €'000	Number of persons as at 31 December 2012	Maximum number of persons during the year ended 31 December 2012
Connected persons[3] of the following Directors				
Persons connected to P Butler	521	547	1	1
Persons connected to P Kennedy	2,001	2,064	1	1
Persons connected to P Molloy	606	624	1	1

[1] *Balance includes principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*
[3] *Connected persons of Directors are defined by Section 26 of the Companies Act 1990 as the Director's spouse, civil partner, parent, brother, sister, child, a trustee where the beneficiaries of the trust are the Director, his spouse, children or a company which the Director controls, or a company controlled by the Director or a person in partnership within the meaning of the Partnership Act 1890.*

(iv) Key management personnel (KMP) - loans and deposits (IAS 24)

For the purposes of IAS 24: Related Party Disclosures, KMP of 24 (31 December 2012: 24) comprise the Directors of the Court, the members of the Group Executive Committee (GEC), the Group Secretary and any past KMP who was a KMP during the relevant period. In addition to executive Directors, the GEC comprises the Chief Executive, Retail UK, the Chief Executive, Corporate and Treasury, the Head of Non-Core, the Chief Executive, Retail Ireland, the Chief Credit and Market Risk Officer, the Head of Group Manufacturing, the Group Chief Governance Risk Officer and the Head of Group HR. Key management personnel, including Directors, hold products with Group companies in the ordinary course of business.

Other than as indicated, all loans to non-executive Directors are made in the ordinary course of business on substantially the same terms including interest rates and collateral, as those prevailing at the time for similar transactions with other persons, and do not involve more than the normal risk of collectability. Loans to key management personnel other than non-executive Directors are made on terms similar to those available to staff generally and / or in the ordinary course of business on normal commercial terms.

51 Related party transactions (continued)

The aggregate amounts outstanding, in respect of all loans, quasi-loans and credit transactions between the Bank and its KMP, as defined above, together with members of their close families and entities influenced by them are shown in the table below:

IAS 24 Disclosures

Key management personnel 2013	**Balance as at 1 January 2013[1] €'000**	**Balance as at 31 December 2013[1] €'000**	**Maximum amounts outstanding during the year ended 31 December 2013[2] €'000**	**Total number of relevant KMP as at 1 January 2013**	**Total number of relevant KMP as at 31 December 2013**
Loans[3]	30,625	27,009	30,312	17	15
Deposits	9,814	9,700	17,753	21	21

Key management personnel 2012	Balance as at 1 January 2012[1] €'000	Balance as at 31 December 2012[1] €'000	Maximum amounts outstanding during the year ended 31 December 2012[2] €'000	Total number of relevant KMP as at 1 January 2012	Total number of relevant KMP as at 31 December 2012
Loans	8,159	30,625	32,141	17	17
Deposits	11,015	9,814	43,180	19	21

[1] *Balance includes principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. In all cases key management personnel have not exceeded their approved limits. The maximum approved credit limit on any credit card held by key management personnel is €25,400. The maximum amount outstanding was calculated using the maximum balance on each account. The highest maximum outstanding liability for any member of key management personnel, close family and entities influenced by them did not exceed €23 million during the year ended 31 December 2013 (year ended 31 December 2012: €23 million). In some cases with investment type products (i.e. funds based products, life assurance and other policies) the maximum balance amounts were not available, in which case the greater of the balance at the start of the year and the balance at the end of the year has been included as the maximum balance amount. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*
[3] *The opening balance includes balances and transactions with KMP who have retired during 2012 and are not related parties during the current year. Therefore, these KMP's are not included in the maximum amounts outstanding.*

KMP have other protection products with the Bank. The nature of these products includes mortgage protection, life assurance and critical illness cover. It also includes general insurance products which are underwritten by a number of external insurance companies and for which the Bank acts as an intermediary only. None of these products has any encashment value at 31 December 2013 or 31 December 2012.

Included in the above figures are loans to key management personnel (other than non-executive Directors) and close family members of KMP on terms similar to those available to staff generally, amounting to €589,930 (31 December 2012: €649,113).

There are no provisions or expenses in respect of any failure or anticipated failure to repay any of the above loans or interest thereon.

A lien amounting to €3,153 over the deposit account of one Director in respect of an overdraft facility provided on a current account was released during the year.

Connected persons of three Directors have entered into guarantees in favour of the Group amounting to €418,000. There was a call on one of these guarantees during the year ended 31 December 2013. There were no calls on these guarantees during the year ended 31 December 2012.

51 Related party transactions (continued)

(v) Compensation of KMP

Details of compensation paid to KMP are provided below:

Remuneration	**Year ended 31 December 2013 €'000**	Year ended 31 December 2012 €'000
Salaries and other short term benefits[1]	7,320	6,879
Post employment benefits[2]	483	507
Total remuneration before amounts waived	7,803	7,386
Amounts waived[3]	(205)	(219)
	7,598	**7,167**

[1] *Comprises gross salary, Employer Pay Related Social Insurance contributions, fees, cash in lieu of pension, car allowance and other short term benefits paid in the year.*
[2] *This comprises Employer contributions paid to pension funds.*
[3] *The executive Directors and members of the GEC who were in office on 1 May 2009 agreed to waive an amount equal to at least 10% of their salary until 31 December 2013. The voluntary waiver has been extended until 31 December 2014 for R Boucher.*

There were no increases in 2013 in total remuneration before amounts waived for any executive KMP's or fee rates for non-executive KMP's. The increase in the salaries and other short term benefits to €7.3 million for the year ended 31 December 2013 (31 December 2012: €6.9 million) reflects the increase in the average number of KMP's in the year.

52 Summary of relations with the State

The State, through both the Group's participation in the ELG scheme[1] and the investment by the National Pensions Reserve Fund Commission (NPRFC) in the 2009 Preference Stock of the Bank during the year, is a related party of the Group.

A relationship framework between the Minister for Finance and the Bank has been in place since 30 March 2012. The purpose of this framework is to provide the basis on which the relationship shall be governed. This framework is available on the Department of Finance website.

(a) Ordinary stock

At 31 December 2013, the State through the NPRFC held 14.08% (31 December 2012: 15.13%) of the ordinary stock of the Bank.

(b) 2009 Preference Stock

At 31 December 2012, NPRFC held 1,837,041,304 units of the 2009 Preference Stock, which could be repurchased at the option of the Bank, in whole or in part, at a price per unit equal to the issue price of €1.00 per unit before 31 March 2014 and thereafter at a price per unit of €1.25 (a 'step-up' of 25% of par value), subject in either case to the consent of the Central Bank of Ireland (CBI) being obtained.

Having considered its options, the Bank agreed a Capital Package with the NPRFC and the Central Bank of Ireland which it implemented in December 2013 which included the following:

(i) the placing of new units of ordinary stock (the Placing Stock) to generate proceeds of c.€537 million (net of expenses), to redeem c.€537 million of the 2009 Preference Stock;
(ii) the sale by the NPRFC of €1.3 billion 2009 Preference Stock to Baggot Securities Limited (Baggot), a special purpose company, which funded the purchase using the proceeds of the issuance of €1.3 billion 10.24% perpetual non-cumulative notes (the Notes) to private investors. Baggot irrevocably waived its rights to the step-up by Waiver Deed (the Waiver Deed) in favour of the Bank;
(iii) the Bank advised CBI that it is not the Bank's intention to recognise 2009 Preference Stock as regulatory Common equity tier 1 (CET1) capital after July 2016, unless derecognition would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements; and
(iv) the Bank announced that it does not expect to redeem the €1.3 billion of the 2009 Preference Stock sold to Baggot prior to 1 January 2016, save in certain limited circumstances[2].

[1] *This includes all existing term deposits and eligible liabilities up to the date of withdrawal of the scheme for new liabilities from midnight 28 March 2013.*
[2] *These circumstances would include changes in regulatory capital treatment, breach of the Waiver Deed and taxation.*

52 Summary of relations with the State (continued)

On 11 December 2013, the balance of 1,300,000,000 units of the 2009 Preference Stock was sold by the NPRFC to Baggot Securities Limited (Baggot) a special purpose company, which funded the purchase using the proceeds of the issuance of €1,300,000,000 of 10.24% perpetual non-cumulative notes to private investors.

On 9 December 2013, the Group paid a cash dividend to the NPRFC of €44 million in relation to €537 million of the 2009 Preference Stock that was redeemed. The State generated a gain of €62 million on the sale.

On 20 February 2013, the Group paid a cash dividend of €188.3 million (20 February 2012: €188.3 million) on the 2009 Preference Stock to the NPRFC.

The terms and conditions attaching to the 2009 Preference Stock are outlined in note 44.

(c) Contingent Capital Note
In July 2011, the Group issued a Contingent Capital Note (CCN) to the State, satisfying the requirement under the 2011 PCAR to issue €1 billion of contingent capital. The nominal value of this note is €1 billion and cash proceeds of €985 million were received (net of a fee paid to the State of €15 million). The note has a term of five years and a coupon of 10%. On 9 January 2013, the State sold its entire holding in the Convertible CCN 2016 at a small premium to a diverse group of international institutional investors.

(d) Guarantee schemes
Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG scheme)
The ELG scheme ended for all new liabilities on 28 March 2013. After this date no new liabilities were guaranteed under the scheme. All qualifying deposits made up to the date of expiry from the ELG scheme continued to be covered until the date of maturity of the deposit.

After the date of expiry, eligible liabilities will continue to include the following until date of maturity:
- deposits to the extent not covered by deposit protection schemes in Ireland or any other jurisdiction;
- senior unsecured certificates of deposit;
- senior unsecured commercial paper;
- other senior unsecured bonds and notes; and
- other forms of senior unsecured debt which may be specified by the Minister, consistent with EU State aid rules and the EU Commission's Banking Communication (2008 / C270 / 02) and subject to prior consultation with the EU Commission.

Dated subordinated debt, covered bonds and other forms of secured funding are not guaranteed under the ELG scheme.

A fee is payable in respect of each liability guaranteed under the ELG scheme. The following table summarises the fees paid under the ELG scheme during the years ended 31 December 2013 and 2012 and the liabilities covered at each balance sheet date.

	Year ended 31 December 2013	Year ended 31 December 2012
Liabilities covered at year end	**€bn**	**€bn**
ELG		
- Customer deposits	2	21
- Debt securities in issue	3	5
Total	**5**	**26**
Fees for the year	**€m**	**€m**
ELG	129	388
Total	**129**	**388**

52 Summary of relations with the State (continued)

European Communities (Deposit Guarantee Schemes) Regulations, 1995

Under the European Communities (Deposit Guarantee Schemes) Regulations, 1995 as amended by the State on 20 September 2008, deposits of up to €100,000 per depositor per licensed financial institution regulated by the CBI are guaranteed by the State. This Scheme covers current accounts, demand deposit accounts and term deposit accounts. The Scheme is funded by credit institutions lodging funds in a deposit protection account maintained at the CBI.

In addition to the deposits covered by these Regulations and by the ELG scheme as set out above, certain other Group deposits are covered by the deposit protection schemes in other jurisdictions, chiefly the UK Financial Services Compensation Scheme (in respect of deposits issued by Bank of Ireland (UK) plc) and the Isle of Man Depositors Compensation Scheme (in respect of deposits issued by Bank of Ireland (I.O.M.) Limited). At 31 December 2013, €20.4 billion (31 December 2012: €24.2 billion) of Bank of Ireland (UK) plc deposits and €28 million (31 December 2012: €156 million) of Bank of Ireland (I.O.M.) Limited deposits were covered under these schemes.

(e) Bonds issued by the State

At 31 December 2013, the Group held sovereign bonds issued by the State with a carrying value of €6,846 million (31 December 2012: €5,751 million) of which €6,403 million (31 December 2012: €5,420 million) are classified as available for sale financial assets and €443 million (31 December 2012: €331 million) are classified as other financial assets at fair value through profit or loss.

(f) National Asset Management Agency (NAMA)

At 31 December 2013, the Group held bonds issued by NAMA with a carrying value of €4,089 million (31 December 2012: €4,545 million)

	31 December 2013 €m	31 December 2012 €m
NAMA senior bonds (guaranteed by the State) (note 24)	3,957	4,428
NAMA subordinated bonds	132	117
Total	**4,089**	**4,545**

(g) National Asset Management Agency Investment Limited (NAMAIL)

On 30 March 2010, the Group, through its wholly-owned subsidiary New Ireland Assurance Company plc, acquired 17 million B shares in NAMAIL, corresponding to one-third of the 51 million B shares issued by NAMAIL. The balance of the B shares were acquired at that time in equal proportion by Irish Life Assurance and major pension and institutional clients of AIB Investment Managers. The cost to the Group of acquiring these B shares was €17 million. NAMAIL has also issued 49 million A shares to NAMA. As a result the Group holds 17% of the total ordinary share capital of NAMAIL. NAMAIL is a holding company and its subsidiaries include the entities to which NAMA Participating Institutions transfer Eligible Bank Assets and which issue the NAMA senior bonds and NAMA subordinated debt as consideration for those assets.

The A shares and B shares generally rank equally, except as otherwise provided in the Articles of Association of NAMAIL. NAMA may appoint up to six Directors to the board of NAMAIL. In total, the B shareholders may also jointly appoint up to six Directors and have collectively appointed one director. As holder of the A shares, NAMA has veto rights in relation to: the declaration of dividends; the appointment or removal of Directors; the exercise of voting rights in respect of any subsidiary of NAMAIL and the appointment of a Chairman. In addition NAMA can veto any actions by NAMAIL, which NAMA considers in any manner to be inconsistent with its objectives. A holder of the B shares may not sell the shares without the consent of NAMA.

On a winding-up, the return on B shares is capped at 110% of the capital invested, (€18.7 million in the case of the Group), and the maximum loss that may be suffered is limited to the original amount invested (€17 million in the case of the Group).

A discretionary non-cumulative dividend on the capital invested may be paid on an annual basis and this is limited to the yield on ten year State bonds. A dividend of €0.7 million was received by the Group on 2 April 2013 (2 April 2012: €1.15 million).

52 Summary of relations with the State (continued)

(h) Securities repurchase transaction with Irish Bank Resolution Corporation (IBRC)
On 29 March 2012, the Bank, the State and IBRC, reached a conditional agreement to enter into a securities repurchase transaction (repo) whereby the Group would purchase long term Irish Government Bonds from IBRC for a purchase price of €3.1 billion, less any cash margin payable by IBRC to the Bank on the purchase date. IBRC had an obligation to repurchase the bonds for €3.1 billion in cash, less any cash margin held by the Bank on the repurchase date, not later than 364 days after the effective date of the transaction. The transaction was considered to be a related party transaction under the Listing Rules and consequently required independent stockholder approval which involved the publication of a stockholder circular and an Extraordinary General Court (EGC) which approved the transaction on 18 June 2012. The transaction was financed by the Group by using the bonds, which are eurosystem eligible, to access standard ECB open market operations. The margin for the Group over ECB funding which applies to this transaction was 135 basis points. The transaction was governed by a Global Master Repurchase Agreement which incorporates standard market terms including daily margining provisions with respect to changes in the value of the bonds. All IBRC's payment obligations to the Group under the terms of the transaction were guaranteed by the Minister for Finance. The impact of this transaction on the financial statements at 31 December 2012 was an increase in Loans and advances to banks of €3.1 billion, an increase in Deposits from banks of €3.1 billion and net interest income of €22 million. Transaction costs of €6 million were incurred and, under the terms of the transaction agreement, were reimbursed by IBRC.

Following the announcement by the Irish Government in early February 2013 that it would liquidate the Irish Bank Resolution Corporation (IBRC), the Group's IBRC repo transaction was terminated by the Group on a no gain / no loss basis effective on 13 February 2013.

(i) Other transactions with the State and entities under its control or joint control
In addition to the matters set out above, the Group enters into other transactions in the normal course of business with the State, its agencies and entities under its control or joint control. These transactions include the provision of banking services, including money market transactions, dealing in government securities and trading in financial instruments issued by certain banks.

At 31 December 2013, the Group held senior bonds with a carrying value of €822 million issued by the following entities which are related parties of the Group, as follows:

	31 December 2013 €m	31 December 2012 €m
Allied Irish Banks plc (AIB)	618	602
Permanent TSB Group Holdings plc	204	204
Total	**822**	**806**

At 31 December 2013, €566 million (31 December 2012: €551 million) of the AIB senior bonds and €204 million (31 December 2012: €204 million) of the Permanent TSB Group Holdings plc senior bonds were guaranteed under the ELG scheme.

At 31 December 2013, the Group also had loans of €59 million to AIB (31 December 2012: €46 million) and €6 million to Permanent TSB Group Holdings plc (31 December 2012: €6 million) which were included within loans and advances to banks.

At 31 December 2013, the Group held deposits from the National Treasury Management Agency (NTMA) of €1.7 billion (31 December 2012: €1.3 billion). The maximum amount of these deposits during the period was €2.1 billion (31 December 2012: €1.3 billion).

The Group also held a number of deposits from the State, its agencies and entities under its control or joint control, which are considered to be collectively significant, totalling c.€0.8 billion (31 December 2012: c.€0.9 billion).

In addition, at 31 December 2013, the Group held accounts from IBRC (in Special Liquidation) and its associates of €668 million (31 December 2012: €13 million) which were included in the Customer accounts at 31 December 2013.

(j) Irish bank levy
The Finance Bill (No. 2) 2013 which was enacted on 18 December 2013, introduced a bank levy on certain financial institutions, including the Group. The levy will equal 35% of each financial institution's Deposit Interest Retention Tax (DIRT) payment for 2011 and will be charged for three-years, from 2014 to 2016 inclusive. The annual levy payable by the Group will be c.€41 million.

53 Principal undertakings

The principal Group undertakings at 31 December 2013 were:

Name	Principal activity	Country of incorporation	Statutory year end
Bank of Ireland International Finance Limited[1]	International asset financing	Ireland	31 December
New Ireland Assurance Company plc	Life assurance business	Ireland	31 December
Bank of Ireland Mortgage Bank[1]	Mortgage lending and mortgage covered securities	Ireland	31 December
Bank of Ireland (UK) plc[1]	Retail financial services	England and Wales	31 December
First Rate Exchange Services Holdings Limited[2]	Foreign exchange	England and Wales	31 March
ICS Building Society[1]	Building society	Ireland	31 December

[1] *Direct subsidiary of The Governor and Company of the Bank of Ireland*
[2] *This entity is a joint venture with the UK Post Office, in which the Group holds 50% of the equity of the business.*

All the Group undertakings are included in the consolidated accounts. Unless stated otherwise, the Group owns 100% of the equity of the principal Group undertakings and 100% of the voting shares of all these undertakings and in the case of ICS Building Society, 100% of the investment shares.

In presenting details of the principal subsidiary undertakings, the exemption permitted by Regulation 10 of the European Communities (Credit Institutions: Accounts) Regulations, 1992 has been availed of and the Bank will annex a full listing of Group undertakings to its annual return to the Companies Registration Office.

Bank of Ireland Mortgage Bank (BoIMB)
BoIMB's principal activities are the issuance of Irish Residential mortgages and mortgage covered securities in accordance with the Asset Covered Securities Act 2001 and the Asset Covered Securities (Amendment) Act 2007. BoIMB asset covered securities may be purchased from Bank of Ireland and other members of the Group or third parties.

At 31 December 2013, the total amount outstanding in respect of mortgage covered securities issued was €10 billion (31 December 2012: €11.7 billion). At 31 December 2013, the total amount of principal outstanding in the mortgage covered pool including mortgage assets and cash was €14.9 billion (31 December 2012: €16 billion).

BoIMB issues other debt securities under BoIMB’s obligation to the Central Bank of Ireland within the terms of the Special Mortgage Backed Promissory Note (SMBPN) programme. At 31 December 2013, BoIMB had debt securities in issue to the value of €0.6 billion (31 December 2012: €0.6 billion).

54 Interests in other entities

The Group holds ordinary shares and voting rights in a significant number of entities. In addition, the Group has been involved in setting up separate legal entities. While the Group still has involvement in some of these entities, in other instances, this is no longer the case. Management has assessed its involvement in all such entities in accordance with the definitions and guidance in:

- IFRS 10: Consolidated Financial Statements;
- IFRS 11: Joint Arrangements;
- IAS 28: Investments in Associates and Joint Ventures; and
- IFRS 12: Disclosure of interests in other entities.

The Group controls an entity when it has power over the entity, is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Generally, control or significant influence is identified by the level of ownership of ordinary shares and the level of management involvement in the relevant activities of the entity. However, in the case of 'structured entities', management's judgement is required in determining how the investee should be accounted for.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Group assesses whether it has power over the relevant activities in assessing control over such an entity by considering factors such as who manages the assets of these entities, if the Group has lending to them or has a residual interest in them.

In the case of structured entities, the Group considers it has control over the investee in the following situations:

- securitisation vehicles whose purpose is to finance specific loans and advances to customers; or
- defeasance companies set up to facilitate big-ticket leasing transactions.

In each case the Group considers that it has power over the entity, is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group does not consider it controls an investee when:

- the Group's only involvement in the arrangement is to administer transactions, for which the Group receives a fixed fee, on the basis that the Group is acting as an agent for the investors; or
- an entity is in the process of being liquidated, on the basis that the entity is controlled by the liquidator.

In the case of some venture capital investments, the Group may hold 50% or more of the voting power of an entity, but has been considered to have significant influence, rather than control of the entity because the Group is not involved in directing the relevant activities of the entity and does not have the right to remove the manager of the entity.

An associated undertaking is an entity over which the Group has significant influence, but not control, over the entity's operating and financial policy decisions. If the Group holds 20% or more of the voting power of an entity, it has presumed that the Group has significant influence, unless it could be clearly demonstrated that this was not the case. There are no such cases where the Group holds 20% or more of the voting power of an entity, and is not considered to have significant influence over that entity.

A joint arrangement is an arrangement of which two or more parties have joint control i.e. contractually agreed sharing of control of an arrangement where decisions about the relevant activities require the unanimous consent of the parties sharing control. These arrangements are identified by reference to the power sharing agreements, ensuring that unanimous consent of all parties is a requirement. Where the arrangement has been structured through a separate vehicle, the Group has accounted for it as a joint venture.

On the basis that the Group's relationship with the UK Post Office is a joint arrangement, but is not a separate legal entity, it is accounted for as a jointly controlled operation.

54 Interests in other entities (continued)

Significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group
Regulated banking and insurance subsidiaries are required to maintain minimum regulatory liquidity and solvency ratios and are subject to other regulatory restrictions that may impact on transactions between these subsidiaries and the Bank, including on the subsidiaries ability to make distributions. In addition certain transactions between Bank of Ireland (UK) plc and the Bank are subject to regulatory limits and approvals agreed with the Prudential Regulatory Authority. Total assets of Bank of Ireland (UK) plc amounted to €43.1 billion (31 December 2012: €64.1 billion) and liabilities amounted to €41.2 billion (31 December 2012: €62.5 billion). The activities of Bank of Ireland Mortgage Bank (BoIMB) are subject to the Asset Covered Securities Act 2001 to 2007 which imposes certain restrictions over the assets of BoIMB. Total assets of BoIMB amounted to €19.3 billion (31 December 2012: €20.1 billion) and liabilities amounted to €7.4 billion (31 December 2012: €7.9 billion).

The Group's Life Assurance Business is required to hold shareholder equity that exceeds a certain margin, see note 36 for details. In addition, the Isle of Man Insurance and Pension authority requires the Group's IOM insurance business to hold shareholder equity that exceeds a statutory margin.

Under section 17(1)(b) of the Companies (Amendment) Act 1986, the Bank has given an irrevocable guarantee to meet the liabilities of certain Group undertakings. For further details on the Group's undertakings please see note 53. The liabilities of these undertakings amounted to €358 million as at 31 December 2013 (31 December 2012: €369 million).

Structured entities
The Group holds a number of structured entities (Brunel, Bowbells plc, Colston No 1, Kildare and Partholon), whose purpose is to acquire mortgage loans and other financial assets and issue mortgage backed securities. All of the assets and liabilities are restricted. Total assets amounted to €14.1 billion (31 December 2012: €15.9 billion) and liabilities amounted to €10.6 billion (31 December 2012: €12.5 billion). The Group also holds a structured entity (Avondale Securities S.A.) whose purpose is to acquire other financial assets and issue debt securities. All of the assets and liabilities of this entity are restricted. Total assets amounted to €511 million (31 December 2012: €541 million) and liabilities amounted to €178 million (31 December 2012: €250 million).

In relation to these entities, there are no contractual arrangements that require the Group to provide financial support. In the years ended 31 December 2013 or 31 December 2012 the Group did not provide financial or other support, nor does it expect or intend to do so. All of these entities were consolidated in the Group's financial statements for the years ended 31 December 2013 or 31 December 2012.

Purchase of non-controlling interest
During 2012, the Group signed an agreement to enhance its strategic partnership with the UK Post Office. Prior to this transaction, the Group held 50.01% of the equity of Midasgrange Limited with the remaining 49.99% held by the UK Post Office. As a consequence of this agreement, the Group purchased this non-controlling interest for consideration of £6 million, of which £3 million was cash, recognising an increase of €39 million in retained earnings.

Consequences of losing control of a subsidiary during the reporting period
As part of the Group's focus on simplifying its corporate structure, the Group has an ongoing programme of winding up a number of wholly owned, dormant and non-trading companies, a number of which are foreign operations.

During this process, the Group voluntarily appointed a liquidator to manage the winding up. Upon appointment of the liquidator, the Group is considered to have lost control of the companies and has accounted for this loss of control as a disposal. In accordance with IAS 21, the Group must reclassify net cumulative foreign exchange losses of €12 million relating to these companies from the foreign exchange reserve to the income statement during the year ended 31 December 2013 (year ended 31 December 2012: €56 million) (page 179).

54 Interests in other entities (continued)

Joint arrangement	Holding	Classification	Country of operation	Nature of activities
First Rate Exchange Services Holdings Limited	50%	Joint venture	UK	Sale of foreign exchange products through the UK Post Office network
Enterprise 2000 Fund	50%	Joint venture	Ireland	Investment in venture capital companies
Property unit trust	37.5%	Joint venture	UK	Investment in property unit trust
UK Post Office	-	Joint operation	UK	Sale of financial products through the UK Post Office relationship

All joint ventures investments are unquoted and are measured using the equity method of accounting. All income from these investments has been included in profit or loss from continuing operations. There are no significant restrictions on the ability of these entities to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group. Nor is there any unrecognised share of losses either for the year ended 31 December 2013 or cumulatively in respect of these entities. The Group does not have any further commitments or contingent liabilities in respect of these entities other than its investment to date.

Associates

The Group holds a number of investments in associates, none of which is individually material. All income from these investments has been included in profit or loss from continuing operations. There are no significant restrictions on the ability of these entities to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group. Nor is there any unrecognised share of losses either for the year ended 31 December 2013 or cumulatively in respect of these entities. The Group does not have any contingent liabilities in respect of these entities other than its investment to date.

Unconsolidated structured entities

The Group has incorporated certain entities to provide investment opportunities to clients in international commercial properties. The Group considers that it sponsors these entities where it continues to be involved in the entity or if it is in receipt of income from the entity during the year. At 31 December 2013, there were 9 of these entities (31 December 2012: 14).

At 31 December 2013, the Group considered that it had significant influence over one of these companies and has accounted for this holding as an investment in associate. During the year ended 31 December 2013, the Group lent €9 million to the associate to enhance an investment property (31 December 2012: €2 million) on an arm's length basis. The Group was not contractually obliged to extend this loan.

At 31 December 2013, the fair value of the underlying property was €211 million with liabilities of €148 million.

With regard to the remaining unconsolidated structured entities, they are all property holding companies whose principal activity is managing property investments. In the year ended 31 December 2013, the Group earned asset management fees from these entities. The total gross asset value of these entities at 31 December 2013 was €800 million (31 December 2012: €1,184 million).

54 Interests in other entities (continued)

These structured entities are not consolidated, but the associated income and the carrying amounts of assets and liabilities in relation to these entities, are included in the Group's financial statements as follows:

	31 December 2013 €m	31 December 2012 €m
Income		
Share of results of associates and joint ventures (after tax)	(1)	5
Fee and commission income	1	2
Interest income	1	-
Total income	**1**	**7**
Carrying amounts of assets and liabilities		
Interest in associates	49	52
Loans and advances to customers	11	2
Maximum exposure to loss	**60**	**54**

In relation to these entities, there are no contractual arrangements that require the Group to provide financial support. However, in the year ended 31 December 2013, the Group lent funds to one of these entities as outlined above. At 31 December 2013, the Group does not expect to increase this loan or provide any other support.

As outlined in note 43, Baggot Securities Limited (Baggot) is a structured entity set up by the Group to fund the purchase of 1,300,000,000 units of the 2009 Preference Stock using the proceeds of the issuance of €1,300,000,000 of 10.24% perpetual non-cumulative notes to private investors. Baggot has irrevocably waived its right to receive any redemption monies in respect of the 2009 Preference Stock in excess of €1.00 per unit. On the basis that the Group does not absorb any risks of Baggot and has no exposure or rights to the variable returns of Baggot, the Group considers it does not control Baggot. Therefore, Baggot is not consolidated.

55 Transferred financial assets

The Group has transferred certain financial assets that are not derecognised from the Group's balance sheet. Such arrangements are securitisations and sale or repurchase agreements. The Group is exposed to substantially all risks and rewards including credit and market risk associated with the transferred assets.

31 December 2013 Categories	**Carrying amount of transferred assets €m**	**Carrying amount of associated liabilities €m**	**Fair value of transferred assets €m**	**Fair value of associated liabilities €m**	**Net fair value position €m**
Securitisation					
Loans and receivables					
Residential mortgages book (Brunel SPE) - Including buybacks[1]	1,362	1,659[3]	1,194	1,560[3]	(366)
Irish Residential mortgages (Kildare SPE) ICS Group[1]	1,453	1,452	1,079	1,125	(46)
Partholon CDO plc (corporate loans)[1]	107	107	92	92	-
Sale and repurchase					
Available for sale financial assets[2]	3,854	3,691	N/a	N/a	N/a
NAMA senior bonds	2,730	2,702	N/a	N/a	N/a
Trading securities	7	7	N/a	N/a	N/a

31 December 2012 Categories	Carrying amount of transferred assets €m	Carrying amount of associated liabilities €m	Fair value of transferred assets €m	Fair value of associated liabilities €m	Net fair value position €m
Securitisation					
Loans and receivables					
Residential mortgages book (Brunel SPE) - Including buybacks[1]	1,602	1,945[3]	1,424	1,744[3]	(320)
Irish Residential mortgages (Kildare SPE) ICS Group[1]	1,543	1,547	1,204	1,077	127
Partholon CDO plc (corporate loans)[1]	164	164	135	135	-
Sale and repurchase					
Available for sale financial assets[2]	6,296	5,887	N/a	N/a	N/a
NAMA senior bonds	4,428	4,452	N/a	N/a	N/a

Description of the relationship between the transferred assets and the associated liabilities, including the restrictions on the entity's use of those assets:

[1] *For each securitisation the relevant loan book / pool is ring-fenced whereby the cash flows associated with these assets can only be used to repay the related notes holders plus associated issuance fees / costs.*

[2] *Assets sold subject to repurchase agreements are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate. The difference between the original sale price of the bonds and the repurchase price is the repo rate.*

[3] *Certain of the liabilities consist of debt securities issued in currencies other than that of the transferred assets. Changes in foreign exchange rates result in changes in both the carrying value and the fair value of the liabilities. The foreign exchange risk is hedged with the cross-currency swaps.*

N/a: Not applicable as arrangement has recourse to assets other than the transferred assets.

The Group has not entered into any agreements on the sale of assets that entail the Group's continuing involvement in derecognised financial assets.

56 Offsetting financial assets and liabilities

The following tables sets out the effect or potential effect of netting arrangements on the Group's financial position. This includes the effect or potential effect of rights of set-off associated with the Group's recognised financial assets and recognised financial liabilities that are subject to an enforceable master netting arrangement, irrespective of whether they are set off in accordance with paragraph 42 of IAS 32.

31 December 2013 Assets	Gross amounts of recognised financial assets €m	Gross amounts of recognised financial liabilities set off in the balance sheet €m	Net amounts of financial assets presented in the balance sheet €m	Related amounts not set off in the balance sheet: Financial[1] instruments €m	Related amounts not set off in the balance sheet: Cash[2] collateral received €m	Net amount €m
Derivative financial assets	3,044	-	3,044	(1,994)	(862)	188
Loans and advances to customers	2,082	(2,082)	-	-	-	-
Total	**5,126**	**(2,082)**	**3,044**	**(1,994)**	**(862)**	**188**

[1] *Amounts of €1,994 million represent recognised derivatives liabilities at fair value that do not meet the offsetting criteria.*
[2] *Cash collateral amounts disclosed reflect the actual collateral pledged, at amortised cost. Cash collateral received is reported within deposits from banks (see note 33).*

The following financial liabilities are subject to offsetting, enforceable master netting arrangements.

31 December 2013 Liabilities	Gross amounts of recognised financial liabilities €m	Gross amounts of recognised financial assets set off in the balance sheet €m	Net amounts of financial liabilities presented in the balance sheet €m	Related amounts not set off in the balance sheet: Financial[1] instruments €m	Related amounts not set off in the balance sheet: Cash[2] collateral pledged €m	Net amount €m
Derivative financial liabilities	3,115	-	3,115	(1,931)	(1,062)	122
Customer deposits	2,081	(2,081)	-	-	-	-
Deposits by banks	143	-	143	(63)	(80)	-
Total	**5,339**	**(2,081)**	**3,258**	**(1,994)**	**(1,142)**	**122**

[1] *Amounts of €1,994 million represent recognised derivatives assets at fair value that do not meet the offsetting criteria.*
[2] *Cash collateral amounts disclosed reflect the actual collateral pledged, at amortised cost.*

56 Offsetting financial assets and liabilities (continued)

31 December 2012 Assets	Gross amounts of recognised financial assets €m	Gross amounts of recognised financial liabilities set off in the balance sheet €m	Net amounts of financial assets presented in the balance sheet €m	Related amounts not set off in the balance sheet Financial[1] instruments €m	Cash[2] collateral received €m	Net amount €m
Derivative financial assets	4,972	-	4,972	(3,761)	(1,002)	209
Loans and advances to customers	2,230	(2,230)	-	-	-	-
Total	7,202	(2,230)	4,972	(3,761)	(1,002)	209

[1] *Amounts of €3,761 million represent recognised derivatives liabilities at fair value that do not meet the offsetting criteria.*
[2] *Cash collateral amounts disclosed reflect the actual collateral received, at amortised cost. Cash collateral received is reported within deposits from banks (see note 33).*

The following financial liabilities are subject to offsetting, enforceable master netting arrangements.

31 December 2012 Liabilities	Gross amounts of recognised financial liabilities €m	Gross amounts of recognised financial assets set off in the balance sheet €m	Net amounts of financial liabilities presented in the balance sheet €m	Related amounts not set off in the balance sheet Financial[1] instruments €m	Cash[2] collateral pledged €m	Net amount €m
Derivative financial liabilities	5,139	-	5,139	(3,718)	(1,347)	74
Customer deposits	2,230	(2,230)	-	-	-	-
Deposits by banks	216	-	216	(43)	(173)	-
Total	7,585	(2,230)	5,355	(3,761)	(1,520)	74

[1] *Amounts of €3,761 million represent recognised derivatives assets at fair value that do not meet the offsetting criteria.*
[2] *Cash collateral amounts disclosed reflect the actual collateral pledged, at amortised cost.*

The ‘Financial Instruments’ column identifies financial assets and liabilities that are subject to set off under netting agreements such as ISDA Master agreement. The agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

57 Life assurance business

Value of the in force asset	31 December 2013 €m	31 December 2012 €m
At beginning of year	518	519
Income statement movement in value of the in force asset (gross of tax)	(21)	(1)
At end of year	**497**	**518**

The Group recognises as an asset the value of the in force assurance business in respect of insurance contracts. The value of the in force asset, has been calculated in accordance with the achieved profits embedded value methodology in the Statement of Recommended Practice issued by the Association of British Insurers which came into force in 2002. The value of the in force asset, which is presented gross of attributable tax, represents the present value of future profits expected to arise from these contracts as at the balance sheet date. It is determined by projecting future surpluses and other cash flows arising from insurance contracts and discounting at an appropriate rate. The useful life of the asset is based on the length of the underlying individual policies upon which the asset is calculated. This useful life is expected to be 6.3 years as at 31 December 2013 (31 December 2012: 6.5 years).

The key economic assumptions used in the calculation of the value of the in force business are set out below:

	31 December 2013	31 December 2012
Risk discount rate	7.11%	6.6%
Unit growth rate	4.75%	4.15%
Shareholder tax rate	12.5%	12.5%

57 Life assurance business (continued)

The process used in determining the key economic and experience assumptions is set out below:

Risk discount rate:	The risk discount rate is the rate used to discount the future surpluses that will arise on insurance business in the long term funds. The interest rates used to calculate policyholder liabilities are derived in accordance with the guidelines in the Insurance Regulations. Margins for risk are allowed for in the derived interest rates. In line with December 2012 the Euro Swap curve is used as a benchmark for an international mix of fixed interest assets. The risk discount rate applied to future cash flows at December 2013 is 7.11% (31 December 2012: 6.6%).
Unit growth rate:	The unit growth rate is the assumed rate of return on the unit linked assets before taxation and management fees in future years. The growth rate reflects the mix of assets held. The unit growth rate was increased to 4.75% at 31 December 2013 (31 December 2012: 4.15%).
Shareholder tax rate:	The current rate of corporation tax is assumed to be maintained over the term of the business. Deferred tax is allowed for on the release of retained surplus in the life business.
Mortality and morbidity:	Mortality and morbidity assumptions, which include allowances for improvements in longevity for annuitants, are set by reference to the Group's actual experience and / or relevant industry data.
Persistency:	Persistency rates refer to the rate of policy termination for insurance policies. These rates are based on historical experience and management's views on future experience.
Maintenance expenses:	Allowance is made for future policy costs by reference to current and expected future costs. Explicit allowance is made for future expense inflation.

Sensitivities

The table below indicates the standalone impact of changes in the key assumptions on profit.

	31 December 2013	31 December 2012
1% increase in risk discount rate	(€29 million)	(€30 million)
1% decrease in risk discount rate	€32 million	€33 million
10% improvement in mortality	€12 million	€14 million
10% improvement in longevity	(€13 million)	(€12 million)
10% improvement in morbidity	€7 million	€7 million
10% deterioration in persistency	(€15 million)	(€15 million)
5% improvement in maintenance expenses	€8 million	€8 million
1% increase in equity markets	€2 million	€1 million

While the table above shows the impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

58 Impact of adopting new accounting standards

From 1 January 2013, the Group adopted 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. Each standard is required to be applied retrospectively and accordingly the Group has restated the comparative periods.

The following tables reflect the impact on the Group's financial statements at 31 December 2013 of the adoption of these standards at 1 January 2013.

Income statement – year ended 31 December 2013	**IAS 19R Gain / (loss) €m**	**IFRS 10 Gain / (loss) €m**	**Total Gain / (loss) €m**
Interest expense	-	10	10
Other operating income	-	(21)	(21)
Share of results of associates and joint ventures (after tax)	-	(1)	(1)
Other operating expenses	(40)	10	(30)
Loss before tax	**(40)**	**(2)**	**(42)**
Taxation credit	5	-	5
Loss for the year	**(35)**	**(2)**	**(37)**
Remeasurement of the net defined benefit pension liability, net of tax	38	-	38
Total comprehensive income for the year, net of tax	**3**	**(2)**	**1**
Attributable to stockholders	3	-	3
Attributable to non-controlling interests	-	(2)	(2)
Total comprehensive income for the year, net of tax	**3**	**(2)**	**1**
Basic and diluted earnings per share (cent)	-	-	-

Balance sheet – 31 December 2013	**IAS 19R €m**	**IFRS 10 €m**	**Total €m**
Loans and advances to banks	-	(9)	(9)
Loans and advances to customers	-	11	11
Interest in associates	-	49	49
Investment properties	-	(213)	(213)
Deferred tax assets	(15)	-	(15)
Other assets	-	(4)	(4)
Total assets	**(15)**	**(166)**	**(181)**
Deposits from banks	-	(139)	(139)
Retirement benefit obligations	(84)	-	(84)
Other liabilities	-	(10)	(10)
Total liabilities	**(84)**	**(149)**	**(233)**
Non-controlling interests	-	(17)	(17)
Retained earnings – current year	3	-	3
Retained earnings – prior years	66	-	66
Total equity	**69**	**(17)**	**52**

58 Impact of adopting new accounting standards (continued)

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

From 1 January 2013, the Group adopted IAS 19 Employee Benefits (Revised 2011) which resulted in an increase in the pension charge included in operating expenses of €11 million for the year ended 31 December 2012.

As a result of this restatement stockholders' equity at 31 December 2012 has been increased by €66 million and total assets have been reduced by €13 million.

IFRS 10 Consolidated Financial Statements

The Group adopted IFRS 10, from 1 January 2013, which resulted in the deconsolidation of certain entities with interests in an international investment property within Retail Ireland. The impact of this has been to reclassify the income statement lines relating to these entities to Share of results of associates and joint ventures (after tax), but with no impact on underlying loss before tax. The comparative figures for the year ended 31 December 2012 have been restated to reflect this, resulting in a €9 million increase in net interest income, a €26 million decrease in net other income, a €11 million decrease in operating expenses and a €5 million increase in share of results of associates and joint ventures (after tax).

The balance sheet impact of this deconsolidation has been to reclassify the balance sheet lines relating to these entities to interest in associated undertakings. The comparative figures for 31 December 2012 have been restated to reflect this, resulting in a reduction of €169 million in total assets and a reduction of €147 million in wholesale funding.

Other

In addition to the adoption of new accounting standards as described above, a reclassification has been made to the income statement for the year ended 31 December 2012. The gains on liability management exercises of €69 million and loss on sale of assets to NAMA of €1 million which had previously been reported as a separate line item is now included in other income as it is not material enough to require separate disclosure.

58 Impact of adopting new accounting standards (continued)

The following tables set out the impact of the adoption of these standards on the Group's financial statements for the year ended 31 December 2012. In addition, and as set out on page 312, the Group has reclassified gains on liability management exercises and gains / losses on sale of assets to NAMA from the face of the income statement to other lines within the income statement. These items are included under the heading 'Reclassifications' in the following tables:

	31 December 2012				
	Published €m	IAS 19R €m	IFRS 10 €m	Reclassifications €m	Restated €m
CONSOLIDATED INCOME STATEMENT (selected lines)					
Interest expense	(2,569)	-	9	-	(2,560)
Fee and commission income	515	-	-	-	515
Gain on liability management exercises	69	-	-	(69)	-
Other operating income	106	-	(26)	68	148
Other operating expenses	(1,638)	(11)	11	-	(1,638)
(Loss) / gain on sale of assets to NAMA including associated costs	(1)	-	-	1	-
Share of results of associates and joint ventures (after tax)	41	-	5	-	46
Loss before tax	(2,166)	(11)	(1)	-	(2,178)
Loss after tax	(1,829)	(11)	(1)	-	(1,841)
Basic and diluted earnings per share (cent)	6.7c	-	-	-	6.7c
CONSOLIDATED BALANCE SHEET (selected lines)					
Assets					
Loans and advances to banks	9,506	-	(4)	-	9,502
Interest in associates	39	-	52	-	91
Investment properties	1,066	-	(218)	-	848
Other assets	2,404	-	1	-	2,405
Deferred tax assets	1,653	(13)	-	-	1,640
Total assets	148,146	(13)	(169)	-	147,964
Liabilities					
Deposits from banks	21,272	-	(147)	-	21,125
Other liabilities	3,144	-	(7)	-	3,137
Retirement benefit obligations	1,156	(79)	-	-	1,077
Total liabilities	139,542	(79)	(154)	-	139,309
Equity					
Retained earnings	4,607	66	-	-	4,673
Non-controlling interests	13	-	(15)	-	(2)
Total equity	8,604	66	(15)	-	8,655

58 Impact of adopting new accounting standards (continued)

The tables below outline the impact of the restatement on the relevant financial statement line items for the year ended 31 December 2012:

	31 December 2012				
	Published €m	IAS19R €m	IFRS10 €m	Reclassifications €m	Restated €m
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (selected lines)					
Loss for the year	(1,829)	(11)	(1)	-	(1,841)
Remeasurement of net defined benefit pension liability, net of tax	(789)	14	-	-	(775)
Other comprehensive income for the year, net of tax	369	14	-	-	383
Total comprehensive income for the year, net of tax	(1,460)	3	(1)	-	(1,458)
Total comprehensive income attributable to equity stockholders	(1,455)	3	-	-	(1,452)
Total comprehensive income attributable to non-controlling interests	(5)	-	(1)	-	(6)
Total comprehensive income for the year, net of tax	(1,460)	3	(1)	-	(1,458)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (selected lines)					
Retained earnings					
Balance at the beginning of the year	3,507	64	-	-	3,571
Loss for the period attributable to stockholders	(1,824)	(11)	-	-	(1,835)
Remeasurement of net defined benefit pension liability	(789)	14	-	-	(775)
Balance at the end of the year	4,607	66	-	-	4,673
Non-controlling interests					
Balance at the beginning of the year	50	-	(13)	-	37
Share of net loss	(5)	-	(1)	-	(6)
Balance at the end of the year	13	-	(15)	-	(2)
CONSOLIDATED CASH FLOW STATEMENT (selected lines)					
Cash flows from operating activities before changes in operating assets and liabilities	628	-	7	-	635
Net cash flow from operating assets and liabilities	(4,682)	-	(4)	-	(4,686)
Cash flows from investing activities	3,149	-	1	-	3,150
Net change in cash and cash equivalents	(1,692)	-	4	-	(1,688)
Closing cash and cash equivalents	14,332	-	(4)	-	14,328

58 Impact of adopting new accounting standards (continued)

The tables below outline the impact of the restatement on the consolidated balance sheet for the year commencing 1 January 2012:

	1 January 2012				
	Published €m	IAS19R €m	IFRS10 €m	Reclassifications €m	Restated €m
CONSOLIDATED BALANCE SHEET (selected lines)					
Assets					
Loans and advances to banks	8,059	-	(8)	-	8,051
Interest in associates	31	-	48	-	79
Investment properties	1,204	-	(209)	-	995
Other assets	2,270	-	(1)	-	2,269
Deferred tax assets	1,381	(10)	-	-	1,371
Total assets	154,880	(10)	(170)	-	154,700
Liabilities					
Deposits from banks	31,534	-	(152)	-	31,382
Other liabilities	3,111	-	(5)	-	3,106
Retirement benefit obligations	422	(74)	-	-	348
Total liabilities	144,628	(74)	(157)	-	144,397
Equity					
Retained earnings	3,507	64	-	-	3,571
Non-controlling interests	50	-	(13)	-	37
Total equity	10,252	64	(13)	-	10,303

59 EU restructuring plan

Amendment to the Group's Revised 2011 EU Restructuring Plan

On 9 July 2013, the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, with substitutions for the measure to divest of NIAC. The Group is no longer required to sell NIAC its life assurance company which distributes protection, investment and pension products to the Irish market, through independent brokers, its financial advisors (direct sales force) and the Group's branch network. The NIAC divestment measure will be replaced with substitution measures summarised below:

- the Group will exit from its Great Britain (GB) based business banking and corporate banking activities having gross loan assets of c.€3.5 billion at 31 December 2013 (31 December 2012: c.€4.6 billion). This measure does not impact on the Group's consumer banking businesses in GB including its partnership with the Post Office, or its activities in Northern Ireland or its Leveraged Acquisition Finance business;
- the Group will exit from the origination of new mortgages through its intermediary channel, including the sale (or retirement) of the ICS Building Society's distribution platform together with the sale, if required by an acquirer, of up to €1.0 billion of intermediary originated mortgage assets and matched deposits;
- the Group's market opening measures will be prolonged by one year to 31 December 2016; and
- under the July 2013 Amended EU Restructuring Plan, the Bank had restrictions on the payment of dividends on its ordinary stock. These dividend restrictions no longer apply as the 2009 Preference Stock is no longer owned by the State following the capital transaction executed by the Group in December 2013.

60 Post balance sheet events

€750 million debt issuance

On 8 January 2014, the Group raised €750 million of five-year senior unsecured funding with a yield of 3.337% from a diversified range of investors.

2009 Preference Stock Dividend

On 20 February 2014 the Group paid a cash dividend of €133.3 million on the 2009 Preference Stock to Baggot Securities Limited.

NAMA

On 20 February 2014, NAMA informed the Group that it would pay the Group a coupon of c.€15 million on 3 March 2014 on its holding of NAMA subordinated bonds. On 28 February 2014, NAMA announced that it would repurchase €3 billion nominal of the outstanding NAMA senior bonds, on a pro rata basis and at a price of par plus accrued interest. For the Group, the amount to be repurchased is estimated as c.€528 million nominal, which will reduce the Group's nominal holding to c.€3,463 million on the intended settlement date of 12 March 2014.

61 Approval of financial statements

The Court of Directors approved the consolidated and Bank financial statements on 28 February 2014.

Bank Financial Statements

Bank balance sheet as at 31 December 2013

	Note	31 December 2013 €m	Restated* As at 31 December 2012 €m	Restated* As at 1 January 2012[1] €m
Assets				
Cash and balances at central banks	ac	1,437	651	523
Items in the course of collection from other banks		145	211	226
Trading securities	c	252	143	6
Derivative financial instruments	d	3,290	5,642	5,999
Other financial assets at fair value through profit or loss	e	143	75	49
Loans and advances to banks	f	27,832	50,686	62,766
Available for sale financial assets	g	14,843	15,154	15,497
NAMA senior bonds	h	3,957	4,428	5,016
Loans and advances to customers	i	40,928	47,908	61,435
Shares in Group undertakings	k	4,537	3,762	3,491
Intangible assets	l	312	298	308
Property, plant and equipment	m	308	288	288
Current tax assets		6	38	36
Deferred tax assets	v	1,375	1,378	1,232
Other assets	n	669	636	708
Retirement benefit asset	u	2	-	5
Assets classified as held for sale		-	-	1,278
Total assets		**100,036**	**131,298**	**158,863**
Equity and liabilities				
Deposits from banks	o	28,831	57,316	80,131
Customer accounts	p	52,712	49,996	48,699
Items in the course of transmission to other banks		35	58	100
Derivative financial instruments	d	3,435	5,656	6,418
Debt securities in issue	q	4,342	6,137	8,620
Other liabilities	r	875	1,175	3,644
Provisions	s	75	91	36
Subordinated liabilities	t	1,604	1,635	1,386
Retirement benefit obligations	u	741	972	287
Total liabilities		**92,650**	**123,036**	**149,321**
Equity				
Capital stock	x	2,558	2,452	2,452
Stock premium account	y	1,125	1,200	5,117
Retained earnings		3,411	4,456	2,780
Other reserves		292	154	(807)
Stockholders' equity		**7,386**	**8,262**	**9,542**
Total equity and liabilities		**100,036**	**131,298**	**158,863**

* *As outlined in the Group accounting policies in the consolidated financial statements on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)'. See note ag for additional information.*
[1] *Opening balance sheet as at 1 January 2012 reflects the Bank's restated closing balance as at 31 December 2011.*

Archie G Kane	***Patrick O'Sullivan***	***Richie Boucher***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Bank statement of changes in equity for the year ended 31 December 2013

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Capital stock		
Balance at the beginning of the year	2,452	2,452
Issue of ordinary stock	111	-
Redemption of the 2009 Preference Stock	(5)	-
Balance at the end of the year	**2,558**	**2,452**
Stock premium account		
Balance at the beginning of the year	1,200	5,117
Issue of ordinary stock (note y)	469	-
Transaction costs on issue of ordinary stock (note y)	(12)	-
Redemption of the 2009 Preference Stock (note y)	(532)	-
Transfer to retained earnings (note y)	-	(3,920)
Transaction costs on transfer to retained earnings (note y)	-	3
Balance at the end of the year	**1,125**	**1,200**
Retained earnings		
Balance at the beginning of the year (prior to restatement)	4,392	2,718
Effect of change in accounting policy*	64	62
Balance at the beginning of the year (restated)	4,456	2,780
Loss retained	(901)	(1,507)
- Loss for year attributable to stockholders	*(661)*	*(1,311)*
- Dividends on 2009 Preference Stock and other preference equity interests paid in cash	*(240)*	*(196)*
Transaction costs on the transfer of the 2009 Preference Stock	(27)	-
Remeasurement of the net defined benefit pension liability	(121)	(734)
Transfer from share based payment reserve	4	-
Other movements	-	(3)
Transfer from stock premium account	-	3,920
Balance at the end of the year	**3,411**	**4,456**
Other reserves:		
Available for sale reserve		
Balance at the beginning of the year	130	(616)
Net changes in fair value	507	869
Deferred tax on reserve movements	(59)	(106)
Transfer to income statement (pre tax)		
- Asset disposal	(44)	(57)
- Impairment	-	40
Balance at the end of the year	**534**	**130**
Cash flow hedge reserve		
Balance at the beginning of the year	239	92
Changes in fair value	258	594
Transfer to income statement (pre tax)		
- Net trading income (foreign exchange)	(329)	(473)
- Net interest income	(135)	53
Deferred tax on reserve movements	22	(27)
Balance at the end of the year	**55**	**239**

* *As outlined in the Group accounting policies in the consolidated financial statements on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)'. See note ag for additional information.*

Bank statement of changes in equity for the year ended 31 December 2013 (continued)

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Foreign exchange reserve		
Balance at the beginning of the year	(391)	(460)
Exchange adjustments during the year	(78)	69
Balance at the end of the year	**(469)**	**(391)**
Capital contribution	**116**	**116**
Capital reserve		
Balance at the beginning of the year	48	48
Balance at the end of the year	**48**	**48**
Share based payment reserve		
Balance at the beginning of the year	7	7
Transfer to retained earnings	(4)	-
Balance at the end of the year	**3**	**7**
Revaluation reserve		
Balance at the beginning of the year	5	6
Revaluation of property	-	(2)
Deferred tax on revaluation of property	-	1
Balance at the end of the year	**5**	**5**
Total other reserves	**292**	**154**
Total stockholders' equity	**7,386**	**8,262**

* *As outlined in the Group accounting policies in the consolidated financial statements on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)'. See note ag for additional information.*

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Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Bank cash flow statement
for the year ended 31 December 2013

	Notes	**Year ended 31 December 2013 €m**	Restated* Year ended 31 December 2012 €m
Cash flows from operating activities			
Loss before tax		(649)	(1,516)
Dividends received from Group undertakings		(120)	(203)
Depreciation and amortisation	l, m	104	126
Impairment charges on financial assets		937	1,075
Loss on deleveraging of financial assets		2	339
Charge arising on revaluation of property	m	2	6
Loss on sale of assets to NAMA including associated costs		-	1
Interest expense on subordinated liabilities		178	157
Charge for retirement benefit obligation		159	61
Impact of amendments to defined benefit pension schemes	u	(274)	-
Charges arising on the movement in credit spreads on the Bank's own debt and deposits accounted for at 'fair value through profit or loss'		154	297
Charge arising on transfer of loans to Group undertakings		181	328
Gain on Contingent Capital Note		-	(79)
Gain on redemption of subordinated liabilities		-	(16)
Net changes in accruals and interest payable		(300)	(42)
Other non-cash items		126	33
Cash flows from operating activities before changes in operating assets and liabilities		**500**	**567**
Net change in items in the course of collection from other banks		42	(27)
Net change in trading securities		(109)	(137)
Net change in derivative financial instruments		84	(333)
Net change in other financial assets at fair value through profit or loss		(68)	(26)
Net change in loans and advances to banks		21,649	10,134
Net change in loans and advances to customers		3,658	7,130
Net change in other assets		396	642
Net change in deposits from banks		(28,485)	(22,815)
Net change in customer accounts		2,635	1,146
Net change in debt securities in issue		(1,830)	(2,592)
Net change in other liabilities		(142)	(2,770)
Effect of exchange translation and other adjustments		367	(690)
Net cash flows from operating assets and liabilities		**(1,803)**	**(10,338)**
Net cash flows from operating activities before taxation		**(1,303)**	**(9,771)**
Tax (paid) / refunded		(21)	5
Net cash flows from operating activities		**(1,324)**	**(9,766)**
Investing activities (section a)		1,873	8,002
Financing activities (section b)		(970)	(92)
Net change in cash and cash equivalents		**(421)**	**(1,856)**
Opening cash and cash equivalents	ac	3,327	5,183
Effect of exchange translation adjustments		4	-
Closing cash and cash equivalents	ac	**2,910**	**3,327**

* *As outlined in the Group accounting policies in the consolidated financial statements on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)'. See note ag for additional information.*

Bank cash flow statement
for the year ended 31 December 2013 (continued)

	Notes	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
(a) Investing activities			
Additions to available for sale financial assets	g	(3,147)	(5,041)
Disposal / redemption of available for sale financial assets	g	3,699	6,532
Disposal of loan portfolios		1,575	6,650
- Proceeds from sale of loan portfolios to Group undertakings		*1,575*	*5,375*
- Net proceeds from disposal of loan portfolios		*-*	*1,275*
Dividends received from Group undertakings		120	203
Additions to property, plant and equipment[1]	m	(63)	(41)
Disposal of property, plant and equipment	m	1	6
Additions to intangible assets	l	(80)	(74)
Net increase in cash investment in subsidiaries		(232)	(233)
Cash flows from investing activities		**1,873**	**8,002**
(b) Financing activities			
Redemption of the 2009 Preference Stock		(537)	-
Transaction costs on the transfer of the 2009 Preference Stock		(27)	-
Transaction costs on the issue of ordinary stock		(12)	-
Interest paid on subordinated liabilities		(154)	(133)
Dividend paid on 2009 Preference Stock and other preference equity interests		(240)	(196)
Proceeds from issue of new subordinated liabilities		-	250
Consideration paid in respect of redemption of subordinated liabilities		-	(13)
Cash flows from financing activities		**(970)**	**(92)**

* *As outlined in the Group accounting policies in the consolidated financial statements on page 186 comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)'. See note ag for additional information.*

[1] *Excludes €1 million (year ended 31 December 2012: €12 million) of property, plant and equipment acquired under finance lease agreements (see note m).*

Archie G Kane	***Patrick O'Sullivan***	***Richie Boucher***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Notes to the Bank financial statements

a Accounting policies and critical accounting estimates and judgements

The Bank financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) and with those parts of the Companies Acts, 1963 to 2013 applicable to companies reporting under IFRS, with the European Communities (Credit Institutions: Accounts) Regulations 1992 and with the Asset Covered Securities Acts 2001 to 2007. The EU adopted version of IAS 39 Financial Instruments — Recognition and Measurement relaxes some of the hedge accounting rules in IAS 39 Financial Instruments — Recognition and Measurement. The Bank has not availed of this, hence these financial statements comply with both IFRS as adopted by the EU and IFRS as issued by the IASB.

The financial statements reflect the financial position of the Bank only and do not consolidate the results of any subsidiaries. The accounts are presented in euro millions except where otherwise indicated. The financial statements have been prepared under the historical cost convention, as modified to include the fair valuation of certain financial instruments and land and buildings. The accounting policies of the parent company are the same as those of the Group which are set out in the Group accounting policies section of the Annual Report on pages 184 to 208 where applicable. The Bank's investments in its subsidiaries are stated at cost less any impairment.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. A description of the critical estimates and judgements is set out on pages 209 to 211 of the Group's annual report.

Impairment review of shares in Group undertakings
The Bank reviews its shares in Group undertakings for impairment at each reporting date. Impairment testing involves the comparison of the carrying value of the investment with its recoverable amount. The recoverable amount is the higher of the investment's fair value or its value in use. Value in use is the present value of expected future cash flows from the investment. Fair value is the amount obtainable for the sale of the investment in an arm's length transaction between knowledgeable, willing parties. Impairment testing inherently involves a number of judgemental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of the investment; and the valuation of the separable assets comprising the overall investment in the Group undertaking. The use of reasonably possible alternative assumptions would not materially impact the carrying value of the Bank's shares in Group undertakings. See note k for further information.

b Auditors' remuneration (excluding VAT)

	Notes	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Audit and assurance services			
Statutory audit		1.6	1.6
Assurance services			
- Assurance services relating to capital package		1.1	-
- Assurance services relating to IBRC transaction	(i)	-	0.6
- Other assurance services	(ii)	2.2	2.6[1]
		4.9	**4.8**
Other services			
Taxation services		0.1	0.1
Other non-audit services		-	-
Auditors' remuneration		**5.0**	**4.9**

The figures in the above table relate to fees paid to the Statutory Auditor, PricewaterhouseCoopers (PwC) Ireland. The Group Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors.

(i) These fees are in respect of transaction services relating to the securities repurchase transaction between the Bank and Irish Bank Resolution Corporation Limited (IBRC), see note 52 of the consolidated financial statements. Under the terms of the transaction agreement, costs reasonably incurred in relation to the transaction, including this fee, were recovered from IBRC.

(ii) Other assurance services consist primarily of fees in connection with reporting to regulators including the Central Bank of Ireland, review of the interim financial statements, letters of comfort, review of compliance with Government Guarantee Schemes, reporting on Sarbanes-Oxley, reporting accountants' work and other accounting matters.

[1] *The comparative period fee has been restated to reflect a comparable allocation with the year ended 31 December 2013.*

c Trading securities

	31 December 2013 €m	31 December 2012 €m
Debt securities – listed	252	143
Trading securities	**252**	**143**

For the purpose of disclosure of credit risk exposures, trading securities are included within other financial instruments of €50.6 billion (31 December 2012: €76.5 billion) in note j.

d Derivative financial instruments

Information on derivatives is outlined in note 20 to the consolidated financial statements.

The notional amounts and fair values of derivative instruments held by the Bank are set out in the following tables:

31 December 2013	Contract / notional amount €m	Fair Values Assets €m	Fair Values Liabilities €m
Derivatives held for trading			
Foreign exchange derivatives			
Currency forwards	8,726	46	68
Currency swaps	573	41	27
Over the counter currency options	348	2	2
Total foreign exchange derivatives held for trading	**9,647**	**89**	**97**
Interest rate derivatives			
Interest rate swaps	203,110	2,187	2,432
Cross currency interest rate swaps	4,218	135	278
Forward rate agreements	1,651	-	1
Over the counter interest rate options	5,121	40	34
Total interest rate derivatives held for trading	**214,100**	**2,362**	**2,745**
Equity contracts and credit derivatives			
Equity index-linked contracts held	3,886	238	40
Equity conversion feature in Contingent Capital Note	1,000	50	-
Credit derivatives	134	2	2
Total equity contracts and credit derivatives	**5,020**	**290**	**42**
Total derivative assets / liabilities held for trading	**228,767**	**2,741**	**2,884**
Derivatives held for hedging			
Derivatives designated as fair value hedges			
Interest rate swaps	11,157	135	366
Cross currency interest rate swaps	75	6	-
Total designated as fair value hedges	**11,232**	**141**	**366**
Derivatives designated as cash flow hedges			
Interest rate swaps	17,745	334	80
Cross currency interest rate swaps	7,744	74	105
Currency forwards	11	-	-
Total designated as cash flow hedges	**25,500**	**408**	**185**
Total derivative assets / liabilities held for hedging	**36,732**	**549**	**551**
Total derivative assets / liabilities	**265,499**	**3,290**	**3,435**
Amounts include:			
Due from / to Group undertakings	48,409	37	298

d Derivative financial instruments (continued)

31 December 2012	Contract / notional amount €m	Fair Values Assets €m	Fair Values Liabilities €m
Derivatives held for trading			
Foreign exchange derivatives			
Currency forwards	7,295	69	35
Currency swaps	553	32	34
Over the counter currency options	392	2	2
Total foreign exchange derivatives held for trading	8,240	103	71
Interest rate derivatives			
Interest rate swaps	187,754	3,055	3,063
Cross currency interest rate swaps	5,327	255	369
Forward rate agreements	2,003	-	-
Over the counter interest rate options	5,600	95	85
Total interest rate derivatives held for trading	200,684	3,405	3,517
Equity contracts and credit derivatives			
Equity index-linked contracts held	4,680	171	45
Equity conversion feature in Contingent Capital Note	1,000	61	-
Credit derivatives	17	-	-
Total equity contracts and credit derivatives	5,697	232	45
Total derivative assets / liabilities held for trading	214,621	3,740	3,633
Derivatives held for hedging			
Derivatives designated as fair value hedges			
Interest rate swaps	12,127	206	537
Cross currency interest rate swaps	465	56	2
Total designated as fair value hedges	12,592	262	539
Derivatives designated as cash flow hedges			
Interest rate swaps	75,348	1,581	1,227
Cross currency interest rate swaps	12,656	58	257
Currency forwards	15	1	-
Total designated as cash flow hedges	88,019	1,640	1,484
Total derivative assets / liabilities held for hedging	100,611	1,902	2,023
Total derivative assets / liabilities	315,232	5,642	5,656
Amounts include:			
Due from / to Group undertakings	49,854	88	409

Derivatives held for trading comprise derivatives entered into with trading intent as well as derivatives entered into with economic hedging intent to which the Bank does not apply hedge accounting. Derivatives classified as held for hedging in the table above comprise only those derivatives to which the Bank applies hedge accounting.

The Bank uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of €3.3 billion at 31 December 2013 (31 December 2012: €5.6 billion):

- €2 billion (31 December 2012: €3.7 billion) are available for offset against derivative liabilities under master netting arrangements. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities; and
- €1.3 billion (31 December 2012: €1.9 billion) are not covered by master netting arrangements or relate to counterparties covered by master netting arrangements with whom a net asset position was held at the balance sheet date.

At 31 December 2013 cash collateral of €0.6 billion (31 December 2012: €0.8 billion) was held against these assets and is reported within Deposits from banks (see note o).

Placements with other banks includes cash collateral of €1.5 billion (31 December 2012: €1.7 billion) placed with derivative counterparties in respect of the net derivative liability position of €1.5 billion (31 December 2012: €1.7 billion).

d Derivative financial instruments (continued)

The Bank designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships.

Fair value hedges
Certain interest rate and cross currency interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate and foreign exchange exposure on the Bank's fixed rate debt held and debt issued portfolios.

Cash flow hedges
The Bank designates certain interest rate and currency derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets and liabilities and from foreign currency assets. Movements in the cash flow hedge reserve are shown in the statement of changes in equity (page 319).

The years in which the hedged cash flows are expected to occur are shown in the table below.

31 December 2013	**Up to 1 year €m**	**1 to 2 years €m**	**2 to 5 years €m**	**Over 5 years €m**	**Total €m**
Forecast receivable cash flows	5,971	1,843	674	352	8,840
Forecast payable cash flows	(29)	(30)	(125)	(352)	(536)

31 December 2012	Up to 1 year €m	1 to 2 years €m	2 to 5 years €m	Over 5 years €m	Total €m
Forecast receivable cash flows	6,801	4,937	1,757	545	14,040
Forecast payable cash flows	(66)	(73)	(230)	(573)	(942)

The hedged cash flows are expected to impact the income statement in the following years:

31 December 2013	**Up to 1 year €m**	**1 to 2 years €m**	**2 to 5 years €m**	**Over 5 years €m**	**Total €m**
Forecast receivable cash flows	8,062	98	349	331	8,840
Forecast payable cash flows	(41)	(28)	(127)	(340)	(536)

31 December 2012	Up to 1 year €m	1 to 2 years €m	2 to 5 years €m	Over 5 years €m	Total €m
Forecast receivable cash flows	13,024	128	364	524	14,040
Forecast payable cash flows	(89)	(69)	(225)	(559)	(942)

During the years ended 31 December 2013 and 31 December 2012 there were no forecast transactions to which the Bank has applied hedge accounting which were no longer expected to occur.

e Other financial assets at fair value through profit or loss

	31 December 2013 €m	31 December 2012 €m
Loans and advances	143	75
Other financial assets at fair value through profit or loss	**143**	**75**

f Loans and advances to banks

	31 December 2013 €m	31 December 2012 €m
Placements with other banks	27,548	46,728
Securities purchased with agreement to resell		
- IBRC repo transaction[1]	-	3,060
- Other	184	332
Mandatory deposits with central banks	14	185
Funds placed with central banks	86	381
Loans and advances to banks	**27,832**	**50,686**
Amounts include:		
Due from Group undertakings	25,356	43,761

[1] *Further details on the IBRC repo transaction are contained in note 52 of the consolidated financial statements.*

Placements with other banks includes cash collateral of €1.5 billion (31 December 2012: €1.7 billion) placed with derivative counterparties in relation to net derivative liability positions (see note d).

The Bank has entered into transactions to purchase securities with agreement to resell and has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The fair value of this collateral at 31 December 2013 was €207 million (31 December 2012: €3,863 million).

For the purpose of disclosure of credit risk exposures, loans and advances to banks are included within other financial instruments of €50.6 billion (31 December 2012: €76.5 billion) (see note j).

g Available for sale financial assets

	31 December 2013 €m	31 December 2012 €m
Government bonds	6,447	5,462
Other debt securities		
- listed	4,650	4,610
- unlisted	3,743	5,081
Equity securities		
- listed	3	-
- unlisted	-	1
Available for sale financial assets	**14,843**	**15,154**
Amounts include:		
Due from Group undertakings	3,395	4,715

At 31 December 2013, available for sale financial assets with a fair value of €7.4 billion (31 December 2012: €11.4 billion) had been pledged to third parties in sale and repurchase agreements. The Bank has not derecognised any securities delivered in such sale and repurchase agreements.

Included within unlisted debt securities are subordinated bonds issued by NAMA with a fair value of €132 million (31 December 2012: €117 million) and a nominal value of €281 million (31 December 2012: €281 million). These bonds represented 5% of the nominal consideration received for assets sold to NAMA, with the remaining 95% received in the form of NAMA senior bonds (note h). The subordinated bonds are not guaranteed by the State, they are not marketable and the payment of interest and repayment of capital is dependent on the performance of NAMA. During the years ended 31 December 2013 and 31 December 2012, no interest was paid by NAMA on subordinated bonds. During the year ended 31 December 2013, the Bank did not incur any impairment charge on the NAMA subordinated bonds (year ended 31 December 2012: €40 million).

The movement on available for sale financial assets is analysed as follows:

	31 December 2013 €m	31 December 2012 €m
At beginning of year	15,154	15,497
Revaluation, exchange and other adjustments	282	1,027
Additions	3,147	5,041
Redemptions	(2,575)	(1,291)
Sales	(1,124)	(5,241)
Amortisation	(41)	121
At end of year	**14,843**	**15,154**

During the year ended 31 March 2009, the Bank reclassified available for sale financial assets with a carrying amount and fair value of €38 million to loans and advances to customers. At the date of this reclassification, the effective interest rate on reclassified assets ranged from 4.75% to 5.75% with expected recoverable cash flows of €85 million. At the date of this reclassification, the Bank had the intention and ability to hold these assets for the foreseeable future or until maturity.

h NAMA senior bonds

	31 December 2013 €m	31 December 2012 €m
NAMA senior bonds	**3,957**	**4,428**

The Bank received as consideration for the assets transferred to NAMA a combination of Government guaranteed bonds (NAMA senior bonds) issued by NAMA (95% of the nominal consideration), and non-guaranteed subordinated bonds issued by NAMA (5% of nominal consideration).

At 31 December 2013, €2.8 billion of NAMA senior bonds had been pledged to Monetary Authorities in sale and repurchase agreements.

The interest rate on the NAMA senior bonds is six month Euribor, set semi-annually on 1 March (0.336%) and 1 September (0.345%). The contractual maturity of these bonds is 1 March 2014. NAMA may, only with the consent of the Bank, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

During the year ended 31 December 2013, NAMA redeemed senior bonds held by the Bank with a nominal value of €484 million (year ended 31 December 2012: €615 million).

i Loans and advances to customers

	31 December 2013 €m	31 December 2012 €m
Loans and advances to customers	45,909	52,545
Finance leases and hire purchase receivables (see below)	481	500
	46,390	53,045
Less allowance for impairment charges on loans and advances to customers	(5,462)	(5,137)
Loans and advances to customers	**40,928**	**47,908**
Amounts include:		
Due from Group undertakings	5,699	7,145

Finance leases and hire purchase receivables

Loans and advances to customers include finance leases and hire purchase receivables, which are analysed as follows:

	31 December 2013 €m	31 December 2012 €m
Gross investment in finance leases:		
Not later than 1 year	266	288
Later than 1 year and not later than 5 years	264	263
Later than 5 years	1	-
	531	551
Unearned future finance income on finance leases	(50)	(51)
Net investment in finance leases	**481**	**500**
The net investment in finance leases is analysed as follows:		
Not later than 1 year	241	265
Later than 1 year and not later than 5 years	239	235
Later than 5 years	1	-
	481	**500**

The Bank’s material leasing arrangements include the provision of instalment credit and leasing finance for both consumer and business customers.

j Credit risk exposures

Asset Quality - Loans and advances to customers

Details of the credit risk methodologies are set out on pages 100 to 106. The majority of the Bank's mortgage loan book is in the UK.

Risk profile of loans and advances to customers

The tables and analysis below summarise the Bank's Loans and advances to customers over the following categories: 'neither past due nor impaired', 'past due but not impaired' and 'impaired'. Exposures are before provisions for impairment.

31 December 2013 **Risk profile of loans and advances to customers (before impairment provisions)**	**Residential mortgages €m**	**Non-property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total loans and advances to customers €m**	**Total loans and advances to customers %**
Total loans and advances to customers						
High quality	7,828	2,661	852	756	12,097	26%
Satisfactory quality	43	12,071	2,054	413	14,581	32%
Acceptable quality	96	2,426	2,048	23	4,593	10%
Lower Quality but not past due nor impaired	20	1,239	1,267	-	2,526	5%
Neither past due nor impaired	**7,987**	**18,397**	**6,221**	**1,192**	**33,797**	**73%**
Past due but not impaired	885	222	283	75	1,465	3%
Impaired	256	3,284	7,396	192	11,128	24%
Total loans and advances to customers	**9,128**	**21,903**	**13,900**	**1,459**	**46,390**	**100%**

31 December 2012 Risk profile of loans and advances to customers (before impairment provisions)	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total loans and advances to customers €m	Total loans and advances to customers %
Total loans and advances to customers						
High quality	10,434	2,999	815	819	15,067	28%
Satisfactory quality	44	13,284	2,468	449	16,245	31%
Acceptable quality	109	2,833	2,584	27	5,553	10%
Lower quality but not past due nor impaired	17	797	1,746	-	2,560	5%
Neither past due nor impaired	10,604	19,913	7,613	1,295	39,425	74%
Past due but not impaired	1,291	230	418	96	2,035	4%
Impaired	257	3,700	7,397	231	11,585	22%
Total loans and advances to customers	12,152	23,843	15,428	1,622	53,045	100%

j Credit risk exposures (continued)

'Past due and / or impaired'

The tables below provide an aged analysis of loans and advances to customers 'past due and / or impaired' by asset classification.

31 December 2013 **Risk profile of loans and advances to customers - past due and / or impaired**	**Residential mortgages €m**	**Non-Property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Total loans and advances to customers					
Past due up to 30 days	163	157	120	45	485
Past due 31 - 60 days	355	30	118	21	524
Past due 61 - 90 days	131	35	45	9	220
	649	**222**	**283**	**75**	**1,229**
Past due more than 90 days but not impaired	236	-	-	-	236
Impaired	256	3,284	7,396	192	11,128
Defaulted Loans	**492**	**3,284**	**7,396**	**192**	**11,364**
Total loans and advances to customers - past due and / or impaired	**1,141**	**3,506**	**7,679**	**267**	**12,593**

31 December 2012 Risk profile of loans and advances to customers - past due and / or impaired	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Total loans and advances to customers					
Past due up to 30 days	245	171	186	51	653
Past due 31 - 60 days	544	39	135	30	748
Past due 61 - 90 days	190	20	97	15	322
	979	230	418	96	1,723
Past due more than 90 days but not impaired	312	-	-	-	312
Impaired	257	3,700	7,397	231	11,585
Defaulted Loans	569	3,700	7,397	231	11,897
Total loans and advances to customers - past due and / or impaired	1,548	3,930	7,815	327	13,620

j Credit risk exposures (continued)

31 December 2013	**Residential mortgages €m**	**Non-Property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total €m**
Provision at 1 January 2013	102	1,583	3,262	190	5,137
Exchange adjustments	(1)	-	(17)	-	(18)
Charge against income statement	32	363	516	25	936
Recoveries	3	1	2	10	16
Provisions utilised	(26)	(465)	(147)	(62)	(700)
Other movements	3	171	(87)	4	91
Provision at 31 December 2013	**113**	**1,653**	**3,529**	**167**	**5,462**

31 December 2012	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Provision at 1 January 2012	98	1,502	2,606	222	4,428
Exchange adjustments	1	6	11	-	18
Charge against income statement	20	329	661	30	1,040
Recoveries	1	-	(2)	8	7
Provisions utilised	(20)	(292)	(56)	(77)	(445)
Other movements	2	38	42	7	89
Provision at 31 December 2012	102	1,583	3,262	190	5,137

Asset quality - Other financial instruments

Other financial instruments include trading securities, derivative financial instruments, other financial instruments at fair value through profit or loss (excluding equity instruments), loans and advances to banks, available for sale financial assets (excluding equity instruments), NAMA senior bonds, interest receivable and any reinsurance assets. The table below sets out the Bank's exposure to Other financial instruments based on the gross amount before provisions for impairment.

Other financial instruments are rated using external ratings attributed to external agencies or are assigned an internal rating based on the Group's internal models, or a combination of both. Mappings to external ratings agencies in the table below are therefore indicative only.

Asset quality: Other financial instruments with ratings equivalent to:	**31 December 2013 €m**	**%**	Restated* 31 December 2012 €m	%
AAA to AA-	3,236	6%	2,973	4%
A+ to A-	4,384	9%	7,402	10%
BBB+ to BBB-	41,138	82%	64,015	84%
BB+ to BB-	1,416	3%	1,574	2%
B+ to B-	217	-	353	-
Lower than B-	201	-	226	-
Total	**50,592**	**100%**	**76,543**	**100%**
Amounts include:				
Due from Group undertakings	28,788		48,564	

* *The comparative period has been restated to reflect the change in rating categories in the current year.*

k Shares in Group undertakings

	31 December 2013 €m	31 December 2012 €m
At beginning of year	3,762	3,491
Exchange adjustments	(37)	38
Increase in investments	836	302
Disposal of investments	(24)	(69)
At end of year	**4,537**	**3,762**
Group undertakings of which		
- Credit Institutions	3,162	2,922
- Others	1,375	840
	4,537	**3,762**

The increase in investments in shares of Group undertakings reflects investments during the year including the Bank's investment in redeemable preference stock of a Group undertaking as part of the 2009 Preference Stock transaction (capital package).

The Bank's Shares in Group Undertakings are reviewed if events or circumstances indicate that impairment may have occurred, by comparing the carrying value of each investment to its recoverable amount. An impairment charge arises if the carrying value exceeds the recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, where the value in use is the present value of the future cash flows expected to be derived from the asset. The calculation of the recoverable amount for each cash generating unit is based upon a value in use calculation that discounts expected pre-tax cash flows at an interest rate appropriate to the cash generating unit. The determination of both require the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which forecasted cash flows are available and to assumptions underpinning the sustainability of those cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect management's view of future performance. The values assigned to key assumptions reflect past experience, performance of the business to date and management judgement.

The recoverable amount calculations performed for the significant amount of shares in Group undertakings are sensitive to changes in the following key assumptions:

Cash flow forecasts
Cash flow forecasts are based on internal management information for a period of up to five years, after which a long term growth rate appropriate for the business is applied (see below). The next five years' cash flows are consistent with approved plans for each business.

Growth rates
Growth rates beyond five years are determined by reference to long-term economic growth rates.

Discount rate
The discount rates applied is the pre-tax weighted average cost of capital for the Bank increased to include a risk premium to reflect the specific risk profile of the cash generating unit to the extent that such risk is not already reflected in the forecast cash flows.

Certain elements within these cash flow forecasts are critical to the performance of the business. The impact of changes in these cash flows, growth rate and discount rate assumptions has been assessed in the review. No impairment was identified in the year ended 31 December 2013 (€nil year ended 31 December 2012).

I Intangible assets

	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total €m
Cost				
At 1 January 2013	**125**	**856**	**78**	**1,059**
Exchange adjustments	-	(3)	(1)	(4)
Additions	-	77	3	80
Disposals / write-offs	(5)	(9)	-	(14)
At 31 December 2013	**120**	**921**	**80**	**1,121**
Accumulated amortisation				
At 1 January 2013	**(113)**	**(611)**	**(37)**	**(761)**
Exchange adjustments	1	2	-	3
Disposals / write-offs	5	9	-	14
Charge for the year	(6)	(53)	(6)	(65)
At 31 December 2013	**(113)**	**(653)**	**(43)**	**(809)**
Net Book Value at 31 December 2013	**7**	**268**	**37**	**312**

	Computer software externally purchased €m	Computer software internally generated €m	Other externally purchased intangible assets €m	Total €m
Cost				
At 1 January 2012	126	796	71	993
Exchange adjustments	1	3	1	5
Additions	-	68	6	74
Disposals / write-offs	(2)	(11)	-	(13)
At 31 December 2012	125	856	78	1,059
Accumulated amortisation				
At 1 January 2012	(107)	(549)	(29)	(685)
Exchange adjustments	(1)	(2)	-	(3)
Disposals / write-offs	2	11	-	13
Charge for the year	(7)	(71)	(8)	(86)
At 31 December 2012	(113)	(611)	(37)	(761)
Net Book Value at 31 December 2012	12	245	41	298

Intangible assets predominantly comprise computer software that is developed internally by the Bank and purchased computer software.

Impairment review - intangible assets

Intangible assets have been reviewed for any indication that impairment may have occurred. Where any such indication exists impairment has been measured by comparing the carrying value of the intangible asset to its recoverable amount. There was no impairment identified in the year ended 31 December 2013 (year ended 31 December 2012: €nil).

m Property, plant and equipment

	Freehold land and buildings and long leaseholds (held at fair value) €m	Adaptations (at cost) €m	Computer and other equipment (at cost) €m	Finance lease assets (at cost) €m	Payments on accounts and assets in the course of construction (at cost) €m	Total €m
Cost or valuation						
At 1 January 2013	**96**	**168**	**455**	**17**	**10**	**746**
Exchange adjustments	-	-	(3)	-	-	(3)
Additions	31	1	2	1	29	64
Disposals / write-offs	(1)	(7)	(13)	-	-	(21)
Revaluation						
- Recognised in the income statement	(2)	-	-	-	-	(2)
Reclassifications	(1)	8	25	-	(33)	(1)
At 31 December 2013	**123**	**170**	**466**	**18**	**6**	**783**
Accumulated depreciation						
At 1 January 2013	**-**	**(96)**	**(356)**	**(6)**	**-**	**(458)**
Exchange adjustments	-	-	2	-	-	2
Disposals / write-offs	-	7	13	-	-	20
Charge for the year	-	(13)	(22)	(4)	-	(39)
At 31 December 2013	**-**	**(102)**	**(363)**	**(10)**	**-**	**(475)**
Net book value at 31 December 2013	**123**	**68**	**103**	**8**	**6**	**308**

Property, plant and equipment at 31 December 2013 held at fair value was €123 million (31 December 2012: €96 million). The historical cost of property, plant and equipment held at fair value at 31 December 2013 was €69 million (31 December 2012: €81 million). The net book value of property plant and equipment at 31 December 2013 held at cost less accumulated depreciation and impairment amounted to €185 million (31 December 2012: €192 million).

m Property, plant and equipment (continued)

	Freehold land and buildings and long leaseholds (held at fair value) €m	Adaptations (at cost) €m	Computer and other equipment (at cost) €m	Finance lease assets (at cost) €m	Payments on accounts and assets in the course of construction (at cost) €m	Total €m
Cost or valuation						
At 1 January 2012	108	154	495	5	16	778
Exchange adjustments	-	1	3	-	-	4
Additions	-	-	6	12	35	53
Disposals / write-offs	(4)	(8)	(69)	-	-	(81)
Revaluation						
- Recognised in the income statement	(6)	-	-	-	-	(6)
- Recognised in other comprehensive income	(2)	-	-	-	-	(2)
Reclassifications	-	21	20	-	(41)	-
At 31 December 2012	96	168	455	17	10	746
Accumulated depreciation						
At 1 January 2012	-	(90)	(397)	(3)	-	(490)
Exchange adjustments	-	(1)	(2)	-	-	(3)
Disposals / write-offs	-	8	67	-	-	75
Charge for the year	-	(13)	(24)	(3)	-	(40)
At 31 December 2012	-	(96)	(356)	(6)	-	(458)
Net book value at 31 December 2012	96	72	99	11	10	288

Property

A revaluation of Group property was carried out as at 31 December 2013.

Future capital expenditure

The table below shows future capital expenditure in relation to both property, plant and equipment and intangible assets.

	31 December 2013 €m	31 December 2012 €m
Future capital expenditure:		
- contracted but not provided for in the financial statements	13	5
- authorised by the Directors but not contracted	71	83

Operating leases

The Bank leases a number of branch and office premises to carry out its business. The commercial leases typically are 25 to 35 year operating leases with 5 yearly rent reviews. The majority of the rent reviews are on an upwards only basis. Some leases also include break options. The Bank also holds a number of short term leases for less than 10 years and a number of long term leases at market rent with less than 140 years unexpired. On expiry of long term leases greater than 5 years the Bank has rights of renewal in the majority of the leases.

m Property, plant and equipment (continued)

Minimum future rentals are the rentals payable under operating leases up to the next available break option where this exists or to expiry date of the lease. Both the required break option notice period and the amount of any penalty rent have been included in the amounts payable below.

The Bank has entered into a small number of sub-leases as lessor which represent properties and components of properties surplus to the Bank's own requirements.

Minimum future rentals under non-cancellable operating leases are as follows:

	Payable 31 December 2013 €m	**Receivable 31 December 2013 €m**	Payable 31 December 2012 €m	Receivable 31 December 2012 €m
Not later than 1 year	58	3	61	3
Later than 1 year and not later than 5 years	218	6	218	4
Later than 5 years	492	5	453	1

Included in the operating lease rental receivable is an amount of €12 million in relation to sub-lease rental (31 December 2012: €7 million).

Finance leases

The Bank leases computer equipment under finance lease agreements. The leases range from 1 to 5 years, contain no material contingent rents or restrictions imposed by lease agreements and contain standard terms of renewal.

	At 31 December 2013			At 31 December 2012		
	Total minimum future payments €m	**Future finance charges €m**	**Present value of finance lease commitments €m**	Total minimum future payments €m	Future finance charges €m	Present value of finance lease commitments €m
Not later than 1 year	4	-	4	3	-	3
Later than 1 year not later than 5 years	6	(1)	5	9	(1)	8
Later than 5 years	-	-	-	-	-	-

The net carrying amount of the assets held under finance leases at 31 December 2013 was €9 million (31 December 2012: €11 million).

n Other assets

	31 December 2013 €m	31 December 2012 €m
Interest receivable	371	416
Sundry and other debtors	212	127
Accounts receivable and prepayments	86	93
Other assets	**669**	**636**
Other assets are analysed as follows:		
Within 1 year	641	608
After 1 year	28	28
	669	**636**

o Deposits from banks

	31 December 2013 €m	31 December 2012 €m
Deposits from banks	17,929	37,793
Securities sold under agreement to repurchase	10,759	19,307
Monetary Authorities		
- IBRC repo transaction	*-*	*3,060*
- Other	*6,415*	*11,040*
Private market repos	*4,344*	*5,207*
Other bank borrowings	143	216
Deposits from banks	**28,831**	**57,316**
Amounts include:		
Due to Group undertakings	17,037	36,661

At 31 December 2013, total drawings from Monetary Authorities amounted to €7 billion (net) (31 December 2012: €14 billion (net)), of which €625 million (31 December 2012: €nil) is included in debt securities in issue (note q). €7 billion is on a term funding basis, utilising the ECB's three-year Long Term Refinancing Operation (LTRO). The LTRO matures in two tranches in January and February 2015. The Bank has an option, from February 2013, to repay these facilities at an earlier date.

Deposits from banks include cash collateral of €0.6 billion (31 December 2012: €0.8 billion) received from derivative counterparties in relation to net derivative asset positions (see note d).

p Customer accounts

	31 December 2013 €m	31 December 2012 €m
Term deposits and other products	22,689	24,439
Demand deposits	8,875	6,829
Current accounts	21,148	18,728
Customer accounts	**52,712**	**49,996**
Amounts include:		
Due to Group undertakings	6,795	6,233

Deposit accounts where a period of notice is required to make a withdrawal are classified within term deposits and other products. An analysis of the contractual maturity profile of customer accounts is set out in note z.

Term deposits and other products include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the liquidity risk note (see page 351).

At 31 December 2013, the Bank's largest 20 customer deposits amounted to 9% (31 December 2012: 7%) of customer accounts.

Included within Term deposits and other products is €0.5 billion (31 December 2012: €1.0 billion) relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

q Debt securities in issue

	31 December 2013 €m	31 December 2012 €m
Bonds and medium term notes	3,633	6,107
Monetary Authorities - LTRO (note o)	625	-
Other debt securities in issue	84	30
Debt securities in issue	**4,342**	**6,137**

r Other liabilities

	31 December 2013 €m	31 December 2012 €m
Accrued interest payable	444	725
Sundry creditors	112	98
Accruals and deferred income	26	21
Finance lease obligations	9	11
Other	284	320
Other liabilities	**875**	**1,175**
Other liabilities are analysed as follows:		
Within 1 year	654	1,047
After 1 year	221	128
	875	**1,175**

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s Provisions

	Restructuring €m	Onerous contracts €m	Legal €m	Other €m	Total €m
As at 1 January 2013	65	14	1	11	91
Charge to income statement	89	-	2	5	96
Utilised during the year	(88)	(7)	-	(8)	(103)
Unused amounts reversed during the year	-	(7)	-	(2)	(9)
As at 31 December 2013	**66**	**-**	**3**	**6**	**75**

Of the €66 million closing provision for restructuring, €24 million relates to staff exits and €42 million relates to property and other costs.

Expected utilisation	Restructuring €m	Onerous contracts €m	Legal €m	Other €m	Total €m
Less than 1 year	37	-	2	6	45
1 to 2 years	13	-	1	-	14
2 to 5 years	9	-	-	-	9
5 to 10 years	6	-	-	-	6
More than 10 years	1	-	-	-	1
Total	**66**	**-**	**3**	**6**	**75**

The Bank has recognised provisions in relation to restructuring costs, onerous contracts, legal and other. Such provisions are sensitive to a variety of factors, which vary depending on their nature. The estimation of the amounts of such provisions is judgemental because the relevant payments are due in the future and the quantity and probability of such payments is uncertain.

The methodology and the assumptions used in the calculation of provisions are reviewed regularly and, at a minimum, at each reporting date.

t Subordinated liabilities

	31 December 2013 €m	31 December 2012 €m
Undated loan capital		
Bank of Ireland		
Stg£75 million 13⅜% Perpetual Subordinated Bonds	91	93
	91	**93**
Dated loan capital		
CAD$400 million Fixed / Floating Rate Subordinated Notes 2015	63	64
€1,000 million 10% Convertible Contingent Capital Notes 2016	977	986
€600 million Subordinated Floating Rate Notes 2017	1	1
€1,002 million 10% Fixed Rate Subordinated Notes 2020	230	239
Stg£197 million 10% Fixed Rate Subordinated Notes 2020	2	2
€250 million 10% Fixed Rates Subordinated Notes 2022	240	250
	1,513	**1,542**
	1,604	**1,635**

Further details on subordinated liabilities are contained in note 37 of the consolidated financial statements.

u Retirement benefit obligations

The Bank operates a number of defined benefit and defined contribution schemes in Ireland and overseas. The defined benefit schemes are funded and the assets of the schemes are held in separate trustee administered funds. In determining the level of contributions required to be made to each scheme and the relevant charge to the income statement the Bank has been advised by independent actuaries, Towers Watson.

The most significant defined benefit scheme in the Bank is the Bank of Ireland Staff Pensions Fund (BSPF) which accounts for approximately 80% of the pension deficit on the Bank's balance sheet, further details of which are provided in note 41 of the consolidated financial statements.

Regulatory framework
Further details on the regulatory framework in which the Bank's defined benefit schemes operate together with a description of the Bank's responsibilities for governance are provided in note 41 of the consolidated financial statements.

Pension levy
The Irish Finance (No. 2) Act 2011 introduced a stamp duty levy of 0.6% on the market value of assets under management in Irish pension funds, for the years 2011 to 2014 (inclusive). The levy is based on scheme assets as at 30 June in each year, or as at the end of the preceding scheme financial year.

The Bank has recognised a charge of €22 million in respect of the 2013 pension levy through other comprehensive income for the year ended 31 December 2013, (31 December 2012: €20 million).

During 2012 and 2013, the Bank and the Trustees of the Bank of Ireland Staff Pensions Fund (BSPF) agreed that in exchange for additional security for scheme members, the cost of the pension levies incurred to date would be borne by the relevant Republic of Ireland scheme members, in the form of adjustments to members' benefits. For further details see note 41 of the consolidated financial statements.

The Bank has recognised a negative past service cost of €28 million in the income statement during the year ended 31 December 2013 (31 December 2012: €43 million) in relation to these benefit adjustments.

Pensions 2013 review
During 2013 the Bank completed a review of the BSPF and IAS19R deficit of same. The impact of the Pensions 2013 Review at 31 December 2013 has been to reduce the Bank's pension deficit by €394 million. For further details see note 41 of the consolidated financial statements.

Plan details
Details of membership of the BSPF are set out in note 41 of the consolidated financial statements.

Expected employer and employee contributions during the year ended 31 December 2014 are €202 million and €11 million respectively.

Financial and mortality assumptions
Financial and mortality assumptions used in deriving valuations of the Bank's defined benefit obligation are the same as those used in deriving the valuation of the Group's defined benefit obligation, see note 41 of the consolidated financial statements for further details.

u Retirement benefit obligations (continued)

Asset breakdown	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Equities (quoted)	2,174	2,196
Liability driven Investment (unquoted)	1,219	1,382
Corporate bonds (quoted)	310	309
Property (unquoted)	293	237
Cash (quoted)	233	209
Government bonds (quoted)	214	215
Senior secured loans (unquoted)	197	-
Reinsurance (unquoted)	195	-
Hedge funds (unquoted)	193	183
Private equities (unquoted)	66	51
Total fair value of assets	**5,094**	**4,782**

The retirement benefit schemes' assets include Bank of Ireland stock amounting to €7 million (31 December 2012: €3 million) and property occupied by Bank of Ireland Group companies to the value of €25 million (31 December 2012: €24 million).

Sensitivity analysis for each of the key assumptions used to measure the scheme liabilities at 31 December 2013.
The table below sets out how the defined benefit obligation would have been affected by changes in the significant actuarial assumptions that were reasonably possible at 31 December 2013.

Impact on defined benefit obligation	Change in assumption	Impact on actuarial liabilities €m
Discount rate	0.25% decrease	294
RPI Inflation	0.10% decrease	(102)
Rate of salary growth	0.10% decrease	(19)
Life expectancy	1 year increase	141

While the table above shows the estimated impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

Risks and risk management
Further details on the key areas of risk and the way in which the Bank has sought to manage them are included in note 41 of the consolidated financial statements.

u Retirement benefit obligations (continued)

Amounts recognised in financial statements

The table below outlines where the Bank's defined benefit plans are recognised in the financial statements

31 December 2013	**Irish Pension Plans €m**	**UK Pension[1] Plans €m**	**Total €m**
Balance sheet obligations	(644)	(95)	(739)
This is shown on the balance sheet as:			
Retirement benefit obligation			(741)
Retirement benefit asset			2
Total net liability			**(739)**

Restated* 31 December 2012	Irish Pension Plans €m	UK Pension[1] Plans €m	Total €m
Balance sheet obligations	(851)	(121)	(972)
This is shown on the balance sheet as:			
Retirement benefit obligation			(972)
Retirement benefit asset			-
Total net liability			(972)

* *As outlined in the Group accounting policies in the consolidated financial statements on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)'. See note ag for additional information.*

1 *The UK Pension Plans include a portion of the BSPF which relates to UK members.*

u Retirement benefit obligations (continued)

The movement in the net defined benefit obligation over the year in respect of the Bank's defined benefit plans is as follows:

	Present value of obligation	Fair value of plan assets	(Surplus) / deficit of plans
At 1 January 2013	**(5,754)**	**4,782**	**(972)**
Impact of Pensions 2013 Review	394	-	394
- Negative past service cost	*277*	*-*	*277*
- Change in financial assumptions	*117*	*-*	*117*
Cost of restructuring programme	5	-	5
- Negative past service cost	*5*	*-*	*5*
Other operating expenses	(311)	190	(121)
- Current service cost	*(114)*	*-*	*(114)*
- Negative past service cost	*27*	*-*	*27*
- Interest (expense) / income	*(224)*	*190*	*(34)*
Return on plan assets not included in income statement	-	62	62
Change in demographic assumptions	-	-	-
Other changes in financial assumptions	(332)	-	(332)
Experience gains	6	-	6
Employer contributions	-	203	203
- Deficit clearing[1]	*-*	*119*	*119*
- Other	*-*	*84*	*84*
Employee contributions	(12)	12	-
Benefit payments	145	(145)	-
Changes in exchange rates	25	(9)	16
At 31 December 2013	**(5,834)**	**5,095**	**(739)**

The above amounts are recognised in the financial statements as follows: (charge) / credit

	Present value of obligation	Fair value of plan assets	(Surplus) / deficit of plans
Other operating expenses	(311)	190	(121)
Impact of amendments to defined benefit pension schemes, net of directly related costs	274	-	274
Cost of restructuring programme	5	-	5
Total amount recognised in income statement	**(32)**	**190**	**158**
Changes in financial assumptions	(215)	-	(215)
Return on plan assets not included in income statement	-	62	62
Change in demographic assumptions	-	-	-
Changes in exchange rates	25	(9)	16
Experience gains	6	-	6
Total remeasurements in other comprehensive income	**(184)**	**53**	**(131)**

Total Negative past service cost comprises

Impact of amendments to defined benefit pension schemes	277
Impact of restructuring programme	5
Other operating expenses	27
Total	**309**

[1] *Deficit reducing contributions are additional contributions related to the Group's Pensions Reviews.*

u Retirement benefit obligations (continued)

Restated*	Present value of obligation	Fair value of plan assets	(Surplus) / deficit of plans
At 1 January 2012	(4,484)	4,202	(282)
Cost of restructuring programme:	(1)	-	(1)
- Past service cost	*(1)*	*-*	*(1)*
Other operating expenses:	(285)	225	(60)
- Current service cost	*(93)*	*-*	*(93)*
- Negative past service cost	*43*	*-*	*43*
- Interest (expense) / income	*(235)*	*225*	*(10)*
Return on plan assets not included in income statement	-	246	246
Change in demographic assumptions	-	-	-
Other changes in financial assumptions	(1,072)	-	(1,072)
Experience gains	2	-	2
Employer contributions	-	215	215
- Deficit clearing[1]	-	120	120
- Other	-	95	95
Employee contributions	(13)	13	-
Benefit payments	144	(144)	-
Changes in exchange rates	(24)	9	(15)
Change in share of plans in which risks are shared with other group undertakings[2]	(21)	16	(5)
At 31 December 2012	(5,754)	4,782	(972)

The above amounts are recognised in the financial statements as follows: (charge) / credit

Other operating expenses	(285)	225	(60)
Cost of restructuring programme	(1)	-	(1)
Total amount recognised in income statement	(286)	225	(61)
Changes in financial assumptions	(1,072)	-	(1,072)
Return on plan assets not included in income statement	-	246	246
Change in demographic assumptions	-	-	-
Changes in exchange rates	(24)	9	(15)
Experience gains	2	-	2
Total remeasurements in other comprehensive income	(1,094)	255	(839)

Total negative past service cost comprises

Impact of restructuring programme	(1)
Other operating expenses	43
Total	42

* *As outlined in the Group accounting policies in the consolidated financial statements on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)'. See note ag for additional information.*
[1] *Deficit reducing contributions are additional contributions related to the Group's Pensions Reviews.*
[2] *The Bank's share of plans in which risks are shared with other Group entities is based on the respective payrolls. Such plans are included within the Group's retirement benefit obligations note as set out in note 41.*

v Deferred tax

	31 December 2013 €m	Restated* 31 December 2012 €m
The movement on the deferred tax account is as follows:		
At beginning of year	1,378	1,241
Income statement credit for year	68	158
Losses transferred to Group undertaking	(39)	-
Available for sale financial assets – charge to other comprehensive income	(59)	(106)
Cash flow hedges – charge to other comprehensive income	22	(27)
Revaluation / reclassification of property during year	-	1
Pensions	15	102
Other movements	(10)	9
At end of year	**1,375**	**1,378**
Deferred tax assets and liabilities are attributable to the following items:		
Deferred tax assets		
Unutilised tax losses	1,341	1,279
Pensions and other post retirement benefits	101	134
Accelerated capital allowances on equipment used by the Bank	20	16
Provision for loan impairment	12	12
Other temporary differences	6	7
Deferred tax assets	**1,480**	**1,448**
Deferred tax liabilities		
Available for sale reserve	(82)	(23)
Property revaluation surplus	(9)	(10)
Accelerated capital charges on finance leases	(1)	(1)
Cash flow hedge reserve	-	(22)
Other temporary differences	(13)	(14)
Deferred tax liabilities	**(105)**	**(70)**
Represented on the balance sheet as follows:		
Deferred tax assets	**1,375**	**1,378**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)'. See note ag for additional information.*

The amount of the deferred tax asset expected to be recovered after more than one year is c.€1.4 billion (31 December 2012: c.€1.4 billion). The amount of the deferred tax liability expected to be settled after more than one year c.€0.1 billion (31 December 2012: €0.1 billion).

This deferred tax asset has been recognised on the basis that it is probable it will be recovered as the Directors are satisfied that it is probable that the Bank will have future taxable profits against which the deferred tax can be utilised to the extent it is not already reversed.

During the year ended 31 December 2013, the Bank reassessed the value of UK tax losses transferred to a group undertaking on the transfer of business assets in 2010. The deferred tax asset arising from these losses had a carrying value of €39 million.

This note should be read in conjunction with note 40 to the consolidated financial statements.

w Contingent liabilities and commitments

The table below gives the contract amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

	31 December 2013 Contract amount €m	31 December 2012 Contract amount €m
Contingent liabilities		
Acceptances and endorsements	9	9
Guarantees and irrevocable letters of credit	696	598
Other contingent liabilities	317	337
	1,022	**944**
Commitments		
Documentary credits and short term trade related transactions	85	93
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- revocable or irrevocable with original maturity of 1 year or less	8,502	8,606
- irrevocable with original maturity of over 1 year	2,150	2,234
	10,737	**10,933**

In common with other banks, the Bank conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

An **acceptance** is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, but reimbursement by the customer is normally immediate. **Endorsements** are residual liabilities of the Bank in respect of bills of exchange, which have been paid and subsequently rediscounted.

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Bank will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Other contingent liabilities primarily include performance bonds and are generally short term commitments to third parties which are not directly dependent on the customers' credit worthiness. The Bank is also party to legal, regulatory and other actions arising out of its normal business operations. In this context, the Bank has received correspondence from certain parties considering taking legal action against the Bank with respect to their participation in Tier 1 and Tier 2 security exchanges in June 2011. The Bank considers that it has a robust defence to any such claims and will defend them vigorously, should they arise.

Documentary credits commit the Bank to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions.

x Capital stock

Authorised	31 December 2013	31 December 2012
Eur€	**€m**	€m
90 billion units of ordinary stock of €0.05 each	4,500	4,500
228 billion units of deferred stock of €0.01 each	2,280	2,280
100 million units of non-cumulative preference stock of €1.27 each	127	127
100 million units of undesignated preference stock of €0.25 each	25	25
3.5 billion units of non-cumulative 2009 Preference Stock of €0.01 each	35	35
Stg£	**£m**	£m
100 million units of non-cumulative preference stock of Stg£1 each	100	100
100 million units of undesignated preference stock of Stg£0.25 each	25	25
US$	**$m**	$m
8 million units of non-cumulative preference stock of US$25 each	200	200
100 million units of undesignated preference stock of US$0.25 each	25	25

Allotted and fully paid	31 December 2013 €m	31 December 2012 €m
32.363 billion units of €0.05 ordinary stock (31 December 2012: 30.132 billion units)	1,617	1,506
91.981 billion units of €0.01 deferred stock	920	920
22.0 million units of €0.05 treasury stock	1	1
1.9 million units of non-cumulative preference stock of Stg£1 each	3	3
3.0 million units of non-cumulative preference stock of €1.27 each	4	4
1.3 billion units of non-cumulative 2009 Preference Stock of €0.01 each (31 December 2012: 1.837 billion units)	13	18
	2,558	**2,452**

	Ordinary stock		Treasury stock	
Movements in ordinary and treasury stock (units)	**31 December 2013**	31 December 2012	**31 December 2013**	31 December 2012
At beginning of year	30,132,505,842	30,132,505,842	22,008,690	22,008,690
Issue of ordinary stock	2,230,769,231	-	-	-
At end of year	**32,363,275,073**	**30,132,505,842**	**22,008,690**	**22,008,690**

For further information on Capital stock refer to note 44 of the consolidated financial statements.

Treasury stock in the table above represents units of ordinary stock which have been purchased by the Bank but not stock purchased by subsidiaries (including stock held by New Ireland Assurance Company plc on behalf of policyholders).

y Stock premium account

	31 December 2013 €m	31 December 2012 €m
Stock premium account		
Balance at the beginning of the year	1,200	5,117
Issue of ordinary stock	469	-
Redemption of the 2009 Preference Stock	(532)	-
Transaction costs of issue of ordinary stock	(12)	-
Reduction in stock premium transferred to retained earnings	-	(3,920)
Transaction costs on transfer to retained earnings, net of tax	-	3
Balance at the end of the year	**1,125**	**1,200**

During the year ended 31 December 2012, the Irish High Court approved the application by the Bank for a reduction in the Stock premium account of €3,920 million. As a result, this amount has been transferred to retained earnings.

z Liquidity risk and profile

The tables below summarise the maturity profile of the Bank's financial liabilities (excluding those arising on derivative financial instruments) at 31 December 2013 and 31 December 2012 based on contractual undiscounted repayment obligations. The Bank does not manage liquidity risk on the basis of contractual maturity. Instead the Bank manages liquidity risk based on expected cash flows.

Customer accounts include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the table below.

The balances will not agree directly to the Bank balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

As at 31 December 2013 **Contractual maturity**	**Demand €m**	**Up to 3 months €m**	**3-12 months €m**	**1-5 years €m**	**Over 5 years €m**	**Total €m**
Deposits from banks	2,152	4,162	9,794	5,432	965	22,505
Drawings from Monetary Authorities (gross)	-	-	-	7,159	-	7,159
Customer accounts	34,749	11,110	4,498	2,476	170	53,003
Debt securities in issue	-	173	94	3,319	509	4,095
Subordinated liabilities	-	21	134	1,503	671	2,329
Contingent liabilities	1,022	-	-	-	-	1,022
Commitments	8,587	-	-	2,150	-	10,737
Total	**46,510**	**15,466**	**14,520**	**22,039**	**2,315**	**100,850**

z Liquidity risk and profile (continued)

As at 31 December 2012 Contractual maturity	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Deposits from banks	15,244	7,086	8,723	9,478	3,031	43,562
Drawings from Monetary Authorities (gross)	-	20	62	11,123	-	11,205
Drawings from Monetary Authorities (gross) IBRC	-	3,060	-	-	-	3,060
Customer accounts	35,467	7,958	4,342	2,412	140	50,319
Debt securities in issue	-	549	2,305	3,435	406	6,695
Subordinated liabilities	-	21	134	1,581	702	2,438
Contingent liabilities	944	-	-	-	-	944
Commitments	8,699	-	-	2,234	-	10,933
Total	60,354	18,694	15,566	30,263	4,279	129,156

The tables below summarise the maturity profile of the Bank's derivative liabilities. The Bank manages liquidity risk based on expected cash flows, therefore the undiscounted cash flows payable on derivatives liabilities held with hedging intent are classified according to their contractual maturity, while derivatives held with trading intent have been included at fair value in the 'demand' time bucket.

As at 31 December 2013 **Derivative financial instruments**	**Demand €m**	**Up to 3 months €m**	**3-12 months €m**	**1-5 years €m**	**Over 5 years €m**	**Total €m**
Derivatives held with hedging intent						
Gross settled derivative liabilities - outflows	-	4,006	2,309	3,559	173	10,047
Gross settled derivative liabilities - inflows	-	(3,901)	(2,238)	(3,362)	(149)	(9,650)
Gross settled derivative liabilities - net flows	-	105	71	197	24	397
Net settled derivative liabilities	-	203	407	1,044	332	1,986
Total derivatives held with hedging intent	**-**	**308**	**478**	**1,241**	**356**	**2,383**
Derivative liabilities held with trading intent	796	-	-	-	-	796
Total derivative cash flows	**796**	**308**	**478**	**1,241**	**356**	**3,179**

As at 31 December 2012 Derivative financial instruments	Demand €m	Up to 3 months €m	3-12 months €m	1-5 years €m	Over 5 years €m	Total €m
Derivatives held with hedging intent						
Gross settled derivative liabilities - outflows	-	3,356	1,383	6,176	236	11,151
Gross settled derivative liabilities - inflows	-	(3,281)	(1,231)	(5,896)	(206)	(10,614)
Gross settled derivative liabilities - net flows	-	75	152	280	30	537
Net settled derivative liabilities	-	174	710	1,858	375	3,117
Total derivatives held with hedging intent	-	249	862	2,138	405	3,654
Derivative liabilities held with trading intent	1,508	-	-	-	-	1,508
Total derivative cash flows	1,508	249	862	2,138	405	5,162

aa Measurement basis of financial assets and financial liabilities

The table below analyses the carrying amounts of the financial assets and financial liabilities by accounting treatment and by balance sheet heading.

	At fair value through profit or loss			At fair value through Other Comprehensive income			
31 December 2013	**Derivatives designated as fair value hedging instruments €m**	**Held for trading €m**	**Designated upon initial recognition €m**	**Available for sale €m**	**Cash flow hedge derivatives €m**	**Held at amortised cost €m**	**Total €m**
Financial assets							
Cash and balances at central banks	-	-	-	-	-	1,437	1,437
Items in the course of collection from other banks	-	-	-	-	-	145	145
Trading securities	-	252	-	-	-	-	252
Derivative financial instruments	141	2,741	-	-	408	-	3,290
Other financial assets at fair value through profit or loss	-	-	143	-	-	-	143
Loans and advances to banks	-	-	-	-	-	27,832	27,832
Available for sale financial assets	-	-	-	14,843	-	-	14,843
NAMA senior bonds	-	-	-	-	-	3,957	3,957
Loans and advances to customers	-	-	-	-	-	40,928	40,928
Total financial assets	**141**	**2,993**	**143**	**14,843**	**408**	**74,299**	**92,827**
Financial liabilities							
Deposits from banks	-	-	557	-	-	28,274	28,831
Customer accounts	-	-	2,785	-	-	49,927	52,712
Items in the course of transmission to other banks	-	-	-	-	-	35	35
Derivative financial instruments	366	2,884	-	-	185	-	3,435
Debt securities in issue	-	-	519	-	-	3,823	4,342
Subordinated liabilities	-	-	63	-	-	1,541	1,604
Other short positions[1]	-	8	-	-	-	-	8
Total financial liabilities	**366**	**2,892**	**3,924**	**-**	**185**	**83,600**	**90,967**

[1] *Included within other liabilities on the Bank's balance sheet.*

aa Measurement basis of financial assets and financial liabilities (continued)

The table below analyses the carrying amounts of the financial assets and financial liabilities by accounting treatment and by balance sheet heading.

		At fair value through profit or loss		At fair value through Other Comprehensive income			
31 December 2012	Derivatives designated as fair value hedging instruments €m	Held for trading €m	Designated upon initial recognition €m	Available for sale €m	Cash flow hedge derivatives €m	Held at amortised cost €m	Total €m
Financial assets							
Cash and balances at central banks	-	-	-	-	-	651	651
Items in the course of collection from other banks	-	-	-	-	-	211	211
Trading securities	-	143	-	-	-	-	143
Derivative financial instruments	262	3,740	-	-	1,640	-	5,642
Other financial assets at fair value through profit or loss	-	-	75	-	-	-	75
Loans and advances to banks	-	-	-	-	-	50,686	50,686
Available for sale financial assets	-	-	-	15,154	-	-	15,154
NAMA senior bonds	-	-	-	-	-	4,428	4,428
Loans and advances to customers	-	-	-	-	-	47,908	47,908
Total financial assets	262	3,883	75	15,154	1,640	103,884	124,898
Financial liabilities							
Deposits from banks	-	-	697	-	-	56,619	57,316
Customer accounts	-	-	2,918	-	-	47,078	49,996
Items in the course of transmission to other banks	-	-	-	-	-	58	58
Derivative financial instruments	539	3,633	-	-	1,484	-	5,656
Debt securities in issue	-	-	521	-	-	5,616	6,137
Subordinated liabilities	-	-	64	-	-	1,571	1,635
Other short positions[1]	-	76	-	-	-	-	76
Total financial liabilities	539	3,709	4,200	-	1,484	110,942	120,874

[1] *Included within other liabilities on the Bank's balance sheet.*

ab Fair values of assets and liabilities

Fair value hierarchy

The following tables show, the Bank's assets and liabilities that are recognised and subsequently measured at fair value, their classification within a three-level fair value hierarchy.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

31 December 2013	Quoted prices in active market Level 1 €m	Valuation techniques observable inputs Level 2 €m	Valuation techniques unobservable inputs Level 3 €m	Total €m
Financial assets held at fair value				
Trading securities	252	-	-	252
Derivative financial instruments	-	2,940	350	3,290
Other financial assets at FVTPL	-	143	-	143
AFS financial assets	11,033	3,675	135	14,843
Non-financial assets held at fair value				
Property held at fair value	-	-	123	123
	11,285	**6,758**	**608**	**18,651**
Financial liabilities held at fair value				
Deposits from banks	-	557	-	557
Customer accounts	-	2,666	119	2,785
Derivative financial instruments	-	3,415	20	3,435
Debt securities in issue	-	-	519	519
Subordinated liabilities	-	-	63	63
Other short positions[1]	8	-	-	8
	8	**6,638**	**721**	**7,367**
Fair value of financial assets at amortised cost				
Cash and balances at central banks	1,437	-	-	1,437
Items in the course of collection from other banks	145	-	-	145
Loans and advances to banks	-	27,875	-	27,875
Loans and advances to customers	-	-	37,116	37,116
NAMA senior bonds	-	3,986	-	3,986
Fair value of financial liabilities at amortised cost				
Deposits from banks	-	28,275	-	28,275
Customer accounts	-	50,004	-	50,004
Items in the course of transmission to other banks	35	-	-	35
Debt securities in issue	2,931	909	-	3,840
Subordinated liabilities	-	1,711	-	1,711

[1] *Included within other liabilities on the Bank's balance sheet.*

ab Fair values of assets and liabilities (continued)

31 December 2012	Quoted prices in active market Level 1 €m	Valuation techniques observable inputs Level 2 €m	Valuation techniques unobservable inputs Level 3 €m	Total €m
Financial assets held at fair value				
Trading securities	143	-	-	143
Derivative financial instruments	-	5,133	509	5,642
Other financial assets at FVTPL	-	75	-	75
AFS financial assets	10,009	4,976	169	15,154
	10,152	10,184	678	21,014
Financial liabilities held at fair value				
Deposits from banks	-	680	17	697
Customer accounts	-	2,888	30	2,918
Derivative financial instruments	-	5,609	47	5,656
Debt securities in issue	-	-	521	521
Subordinated liabilities	-	-	64	64
Other short positions[1]	76	-	-	76
	76	9,177	679	9,932

[1] *Included within other liabilities on the Bank's balance sheet.*

ab Fair values of assets and liabilities (continued)

Movements in level 3 assets

31 December 2013	Derivative financial instruments €m	Available for sale financial assets €m	Investment property €m	Property held at fair value €m	Total €m
Opening balance	509	169	-	96	774
Exchange adjustment	(8)	-	-	-	(8)
Reclassifications	-	(52)	-	(1)	(53)
Total gains or losses in:					
Profit or loss					
- Net trading income / (expense)	(65)	-	-	-	(65)
- Other income	-	15	-	-	15
- Revaluation	-	-	-	-	-
- Other operating expenses	-	-	-	(2)	(2)
Additions	-	-	-	31	31
Disposals	-	-	-	(1)	(1)
Redemptions	(6)	-	-	-	(6)
Transfers out of level 3					
- from level 3 to level 2	(110)	-	-	-	(110)
Transfers into level 3					
- from level 1 to level 3	-	3	-	-	3
- from level 2 to level 3	30		-	-	30
Closing balance	**350**	**135**	**-**	**123**	**608**
Total gains for the year included in profit or loss for assets held in level 3 at the end of the reporting year					
- Net trading income / (expense)	90	-	-	-	90
- Other operating income	-	15	-	-	15
- Other operating expense	-	-	-	(2)	(2)

The transfer from level 3 to level 2 arose as result of the availability of observable market prices at 31 December 2013 which were unavailable at 31 December 2012 or as a result of unobservable inputs becoming less significant to the fair value measurement of these assets.

The transfer from level 1 to level 3 is as a result of the unavailability of a level 1 pricing source as the balance sheet date for that security.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

There were no transfers between level 1 and level 2.

ab Fair values of assets and liabilities (continued)

Movements in level 3 assets

31 December 2012	Derivative financial instruments €m	Available for sale financial assets €m	Total €m
Opening balance	531	116	647
Exchange adjustment	7	-	7
Total gains or losses in:			
Profit or loss			
- Net trading income / (expense)	(6)	-	(6)
- Other income	-	16	16
Other Comprehensive income - AFS reserve	-	(12)	(12)
Additions	34	49	83
Disposals	-	-	-
Redemptions	(37)	-	(37)
Transfers out of level 3			
- from level 3 to level 2	(78)	-	(78)
Transfers into level 3			
- from level 2 to level 3	58	-	58
Closing balance	509	169	678
Total gains for the year included in profit or loss			
for assets held in level 3 at the end of the reporting year			
- Net trading income / (expense)	168	-	168

The transfer from level 3 to level 2 arose as result of the availability of observable market prices at 31 December 2012 which were unavailable at 31 December 2011 or as a result of unobservable inputs becoming less significant to the fair value measurement of these assets.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

There were no transfers between level 1 and level 2.

ab Fair values of assets and liabilities (continued)

Movements in level 3 liabilities

31 December 2013	**Deposits from banks €m**	**Customers accounts €m**	**Derivative financial instruments €m**	**Debt securities in issue €m**	**Subordinated liabilities €m**	**Total €m**
Opening balance	17	30	47	521	64	679
Exchange adjustments	-	-	-	-	(3)	(3)
Total gains or losses in:						
Profit or loss						
- Net trading income / (expense)	-	3	(22)	40	7	28
- Revaluation	-	-	-	-	(5)	(5)
Additions	-	-	-	-	-	-
Redemptions and maturities	(11)	(11)	-	(42)	-	(64)
Transfers out of level 3						
- from level 3 to level 2	(6)	22	(9)	-	-	7
Transfers into level 3						
- from level 2 to level 3	-	75	4	-	-	79
Closing balance	**-**	**119**	**20**	**519**	**63**	**721**
Total gains / (losses) for the year included in profit or loss for liabilities held at the end of the reporting year						
- Net trading income / (expense)	-	(7)	(12)	(54)	-	(73)

The transfer from level 3 to level 2 arose as a result of the ability to obtain observable market prices at 31 December 2013 which were unavailable at 31 December 2012.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

There were no transfers between level 1 and level 2.

ab Fair values of assets and liabilities (continued)

Movements in level 3 liabilities

31 December 2012	Deposits from banks €m	Customers accounts €m	Derivative financial instruments €m	Debt securities in issue €m	Subordinated liabilities €m	Total €m
Opening balance	-	11	50	457	27	545
Exchange adjustments	-	-	-	-	1	1
Total gains or losses in:						
Profit or loss						
- Net trading income / (expense)	-	-	-	90	36	126
Additions	-	-	7	-	-	7
Redemptions and maturities	-	-	(12)	(26)	-	(38)
Transfers out of level 3						
- from level 3 to level 2	-	-	(2)	-	-	(2)
Transfers into level 3						
- from level 2 to level 3	17	19	4	-	-	40
Closing balance	17	30	47	521	64	679
Total gains / (losses) for the year included in profit or loss for liabilities held at the end of the reporting year						
- Net trading income / (expense)	(5)	(3)	5	(105)	-	(108)

The transfer from level 3 to level 2 arose as a result of the ability to obtain observable market prices at 31 December 2012 which were unavailable at 31 December 2011.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

There were no transfers between level 1 and level 2.

ab Fair values of assets and liabilities (continued)

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Level 3 assets	Fair value €m	Valuation technique	Unobservable input	Range %
Derivative financial assets	350	Discounted cash flow	Credit spread[1]	0% - 14%
		Option pricing model	Credit spread[1]	0% - 14%
AFS financial assets	135	Discounted cash flow	Discount rate[2]	10% - 13%
		Vendor valuations	EBITDA multiple[3]	Third party pricing
			Liquidity factor	Third party pricing
Property held at fair value	123	Market comparable property transactions	Property valuation assumptions	Third party pricing

Level 3 liabilities	Fair value €m	Valuation technique	Unobservable input	Range %
Customer accounts	119	Discounted cash flow	Credit spread[1]	1% - 4%
Derivative financial liabilities	20	Discounted cash flow	Credit spread[1]	1% - 4%
		Option pricing model	Credit spread[1]	Third party pricing
Debt securities in issue	519	Discounted cash flow	Credit spread[1]	2% - 4%
Subordinated liabilities	63	Market comparable companies	Credit spread[1]	Third party pricing

[1] The Bank's credit spread represents the range of credit spreads that market participants would use in valuing these contracts.
[2] The Bank's discount rate represents a range of discount rates that market participants would use in valuing these investments.
[3] The Bank's multiples represents multiples that market participants would use in valuing these investments.

Note: 100 basis points = 1%

ab Fair values of assets and liabilities (continued)

The carrying amount and the fair value of the Bank's financial assets and financial liabilities as at 31 December 2013 and 31 December 2012 are set out in the table below.

	31 December 2013		31 December 2012	
	Carrying amount €m	**Fair values €m**	Carrying amount €m	Fair values €m
Financial instruments held for trading				
Trading securities[1]	252	252	143	143
Derivative financial instruments - trading				
Foreign exchange contracts[1]	(8)	(8)	32	32
Interest rate contracts[1]	(383)	(383)	(113)	(113)
Equity and commodity contracts[1]	248	248	187	187
Non-trading financial instruments				
Assets				
Cash and balances at central banks[1]	1,437	1,437	651	651
Items in the course of collection from other banks[1]	145	145	211	211
Loans and advances to banks	27,832	27,875	50,686	50,695
Loans and advances to customers	40,928	37,116	47,908	43,124
Available for sale financial assets[1]	14,843	14,843	15,154	15,154
NAMA senior bonds	3,957	3,986	4,428	4,467
Other financial assets at fair value through profit or loss[1]	143	143	75	75
Liabilities				
Deposits from banks	28,831	28,832	57,316	57,343
Customer accounts	52,712	52,789	49,996	50,074
Items in the course of transmission to other banks[1]	35	35	58	58
Debt securities in issue	4,342	4,359	6,137	6,232
Subordinated liabilities	1,604	1,774	1,635	1,617
Short position in securities[1]	8	8	76	76
Derivative financial instruments - hedging				
Interest rate contracts and foreign exchange contracts[1]	(2)	(2)	(121)	(121)
Non-financial assets				
Property held at fair value	123	123		

[1] *The fair value of these financial instruments is equal to the carrying value. These instruments are either carried at market value or have minimal credit losses and are either short term in nature or repriced frequently.*

This note should be read in conjunction with note 48 to the consolidated financial statements.

ac Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	31 December 2013 €m	31 December 2012 €m
Cash and balances at central banks	1,437	651
Loans and advances to banks (with an original maturity of less than 3 months)	1,473	2,676
Cash and cash equivalents	**2,910**	**3,327**

Cash and balances at central banks is made up as follows:

Cash and balances at central banks	**Year ended 31 December 2013 €m**	Year ended 31 December 2012 €m
Republic of Ireland (Central Bank of Ireland)	663	-
United States (Federal Reserve)	484	128
Other (cash holdings)	290	302
United Kingdom (Bank of England)	-	221
Total	**1,437**	**651**

ad Related party transactions

The Bank is a corporation established in Ireland in 1783 under Royal Charter with a primary listing on the Irish Stock Exchange and a premium listing on the London Stock Exchange.

In the US the Bank's ordinary stock is traded on the New York Stock Exchange in the form of American Depository Shares (ADSs). The Bank implemented a ratio change with respect to its American Depository Receipt (ADR) programme, effective from 14 October 2011, where the ratio changed from one ADS representing four units of ordinary stock (1:4), to one ADS representing 40 units of ordinary stock (1:40). Following this change, each ADS represents the right to receive 40 units of ordinary stock and evidenced by American Depository Receipts (ADRs).

A number of banking transactions are entered into between the Bank and its subsidiaries in the normal course of business. These include loans, deposits and foreign currency transactions; the volumes outstanding at the year end are set out in notes f, g, i, k, o and p of the Bank financial statements.

Further information is shown in note 51 to the consolidated financial statements.

ae Transferred financial assets

The Bank has transferred certain financial assets that are not derecognised from the Bank's balance sheet. Such arrangements are securitisations and sale or repurchase agreements. The Bank is exposed to substantially all risks and rewards including credit and market risk associated with the transferred assets.

31 December 2013 Categories	**Carrying amount of transferred assets €m**	**Carrying amount of associated liabilities €m**	**Fair value of transferred assets €m**	**Fair value of associated liabilities €m**	**Net fair value position €m**
Securitisation					
Loans and receivables					
Residential mortgage book (Colston 1)[1]	3,179	3,179	2,816	2,816	-
Residential mortgages book (Brunel SPE) - Including buybacks[1]	1,362	1,659[3]	1,194	1,560[3]	(366)
Partholon CDO plc (corporate loans)[1]	107	107	92	92	-
Sale and Repurchase					
ACS issuance	3,398	2,857	N/a	N/a	N/a
Other available for sale financial assets[2]	3,815	3,653	N/a	N/a	N/a
NAMA senior bonds	2,730	2,702	N/a	N/a	N/a
Trading securities	7	7	N/a	N/a	N/a

31 December 2012 Categories	Carrying amount of transferred assets €m	Carrying amount of associated liabilities €m	Fair value of transferred assets €m	Fair value of associated liabilities €m	Net fair value position €m
Securitisation					
Loans and receivables					
Residential mortgage book (Colston 1)[1]	3,577	3,577	3,090	3,090	-
Residential mortgage book (Colston 4 - PLUK / BIHM)1	1,801	1,801	1,598	1,598	-
Residential mortgages book (Brunel SPE) - Including buybacks[1]	1,602	1,945[3]	1,424	1,744[3]	(320)
Partholon CDO plc (corporate loans)[1]	164	164	135	135	-
Other financial assets CMBS (Melepard)[1]	686	686	N/a	N/a	N/a
Sale and Repurchase					
ACS issuance	4,715	4,001	N/a	N/a	N/a
Other available for sale financial assets[2]	6,221	5,818	N/a	N/a	N/a
NAMA senior bonds	4,428	4,452	N/a	N/a	N/a

Description of the relationship between the transferred assets and the associated liabilities, including the restrictions on the entity's use of those assets:

[1] *For each securitisation the relevant loan book / pool is ring-fenced whereby the cash flows associated with these assets can only be used to repay the related notes holders plus associated issuance fees / costs.*

[2] *Assets sold subject to repurchase agreements are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate. The difference between the original sale price of the bonds and the repurchase price is the repo rate.*

[3] *Certain of the liabilities consist of debt securities issued in currencies other than that of the transferred assets. Changes in foreign exchange rates result in changes in both the carrying value and the fair value of the liabilities. The foreign exchange risk is hedged with the cross-currency swaps.*

N/a: Not applicable as arrangement has recourse to assets other than the transferred assets.

The Bank has not entered into any agreements on the sale of assets that entail the Bank's continuing involvement in derecognised financial assets.

af Offsetting financial assets and liabilities

The following tables sets out the effect or potential effect of netting arrangements on the Bank's financial position. This includes the effect or potential effect of rights of set-off associated with the Bank's recognised financial assets and recognised financial liabilities that are subject to an enforceable master netting arrangement, irrespective of whether they are set off in accordance with paragraph 42 of IAS 32.

As at 31 December 2013 Assets	Gross amounts of recognised financial assets €m	Gross amounts of recognised financial liabilities set off in the balance sheet €m	Net amounts of financial assets presented in the balance sheet €m	Related amounts not set off in the balance sheet Financial[1] instruments €m	Related amounts not set off in the balance sheet Cash[2] collateral received €m	Net amount €m
Derivative financial assets	2,815	-	2,815	(1,995)	(632)	188
Loans and advances to customers	1,789	(1,789)	-	-	-	-
Total	**4,604**	**(1,789)**	**2,815**	**(1,995)**	**(632)**	**188**

[1] *Amounts of €1,995 million represent recognised derivatives liabilities at fair value that do not meet the offsetting criteria.*
[2] *Cash collateral amounts disclosed reflect the actual collateral received, at amortised cost. Cash collateral received is reported within deposits from banks (see note o).*

The following financial liabilities are subject to offsetting, enforceable master netting arrangements.

31 December 2013 Liabilities	Gross amounts of recognised financial liabilities €m	Gross amounts of recognised financial assets set off in the balance sheet €m	Net amounts of financial liabilities presented in the balance sheet €m	Related amounts not set off in the balance sheet Financial[1] instruments €m	Related amounts not set off in the balance sheet Cash[2] collateral pledged €m	Net amount €m
Derivative financial liabilities	3,261	-	3,261	(1,932)	(1,269)	60
Customer deposits	1,735	(1,735)	-	-	-	-
Deposits by banks	143	-	143	(63)	(80)	-
Total	**5,139**	**(1,735)**	**3,404**	**(1,995)**	**(1,349)**	**60**

[1] *Amounts of €1,995 million represent recognised derivatives assets at fair value that do not meet the offsetting criteria.*
[2] *Cash collateral amounts disclosed reflect the actual collateral received, at amortised cost.*

af Offsetting financial assets and liabilities (continued)

As at 31 December 2012 Assets	Gross amounts of recognised financial assets €m	Gross amounts of recognised financial liabilities set off in the balance sheet €m	Net amounts of financial assets presented in the balance sheet €m	Related amounts not set off in the balance sheet: Financial[1] instruments €m	Related amounts not set off in the balance sheet: Cash[2] collateral received €m	Net amount €m
Derivative financial assets	4,716	-	4,716	(3,789)	(718)	209
Loans and advances to customers	1,974	(1,974)	-	-	-	-
Total	6,690	(1,974)	4,716	(3,789)	(718)	209

[1] *Amounts of €3,789 million represent recognised derivatives liabilities at fair value that do not meet the offsetting criteria.*
[2] *Cash collateral amounts disclosed reflect the actual collateral received, at amortised cost. Cash collateral received is reported within deposits from banks (see note o).*

The following financial liabilities are subject to offsetting, enforceable master netting arrangements.

31 December 2012 Liabilities	Gross amounts of recognised financial liabilities €m	Gross amounts of recognised financial assets set off in the balance sheet €m	Net amounts of financial liabilities presented in the balance sheet €m	Related amounts not set off in the balance sheet: Financial[1] instruments €m	Related amounts not set off in the balance sheet: Cash[2] collateral pledged €m	Net amount €m
Derivative financial liabilities	5,493	-	5,493	(3,746)	(1,673)	74
Customer deposits	1,901	(1,901)	-	-	-	-
Deposits by banks	216	-	216	(43)	(173)	-
Total	7,610	(1,901)	5,709	(3,789)	(1,846)	74

[1] *Amounts of €3,789 million represent recognised derivatives assets at fair value that do not meet the offsetting criteria.*
[2] *Cash collateral amounts disclosed reflect the actual collateral pledged, at amortised cost.*

The 'Financial Instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements such as ISDA Master agreement. The agreement between the Bank and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

ag Impact of adopting new accounting standards

From 1 January 2013, the Bank adopted 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R). The standard is required to be applied retrospectively and accordingly the Bank has restated the comparative periods.

The following table reflects the impact on the Bank's financial statements at 31 December 2013 of the adoption of this standard at 1 January 2013.

Balance sheet – 31 December 2013	**IAS 19R €m**	**Total €m**
Deferred tax assets	(13)	(13)
Total assets	**(13)**	**(13)**
Retirement benefit obligations	(80)	(80)
Total liabilities	**(80)**	**(80)**
Retained earnings – current year	3	3
Retained earnings – prior years	64	64
Total equity	**67**	**67**

The tables below outline the impact of the restatement on the relevant financial statement line items for the year ended 31 December 2012:

	31 December 2012		
	Published €m	**IAS 19R €m**	**Restated €m**
BALANCE SHEET (selected lines)			
Assets			
Deferred tax assets	1,390	(12)	1,378
Total assets	131,310	(12)	131,298
Liabilities			
Retirement benefit obligations	1,048	(76)	972
Total liabilities	123,112	(76)	123,036
Equity			
Retained earnings	4,392	64	4,456
Total equity	8,198	64	8,262
STATEMENT OF CHANGES IN EQUITY (selected lines)			
Retained earnings			
Balance at the beginning of the year	2,718	62	2,780
Loss for the period attributable to stockholders	(1,301)	(10)	(1,311)
Remeasurement of net defined benefit pension liability	(746)	12	(734)
Balance at the end of the year	4,392	64	4,456
CASH FLOW STATEMENT (selected lines)			
Loss before tax	(1,506)	(10)	(1,516)
Cash flows from operating activities before changes in operating assets and liabilities	567	-	567

ag Impact of adopting new accounting standards (continued)

The tables below outline the impact of the restatement on the Bank's balance sheet for the year commencing 1 January 2012:

	1 January 2012		
	Published €m	IAS 19R €m	Restated €m
BALANCE SHEET (selected lines)			
Assets			
Deferred tax assets	1,241	(9)	1,232
Total assets	158,872	(9)	158,863
Liabilities			
Retirement benefit obligations	358	(71)	287
Total liabilities	149,392	(71)	149,321
Equity			
Retained earnings	2,718	62	2,780
Total equity	9,480	62	9,542

ah Other

(a) These financial statements are financial statements of the Bank only and are prepared in accordance with the Companies Act 1963 section 148 (1).

(b) The Bank is domiciled in Ireland.

(c) The Bank has given a letter of comfort to the regulatory authority of the Isle of Man in respect of its banking subsidiary Bank of Ireland (IOM) Limited for the protection of the depositors of that subsidiary.

(d) The Bank has provided a guarantee under Section 17 of the Companies (Amendment) Act, 1986 for the following companies:

Tustin Limited, Hill Wilson Secretarial Limited, Bank of Ireland Insurance Services Limited, Bank of Ireland Asset Management (US) Limited, Bank of Ireland Car Loans Limited, Bank of Ireland Commercial Finance Limited, Bank of Ireland International Finance Limited, Bushfield Leasing Limited, Edendork Leasing Limited, First Rate Enterprises Limited, Florenville Limited, IBI Corporate Finance Limited, Nerling Limited, Nestland Limited, Bank of Ireland Private Banking Limited, Centurion Card Services Limited, BOI-IF Services No. 10 Company, Bank of Ireland Treasury and International Banking Limited, Professional Audit Services Limited, BOI-IF Services No. 5 Company, Kilkenny Promotion Project Limited, Bank of Ireland Finance Limited, Bank of Ireland Leasing Limited, December Leasing Limited, Bank of Ireland Life Holdings Limited, Bank of Ireland Insurance Management Services Limited, Bank of Ireland Insurance and Investments Limited, Bank of Ireland Pensions Trust, Bank of Ireland Trust Services Limited, BIAM Holdings, Central Pensions Administration Limited, C and I (Division) Holdings, Bank of Ireland Unit Managers Limited, IBI Property Nominees Limited, BOI Capital Holdings Limited, Lansdowne Leasing, Rolmur, Tockhill, Trustcase Limited, Scribe Holdings Limited, Hibernian Bank Limited, Bank of Ireland Nominee 1 Limited, Bank of Ireland Nominee 2 Limited, Bank of Ireland Nominee 3 Limited, The Investment Bank of Ireland Limited, The National Bank of Ireland Limited.

ah Other (continued)

(e) The Governor and Company of the Bank of Ireland (the Bank) entered into a framework agreement on 28 June 2012 with the Central Bank of Ireland (the Central Bank) under which the Bank may issue mortgage-backed € promissory notes to the Central Bank as security for Eurosystem credit operations. These obligations are secured by way of two deeds of floating charge and a floating charge which are in each case over all the Bank's right, title, interest and benefit, present and future in and to certain mortgages and related loans forming part of a mortgage pool and the benefit of all related security (one deed of floating charge relates to property in Northern Ireland and the other deed of floating charge relates to property in England and Wales; the floating charge relates to property in Scotland). Each of the three charges contains a provision whereby during the subsistence of the security constituted thereby, otherwise than with the prior written consent of the Central Bank, the Bank shall:

(i) not create or attempt to create or permit to arise or subsist any encumbrance on or over the property charged thereunder or any part thereof; or

(ii) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property charged thereunder or any part thereof or redeem, agree to redeem or accept repayment in whole or in part of any loan or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

(f) Bank income statement

In accordance with Section 148(8) of the Companies Act, 1963 and Section 7(1A) of the Companies (Amendment) Act, 1986, the Bank is availing of the exemption of presenting its individual income statement to the Annual General Court and from filing it with the Registrar of Companies. The Bank's loss after tax for the year ended 31 December 2013 determined in accordance with IFRS is €661 million (31 December 2012 was €1,311 million (restated)).

Information in relation to the Banks' subsidiaries is contained in note 53 to the consolidated financial statements.

Post balance sheet events are shown in note 60 to the consolidated financial statements.

Other Information

Group exposures to selected countries

The information in Group exposures to selected countries forms an integral part of the audited financial statements as described in the Basis of preparation on page 184.

Set out in the tables below is a summary of the Group's exposure to sovereign debt and other country exposures for selected balance sheet line items as at 31 December 2013. For these line items, further information on the Group's exposures to eurozone countries that have a Standard & Poor's credit rating of AA or below where the Group has an exposure of over €250 million (being Ireland, Spain and France), is set out on pages 376 to 379.

31 December 2013 **Assets**	**Ireland** **€m**	**United Kingdom** **€m**	**United States** **€m**	**Spain** **€m**	**France** **€m**	**Other[4]** **€m**	**Total** **€m**
Cash and balances at central banks	663	4,948	484	-	-	290	6,385
Trading securities	17	-	36	11	25	163	252
Derivative financial instruments (net)[1]	129	433	12	16	5	41	636
Other financial assets at fair value through profit or loss[2]	449	37	26	12	386	353	1,263
Loans and advances to banks[2]	188[3]	2,586	49	-	980	644	4,447
Available for sale financial assets	7,364	840	331	956	647	1,966	12,104
NAMA senior bonds	3,957	-	-	-	-	-	3,957
Total	**12,767**	**8,844**	**938**	**995**	**2,043**	**3,457**	**29,044**

Restated* 31 December 2012 Assets	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[5] €m	Total €m
Cash and balances at central banks	-	8,040	128	-	-	304	8,472
Trading securities	-	45	-	-	35	63	143
Derivative financial instruments (net)[1]	204	622	34	18	12	133	1,023
Other financial assets at fair value through profit or loss[2]	372	67	8	8	372	332	1,159
Loans and advances to banks[2]	3,702	3,469	189	3	951	838	9,152
Available for sale financial assets	6,409	1,248	382	1,117	678	1,259	11,093
NAMA senior bonds	4,428	-	-	-	-	-	4,428
Total	15,115	13,491	741	1,146	2,048	2,929	35,470

1 Net Derivative exposure is calculated after the application of master netting arrangements and associated cash collateral received.
2 This excludes those assets held by the Group's life assurance business which are linked to policyholder liabilities. See page 373 for details.
3 The decrease in Loans and advances to banks from 31 December 2012 primarily reflects the termination of the IBRC repo transaction in February 2013 of €3.1 billion. See note 52 for details.
4 At 31 December 2013, other is primarily made up of exposures to the following countries: Netherlands: €0.5 billion, Germany: €0.2 billion, Norway: €0.2 billion, Austria: €0.2 billion, Italy: €0.2 billion, Sweden €0.2 billion, Switzerland: €0.2 billion and other Supranational bonds: €0.9 billion. Also included in other is the Group's euro cash holding in branches.
5 At 31 December 2012, other is primarily made up of exposures to the following countries: Netherlands: €0.4 billion, Switzerland: €0.4 billion, Austria: €0.2 billion, Canada: €0.2 billion, Finland: €0.2 billion, Luxembourg: €0.2 billion. Also included in other is the Group's euro cash holding in branches.

** As set out in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

Group exposures to selected countries (continued)

Set out in the following tables is more detailed analysis of the Group's exposures at 31 December 2013 by asset class:

Cash and balances at central banks

Cash and balances at central banks is made up as follows:

Cash and balances at central banks	**Year ended 31 December 2013 €m**	Year ended 31 December 2012 €m
United Kingdom (Bank of England)	4,903	8,002
United States (Federal Reserve)	484	128
Other (cash holdings)	998	342
Total	**6,385**	**8,472**

Trading securities

31 December 2013 Trading securities	**Ireland €m**	**United Kingdom €m**	**United States €m**	**Spain €m**	**France €m**	**Other[1] €m**	**Total €m**
Government bonds	17	-	36	11	-	18	82
Corporate and other bonds	-	-	-	-	25	145	170
Total	**17**	**-**	**36**	**11**	**25**	**163**	**252**

31 December 2012 Trading securities	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[2] €m	Total €m
Government bonds	-	45	-	-	-	24	69
Corporate and other bonds	-	-	-	-	35	39	74
Total	-	45	-	-	35	63	143

[1] *At 31 December 2013, other is made up of exposures to the following countries: Netherlands: €50 million, Australia: €39 million, Sweden: €32 million, Italy €23 million and Canada: €19 million.*
[2] *At 31 December 2012, other is primarily made up of exposures to the following countries: Finland: €36 million, Canada: €11 million and Denmark: €10 million.*

Trading securities are carried in the balance sheet at their fair value. Any changes in the fair value of these assets are treated as gains or charges in the Group's income statement.

Group exposures to selected countries (continued)

Derivative financial instruments

31 December 2013	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[2] €m	Total €m
Gross derivative assets							
Sovereign	5	-	-	-	-	-	5
Financial institutions	39	1,295	504	7	307	776	2,928
Corporate	129	372	8	11	4	34	558
Total	**173**	**1,667**	**512**	**18**	**311**	**810**	**3,491**
Net Derivative Assets[1]							
Sovereign	-	-	-	-	-	-	-
Financial institutions	8	67	4	5	1	7	92
Corporate	121	366	8	11	4	34	544
Total	**129**	**433**	**12**	**16**	**5**	**41**	**636**

Restated* 31 December 2012	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[3] €m	Total €m
Gross derivative assets							
Sovereign	62	-	-	-	-	-	62
Financial institutions	88	2,224	896	3	416	1,239	4,866
Corporate	174	615	24	16	12	78	919
Total	324	2,839	920	19	428	1,317	5,847
Net Derivative Assets[1]							
Sovereign	1	-	-	-	-	-	1
Financial institutions	39	8	10	2	-	55	114
Corporate	164	614	24	16	12	78	908
Total	204	622	34	18	12	133	1,023

[1] *Net Derivative Assets exposure is calculated after the application of master netting arrangements and associated cash collateral received.*
[2] *At 31 December 2013, other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Canada: €26 million, Austria: €7 million, Australia: €6 million and Netherlands: €2 million.*
[3] *At 31 December 2012, other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Canada: €50 million, Germany: €39 million, Denmark: €12 million, Australia: €11 million, Austria: €11 million and Netherlands: €5 million.*

Group exposures to selected countries (continued)

Other financial assets at fair value through profit or loss

31 December 2013	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[1] €m	Total €m
Government bonds	354	-	-	-	333	203	890
Other	95	37	26	12	53	150	373
Total	**449**	**37**	**26**	**12**	**386**	**353**	**1,263**

31 December 2012	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[2] €m	Total €m
Government bonds	229	-	-	-	326	255	810
Other	143	67	8	8	46	77	349
Total	372	67	8	8	372	332	1,159

[1] *At 31 December 2013, other is primarily made up of exposures to the following country: Austria: €0.2 billion.*
[2] *At 31 December 2012, other is primarily made up of exposures to the following country: Austria: €0.2 billion.*

The Group's holdings of 'Other financial assets at fair value through profit or loss' primarily relate to the Group's life assurance business.

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying asset is held by the Group, but the inherent risks and rewards in the assets are borne by the policyholders. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal change in the value of the amounts due to policyholders. These assets have been excluded from the analysis of the Groups exposure in the tables above.

At 31 December 2013, such assets which were included in Other financial assets at fair value through profit or loss amounted to €9,043 million (31 December 2012: €8,301 million). At 31 December 2013, Loans and advances to banks also included an amount of €312 million (31 December 2012: €350 million) relating to such assets.

Group exposures to selected countries (continued)

Loans and advances to banks

31 December 2013	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[3] €m	Total €m
Loans and advances to banks[1]	188[2]	2,586	49	-	980	644	4,447

Restated* 31 December 2012	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[4] €m	Total €m
Loans and advances to banks[1]	3,702	3,469	189	3	951	838	9,152

1 *Loans and advances to banks of €312 million (31 December 2012: €350 million) is held on behalf of Bank of Ireland Life policyholders and has been excluded from the analysis above.*
2 *The decrease in Loans and advances to banks from 31 December 2012 primarily reflects the termination of the IBRC repo transaction in February 2013 of €3.1 billion. See note 52 for details.*
3 *At 31 December 2013, other is primarily made up of exposures to the following countries: Germany: €0.2 billion, Switzerland: €0.2 billion and Turkey: €0.2 billion.*
4 *At 31 December 2012, other is primarily made up of exposures to the following country: Switzerland: €0.3 billion.*

* *As set out in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*

Loans and advances to banks include loans to and placements with credit institutions and certain placements with central banks which are accounted for at amortised cost. No provisions are held against these balances. The Group exposures disclosed above are prepared on the basis of exposure to the country of operations of the counterparty.

Group exposures to selected countries (continued)

Available for sale financial assets

31 December 2013 Available for sale financial assets	**Ireland €m**	**United Kingdom €m**	**United States €m**	**Spain €m**	**France €m**	**Other[2] €m**	**Total €m**
Government bonds	6,403	118	2	-	-	97	6,620
Senior bank debt and other senior debt	770	-	40	-	210	1,238	2,258
Covered bonds	52	521	252	903	428	581	2,737
Subordinated debt	132[1]	1	-	-	-	-	133
Asset backed securities	7	200	37	53	9	50	356
Total	**7,364**	**840**	**331**	**956**	**647**	**1,966**	**12,104**

31 December 2012 Available for sale financial assets	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[3] €m	Total €m
Government bonds	5,420	123	1	-	10	88	5,642
Senior bank debt and other senior debt	755	157	58	-	81	593	1,644
Covered bonds	51	691	258	1,060	577	526	3,163
Subordinated debt	117[1]	-	-	-	-	-	117
Asset backed securities	66	277	65	57	10	52	527
Total	6,409	1,248	382	1,117	678	1,259	11,093

[1] *NAMA subordinated debt of €132 million (31 December 2012: €117 million) is classified as an available for sale debt instrument. The Group incurred an impairment charge of €nil on the NAMA subordinated bonds during the year ended 31 December 2013 (31 December 2012: €40 million).*
[2] *At 31 December 2013, other is primarily made up of exposures to the following countries: Netherlands: €0.4 billion, Norway: €0.2 billion, Sweden: €0.2 billion and other Supranational bonds: €0.9 billion.*
[3] *At 31 December 2012, other is primarily made up of exposures to the following countries: Netherlands: €0.3 billion, Italy: €0.2 billion and Luxembourg: €0.2 billion.*

Available for sale financial assets are carried in the balance sheet at their fair value. Other than in respect of impairment, any change in fair value is treated as a movement in the AFS reserve in Stockholder's equity.

NAMA senior bonds
At 31 December 2013, the Group had holdings of NAMA senior bonds which are guaranteed by the Irish Government with a nominal value of €3,991 million (31 December 2012: €4,475 million) and a fair value at that date of €3,986 million (31 December 2012: €4,467 million). The contractual maturity date of the NAMA senior bonds is 1 March 2014. NAMA may, only with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

NAMA senior bonds are classified as 'Loans and receivables' and accounted for at amortised cost which includes any provisions for impairment. The carrying value of these assets is not adjusted for changes in their fair value.

Group exposures to selected countries (continued)

Additional information on selected European countries

The tables below show the Group's exposures to eurozone countries that have a Standard & Poor's credit rating of AA or below where the Group has an exposure of over €250 million (being Ireland, Spain and France). The maturity analysis in the tables below is based on the residual contractual maturity of the exposures (except where otherwise indicated).

Ireland

As at 31 December 2013, Ireland's credit rating from Standard & Poor's was BBB+ (31 December 2012: BBB+). The table below shows the Group's exposure to Ireland by selected balance sheet line items:

	Carrying value							**Nominal value**
As at 31 December 2013	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Other financial assets at fair value through profit or loss[1]	30	42	-	7	140	230	449	412
- Government bonds	*-*	*-*	*-*	*6*	*118*	*230*	*354*	*325*
- Other	*30*	*42*	*-*	*1*	*22*	*-*	*95*	*87*
Loans and advances to banks[1]	46	142[2]	-	-	-	-	188	188
Available for sale financial assets	3	-	1,541	3,376	2,444	-	7,364	6,902
- Government bonds	*-*	*-*	*751*	*3,340*	*2,312*	*-*	*6,403*	*5,816*
- Senior bank debt and other[3]	*3*	*-*	*790*	*36*	*132*	*-*	*961*	*1,086*
NAMA senior bonds[4]	-	417	417	1,770	1,353	-	3,957	3,991
Total[5]	**79**	**601**	**1,958**	**5,153**	**3,937**	**230**	**11,958**	**11,493**

	Carrying value							Nominal value
As at 31 December 2012	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Total €m
Other financial assets at fair value through profit or loss	51	47	25	77	119	53	372	347
- Government bonds	-	-	-	77	99	53	229	211
- Other	51	47	25	-	20	-	143	136
Loans and advances to banks[1]	526	3,176	-	-	-	-	3,702	3,702
Available for sale financial assets	6	51	334	4,833	1,133	52	6,409	6,245
- Government bonds	-	51	327	4,027	1,015	-	5,420	5,099
- Senior bank debt and other[3]	6	-	7	806	118	52	989	1,146
NAMA senior bonds[4]	-	667	396	1,484	1,881	-	4,428	4,475
Total[5]	583	3,941	755	6,394	3,133	105	14,911	14,769

[1] *This excludes those assets held by the Group's life assurance business which are linked to policyholder liabilities.*
[2] *The decrease in Loans and advances to banks from 31 December 2012 primarily reflects the termination of the IBRC repo transaction in February 2013 of €3.1 billion. See note 52 for details.*
[3] *Senior bank debt and other primarily relates to the Group's holdings of Irish Government senior bank debt issued by Irish financial institutions.*
[4] *The maturity date of the NAMA senior bonds is based on their ultimate expected maturity.*
[5] *The Group also has a net derivative asset exposure to Ireland at 31 December 2013 of €129 million (31 December 2012: €204 million).*

Group exposures to selected countries (continued)

Ireland (continued)

Available for sale financial assets As at 31 December 2013 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	3	-	1,486	3,046	2,367	-	6,902
Fair value	3	-	1,541	3,376	2,444	-	7,364
AFS reserve (before tax)	-	-	85	370	176	-	631

Available for sale financial assets As at 31 December 2012 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	7	50	328	4,571	1,237	52	6,245
Fair value	6	51	334	4,833	1,133	52	6,409
AFS reserve (before tax)	-	1	6	362	55	-	424

During 2013, the maturity profile of the liquid asset book was extended. Irish Sovereign bonds maturing in 2014 and 2015 were sold and longer dated securities were purchased.

Spain

As at 31 December 2013, Spain's credit rating from Standard & Poor's was BBB- (31 December 2012: BBB-). The table below shows the Group's exposure to Spain by selected balance sheet line items:

	Carrying value							**Nominal Value**
As at 31 December 2013	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Other financial assets at fair value through profit or loss	-	-	-	-	12	-	12	11
Loans and advance to banks	-	-	-	-	-	-	-	-
Available for sale financial assets								
- Covered bonds and other	7	-	136	648	155	10	956	932
Total[1]	**7**	**-**	**136**	**648**	**167**	**10**	**968**	**943**

	Carrying value							Nominal Value
As at 31 December 2012	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Total €m
Other financial assets at fair value through profit or loss	-	-	-	-	8	-	8	7
Loans and advance to banks	3	-	-	-	-	-	3	3
Available for sale financial assets								
- Covered bonds and other	100	132	-	698	177	10	1,117	1,166
Total[1]	103	132	-	698	185	10	1,128	1,176

[1] *The Group also has a net derivative asset exposure to Spain at 31 December 2013 of €16 million (31 December 2012: €18 million).*

Group exposures to selected countries (continued)

Spain (continued)

Available for sale financial assets As at 31 December 2013 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	8	-	133	623	157	11	932
Fair value	7	-	136	648	155	10	956
AFS reserve (before tax)	(1)	-	(1)	(25)	-	(25)	(52)

Available for sale financial assets As at 31 December 2012 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	100	134	-	713	207	12	1,166
Fair value	100	132	-	698	177	10	1,117
AFS reserve (before tax)	-	(5)	-	(85)	(67)	(2)	(159)

France

As at 31 December 2013, France's credit rating from Standard & Poor's was AA (31 December 2012: AA+). The table below shows the Group's exposure to France by selected balance sheet line items:

	Carrying value							**Nominal value**
As at 31 December 2013	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Other financial assets at fair value through profit or loss	-	-	-	3	32	351	386	367
- Government bonds	*-*	*-*	*-*	*-*	*-*	*333*	*333*	*315*
- Other	*-*	*-*	*-*	*3*	*32*	*18*	*53*	*52*
Loans and advances to banks	960	20	-	-	-	-	980	980
Available for sale financial assets	65	51	84	243	204	-	647	614
- Government bonds	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Senior bank debt and other	*65*	*51*	*84*	*243*	*204*	*-*	*647*	*614*
Total	**1,025**	**71**	**84**	**246**	**236**	**351**	**2,013**	**1,961**

	Carrying value							Nominal value
As at 31 December 2012	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Total €m
Other financial assets at fair value through profit or loss	-	-	-	2	25	345	372	310
- Government bonds	-	-	-	-	-	326	326	267
- Other	-	-	-	2	25	19	46	43
Loans and advances to banks	933	-	-	-	-	18	951	951
Available for sale financial assets	50	240	130	258	-	-	678	643
- Government bonds	-	-	10	-	-	-	10	10
- Senior bank debt and other	50	240	120	258	-	-	668	633
Total[1]	983	240	130	260	25	363	2,001	1,904

[1] *The Group also has a net derivative asset exposure to France at 31 December 2013 of €5 million (31 December 2012: €12 million).*

Group exposures to selected countries (continued)

France (continued)

Available for sale financial assets As at 31 December 2013 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	65	50	80	224	195	-	614
Fair value	65	51	84	243	204	-	647
AFS reserve (before tax)	-	-	-	-	-	(1)	(1)

Available for sale financial assets As at 31 December 2012 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	50	235	125	233	-	-	643
Fair value	50	240	130	258	-	-	678
AFS reserve (before tax)	-	-	(1)	(3)	-	-	(4)

Supplementary Asset Quality disclosures

Retail Ireland mortgages

Retail UK mortgages

Loans and advances (excluding Residential mortgages)

The tables below (except where denoted unaudited) in the Supplementary Asset Quality disclosures form an integral part of the audited financial statements as described in the Basis of preparation on page 184. All other information in the Supplementary Asset Quality disclosures is additional information and does not form part of the audited financial statements

Retail Ireland mortgages

The following disclosures refer to the Retail Ireland mortgage loan book and provide additional detail and analysis on the composition and quality of this loan book.

The Group has a long established infrastructure for the origination, underwriting and management of its mortgage portfolio. The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. The mortgage process is a comprehensively documented process with documentary evidence of key borrower information including an independent valuation of the security property.

Retail Ireland mortgage origination lending policy and guidelines are subject to annual governance. Each applicant is primarily assessed based on their ability and capacity to repay the loan while the creditworthiness of the applicant, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

At 31 December 2013, lending criteria for the Retail Ireland mortgage portfolio include:

- repayment capacity of the borrower;
- loan to value (LTV) limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book composition

Loan volumes

TABLE 1

Retail Ireland mortgages - Volumes (before impairment provisions)	**31 December 2013 €m**	31 December 2012 €m
Owner occupied mortgages	20,437	20,815
Buy to let mortgages	6,263	6,670
Total Retail Ireland mortgages	**26,700**	**27,485**

Retail Ireland mortgages were €26.7 billion at 31 December 2013 compared to €27.5 billion at 31 December 2012. The decrease of €785 million or 2.9% reflects a combination of factors including muted demand for new mortgage lending, accelerated capital repayments and the significant progress made by the Group in returning interest only mortgage borrowers to a ‘principal and interest’[1] repayment basis.

The proportion of the Retail Ireland mortgage portfolio on a ‘principal and interest’ repayment basis at 31 December 2013 was 86% (31 December 2012: 82%) with the balance of 14% on an ‘interest only’[2] repayment basis (31 December 2012: 18%). Of the Owner occupied mortgages of €20.4 billion, 93% were on a ‘principal and interest’ repayment basis (31 December 2012: 91%), while 65% of the Buy to let mortgages of €6.3 billion were on a ‘principal and interest’ repayment basis (31 December 2012: 52%).

1 *‘Principal and interest’ repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was 20 to 30 years.*
2 *‘Interest only’ mortgages typically consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes ‘principal and interest’ contracted to be repaid over the agreed term. ‘Interest only’ periods on Retail Ireland mortgages typically range between 3 and 5 years.*

Book composition (continued)

Origination profile

TABLE 2

31 December 2013 Origination of Retail Ireland mortgage loan book (before impairment provisions)	Total Retail Ireland mortgage loan book		Defaulted loans	
	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]
1996 and before	**68**	4,701	**7**	268
1997	**43**	1,940	**5**	131
1998	**77**	2,601	**8**	180
1999	**145**	4,238	**15**	266
2000	**272**	5,815	**29**	395
2001	**402**	6,657	**39**	492
2002	**748**	9,590	**91**	770
2003	**1,283**	13,320	**189**	1,295
2004	**2,163**	18,129	**315**	1,831
2005	**3,427**	23,344	**528**	2,618
2006	**5,067**	28,479	**1,036**	4,107
2007	**4,404**	23,258	**917**	3,347
2008	**3,029**	17,005	**481**	1,848
2009	**1,648**	11,227	**108**	586
2010	**1,176**	7,609	**22**	123
2011	**978**	6,750	**5**	33
2012	**920**	6,034	**1**	9
2013	**850**	5,151	**-**	1
Total	**26,700**	**195,848**	**3,796**	**18,300**

31 December 2012 Origination of Retail Ireland mortgage loan book (before impairment provisions)	Total Retail Ireland mortgage loan book		Defaulted loans	
	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]
1996 and before	94	5,792	9	365
1997	53	2,113	5	150
1998	94	3,196	9	207
1999	171	4,525	18	301
2000	312	6,195	32	428
2001	448	7,054	40	503
2002	825	10,108	90	802
2003	1,397	14,212	181	1,266
2004	2,317	18,733	314	1,794
2005	3,638	24,018	524	2,581
2006	5,361	29,135	999	3,996
2007	4,631	23,658	861	3,240
2008	3,185	17,333	427	1,705
2009	1,739	11,491	85	474
2010	1,235	7,781	13	86
2011	1,004	6,852	3	24
2012	981	6,115	-	-
Total	27,485	198,311	3,610	17,922

[1] *The number of accounts does not equate to either the number of customers or the number of properties.*

Book composition (continued)

Origination profile (continued)

The tables above illustrate that at 31 December 2013, €8.6 billion or 32% of the Retail Ireland mortgage loan book originated before 2006, €12.5 billion or 47% between 2006 and 2008 and €5.6 billion or 21% in the years since.

At 31 December 2013, total defaulted loans were €3.8 billion (31 December 2012: €3.6 billion) or 14.2% of the Retail Ireland mortgage loan book, of which €2.4 billion originated between 2006 and 2008. While there has been an increase in defaulted loans since 31 December 2012, the overall pace of increase during 2013 was significantly slower than 2012, reflecting the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions.

At 31 December 2013, impairment provisions were €1.9 billion equating to 49% of defaulted balances on the Retail Ireland mortgage book.

Risk profile

TABLE 3a

31 December 2013 Risk profile of Retail Ireland mortgage loan book (before impairment provisions)	**Owner occupied €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
Neither past due nor impaired	17,822	87%	4,252	68%	22,074	83%
1-90 days past due but not impaired	564	3%	266	4%	830	3%
Defaulted loans	2,051	10%	1,745	28%	3,796	14%
Total	**20,437**	**100%**	**6,263**	**100%**	**26,700**	**100%**

31 December 2012 Risk profile of Retail Ireland mortgage loan book (before impairment provisions)	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Neither past due nor impaired	18,068	87%	4,812	72%	22,880	83%
1-90 days past due but not impaired	704	3%	291	4%	995	4%
Defaulted loans	2,043	10%	1,567	24%	3,610	13%
Total	20,815	100%	6,670	100%	27,485	100%

The tables above illustrate that €22.1 billion or 83% of the total Retail Ireland mortgage loan book at 31 December 2013 was classified as 'neither past due nor impaired' compared to €22.9 billion or 83% at 31 December 2012.

The '1-90 days past due but not impaired' category amounted to €0.8 billion or 3% of the total Retail Ireland mortgage loan book at 31 December 2013 compared to €1.0 billion or 4% at 31 December 2012.

The defaulted category amounted to €3.8 billion or 14% of the total Retail Ireland mortgage loan book at 31 December 2013 compared to €3.6 billion or 13% at 31 December 2012.

Defaulted Owner occupied mortgages increased marginally to €2.1 billion at 31 December 2013 from €2.0 billion at 31 December 2012, reflecting a significant slowdown in the growth in defaulted balances during 2013.

Defaulted Buy to let mortgages increased to €1.7 billion at 31 December 2013 from €1.6 billion at 31 December 2012.

The slowdown in default formation for both Owner occupied and Buy to let mortgages reflects the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions. While increased repayments as 'interest only' periods come to an end and customers move to fully amortising loans continue to impact Buy to let borrowers, the slowdown in default formation for Buy to let mortgages also reflects improved rental market conditions, particularly evident in primary urban areas.

The Retail Ireland Buy to let mortgage loan portfolio reduced by €407 million or 6.1% in 2013 and the percentage of the Buy to let portfolio on a 'principal and interest' repayment basis increased from 52% at 31 December 2012 to 65% at 31 December 2013.

Business Review Governance Financial Statements Other Information

Book composition (continued)

Arrears profile

TABLE 3b *(unaudited)*

Mortgage arrears - Defaulted loans (number of accounts)	31 December 2013 %	30 June 2013 %	31 December 2012 %
Retail Ireland Owner occupied mortgages	7.4%	7.9%	7.5%
Industry[1] Owner occupied (Number of accounts)	Not available	14.1%[2]	13.1%[2]
Retail Ireland Buy to let mortgages	18.2%	17.6%	15.8%
Industry[1] Buy to let (Number of accounts)	Not available	21.9%[2]	20.5%[2]

Mortgage arrears - Defaulted loans (value)	31 December 2013 %	30 June 2013 %	31 December 2012 %
Retail Ireland Owner occupied mortgages	10.1%	10.5%	9.9%
Industry[1] Owner occupied (value)	Not available	18.6%[2]	17.2%[2]
Retail Ireland Buy to let mortgages	27.7%	26.0%	23.4%
Industry[1] Buy to let (value)	Not available	30.0%[2]	28.7%[2]

[1] *Industry statistics do not include impaired loans less than or equal to 90 days past due (all quoted Bank of Ireland statistics include impaired loans less than or equal to 90 days past due).*
[2] *Industry source: CBI Mortgage Arrears Statistics Report September 2013 - adjusted to exclude Bank of Ireland.*

The latest information published by the Central Bank of Ireland pertains to the quarter ended 30 September 2013. This information indicates that the proportion of the Retail Ireland mortgage book in default arrears (greater than 90 days past due) consistently remains significantly below the industry average for both Owner occupied and Buy to let mortgages. At 30 September 2013, 8.0% and 18.6% of Bank of Ireland's Retail Ireland Owner occupied and Buy to let mortgages respectively (by number of accounts) were greater than '90 days past due and / or impaired' compared to 14.4% and 22.6% for the industry (respectively).

Book composition (continued)

Loan to value profiles - total loans

TABLE 3c

31 December 2013

Loan to value (LTV) ratio of total Retail Ireland mortgages	**Owner occupied €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
Less than 50%	2,901	14%	462	7%	3,363	13%
51% to 70%	2,823	14%	486	8%	3,309	12%
71% to 80%	1,909	9%	325	5%	2,234	8%
81% to 90%	2,049	10%	565	9%	2,614	10%
91% to 100%	1,800	9%	443	7%	2,243	9%
Subtotal	**11,482**	**56%**	**2,281**	**36%**	**13,763**	**52%**
101% to 120%	3,411	17%	1,095	18%	4,506	17%
121% to 150%	3,619	18%	1,848	30%	5,467	20%
151% to 180%	1,593	8%	714	11%	2,307	9%
Greater than 181%	332	1%	325	5%	657	2%
Subtotal	**8,955**	**44%**	**3,982**	**64%**	**12,937**	**48%**
Total	**20,437**	**100%**	**6,263**	**100%**	**26,700**	**100%**
Weighted average LTV[1]:						
Stock of Retail Ireland mortgages at year end	94%		115%		99%	
New Retail Ireland mortgages during the year	70%		53%		70%	

31 December 2012

Loan to value (LTV) ratio of total Retail Ireland mortgages	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	2,663	13%	409	6%	3,072	11%
51% to 70%	2,461	12%	478	7%	2,939	11%
71% to 80%	1,497	7%	293	5%	1,790	7%
81% to 90%	1,746	8%	493	7%	2,239	8%
91% to 100%	1,796	9%	417	6%	2,213	8%
Subtotal	10,163	49%	2,090	31%	12,253	45%
101% to 120%	3,484	17%	1,056	16%	4,540	16%
121% to 150%	3,901	19%	1,763	26%	5,664	21%
151% to 180%	2,223	10%	1,109	17%	3,332	12%
Greater than 181%	1,044	5%	652	10%	1,696	6%
Subtotal	10,652	51%	4,580	69%	15,232	55%
Total	20,815	100%	6,670	100%	27,485	100%
Weighted average LTV[1]:						
Stock of Retail Ireland mortgages at year end	102%		124%		108%	
New Retail Ireland mortgages during the year	74%		57%		73%	

[1] *Weighted Average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.*

Book composition (continued)

Loan to value profiles - total loans (continued)

The tables above set out the weighted average indexed LTV for the total Retail Ireland mortgage loan book which was 99% at 31 December 2013, 94% for Owner occupied mortgages and 115% for Buy to let mortgages. The weighted average indexed LTV for new Residential mortgages written during 2013 was 70%, 70% for Owner occupied mortgages and 53% for Buy to let mortgages.

Point in time property values are determined by reference to the original or latest property valuations held, indexed to the Residential Property Price Index published by the Central Statistics Office (CSO). The indexed LTV profile of the Retail Ireland mortgage loan book contained in Table 3c is based on the CSO Residential Property Price Index, at the applicable reporting date.

The CSO index for December 2013 reported that average national residential property prices were 46% below peak (31 December 2012: 50% below peak), with Dublin residential prices and outside of Dublin residential prices 49% and 47% below peak respectively (31 December 2012: 56% and 47% below peak respectively). The annual rate of increase in residential property prices was 6.4% as at 31 December 2013, compared to an annual rate of decline of 4.5% as at 31 December 2012. In the year, the market experienced the first year of average residential property price increases since 2007, with residential property prices in Dublin being the key driver of this improvement.

At 31 December 2013, €13.8 billion or 52% of Retail Ireland mortgages are in positive equity, 56% for Owner occupied mortgages and 36% for Buy to let mortgages.

At 31 December 2013, the total calculated negative equity in the Retail Ireland mortgage loan book was €3.0 billion (31 December 2012: €4.0 billion). The majority of Retail Ireland mortgage borrowers in negative equity continue to meet their mortgage repayments with €2.0 billion negative equity related to loans that were ‘neither past due nor impaired’ at 31 December 2013. Of the remaining €1.0 billion of calculated negative equity, €0.1 billion related to loans that were ‘1 – 90 days past due but not impaired’ and €0.9 billion related to loans that were defaulted.

Business Review Governance Financial Statements Other Information

Book composition (continued)

Loan to value profiles - defaulted loans

TABLE 3d

31 December 2013

Loan to value (LTV) ratio of total Retail Ireland mortgages - defaulted loans	**Owner occupied €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
Less than 50%	117	6%	43	2%	160	4%
51% to 70%	145	7%	48	3%	193	5%
71% to 80%	101	5%	39	2%	140	4%
81% to 90%	116	6%	102	6%	218	6%
91% to 100%	153	7%	81	5%	234	6%
Subtotal	**632**	**31%**	**313**	**18%**	**945**	**25%**
101% to 120%	330	16%	245	14%	575	15%
121% to 150%	548	27%	647	37%	1,195	32%
151% to 180%	420	20%	358	21%	778	20%
Greater than 181%	121	6%	182	10%	303	8%
Subtotal	**1,419**	**69%**	**1,432**	**82%**	**2,851**	**75%**
Total	**2,051**	**100%**	**1,745**	**100%**	**3,796**	**100%**

31 December 2012

Loan to value (LTV) ratio of total Retail Ireland mortgages - defaulted loans	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	112	5%	37	2%	149	4%
51% to 70%	133	7%	42	3%	175	5%
71% to 80%	93	5%	33	2%	126	4%
81% to 90%	108	5%	79	5%	187	5%
91% to 100%	130	6%	62	4%	192	5%
Subtotal	576	28%	253	16%	829	23%
101% to 120%	293	15%	209	14%	502	14%
121% to 150%	515	25%	456	29%	971	27%
151% to 180%	412	20%	363	23%	775	21%
Greater than 181%	247	12%	286	18%	533	15%
Subtotal	1,467	72%	1,314	84%	2,781	77%
Total	2,043	100%	1,567	100%	3,610	100%

The tables above illustrate the indexed loan to value ratios at the applicable reporting dates for defaulted Retail Ireland mortgages. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio, capital reductions and out of course customer payments.

Of the defaulted Retail Ireland mortgages €0.9 billion or 25% are in positive equity (31 December 2012: €0.8 billion or 23%) while €2.9 billion or 75% are in negative equity at 31 December 2013 (31 December 2012: €2.8 billion or 77%).

For the defaulted category, 31% of the Owner occupied Retail Ireland mortgages (31 December 2012: 28%) and 18% of the Buy to let Retail Ireland mortgages (31 December 2012: 16%) are in positive equity at 31 December 2013.

Asset quality

Composition and impairment

TABLE 4

31 December 2013 Retail Ireland mortgages	**Total** **Retail Ireland mortgages €m**	**Defaulted loans €m**	**Defaulted loans as % of advances %**	**Impairment provisions €m**	**Impairment provisions as % of defaulted loans %**	**Of which** **Forborne Retail Ireland mortgages €m**	**Defaulted[1] forborne loans €m**	**Impairment provisions forborne Retail Ireland mortgages €m**	**Impairment provisions as % of defaulted forborne Retail Ireland mortgages %**
Owner occupied mortgages	20,437	2,051	10.0%	869	42%	1,869	578	243	42%
Buy to let mortgages	6,263	1,745	27.9%	994	57%	657	207	115	56%
Total Retail Ireland	**26,700**	**3,796**	**14.2%**	**1,863**	**49%**	**2,526**	**785**	**358**	**46%**

31 December 2012 Retail Ireland mortgages	Total Retail Ireland mortgages €m	Defaulted loans €m	Defaulted loans as % of advances %	Impairment provisions €m	Impairment provisions as % of defaulted loans %	Of which Forborne Retail Ireland mortgages €m	Defaulted[1] forborne loans €m	Impairment provisions forborne Retail Ireland mortgages €m	Impairment provisions as % of defaulted forborne Retail Ireland mortgages %
Owner occupied mortgages	20,815	2,043	9.8%	711	35%	1,707	546	165	30%
Buy to let mortgages	6,670	1,567	23.5%	741	47%	731	200	78	39%
Total Retail Ireland	27,485	3,610	13.1%	1,452	40%	2,438	746	243	33%

[1] *The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted' loans during the year. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.*

Defaulted Retail Ireland mortgages at 31 December 2013 were €3.8 billion or 14.2% of advances compared to €3.6 billion or 13.1% of advances at 31 December 2012. During 2013, the increase in value in defaulted loans in the overall mortgage portfolio was significantly lower than 2012, reflecting the effectiveness of the Group's operating infrastructure and mortgage resolution activity. A significant slowdown in the pace of arrears formation was experienced in the Owner occupied mortgage portfolio, reflecting the factors noted above, the Group's on-going strategy to assist customers in financial difficulty, together with improving economic conditions.

In addition, the pace of arrears formation in the Buy to let mortgage portfolio was slower during 2013 reflecting factors noted above, together with improved rental market conditions, particularly evident in primary urban areas.

Asset quality (continued)

Repossessions

At 31 December 2013, the Group had possession of properties held as security as follows:

TABLE 5a	**31 December 2013**		31 December 2012	
Repossessions Retail Ireland mortgages	**Number of repossessions at balance sheet date**	**Balance[1] outstanding before impairment provisions €m**	Number of repossessions at balance sheet date	Balance[1] outstanding before impairment provisions €m
Owner occupied	129	37	96	25
Buy to let	85	26	84	30
Total residential repossessions	**214**	**63**	**180**	**55**

Disposals of repossessed properties

TABLE 5b	**31 December 2013**		31 December 2012	
Disposals of repossessions Retail Ireland mortgages	**Number of disposals during the year**	**Balance[1] outstanding after impairment provisions €m**	Number of disposals during the year	Balance[1] outstanding after impairment provisions €m
Owner occupied	86	10	88	10
Buy to let	63	11	53	4
Total disposals	**149**	**21**	**141**	**14**

[1] *Balance outstanding before value of additional collateral applied.*

During the year ended 31 December 2013, the Group disposed of 149 repossessed properties (31 December 2012: 141 repossessed properties were disposed).

The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions and net of additional collateral held.

For the year ended 31 December 2013, the proceeds from disposals of Owner occupied repossessed properties were €10 million (31 December 2012: €10 million).

For the year ended 31 December 2013, the proceeds from disposals of Buy to let repossessed properties before value of additional collateral applied were €9 million (31 December 2012: €4 million).

In addition, the Group disposed of a further 166 properties through fixed charge receivers during the year (31 December 2012: 7).

Asset quality (continued)

Forbearance measures

Mortgage forbearance
The Group continues to offer a range of forbearance measures for customers in arrears or facing potential arrears on contracted mortgage repayments, in order to arrange, where viable, sustainable short term or longer term repayment solutions as appropriate.

Forbearance occurs when a borrower is granted a temporary or permanent agreed change to the contractual terms of a mortgage loan ('forbearance measure'), for reasons relating to the actual or apparent financial stress or distress of that borrower. If the agreed change to a mortgage loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. A mortgage loan which has an active 'forbearance measure' is a 'forborne' mortgage.

The Group has a well-established operating infrastructure in place to assess and, where appropriate, implement sustainable forbearance measures for customers. Forbearance requests are assessed on a case-by-case basis, taking due consideration of the individual circumstances and risk profile of the borrower to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place.

The forbearance strategies adopted by the Group seek to maximise recoveries arising from non-repayment of debt, while providing suitable and sustainable forbearance options that are supportive of customers in challenged financial circumstances.

A forbearance request by the borrower will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances, ability to repay and impairment status. This assessment will determine the most appropriate course of action ensuring, where possible, the most suitable and sustainable repayment arrangement is put in place. Impaired forborne loans carry a specific provision. Probability of default factors for non-impaired forborne loans are empirically calculated, resulting in an IBNR provision.

It is the Group's policy to review the effectiveness or otherwise of forbearance measures over the lifetime of those measures.

A forbearance measure is considered to be effective where the risk profile of the borrower that is subject to the forbearance measure stabilises or improves over the measured time period, resulting in an improved outcome for the Group and the customer.

The effectiveness of forbearance is considered taking account of:
- the strategy that is being followed is with a view to maximising recovery for the Group and providing a suitable option for the customer;
- the intended outcome of the particular measure;
- the nature of the measure being granted; and
- the period over which the measure is granted.

The nature and type of forbearance measures include:
- full interest: (step up to principal and interest) on the principal balance, on a temporary or longer term basis, with the principal balance unchanged;
- reduced payment: (greater than full interest with step up to principal and interest) on the principal balance, on a temporary or longer term basis with the principal balance unchanged;
- term extension: the original term of the mortgage is extended and the instalment is re-calculated to clear the outstanding mortgage debt over the remaining term;
- capitalisation of arrears: the arrears are added to the principal outstanding on the mortgage and the instalment is recalculated to clear the outstanding mortgage debt over the remaining term;
- hybrids: comprising a combination of forbearance measures; and
- other: comprising primarily permanent restructures and an element of temporary payment suspensions.

Asset quality (continued)

Forbearance measures (continued)

The table below sets out Retail Ireland mortgages (before impairment provisions) forborne loan stock[1] subject to active forbearance measures at 31 December 2013.

TABLE 6a

31 December 2013 Formal forbearance measures - Retail Ireland mortgages (before impairment provisions)	Non-defaulted loans Balance €m	Non-defaulted loans Number of accounts[3]	Defaulted loans[2] Balance €m	Defaulted loans[2] Number of accounts[3]	All loans Balance €m	All loans Number of accounts[3]
Owner occupied						
Full interest	**205**	1,452	**116**	785	**321**	2,237
Reduced payment (greater than full interest)	**262**	1,787	**240**	1,326	**502**	3,113
Term extension	**351**	3,923	**96**	835	**447**	4,758
Capitalisation of arrears	**194**	1,384	**33**	160	**227**	1,544
Hybrids[4]	**256**	1,775	**73**	468	**329**	2,243
Other	**23**	126	**20**	114	**43**	240
Total	**1,291**	**10,447**	**578**	**3,688**	**1,869**	**14,135**
Buy to let						
Full interest	**97**	438	**62**	267	**159**	705
Reduced payment (greater than full interest)	**101**	466	**60**	270	**161**	736
Term extension	**132**	917	**29**	180	**161**	1,097
Capitalisation of arrears	**30**	170	**22**	70	**52**	240
Hybrids[4]	**89**	423	**34**	123	**123**	546
Other	**1**	4	**-**	3	**1**	7
Total	**450**	**2,418**	**207**	**913**	**657**	**3,331**
Total						
Full interest	**302**	1,890	**178**	1,052	**480**	2,942
Reduced payment (greater than full interest)	**363**	2,253	**300**	1,596	**663**	3,849
Term extension	**483**	4,840	**125**	1,015	**608**	5,855
Capitalisation of arrears	**224**	1,554	**55**	230	**279**	1,784
Hybrids[4]	**345**	2,198	**107**	591	**452**	2,789
Other	**24**	130	**20**	117	**44**	247
Total	**1,741**	**12,865**	**785**	**4,601**	**2,526**	**17,466**

[1] Comprises the stock position of forbearance measures (agreed since November 2008). Where a mortgage loan was granted a full interest forbearance measure for a defined period of time and this measure has expired prior to or on 31 December 2013, this mortgage loan is not included in the stock of active forbearance measures.
[2] The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted loans' during the year. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.
[3] The number of accounts does not equate to either the number of customers or the number of properties.
[4] Hybrids were reported at 31 December 2012 within 'Other' and for 31 December 2013 are reported as a separate category.

Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current year.

Asset quality (continued)

Forbearance measures (continued)

31 December 2012 Formal forbearance measures[1] - Retail Ireland mortgages (before impairment provisions)	Non-defaulted loans		Defaulted loans[2]		All loans	
	Balance €m	Number of accounts[3]	Balance €m	Number of accounts[3]	Balance €m	Number of accounts[3]
Owner occupied						
Full interest	450	3,062	392	2,628	842	5,690
Reduced payment (greater than full interest)	307	1,589	94	402	401	1,991
Term extension	233	2,657	26	276	259	2,933
Capitalisation of arrears	76	592	6	21	82	613
Hybrids[4]	76	566	11	98	87	664
Other	19	108	17	96	36	204
Total	1,161	8,574	546	3,521	1,707	12,095
Buy to let						
Full interest	182	914	110	584	292	1,498
Reduced payment (greater than full interest)	215	860	56	187	271	1,047
Term extension	81	609	16	73	97	682
Capitalisation of arrears	13	72	10	29	23	101
Hybrids[4]	40	171	7	32	47	203
Other	-	1	1	5	1	6
Total	531	2,627	200	910	731	3,537
Total						
Full interest	632	3,976	502	3,212	1,134	7,188
Reduced payment (greater than full interest)	522	2,449	150	589	672	3,038
Term extension	314	3,266	42	349	356	3,615
Capitalisation of arrears	89	664	16	50	105	714
Hybrids[4]	116	737	18	130	134	867
Other	19	109	18	101	37	210
Total	1,692	11,201	746	4,431	2,438	15,632

[1] Comprises the stock position of forbearance measures (agreed since November 2008). Where a mortgage loan was granted a full interest forbearance measure for a defined period of time and this measure has expired prior to or on 31 December 2012, this mortgage loan is not included in the stock of active forbearance measures.
[2] The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted loans' during the year. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.
[3] The number of accounts does not equate to either the number of customers or the number of properties.
[4] Hybrids were reported at 31 December 2012 within 'Other' and for 31 December 2013 are reported as a separate category. The table above has been restated on this basis.

Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current year.

The total number of accounts in forbearance has increased from 15,632 at 31 December 2012 to 17,466 accounts at 31 December 2013. The balances on accounts in forbearance have increased from €2.4 billion at 31 December 2012 to €2.5 billion at 31 December 2013. This overall increase reflects the Group's progress in implementing end state restructure and resolution strategies.

For Owner occupied mortgages, 14,135 accounts or €1.9 billion are in forbearance at 31 December 2013 (31 December 2012: 12,095 accounts or €1.7 billion). For Buy to let mortgages, 3,331 accounts or €0.7 billion are in forbearance at 31 December 2013 (31 December 2012: 3,537 accounts or €0.7 billion).

Furthermore, in the month of December 2013, there were a further 1,724 existing arrears accounts not classified as forborne, whereby the borrower has met their contractual payment and made an additional payment towards their arrears balance (31 December 2012: 1,988 accounts).

In addition to the forbearance pertaining to Buy to let mortgages, the Group has a strategy to appoint fixed charge receivers. At 31 December 2013, there were 1,385 properties where a fixed charge receiver had been appointed or approved, compared to 1,105 properties at 31 December 2012.

Term extension is the largest forbearance category by number of accounts with 5,855 accounts at 31 December 2013 (31 December 2012: 3,615 accounts), followed by reduced payment (greater than full interest) with 3,849 accounts at 31 December 2013 (31 December 2012: 3,038 accounts).

Asset quality (continued)

Forbearance measures (continued)

A total of 1,548 accounts or €0.2 billion new term extensions were extended during the year. A further 1,125 accounts or €0.1 billion changed to term extension from another forbearance measure, while 293 accounts or €34 million changed forbearance measure. A reduction of 140 accounts relates to redeemed accounts; a reduction of €25 million was due to those redeemed accounts and principal repayments made during the year.

Reduced payment (greater than full interest with step up to full capital and interest) increased to 3,849 accounts or €0.7 billion at 31 December 2013, compared to 3,038 accounts or €0.7 billion at 31 December 2012. A total of 2,140 accounts or €0.3 billion of new reduced payment (greater than full interest with step up to full capital and interest) forbearance measures were extended during the year. A further 887 accounts or €0.2 billion changed their forbearance measure to reduced payment (greater than full interest), while 746 accounts or €148 million changed to another forbearance measure. A total of 1,413 accounts or €0.3 billion exited during the year. A reduction of 57 accounts relates to redeemed accounts; a reduction of €35 million was due to those redeemed accounts and principal repayments made during the year.

At 31 December 2013, 2,942 accounts or €0.5 billion were subject to full interest forbearance compared to 7,188 accounts or €1.1 billion at 31 December 2012. A total of 1,629 accounts or €0.3 billion of new full interest forbearance measures were extended during the year, 139 accounts or €27 million changed to full interest, while 2,206 accounts or €0.3 billion changed from full interest to another forbearance measure. A total of 3,622 accounts or €0.6 billion exited forbearance during the year. A reduction of 186 accounts relates to redeemed accounts; a reduction of €25 million was due to those redeemed accounts and principal repayments made during the year.

Hybrids increased to 2,789 accounts or €0.5 billion at 31 December 2013 from 867 accounts or €0.1 billion at 31 December 2012. A total of 1,145 accounts or €0.2 billion new hybrid measures were put in place during the year, 1,147 accounts or €0.2 billion changed from another forbearance measure to hybrid, while 343 accounts or €51 million changed to another forbearance measure. A reduction of 27 accounts relates to redeemed accounts; a reduction of €9 million was due to those redeemed accounts and principal repayments made during the year.

Capitalisations of arrears increased to 1,784 accounts or €0.3 billion at 31 December 2013 from 714 accounts or €0.1 billion at 31 December 2012. A total of 786 accounts or €0.1 billion had capitalisation of arrears applied during the year. A further 389 accounts or €67 million changed to capitalisation of arrears from another forbearance measure, while 93 accounts or €10 million changed to another forbearance measure. A reduction of 12 accounts relates to redeemed accounts; a reduction of €5 million was due to those redeemed accounts and principal repayments made during the year.

‘Other’ forbearance measures, increased to 247 accounts or €44 million at 31 December 2013 from 210 accounts or €37 million at 31 December 2012.

Asset quality (continued)

Forbearance measures (continued)

The following table shows the movement in the stock of active forborne Retail Ireland mortgages (before impairment provisions) during the year ended 31 December 2013.

TABLE 6b

Reconciliation of forborne loan stock by non-default / default status - Retail Ireland mortgages (before impairment provisions)	Owner occupied		Buy to let		All loans	
	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]
All						
Opening balance at 1 January 2013	**1,707**	**12,095**	**731**	**3,537**	**2,438**	**15,632**
New forbearance extended	841	6,039	278	1,375	1,119	7,414
Exited forbearance						
- Improved to or remained in non-default	(333)	(2,126)	(157)	(774)	(490)	(2,900)
- Improved / stabilised and remained in default	(118)	(742)	(59)	(281)	(177)	(1,023)
- Disimproved to or within default	(161)	(819)	(104)	(406)	(265)	(1,225)
- Redemptions, principal repayments and other	(67)	(312)	(32)	(120)	(99)	(432)
Transfers within forbearance between non-defaulted and defaulted loans	-	-	-	-	-	-
Closing balance at 31 December 2013	**1,869**	**14,135**	**657**	**3,331**	**2,526**	**17,466**
Non-defaulted loans						
Opening balance at 1 January 2013	**1,161**	**8,574**	**531**	**2,627**	**1,692**	**11,201**
New forbearance extended	530	4,045	169	898	699	4,943
Exited forbearance						
- Remained in non-default	(303)	(1,900)	(150)	(732)	(453)	(2,632)
- Disimproved to default	(62)	(319)	(61)	(244)	(123)	(563)
- Redemptions, principal repayments and other	(60)	(255)	(24)	(89)	(84)	(344)
Transfers within forbearance between non-defaulted and defaulted loans	25	302	(15)	(42)	10	260
Closing balance at 31 December 2013	**1,291**	**10,447**	**450**	**2,418**	**1,741**	**12,865**
Defaulted loans						
Opening balance at 1 January 2013	**546**	**3,521**	**200**	**910**	**746**	**4,431**
New forbearance extended	311	1,994	109	477	420	2,471
Exited forbearance						
- Improved to non-default	(30)	(226)	(7)	(42)	(37)	(268)
- Improved / stabilised and remained in default	(118)	(742)	(59)	(281)	(177)	(1,023)
- Disimproved and remained in default	(99)	(500)	(43)	(162)	(142)	(662)
- Redemptions, principal repayments and other	(7)	(57)	(8)	(31)	(15)	(88)
Transfers within forbearance between non-defaulted and defaulted loans	(25)	(302)	15	42	(10)	(260)
Closing balance at 31 December 2013	**578**	**3,688**	**207**	**913**	**785**	**4,601**

[1] *The number of accounts does not equate to either the number of customers or the number of properties.*

Asset quality (continued)

Forbearance measures (continued)

The table above illustrates the movement in forborne accounts and balances between 1 January 2013 and 31 December 2013 and illustrates the following:

- Those accounts for which new forbearance measures were put in place during the year;
- Those accounts which exited forbearance measures during the year, either:
  - Improved to or remained in non-default
  - Improved / stabilised and remained in default
  - Disimproved to or within default
  - Redeemed (i.e. whereby the outstanding balance has been repaid in full) or balances reduced due to principal repayments (i.e. payments made to reduce the outstanding loan balance on accounts which were in the forbearance stock at 1 January 2013 and remained in forbearance stock at 31 December 2013); and
- Those accounts and balances which transferred between non-defaulted loans and defaulted loans but remained in forbearance.

The defaulted loan classification does not indicate that the terms of the forbearance measure have not been met. The 'non-default / default' status of accounts which exited forbearance during the year is determined at the date of exit.

Asset quality (continued)

Forbearance measures (continued)

A total of 17,466 accounts or €2.5 billion of account balances were in forbearance at 31 December 2013, compared to 15,632 accounts or €2.4 billion at 31 December 2012. Of these, 7,414 accounts or €1.1 billion new forbearance measures were put in place during the year, of which 4,943 accounts or €0.7 billion were classified as 'non-defaulted loans' while 2,471 accounts or €0.4 billion were classified as 'defaulted loans'. Of those that exited forbearance during the year 2,900 accounts or €0.5 billion improved to or remained in non-default, 1,023 accounts or €0.2 billion remained in default with improved or stabilised arrears and 1,225 accounts or €0.3 billion disimproved arrears to or within default. A reduction in the forbearance stock of 432 accounts relates to redeemed accounts during the year; a reduction of €0.1 billion was due to those redeemed accounts and principal repayments made during the year.

For Owner occupied mortgages, 14,135 accounts or €1.9 billion of account balances were in forbearance at 31 December 2013 compared to 12,095 accounts or €1.7 billion at 31 December 2012. Of these, 6,039 accounts or €0.8 billion new forbearance were measures put in place during the year of which 4,045 accounts or €0.5 billion were classified as 'non-defaulted loans', while 1,994 accounts or €0.3 billion were classified as 'defaulted loans'. Of those that exited forbearance during the year 2,126 accounts or €0.3 billion improved to or remained in non-default, 742 accounts or €0.1 billion remained in default with improved or stabilised arrears and 819 accounts or €0.2 billion disimproved arrears to or within default. A reduction of 312 accounts relates to redeemed accounts during the year; a reduction of €67 million was due to those redeemed accounts and principal repayments made during the year.

For Buy to let mortgages, 3,331 accounts or €0.7 billion of account balances were in forbearance at 31 December 2013 compared to 3,537 accounts or €0.7 billion at 31 December 2012. Of these, 1,375 accounts or €0.3 billion were new forbearance measures put in place during the year of which 898 accounts or €0.2 billion were classified as 'non-defaulted loans' while 477 accounts or €0.1 billion were classified as 'defaulted loans'. Of those that exited forbearance during the year 774 accounts or €0.2 billion improved to or remained in non-default, 281 accounts or €59 million remained in default with improved or stabilised arrears and 406 accounts or €0.1 billion disimproved arrears to or within default. A reduction of 120 accounts relates to redeemed accounts during the year; a reduction of €32 million was due to those redeemed accounts and principal repayments made during the year.

Mortgage Arrears

The Group has invested in its Mortgage Arrears Resolution Strategy (MARS), its infrastructure and continues to implement restructuring and resolution options for customers. The increased activity in forbearance measures reflects the on-going effectiveness of the Group's MARS strategy in supporting customers encountering mortgage difficulties.

The revised Code of Conduct on Mortgage Arrears as published by the Central Bank of Ireland, became effective 1 July 2013, with a six month implementation deadline. The Group has implemented the requirements of the revised Code.

The Group's defined Mortgage Arrears Resolution Strategy relating to both Owner occupied and Buy to let mortgages, seeks to maximise recoveries arising from non repayment of customer mortgages while ensuring that customers are treated with respect through the arrears management and resolution process.

The Group has participated in the Central Bank led pilot scheme for consumer Multi-Debt restructuring. This pilot provided a framework that sought to agree where possible, sustainable restructure arrangements on both unsecured and mortgage debt between participating lenders, without requiring the customer to engage separately with each lender.

Personal Insolvency Act 2012

The Personal Insolvency Act 2012 ('the Act'), enacted on the 26th of December 2012, provides for three debt resolution options for consumers deemed to have unsustainable indebtedness levels. These options are alternatives to bankruptcy and the Act also amends the existing bankruptcy regime. The Insolvency Service of Ireland (ISI) began accepting submissions from authorised Personal Insolvency Practitioners and Approved Intermediaries for these resolution options in September 2013, following the establishment of the necessary infrastructure and the enactment of the required statutory instruments under the Act. The revised bankruptcy regime came into effect in December 2013. The Group has an operating infrastructure in place to support the management of all relevant applications under the Act.

Asset quality (continued)

Loan to value profiles - forborne loans

TABLE 7a

31 December 2013

Loan to value (LTV) ratio of forborne Retail Ireland mortgages	**Owner occupied €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
Less than 50%	199	11%	37	6%	236	9%
51% to 70%	199	11%	44	7%	243	10%
71% to 80%	130	7%	30	4%	160	6%
81% to 90%	145	7%	71	11%	216	9%
91% to 100%	152	8%	59	9%	211	8%
Subtotal	**825**	**44%**	**241**	**37%**	**1,066**	**42%**
101% to 120%	346	19%	129	20%	475	19%
121% to 150%	427	23%	192	29%	619	25%
151% to 180%	230	12%	54	8%	284	11%
Greater than 181%	41	2%	41	6%	82	3%
Subtotal	**1,044**	**56%**	**416**	**63%**	**1,460**	**58%**
Total	**1,869**	**100%**	**657**	**100%**	**2,526**	**100%**

31 December 2012

Loan to value (LTV) ratio of forborne Retail Ireland mortgages	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	153	9%	31	4%	184	8%
51% to 70%	150	9%	52	7%	202	8%
71% to 80%	101	6%	28	4%	129	5%
81% to 90%	119	7%	56	8%	175	7%
91% to 100%	137	8%	50	7%	187	8%
Subtotal	660	39%	217	30%	877	36%
101% to 120%	274	16%	139	19%	413	17%
121% to 150%	388	23%	192	26%	580	24%
151% to 180%	249	14%	104	14%	353	14%
Greater than 181%	136	8%	79	11%	215	9%
Subtotal	1,047	61%	514	70%	1,561	64%
Total	1,707	100%	731	100%	2,438	100%

The tables above illustrate the indexed loan to value ratios for total Retail Ireland forborne mortgages. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio, capital reductions, out of course customer payments and movements in forbearance stock.

Of the total Retail Ireland mortgages with active forbearance measures in place €1.1 billion or 42% are in positive equity (31 December 2012: €0.9 billion or 36%) while €1.5 billion or 58% are in negative equity at 31 December 2013 (31 December 2012: €1.6 billion or 64%). 44% of forborne Owner occupied mortgages (31 December 2012: 39%) and 37% of forborne Buy to let mortgages (31 December 2012: 30%) are in positive equity at 31 December 2013.

Asset quality (continued)

Loan to value profiles - defaulted forborne loans

TABLE 7b

31 December 2013

Loan to value (LTV) ratio of forborne Retail Ireland mortgages - defaulted loans	**Owner occupied €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
Less than 50%	39	7%	8	4%	47	6%
51% to 70%	46	8%	9	4%	55	7%
71% to 80%	34	6%	7	3%	41	5%
81% to 90%	33	5%	13	6%	46	6%
91% to 100%	46	8%	18	9%	64	8%
Subtotal	**198**	**34%**	**55**	**26%**	**253**	**32%**
101% to 120%	103	18%	38	18%	141	18%
121% to 150%	151	26%	79	38%	230	29%
151% to 180%	108	19%	23	12%	131	17%
Greater than 181%	18	3%	12	6%	30	4%
Subtotal	**380**	**66%**	**152**	**74%**	**532**	**68%**
Total	**578**	**100%**	**207**	**100%**	**785**	**100%**

31 December 2012

Loan to value (LTV) ratio of forborne Retail Ireland mortgages - defaulted loans	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	36	7%	6	3%	42	6%
51% to 70%	40	7%	10	5%	50	7%
71% to 80%	28	5%	4	2%	32	4%
81% to 90%	32	6%	15	7%	47	6%
91% to 100%	37	7%	11	6%	48	6%
Subtotal	173	32%	46	23%	219	29%
101% to 120%	80	15%	37	19%	117	16%
121% to 150%	137	25%	57	28%	194	26%
151% to 180%	99	18%	33	16%	132	18%
Greater than 181%	57	10%	27	14%	84	11%
Subtotal	373	68%	154	77%	527	71%
Total	546	100%	200	100%	746	100%

The tables above illustrate the indexed loan to value ratios for defaulted Retail Ireland forborne mortgages. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio, capital reductions, out of course customer payments and movements in forbearance stock.

Of the defaulted Retail Ireland mortgages with active forbearance measures in place, €0.3 billion or 32% are in positive equity (31 December 2012: €0.2 billion or 29%), while €0.5 billion or 68% are in negative equity at 31 December 2013 (31 December 2012: €0.5 billion or 71%). 34% of the Owner occupied Retail Ireland mortgages (31 December 2012: 32%) and 26% of the Buy to let Retail Ireland mortgages (31 December 2012: 23%) are in positive equity at 31 December 2013.

Retail UK mortgages

The following disclosures refer to the Retail UK mortgage loan book. These provide additional detail and analysis on the composition and quality of this loan book.

The Group has a long established infrastructure for the origination, underwriting and management of its mortgage portfolio. The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. The mortgage process is comprehensively documented process with documentary evidence of key borrower information including an independent valuation of the security property.

Retail UK mortgage origination lending policy and guidelines are subject to annual governance. Each applicant is primarily assessed based on their ability and capacity to repay the loan. In addition to the above, the credit worthiness of the applicant, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

At 31 December 2013, lending criteria for the Retail UK mortgage portfolio include:

- repayment capacity of the borrower;
- loan to value (LTV) limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book composition

Loan volumes

TABLE 1

Retail UK mortgages - Volumes (before impairment provisions)	**31 December 2013 £m**	31 December 2012 £m
Standard mortgages	9,236	10,026
Buy to let mortgages	8,302	8,812
Self certified mortgages	3,259	3,640
Total Retail UK mortgages	**20,797**	**22,478**

Retail UK mortgages were £20.8 billion at 31 December 2013 compared to £22.5 billion at 31 December 2012. The decrease of £1.68 billion or 7.5% reflects muted demand for new mortgages in the early part of the year and a deleveraging programme for existing customers. The Group's withdrawal from the intermediary sourced mortgage market in January 2009 remains in place which continues to impact on new business volumes.

New mortgage business continues to be sourced through the Group's relationship with the UK Post Office and through the branch network in Northern Ireland.

Of the £9.2 billion standard mortgages, 57% are on a 'principal and interest'[1] repayment basis (31 December 2012: 54%). Of the Self certified mortgages of £3.3 billion, 22% are on a 'principal and interest' repayment basis (31 December 2012: 23%). Of the Buy to let mortgages of £8.3 billion, 9% are on a 'principal and interest' repayment basis (31 December 2012: 10%). Overall 68% of the UK Retail mortgage portfolio at 31 December 2013 are on an 'interest only'[2] repayment basis.

[1] *'Principal and interest' repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was 20 to 30 years.*
[2] *'Interest only' mortgages consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes 'principal and interest' contracted to be repaid over the agreed term. 'Interest only' on mortgage products offered in the UK may extend for the full period of the mortgage.*

Book composition (continued)

Origination profile

TABLE 2

31 December 2013 **Origination profile of Retail UK mortgage loan book (before impairment provisions)**	**Total Retail UK mortgage loan book** **Balance £m**	 **Number of accounts[1]**	**Defaulted loans** **Balance £m**	 **Number of accounts[1]**
1996 and before	**222**	6,647	**13**	349
1997	**45**	1,120	**1**	23
1998	**69**	1,645	**2**	35
1999	**84**	2,029	**2**	25
2000	**105**	2,207	**2**	34
2001	**221**	3,329	**4**	41
2002	**284**	3,913	**8**	80
2003	**644**	7,335	**23**	177
2004	**721**	7,913	**25**	188
2005	**1,794**	16,387	**53**	370
2006	**2,626**	23,144	**77**	510
2007	**4,382**	36,168	**112**	758
2008	**5,454**	44,228	**159**	1,040
2009	**1,003**	8,001	**8**	66
2010	**829**	5,918	**2**	16
2011	**623**	4,302	**1**	8
2012	**792**	4,625	**-**	3
2013	**899**	4,909	**-**	1
Total	**20,797**	**183,820**	**492**	**3,724**

31 December 2012 Origination profile of Retail UK mortgage loan book (before impairment provisions)	Total Retail UK mortgage loan book Balance £m	 Number of accounts[1]	Defaulted loans Balance £m	 Number of accounts[1]
1996 and before	306	8,759	8	175
1997	58	1,383	1	15
1998	96	2,137	1	17
1999	106	2,408	1	19
2000	133	2,642	2	22
2001	271	3,926	4	31
2002	341	4,563	7	67
2003	775	8,816	20	151
2004	831	8,892	23	177
2005	1,976	17,806	55	386
2006	2,904	25,254	69	472
2007	4,842	39,368	128	851
2008	6,055	48,586	194	1,229
2009	1,126	8,727	10	85
2010	1,031	6,979	2	14
2011	791	5,149	1	6
2012	836	4,772	-	1
Total	22,478	200,167	526	3,718

[1] *The number of accounts does not equate to the number of customers.*

Book composition (continued)

Origination profile (continued)

The tables above illustrate that at 31 December 2013, £4.2 billion or 20% of the Retail UK mortgage loan book originated before 2006, £12.5 billion or 60% between 2006 and 2008 and £4.1 billion or 20% in the years since.

The fall off in originations since 2008 is primarily due to the Group's withdrawal from the intermediary sourced mortgage market in the UK.

Defaulted Retail UK mortgages were £0.5 billion (31 December 2012: £0.5 billion) or 2% of the Retail UK mortgage loan book at 31 December 2013, of which £0.4 billion or 1.7% were originated between 2006 and 2008.

Risk profile

TABLE 3a

31 December 2013 Risk profile of Retail UK mortgage loan book (before impairment provisions)	**Standard**		**Buy to let**		**Self certified**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Neither past due nor impaired	8,763	94%	7,885	95%	2,724	84%	19,372	94%
1-90 days past due but not impaired	327	4%	249	3%	357	11%	933	4%
Defaulted loans	146	2%	168	2%	178	5%	492	2%
Total Retail UK mortgages	**9,236**	**100%**	**8,302**	**100%**	**3,259**	**100%**	**20,797**	**100%**

31 December 2012 Risk profile of Retail UK mortgage loan book (before impairment provisions)	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Neither past due nor impaired	9,503	95%	8,315	95%	3,057	84%	20,875	93%
1-90 days past due but not impaired	383	4%	287	3%	407	11%	1,077	5%
Defaulted loans	140	1%	210	2%	176	5%	526	2%
Total Retail UK mortgages	10,026	100%	8,812	100%	3,640	100%	22,478	100%

The above tables illustrate that £19.4 billion or 94% of the total Retail UK mortgage loan book at 31 December 2013 was classified as 'neither past due nor impaired' compared to £20.9 billion or 93% at 31 December 2012.

The '1-90 days past due but not impaired' category amounted to £0.9 billion or 4% of the total Retail UK mortgage loan book at 31 December 2013 compared to £1.1 billion or 5% at 31 December 2012.

The defaulted loans category amounted to £0.5 billion or 2% of the total Retail UK mortgage loan book at 31 December 2013 compared to £0.5 billion or 2% at 31 December 2012.

Defaulted Standard mortgages increased marginally to £146 million at 31 December 2013 from £140 million at 31 December 2012.

Defaulted Buy to let mortgages reduced from £210 million at 31 December 2012 to £168 million at 31 December 2013 driven by low interest rates and rental increases allowing borrowers to clear arrears.

Defaulted Self certified mortgages remained broadly stable at £178 million at 31 December 2013 compared to £176 million at 31 December 2012.

The Buy to let portfolio reduced by £510 million or 5.8% in 2013 while the Self certified portfolio reduced by £381 million or 10.5% in the same period.

Book composition (continued)

Arrears profile

TABLE 3b

Mortgage arrears - Defaulted loans (number of accounts)	**31 December 2013 %**	30 June 2013 %	31 December 2012 %
Standard mortgages	1.69%	1.43%	1.27%
Buy to let mortgages	1.76%	1.73%	1.97%
Self certified mortgages	4.27%	4.05%	3.71%

Mortgage arrears - Defaulted loans (value)	**31 December 2013 %**	30 June 2013 %	31 December 2012 %
Standard mortgages	1.58%	1.53%	1.39%
Buy to let mortgages	2.02%	2.08%	2.38%
Self certified mortgages	5.46%	5.26%	4.84%

Data published by the Council Mortgage Lenders (CML) for December 2013 indicates that the proportion of the Retail UK mortgage book in default (greater than 90 days but excluding possessions and receivership cases) remains below the UK industry average across all segments at 1.68% (Retail UK: 1.48%).

Book composition (continued)

Loan to value profiles - total loans

TABLE 3c

31 December 2013 **Loan to value (LTV) ratio of total Retail UK mortgages**	**Standard** £m	**Standard** %	**Buy to let** £m	**Buy to let** %	**Self certified** £m	**Self certified** %	**Total Retail UK mortgage portfolio** £m	**Total Retail UK mortgage portfolio** %
Less than 50%	1,774	19%	1,025	12%	350	11%	3,149	15%
51% to 70%	2,079	22%	2,901	35%	885	27%	5,865	28%
71% to 80%	1,916	21%	1,890	23%	786	24%	4,592	22%
81% to 90%	1,691	18%	1,355	16%	723	22%	3,769	18%
91% to 100%	1,007	11%	781	10%	403	13%	2,191	11%
Subtotal	**8,467**	**91%**	**7,952**	**96%**	**3,147**	**97%**	**19,566**	**94%**
101% to 120%	634	7%	283	3%	93	3%	1,010	5%
121% to 150%	82	1%	45	1%	9	-	136	1%
Greater than 150%	53	1%	22	-	10	-	85	-
Subtotal	**769**	**9%**	**350**	**4%**	**112**	**3%**	**1,231**	**6%**
Total	**9,236**	**100%**	**8,302**	**100%**	**3,259**	**100%**	**20,797**	**100%**
Weighted average LTV[1]:								
Stock of Retail UK mortgages at year end[1]		71%		71%		73%		71%
New Retail UK mortgages during year[1]		70%		65%		n/a		70%

31 December 2012 Loan to value (LTV) ratio of total Retail UK mortgages	Standard £m	Standard %	Buy to let £m	Buy to let %	Self certified £m	Self certified %	Total Retail UK mortgage portfolio £m	Total Retail UK mortgage portfolio %
Less than 50%	1,849	18%	776	9%	314	9%	2,939	13%
51% to 70%	1,498	15%	2,183	24%	678	19%	4,359	19%
71% to 80%	1,557	16%	1,986	23%	746	20%	4,289	19%
81% to 90%	2,033	20%	1,918	22%	902	24%	4,853	22%
91% to 100%	1,571	16%	1,248	14%	724	20%	3,543	16%
Subtotal	8,508	85%	8,111	92%	3,364	92%	19,983	89%
101% to 120%	1,340	13%	628	7%	258	7%	2,226	10%
121% to 150%	126	1%	54	1%	13	1%	193	1%
Greater than 150%	52	1%	19	-	5	-	76	-
Subtotal	1,518	15%	701	8%	276	8%	2,495	11%
Total	10,026	100%	8,812	100%	3,640	100%	22,478	100%
Weighted average LTV[1]:								
Stock of Retail UK mortgages at year end[1]		76%		76%		78%		76%
New Retail UK mortgages during year[1]		77%		71%		n/a		76%

[1] *Weighted Average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

Book composition (continued)

Loan to value profiles - total loans (continued)

The table above sets out the weighted average indexed LTV for the total Retail UK mortgage loan book, which was 71% at 31 December 2013, 71% for Standard mortgages, 73% for Self certified mortgages and 71% for Buy to let mortgages. The weighted average LTV for new Residential mortgages written during 2013 was 70%, 70% for Standard mortgages and 65% for Buy to let mortgages.

Property values are determined by reference to the original or latest property valuations held, indexed to the 'Nationwide UK House Price Index' published by the UK's Nationwide Building Society. In tables 3c and 3d the December 2013 or December 2012 'Nationwide UK House Price Index' as appropriate, is the index applied to the relevant valuations.

At 31 December 2013, £19.6 billion (94%) of the Retail UK mortgage book was in positive equity, comprising £8.5 billion or 91% of Standard mortgages, £8.0 billion or 96% of Buy to let mortgages and £3.1 billion or 97% of Self certified mortgages. This improvement reflects the upward movement in house prices in the year with house prices increasing by 8.4% on average across the UK together with capital reductions and principal repayments.

At 31 December 2013, the total calculated negative equity in the Retail UK mortgage book was £116 million, which comprised £101 million (87%) related to mortgages classified as 'neither past due nor impaired', £5 million (4%) related to mortgages classified as '1-90 days past due but not impaired' and £10 million (9%) related to mortgages that were defaulted.

Book composition (continued)

Loan to value profiles - defaulted loans

TABLE 3d

31 December 2013

Loan to value (LTV) ratio of total Retail UK mortgages - defaulted loans	**Standard**		**Buy to let**		**Self certified**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Less than 50%	28	19%	10	6%	6	3%	44	9%
51% to 70%	25	17%	35	21%	33	19%	93	19%
71% to 80%	20	14%	34	20%	38	21%	92	19%
81% to 90%	25	17%	30	18%	43	24%	98	19%
91% to 100%	20	13%	32	19%	40	22%	92	19%
Subtotal	**118**	**80%**	**141**	**84%**	**160**	**89%**	**419**	**85%**
101% to 120%	21	14%	20	12%	12	7%	53	11%
121% to 150%	5	4%	5	3%	3	2%	13	3%
Greater than 150%	2	2%	2	1%	3	2%	7	1%
Subtotal	**28**	**20%**	**27**	**16%**	**18**	**11%**	**73**	**15%**
Total	**146**	**100%**	**168**	**100%**	**178**	**100%**	**492**	**100%**

31 December 2012

Loan to value (LTV) ratio of total Retail UK mortgages - defaulted loans	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Less than 50%	16	11%	5	2%	4	2%	25	5%
51% to 70%	20	14%	21	10%	16	9%	57	11%
71% to 80%	19	14%	30	14%	27	15%	76	14%
81% to 90%	21	15%	46	22%	42	24%	109	21%
91% to 100%	21	15%	46	22%	50	28%	117	22%
Subtotal	97	69%	148	70%	139	78%	384	73%
101% to 120%	34	25%	47	23%	31	19%	112	21%
121% to 150%	7	5%	11	5%	2	1%	20	4%
Greater than 150%	2	1%	4	2%	4	2%	10	2%
Subtotal	43	31%	62	30%	37	22%	142	27%
Total	140	100%	210	100%	176	100%	526	100%

Asset quality

Composition and impairment

TABLE 4

31 December 2013 Retail UK mortgages	Total: Retail UK mortgages £m	Total: Defaulted loans £m	Total: Defaulted loans as % of advances %	Total: Impairment provisions £m	Total: Impairment provisions as % of defaulted loans %	Of which: Forborne Retail UK mortgages £m	Of which: Defaulted[1] forborne loans £m	Of which: Impairment provisions forborne Retail UK mortgages £m	Of which: Impairment provisions as % of defaulted forborne Retail UK mortgages %
Standard mortgages	9,236	146	1.6%	34	23%	106	10	1	10%
Buy to let mortgages	8,302	168	2.0%	51	30%	48	3	1	33%
Self certified mortgages	3,259	178	5.5%	31	17%	78	12	2	17%
Total Retail UK	**20,797**	**492**	**2.4%**	**116**	**24%**	**232**	**25**	**4**	**16%**

31 December 2012 Retail UK mortgages	Total: Retail UK mortgages £m	Total: Defaulted loans £m	Total: Defaulted loans as % of advances %	Total: Impairment provisions £m	Total: Impairment provisions as % of defaulted loans %	Of which: Forborne Retail UK mortgages £m	Of which: Defaulted[1] forborne loans £m	Of which: Impairment provisions forborne Retail UK mortgages £m	Of which: Impairment provisions as % of defaulted forborne Retail UK mortgages %
Standard mortgages	10,026	140	1.4%	34	24%	129	13	1	8%
Buy to let mortgages	8,812	210	2.4%	55	26%	51	5	1	20%
Self certified mortgages	3,640	176	4.8%	27	15%	83	12	1	8%
Total Retail UK	22,478	526	2.3%	116	22%	263	30	3	10%

[1] *The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted' loans during the year. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.*

At 31 December 2013 total Retail UK mortgages had decreased by £1.7 billion or 7.5% to £20.8 billion (31 December 2012: £22.5 billion). This decrease is attributable to natural redemption rates and a deleveraging programme.

Defaulted Retail UK mortgages were £492 million at 31 December 2013 compared to £526 million at 31 December 2012 attributable to an increase in Standard mortgages of £6 million and Self certified mortgages of £2 million with a decrease in Buy to let mortgages of £42 million compared to 31 December 2012.

The overall impairment provision coverage ratio on the defaulted Retail UK mortgages book has increased marginally to 24% (31 December 2012: 22%).

Asset quality (continued)

Repossessions

At 31 December 2013, the Group had possession of properties held as security as follows:

TABLE 5a	31 December 2013		31 December 2012	
Repossessions Retail UK mortgages	**Number of repossessions at balance sheet date**	**Balance outstanding before impairment provisions £m**	Number of repossessions at balance sheet date	Balance outstanding before impairment provisions £m
Standard mortgages	57	8	70	10
Buy to let mortgages	79	11	139	19
Self certified mortgages	47	10	45	9
Total residential repossessions	**183**	**29**	**254**	**38**

Disposals of repossessed properties

TABLE 5b	31 December 2013		31 December 2012	
Disposals of repossessions Retail UK mortgages	**Number of disposals during the year**	**Balance outstanding after impairment provisions £m**	Number of disposals during the year	Balance outstanding after impairment provisions £m
Standard mortgages	205	19	194	18
Buy to let mortgages	314	23	358	30
Self certified mortgages	131	19	141	20
Total residential repossessions	**650**	**61**	**693**	**68**

During the year ending 31 December 2013, the Group disposed of 650 repossessed properties (for the year ending 31 December 2012: 693 repossessed properties disposed of). The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions.

For the year ending 31 December 2013, the proceeds from disposals of Standard mortgages was £22 million (year ended 31 December 2012: £21 million).

For the year ending 31 December 2013, the proceeds from disposals of Buy to let mortgages was £25 million (year ended 31 December 2012: £31 million).

For the year ending 31 December 2013, the proceeds from disposals of Self certified mortgages was £20 million (year ended 31 December 2012: £23 million).

Asset quality (continued)

Forbearance measures

Mortgage forbearance
The Group continues to offer a range of forbearance measures for customers in arrears or facing potential arrears on contracted mortgage repayments, in order to arrange, where viable, sustainable short term or longer term repayment solutions as appropriate.

Forbearance occurs when a borrower is granted a temporary or permanent agreed change to the original contractual terms of a mortgage loan ('forbearance measure'), for reasons relating to the actual or apparent financial stress or distress of that borrower. If the agreed change to a mortgage loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. A mortgage loan which has an active 'forbearance measure' is a 'forborne' mortgage.

The Group has a well-established operating infrastructure in place to assess and, where appropriate, implement sustainable forbearance measures for customers. Forbearance requests are assessed on a case-by-case basis, taking due consideration of the individual circumstances and risk profile of the borrower to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place.

The forbearance strategies adopted by the Group seek to maximise recoveries, while providing suitable and sustainable restructure options that are supportive of customers in challenged circumstances.

A forbearance request, by the borrower, will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances, ability to repay and impairment status. This assessment will determine the most appropriate course of action ensuring, where possible, the most suitable and sustainable repayment arrangement is put in place. Impaired forborne loans carry a specific provision. Probability of default factors for non-impaired forborne loans are empirically calculated, resulting in an IBNR provision.

It is the Group's policy to review the effectiveness or otherwise of forbearance measures over the lifetime of those measures.

A forbearance measure is considered to be effective where the risk profile of the borrower that is subject to the forbearance measure stabilises or improves over the measured time period, resulting in an improved outcome for the Group and the customer.

The effectiveness of forbearance is considered taking account of:

- the strategy that is being followed is with a view to maximising recovery for the Group and providing a suitable option for the customer;
- the intended outcome of the particular measure;
- the nature of the measure being granted; and
- the period over which the measure is granted.

The nature and type of forbearance measures include:

- full interest: (step up to principal and interest) on the principal balance, on a temporary or longer term basis, with the principal balance unchanged;
- term extension: the original term of the mortgage is extended and the instalment is re-calculated to clear the outstanding mortgage debt over the remaining term;
- capitalisation of arrears: the arrears are added to the principal outstanding on the mortgage and the instalment is recalculated to clear the outstanding mortgage debt over the remaining term; and
- other: comprising primarily a combination of forbearance measures and an element of temporary payment suspensions.

During 2013, the total number of new loans entering forbearance was 141 with balances of £15 million with a total of 393 loans £46 million of balances exiting forbearance. Of the loans exiting forbearance 230 repaid their loan in full or in part.

The prominence of interest only as the most common measure is consistent with expectations and reflects the overall UK market. Such concessions are now granted for a period of six months and then reviewed with a view to achieving a sustainable means to repay the mortgage within an agreed time frame. Capitalisations continue to be the least common of forbearance measure.

Although the volume of forborne accounts has reduced from £263 million to £232 million (a decrease of 12%), the distribution of forborne cases across sub-segments based on performance has remained static. As at 31 December 2013, the volume of cases regarded as Satisfactory or Acceptable stood at 69.5% against 68.8% as at 31 December 2012. There was minimal movement in percentage terms across the other sub-segments.

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Asset quality (continued)

Forbearance measures (continued)

The table below sets out Retail UK mortgages (before impairment provisions) forborne loan stock[1] subject to active forbearance measures at 31 December 2013.

TABLE 6a

31 December 2013 Forbearance measures - Retail UK mortgages (before impairment provisions)	Non-defaulted loans Balance £m	Non-defaulted loans Number of accounts[3]	Defaulted loans[2] Balance £m	Defaulted loans[2] Number of accounts[3]	All loans Balance £m	All loans Number of accounts[3]
Standard mortgages						
Full interest	**72**	656	**8**	79	**80**	735
Term extension	**17**	258	**1**	18	**18**	276
Capitalisation of arrears	**5**	31	**1**	4	**6**	35
Other	**2**	23	**-**	4	**2**	27
Total	**96**	**968**	**10**	**105**	**106**	**1,073**
Buy to let						
Full interest	**22**	230	**2**	16	**24**	246
Term extension	**7**	62	**-**	2	**7**	64
Capitalisation of arrears	**15**	107	**1**	4	**16**	111
Other	**1**	6	**-**	-	**1**	6
Total	**45**	**405**	**3**	**22**	**48**	**427**
Self certified						
Full interest	**46**	345	**9**	56	**55**	401
Term extension	**4**	27	**-**	1	**4**	28
Capitalisation of arrears	**15**	61	**2**	12	**17**	73
Other	**1**	8	**1**	4	**2**	12
Total	**66**	**441**	**12**	**73**	**78**	**514**
Total						
Full interest	**140**	1,231	**19**	151	**159**	1,382
Term extension	**28**	347	**1**	21	**29**	368
Capitalisation of arrears	**35**	199	**4**	20	**39**	219
Other	**4**	37	**1**	8	**5**	45
Total	**207**	**1,814**	**25**	**200**	**232**	**2,014**

[1] Comprises the current stock position of forbearance measures (agreed since January 2010), for example, where a mortgage loan is granted a full interest forbearance measure for a defined period of time and this measure has expired prior to 31 December 2013, this mortgage loan is not included in the stock of current active forbearance measures.
[2] The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted loans' during the year. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.
[3] The number of accounts does not equate to the number of customers.

Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current year.

Asset quality (continued)

Forbearance measures (continued)

31 December 2012 Forbearance measures[1] - Retail UK mortgages (before impairment provisions)	Non-defaulted loans Balance £m	Non-defaulted loans Number of accounts[3]	Defaulted loans[2] Balance £m	Defaulted loans[2] Number of accounts[3]	All loans Balance £m	All loans Number of accounts[3]
Standard mortgages						
Full interest	88	785	12	111	100	896
Term extension	20	288	-	8	20	296
Capitalisation of arrears	6	34	-	1	6	35
Other	2	16	1	6	3	22
Total	116	1,123	13	126	129	1,249
Buy to let						
Full interest	24	256	4	27	28	283
Term extension	7	56	-	3	7	59
Capitalisation of arrears	14	104	1	9	15	113
Other	1	8	-	-	1	8
Total	46	424	5	39	51	463
Self certified						
Full interest	51	381	10	61	61	442
Term extension	3	24	-	-	3	24
Capitalisation of arrears	15	63	2	10	17	73
Other	2	11	-	4	2	15
Total	71	479	12	75	83	554
Total						
Full interest	163	1,422	26	199	189	1,621
Term extension	30	368	-	11	30	379
Capitalisation of arrears	35	201	3	20	38	221
Other	5	35	1	10	6	45
Total	233	2,026	30	240	263	2,266

[1] Comprises the current stock position of forbearance measures (agreed since January 2010), for example, where a mortgage loan is granted a full interest forbearance measure for a defined period of time and this measure has expired prior to 31 December 2012, this mortgage loan is not included in the stock of current active forbearance measures.
[2] The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted loans' during the year. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.
[3] The number of accounts does not equate to the number of customers.

Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current year.

Asset quality (continued)

Forbearance measures (continued)

The volume and number of forborne accounts at 31 December 2013 and 31 December 2012 are set out in Table 6a. This is a point in time reflection of forbearance positions and movement in forbearance over the period. 2013 opened with 2,266 accounts (£263 million) where forbearance had been granted. This reduced to 2,014 accounts (£232 million) by the end of 2013.

Overall the number and balances of accounts in forbearance have decreased. In addition the number of accounts in default has also reduced from £30 million of balances (240 accounts) at 31 December 2012 to £25 million at 31 December 2013. This is a reflection of the current low interest rate environment and an active review and customer contact programme.

The level of forborne loans at 31 December 2013 represents 1.1% of the total book a small reduction from 1.2% at 31 December 2012.

The number of accounts in forbearance has decreased from 2,226 at 31 December 2012 to 2,014 accounts at 31 December 2013. The balances on accounts in forbearance have also reduced from £263 million to £232 million over the same period. Accepting payments of interest only for a defined period is the largest forbearance measure employed with 1,382 accounts at 31 December 2013 (31 December 2012: 1,621 accounts), followed by term extensions with 368 accounts at 31 December 2013 (31 December 2012: 379 accounts). For Standard mortgages 1,073 accounts or £106 million are in forbearance at 31 December 2013 (31 December 2012: 1,249 accounts or £129 million). For Buy to let mortgages, 427 accounts or £48 million are in forbearance at 31 December 2013 (31 December 2012: 463 accounts or £51 million). For Self certified mortgages, 514 accounts or £78 million are in forbearance at 31 December 2013 (31 December 2012: 554 accounts or £83 million).

At 31 December 2013, £159 million or 1,382 Retail UK Residential mortgage accounts were subject to interest only payments, compared to £189 million or 1,621 accounts at 31 December 2012.

At 31 December 2013, £29 million or 368 Retail UK Residential mortgage accounts were subject to term extension, compared to £30 million or 379 accounts at 31 December 2012. These loans may have been granted a temporary term extension pending sale of the property or maturity of a repayment vehicle.

At 31 December 2013, £39 million or 219 Retail UK Residential mortgage accounts were subject to capitalisation of arrears, compared to £38 million or 221 accounts at 31 December 2012.

In addition to the forbearance pertaining to the Buy to let mortgages, the Group has a strategy to appoint fixed charge receivers. At 31 December 2013, there were 272 properties where a Fixed Charge Receiver had been appointed or approved, compared to 408 properties at 31 December 2012.

Asset quality (continued)

Forbearance measures (continued)

The following table shows the movement in the stock of forborne Retail UK mortgages (before impairment provisions) during the year ended 31 December 2013.

TABLE 6b

Reconciliation of forborne loan stock by non-default / default status - Retail UK mortgages (before impairment provisions)	Standard mortgages Balance £m	Standard mortgages Number of accounts[1]	Buy to let Balance £m	Buy to let Number of accounts[1]	Self certified Balance £m	Self certified Number of accounts[1]	All loans Balance £m	All loans Number of accounts[1]
All loans								
Opening balance at 1 January 2013	**129**	**1,249**	**51**	**463**	**83**	**554**	**263**	**2,266**
New forbearance extended	9	93	1	15	5	33	15	141
Exited forbearance								
- Improved to or remained in non-default	(13)	(109)	(1)	(10)	(3)	(27)	(17)	(146)
- Improved / stabilised and remained in default	-	(6)	-	(2)	-	(5)	-	(13)
- Disimproved to or within default	(1)	(3)	-	-	-	(1)	(1)	(4)
- Redemptions, principal repayments and other	(18)	(151)	(3)	(39)	(7)	(40)	(28)	(230)
Transfers within forbearance between non-defaulted and defaulted loans	-	-	-	-	-	-	-	-
Closing balance at 31 December 2013	**106**	**1,073**	**48**	**427**	**78**	**514**	**232**	**2,014**
Non-defaulted loans								
Opening balance at 1 January 2013	**116**	**1,123**	**46**	**424**	**71**	**479**	**233**	**2,026**
New forbearance extended	9	83	1	14	3	23	13	120
Exited forbearance								
- Remained in non-default	(12)	(100)	(1)	(8)	(3)	(25)	(16)	(133)
- Disimproved to default	-	-	-	-	-	(1)	-	(1)
- Redemptions, principal repayments and other	(16)	(131)	(3)	(35)	(5)	(34)	(24)	(200)
Transfers within forbearance between non-defaulted and defaulted loans	(1)	(7)	2	10	-	(1)	1	2
Closing balance at 31 December 2013	**96**	**968**	**45**	**405**	**66**	**441**	**207**	**1,814**
Defaulted loans								
Opening balance at 1 January 2013	**13**	**126**	**5**	**39**	**12**	**75**	**30**	**240**
New forbearance extended	-	10	-	1	2	10	2	21
Exited forbearance								
- Improved to non-default	(1)	(9)	-	(2)	-	(2)	(1)	(13)
- Improved / stabilised and remained in default	-	(6)	-	(2)	-	(5)	-	(13)
- Disimproved and remained in default	(1)	(3)	-	-	-	-	(1)	(3)
- Redemptions, principal repayments and other	(2)	(20)	-	(4)	(2)	(6)	(4)	(30)
Transfers within forbearance between non-defaulted and defaulted loans	1	7	(2)	(10)	-	1	(1)	(2)
Closing balance at 31 December 2013	**10**	**105**	**3**	**22**	**12**	**73**	**25**	**200**

[1] The number of accounts does not equate to the number of customers.

Asset quality (continued)

Forbearance measures (continued)

The table above illustrates the movement in forborne accounts and balances between 1 January 2013 and 31 December 2013 and illustrates the following:.

- Those accounts for which new forbearance measures were put in place during the year;
- Those accounts which exited forbearance measures during the year, either:
  - Improved to or remained in non-default
  - Improved / stabilised and remained in default
  - Disimproved to or within default
  - Redeemed (i.e. whereby the outstanding balance has been repaid in full) or balances reduced due to principal repayments (i.e. payments made to reduce the outstanding loan balance on accounts which were in the forbearance stock at 1 January 2013 and remained in forbearance stock at 31 December 2013); and
- Those accounts and balances which transferred between non-defaulted loans and defaulted loans but remained in forbearance.

The defaulted loan classification does not indicate that the terms of the forbearance measure have not been met. The non-default / default status of accounts which exited forbearance during the year is determined at the date of exit.

A total of 2,014 accounts or £232 million of account balances were in forbearance at 31 December 2013, compared to 2,266 or £263 million at 31 December 2012. Of these, 141 accounts or £15 million new forbearance measures were put in place during the year, of which 120 accounts or £13 million were classified as 'non-defaulted loans' while 21 accounts or £2 million were classified as 'defaulted loans'. Of those that exited forbearance during the year, 146 accounts or £17 million exited to non-default status, 13 accounts remained in default with an improved or stabilised status, and 4 accounts or £1 million within default with disimproved status. A reduction in the forbearance stock of 230 accounts relates to redeemed accounts during the year; a reduction of £28 million was due to those redeemed accounts and principle payments during the year.

For standard mortgages, 1,073 accounts or £106 million of account balances were in forbearance at 31 December 2013, compared to 1,249 accounts or £129 million at 31 December 2012.

For Buy to let mortgages 427 accounts or £48 million of account balances were in forbearance at 31 December 2013, compared to 463 accounts or £51 million at 31 December 2012.

For self-certified mortgages 514 accounts or £78 million of account balances were in forbearance at 31 December 2013, compared to 554 accounts or £83 million at 31 December 2012.

Asset quality (continued)

Loan to value profiles - forborne loans

TABLE 7a

31 December 2013

Loan to value (LTV) ratio of forborne Retail UK mortgages	**Standard £m**	**Standard %**	**Buy to let £m**	**Buy to let %**	**Self certified £m**	**Self certified %**	**Total £m**	**Total %**
Less than 50%	26	25%	8	17%	8	10%	42	18%
51% to 70%	24	23%	16	33%	20	25%	60	26%
71% to 80%	12	11%	9	19%	16	21%	37	16%
81% to 90%	17	16%	7	15%	20	26%	44	19%
91% to 100%	14	13%	5	10%	9	12%	28	12%
Subtotal	**93**	**88%**	**45**	**94%**	**73**	**94%**	**211**	**91%**
101% to 120%	10	9%	2	4%	4	5%	16	7%
121% to 150%	2	2%	1	2%	1	1%	4	2%
Greater than 150%	1	1%	-	-	-	-	1	-
Subtotal	**13**	**12%**	**3**	**6%**	**5**	**6%**	**21**	**9%**
Total	**106**	**100%**	**48**	**100%**	**78**	**100%**	**232**	**100%**

31 December 2012

Loan to value (LTV) ratio of forborne Retail UK mortgages	Standard £m	Standard %	Buy to let £m	Buy to let %	Self certified £m	Self certified %	Total £m	Total %
Less than 50%	28	22%	6	12%	8	10%	42	16%
51% to 70%	28	22%	15	29%	18	22%	61	23%
71% to 80%	16	12%	10	20%	14	17%	40	15%
81% to 90%	16	12%	8	16%	21	25%	45	17%
91% to 100%	20	16%	8	16%	16	19%	44	17%
Subtotal	108	84%	47	93%	77	93%	232	88%
101% to 120%	17	13%	3	5%	6	7%	26	10%
121% to 150%	3	2%	1	2%	-	-	4	2%
Greater than 150%	1	1%	-	-	-	-	1	-
Subtotal	21	16%	4	7%	6	7%	31	12%
Total	129	100%	51	100%	83	100%	263	100%

The tables above illustrate the indexed loan to value ratios for Retail UK forborne mortgages. The ratios reflect the application of the Nationwide Building Society House Price Index at the applicable reporting date on the portfolio, capital reductions, out of course customer payments and movements in forbearance stock.

Of the Retail UK mortgages with active forbearance measures in place £211 million or 91% are in positive equity (31 December 2012: £232 million or 88%) while £21 million or 9% are in negative equity at 31 December 2013 (31 December 2012: £31 million or 12%). 88% of forborne standard mortgages (31 December 2012: 84%), 94% of forborne Buy to let mortgages (31 December 2012: 93%) and 94% of Self certified mortgages (31 December 2012: 93%) are in positive equity at 31 December 2013.

Asset quality (continued)

Loan to value profiles - defaulted forborne loans

TABLE 7b

31 December 2013

Loan to value (LTV) ratio of forborne Retail UK mortgages - defaulted loans	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Less than 50%	3	30%	1	33%	-	-	4	16%
51% to 70%	2	20%	1	34%	3	25%	6	24%
71% to 80%	1	10%	-	-	2	17%	3	12%
81% to 90%	1	10%	-	-	3	25%	4	16%
91% to 100%	1	10%	-	-	2	17%	3	12%
Subtotal	**8**	**80%**	**2**	**67%**	**10**	**84%**	**20**	**80%**
101% to 120%	2	20%	-	-	1	8%	3	12%
121% to 150%	-	-	-	-	-	-	-	-
Greater than 150%	-	-	1	33%	1	8%	2	8%
Subtotal	**2**	**20%**	**1**	**33%**	**2**	**16%**	**5**	**20%**
Total	**10**	**100%**	**3**	**100%**	**12**	**100%**	**25**	**100%**

31 December 2012

Loan to value (LTV) ratio of forborne Retail UK mortgages - defaulted loans	Standard		Buy to let		Self certified		Total	
	£m	%	£m	%	£m	%	£m	%
Less than 50%	2	15%	1	20%	-	-	3	10%
51% to 70%	2	16%	1	20%	2	17%	5	17%
71% to 80%	2	15%	-	-	2	17%	4	13%
81% to 90%	1	8%	2	40%	3	25%	6	20%
91% to 100%	2	15%	1	20%	4	33%	7	23%
Subtotal	9	69%	5	100%	11	92%	25	83%
101% to 120%	3	23%	-	-	1	8%	4	14%
121% to 150%	1	8%	-	-	-	-	1	3%
Greater than 150%	-	-	-	-	-	-	-	-
Subtotal	4	31%	-	-	1	8%	5	17%
Total	13	100%	5	100%	12	100%	30	100%

The tables above illustrate that the volume of forborne loans which are in default has reduced from £30 million as at 31 December 2012 to £25 million as at 31 December 2013, however, the volume of defaulted forborne loans which are in negative equity has remained constant at £5 million. The reduction in the balance of defaulted forborne loans has come from the standard and Buy to let segments.

Loans and advances to customers (excluding Residential mortgages)

The following disclosures refer to the forbearance of the loans and advances to customers (excluding Residential mortgages). These provide additional detail and analysis on the quality of the stock of forborne loans.

Asset quality

Forbearance measures

The Group continues to extend significant support to customers who are experiencing current difficulties in meeting their debt servicing commitments by restructuring loans on a sustainable basis using a range of short term and longer term forbearance solutions.

The range of forbearance solutions employed by the Group varies depending on the individual circumstances of the customer, and may result in an amendment to the timing of the contractual cash flows and / or an amendment to the other terms of a loan. Typically, a breach or expected breach of covenants is the first early indication of a borrower's actual or potential difficulty with servicing debt commitments. Therefore adjustment, non-enforcement or waiver of covenant(s) is frequently an important constituent part of a resolution strategy agreed with a customer, particularly in loan portfolios where covenants are a standard feature of facility agreements. These 'covenant forbearance' arrangements (for example, a waiver of a loan-to-value covenant breach) are unlikely, of themselves, to result in an impact to the timing of contractual cash flows. Other forbearance arrangements are more likely to have a direct impact on the timing of cash flows.

Forbearance alone is not necessarily an indicator of impairment but will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay. This assessment to determine if impairment has occurred and if a specific provision is required will always take place prior to a decision to grant forbearance to the customer. Where a loan is subject to forbearance and no specific provision is required, the loan is reported as forborne. However, where a specific provision is required, the loan is reported as impaired and is no longer reported as forborne.

Forbearance effectiveness
It is the Group's policy to measure the effectiveness or otherwise of forbearance measures over the lifetime of those measures.

A forbearance measure is considered to be effective where the risk profile of the borrower that is subject to the forbearance measure stabilises or improves over the measured time period, resulting in an improved outcome for the Group and for the customer.

The performance of forbearance measures is measured taking account of:
- the strategy that is being followed with the customer with a view to maximising recovery for the Group and providing a suitable option for the customer;
- the intended outcome of the particular measure;
- the nature of the measure being granted; and
- the period over which the measure is granted.

Each business unit within the Group has an operating infrastructure in place to assess and, where appropriate, implement suitable forbearance arrangements. Such arrangements are implemented on either a temporary or a permanent basis. Temporary forbearance occurs where the measure has a specific term and will expire at some point in the future in advance of maturity of the loan. Permanent forbearance occurs where the measure is intended to remain in place for the remainder of the loan term.

The choice of forbearance measure is considered on a case by case basis bearing in mind the individual circumstance and risk profile of each borrower.

An exposure is restored to 'non-forborne' status for reporting purposes on the expiration date of the forbearance measure.

Asset quality (continued)

Forbearance measures (continued)

The nature and type of forbearance measures include:

- **Term extension:** an arrangement where the original term of the loan is extended, all interest is fully serviced and a revised repayment arrangement is agreed for the principal balance;
- **Adjustment or non-enforcement of covenants:** an arrangement whereby the Group agrees to either waive an actual or expected covenant breach for an agreed period, or adjusts the covenant(s) to reflect the changed circumstances of the borrower;
- **Facilities in breach of terms placed on demand:** an arrangement whereby the Group places a facility in breach of its contractual terms on a demand basis as permitted under the facility agreement rather than enforcing, and pending a more long term resolution;
- **Reduced payments (full interest):** an arrangement where the borrower pays the full interest on the principal balance, on a temporary or longer term basis, with the principal balance unchanged, rather than repaying some of the principal as required under the original facility agreement;
- **Reduced payments (greater than full interest) incorporating some principal repayments:** a temporary or medium term arrangement where the borrower pays the full interest due plus an element of principal due on the basis that principal payments will increase in the future;
- **Capitalisation of arrears:** an arrangement whereby arrears are added to the principal balance, effectively clearing the arrears, with either the repayments or the original term of the loan adjusted accordingly to accommodate the increased principal balance; and
- **Other:** Additional, less frequently applied, forbearance arrangements include short term / temporary payment suspensions.

Asset quality (continued)

Forbearance measures (continued)

At 31 December 2013, the stock of forborne loans and advances to customers[1] (excluding Residential mortgages), analysed by forbearance type is as follows:

Table 1 *(unaudited)*

Formal forbearance measures - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	**2013 Non-defaulted loans[1] balance €m**	**2013 Defaulted loans[2] balance €m**	**2013 Total loans balance €m**	2012 Non-defaulted loans[1] balance €m	2012 Defaulted loans[2] balance €m	2012 Total loans balance €m
Republic of Ireland SME						
Term extension	615	64	679	494	100	594
Adjustment or non-enforcement of covenants	106	10	116	47	17	64
Facilities in breach of terms placed on demand	17	47	64	7	15	22
Reduced payment (full interest)	228	50	278	215	116	331
Reduced payment (greater than full interest)	225	52	277	169	73	242
Capitalisation of arrears	27	9	36	7	2	9
Other	23	14	37	104	36	140
Total	**1,241**	**246**	**1,487**	**1,043**	**359**	**1,402**
UK SME						
Term extension	65	14	79	156	26	182
Adjustment or non-enforcement of covenants	64	-	64	49	3	52
Facilities in breach of terms placed on demand	5	14	19	26	23	49
Reduced payment (full interest)	22	13	35	31	23	54
Reduced payment (greater than full interest)	39	-	39	59	5	64
Capitalisation of arrears	-	1	1	1	1	2
Other	54	2	56	46	-	46
Total	**249**	**44**	**293**	**368**	**81**	**449**
Corporate						
Term extension	441	-	441	538	-	538
Adjustment or non-enforcement of covenants	648	-	648	704	-	704
Facilities in breach of terms placed on demand	-	-	-	-	-	-
Reduced payment (full interest)	9	-	9	9	-	9
Reduced payment (greater than full interest)	9	-	9	1	-	1
Capitalisation of arrears	13	-	13	17	-	17
Other	246	-	246	79	-	79
Total	**1,366**	**-**	**1,366**	**1,348**	**-**	**1,348**
Investment property						
Term extension	2,532	305	2,837	1,866	187	2,053
Adjustment or non-enforcement of covenants	683	4	687	1,153	45	1,198
Facilities in breach of terms placed on demand	173	22	195	390	519	909
Reduced payment (full interest)	156	46	202	129	87	216
Reduced payment (greater than full interest)	309	38	347	205	63	268
Capitalisation of arrears	17	61	78	28	50	78
Other	247	18	265	55	24	79
Total	**4,117**	**494**	**4,611**	**3,826**	**975**	**4,801**

[1] *Non-defaulted loans include loans that are neither past due nor impaired and loans that are up to and including 90 days past due. Defaulted loans include only those loans that are greater than 90 days past due but do not require a specific provision. Loans that have a specific provision are classified as impaired and are not included in the non-mortgage forbearance population.*

[2] *Defaulted loans include both accounts which were classified as defaulted loans prior to the forbearance measure being put in place and those loans which have moved from non-defaulted loans during the year. The defaulted loans classification does not indicate that the terms of the forbearance measure are not being met.*

Asset quality (continued)

Forbearance measures (continued)

Formal forbearance measures - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	2013 Non-defaulted loans[1] balance €m	2013 Defaulted loans[2] balance €m	2013 Total loans balance €m	2012 Non-defaulted loans[1] balance €m	2012 Defaulted loans[2] balance €m	2012 Total loans balance €m
Land and development						
Term extension	163	49	212	103	69	172
Adjustment or non-enforcement of covenants	-	-	-	13	-	13
Facilities in breach of terms placed on demand	2	31	33	41	12	53
Reduced payment (full interest)	16	4	20	13	26	39
Reduced payment (greater than full interest)	5	2	7	6	8	14
Capitalisation of arrears	-	-	-	-	1	1
Other	4	3	7	10	9	19
Total	**190**	**89**	**279**	**186**	**125**	**311**
Consumer						
Term extension	165	-	165	212	-	212
Adjustment or non-enforcement of covenants	-	-	-	-	-	-
Facilities in breach of terms placed on demand	-	-	-	-	-	-
Reduced payment (full interest)	-	-	-	-	-	-
Reduced payment (greater than full interest)	-	-	-	1	-	1
Capitalisation of arrears	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	**165**	**-**	**165**	**213**	**-**	**213**
Total						
Term extension	3,981	432	4,413	3,369	382	3,751
Adjustment or non-enforcement of covenants	1,501	14	1,515	1,966	65	2,031
Facilities in breach of terms placed on demand	197	114	311	464	569	1,033
Reduced payment (full interest)	431	113	544	397	252	649
Reduced payment (greater than full interest)	587	92	679	441	149	590
Capitalisation of arrears	57	71	128	53	54	107
Other	574	37	611	294	69	363
Total	**7,328**	**873**	**8,201**	**6,984**	**1,540**	**8,524**

[1] *Non-defaulted loans include loans that are neither past due nor impaired and loans that are up to and including 90 days past due. Defaulted loans include only those loans that are greater than 90 days past due but do not require a specific provision. Loans that have a specific provision are classified as impaired and are not included in the non-mortgage forbearance population.*

[2] *Defaulted loans include both accounts which were classified as defaulted loans prior to the forbearance measure being put in place and those loans which have moved from non-defaulted loans during the year. The defaulted loans classification does not indicate that the terms of the forbearance measure are not being met.*

Asset quality (continued)

Forbearance measures (continued)

The Group's loans and advances to customers (excluding Residential mortgages) at 31 December 2013 were €41.1 billion before impairment provisions (31 December 2012: €45.1 billion), of which €8.2 billion or 20% was classified and reported as forborne (31 December 2012: €8.5 billion or 19%). Property and construction exposures represent 60% of all forborne loans (excluding Residential mortgages) at 31 December 2013, 38% relate to non-property SME and Corporate lending, with Consumer Lending representing just 2% of forborne loans at 31 December 2013. The percentage of loans classified and reported as forborne and the percentage split of such forborne loans by portfolio have remained broadly consistent with the position at 31 December 2012.

The total volume of forborne loans reduced by €0.3 billion during the year. Within the total stock of forborne loans, there was an increase in the volume of loans where term extension was the principal forbearance measure granted and a reduction in the volume of loans where the waiver of covenants or placing a facility on demand was the principal forbearance measure granted. This trend is consistent with an increasing proportion of customers that are experiencing financial difficulties moving from temporary to longer term forbearance measures during the year, in line with the Group's overall strategy in this area.

The increase in other forbearance measures during the year reflected the impact of new forbearance measures granted in the restructuring of a small number of large syndicated corporate transactions.

Further information on the movements in forborne loans during the year is set out later in this section.

Total loans and advances to customers in the **non-property SME and Corporate** portfolio at 31 December 2013 were €21.5 billion before impairment provisions, of which €3.1 billion or 15% was classified and reported as forborne (31 December 2012: €3.2 billion or 14%). Customers in the non-property SME and Corporate sector have a number of options typically available to deal with adverse trading conditions, particularly in times of depressed economic conditions in their primary markets, such as reducing operating overheads, sourcing new markets, asset sales and renegotiating terms with suppliers, before their ability to continue to meet their debt servicing commitments is at risk.

Within the non-property SME and Corporate portfolio, the total **Republic of Ireland SME** loans and advances to customers before impairment provisions at 31 December 2013 were €10.3 billion, of which €1.5 billion or 14% was classified and reported as forborne (31 December 2012: €1.4 billion or 13%). Term extension is the primary forbearance measure within the Republic of Ireland SME portfolio, accounting for 46% of forborne loans at 31 December 2013 (31 December 2012: 42%) with reduced payment (full interest) accounting for 19% (31 December 2012: 24%) and a further 19% accounted for by reduced repayment (greater than full interest) (31 December 2012: 17%).

Forbearance resolution strategies for the Group's Republic of Ireland SME lending are assessed on a case-by-case basis taking account of the individual customer's circumstances and risk profile. Short term resolution arrangements are typically implemented in cases where a customer's cash flow difficulties are considered to be only short term in nature and are expected to improve in the near term due to a change in the customer's operating circumstances. Where cash flow difficulties are considered more long term, and where all other available options of dealing with adverse trading conditions have been considered, longer term forbearance solutions, such as term extensions, are implemented. The longer term strategies look to potential cash flows over a longer time horizon.

The total **UK SME** loans and advances to customers before impairment provisions at 31 December 2013 were €3.3 billion, of which €0.3 billion or 9% was classified and reported as forborne (31 December 2012: €0.4 billion or 13%). Within the UK SME portfolio, term extension and loan covenant amendments / waivers are the two primary forbearance measures, accounting for a combined 49% of forborne loans at 31 December 2013 (31 December 2012: 52%).

The total **Corporate** loans and advances to customers before impairment provisions at 31 December 2013 were €7.9 billion, of which €1.4 billion or 17% was classified and reported as forborne (31 December 2012: €1.3 billion or 16%). Loan covenant amendments / waivers account for 47% of forborne loans with term extensions accounting for a further 32% at 31 December 2013 (31 December 2012: 52%

Asset quality (continued)

Forbearance measures (continued)

and 40% respectively).
Covenants are a standard feature of most facilities originated within the corporate lending portfolio given the larger, structured nature of the facilities. Typically, breach of covenant is the first early indication of actual or potential financial difficulties of a borrower and, as such, a waiver or resetting of covenant levels is frequently an important element of any resolution strategy agreed with a borrower to address its new operating circumstances. Where a waiver or resetting of covenants of itself is not sufficient to address a borrower's financial difficulties, and given the relatively shorter term maturity profile of the portfolio, extension of the loan term represents the main alternative solution to assist customers that are experiencing financial difficulties.

In the **Investment property** portfolio, total loans and advances to customers at 31 December 2013 were €13.6 billion before impairment provisions, of which €4.6 billion or 34% was classified and reported as forborne (31 December 2012: €4.8 billion or 31%). Defaulted forborne loans were €0.5 billion (or 11% of total forborne loans) as at 31 December 2013 (31 December 2012: €1.0 billion or 20%). The reduction in defaulted loans of €0.5 billion primarily reflected facilities placed on demand transferring to other longer term forbearance measures or being specifically provisioned during the year.
Term extension is the primary forbearance measure within both the RoI and UK Investment property portfolios, accounting for 62% of total forborne loans at 31 December 2013 (31 December 2012: 43%), with covenant amendments / waivers accounting for 15% (31 December 2012: 25%), and facilities placed on demand accounting for 4% (31 December 2012: 19%). Given the maturity profile and structuring of the facilities in this portfolio, extending the term of a facility and / or amending or adjusting the covenants are the most common longer term arrangements utilised, in particular, in times of reduced market liquidity where refinancing options are limited and short term forced collateral sales unattractive.

The level of the Group's **Land and development** portfolio classified and reported as forborne, €0.3 billion or 9% at 31 December 2013 (31 December 2012: €0.3 billion or 9%), is reflective of the challenged nature of this sector which has seen significant declines in land values resulting in the majority of the portfolio being already specifically provisioned.

Total loans and advances to customers in the **Consumer** portfolio at 31 December 2013 were €2.8 billion before impairment provisions, of which €0.2 billion or 6% was classified and reported as forborne (31 December 2012: €0.2 billion or 6%). The €0.2 billion of forborne balances at 31 December 2013 relate to personal loans that have had their term extended as part of a consolidated debt restructure.

Asset quality (continued)

Forbearance measures (continued)

Table 2

31 December 2013

Reconciliation of forborne loan stock by non-default / default status - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	Non-property SME and Corporate			Property and Construction			
	Republic of Ireland SME €m	UK SME €m	Corporate €m	Investment property €m	Land and development €m	Consumer €m	All loans €m
All loans							
Opening balance at 1 January 2013	**1,402**	**449**	**1,348**	**4,801**	**311**	**213**	**8,524**
New forbearance extended	612	71	508	1,119	98	40	2,448
Exited forbearance							
- Improved to or remained in non-default	(125)	(38)	(115)	(186)	(2)	-	(466)
- Remained in / disimproved to default without specific provision	(12)	(26)	-	(105)	(7)	-	(150)
- Disimproved to default with specific provision	(160)	(27)	(190)	(529)	(62)	(16)	(984)
- Redemptions, principal repayments and other	(195)	(138)	(349)	(334)	(83)	(72)	(1,171)
Transfers within forbearance between non-defaulted and defaulted loans	-	-	-	-	-	-	-
Transfers between sub product class	(35)	2	164	(155)	24	-	-
Closing balance at 31 December 2013	**1,487**	**293**	**1,366**	**4,611**	**279**	**165**	**8,201**
Non-defaulted loans							
Opening balance at 1 January 2013	**1,043**	**368**	**1,348**	**3,826**	**186**	**213**	**6,984**
New forbearance extended	481	63	508	982	57	40	2,131
Exited forbearance							
- Remained in non-default	(122)	(34)	(115)	(161)	(2)	-	(434)
- Disimproved to default without specific provision	(4)	(24)	-	(31)	(6)	-	(65)
- Disimproved to default with specific provision	(65)	(16)	(190)	(169)	(12)	(16)	(468)
- Redemptions, principal repayments and other	(139)	(126)	(349)	(195)	(55)	(72)	(936)
Transfers within forbearance between non-defaulted and defaulted loans	79	18	-	21	(2)	-	116
Transfers between sub product class	(32)	-	164	(156)	24	-	-
Closing balance at 31 December 2013	**1,241**	**249**	**1,366**	**4,117**	**190**	**165**	**7,328**
Defaulted loans							
Opening balance at 1 January 2013	**359**	**81**	**-**	**975**	**125**	**-**	**1,540**
New forbearance extended	131	8	-	137	41	-	317
Exited forbearance							
- Improved to non-default	(3)	(4)	-	(25)	-	-	(32)
- Remained in default without specific provision	(8)	(2)	-	(74)	(1)	-	(85)
- Disimproved to default with specific provision	(95)	(11)	-	(360)	(50)	-	(516)
- Redemptions, principal repayments and other	(56)	(12)	-	(139)	(28)	-	(235)
Transfers within forbearance between non-defaulted and defaulted loans	(79)	(18)	-	(21)	2	-	(116)
Transfers between sub product class	(3)	2	-	1	-	-	-
Closing balance at 31 December 2013	**246**	**44**	**-**	**494**	**89**	**-**	**873**

Non-defaulted loans include loans that are neither past due nor impaired and loans that are up to and including 90 days past due. Defaulted loans include only those loans that are greater than 90 days past due but do not require a specific provision. Loans that have a specific provision are classified as impaired and are not included in the non-mortgage forbearance population.

Asset quality (continued)

Forbearance measures (continued)

At 31 December 2013, €8.2 billion of the Group's loans and advances to customers (excluding Residential mortgages) were classified and reported as forborne. This represented a reduction of €0.3 billion from the level classified and reported as forborne at 31 December 2012.

The reduction in forborne loans during the year reflected the fact that €2.8 billion of forborne loans exited forbearance during the year while €2.5 billion of loans were granted new forbearance during the year.

Term extensions and loan covenant amendments / waivers were the most common principal forbearance measure utilised for new forborne loans during the year. This is consistent with experience in previous years and the nature of the underlying portfolios, which include a large proportion of loans that have shorter term maturities and financial covenants, as part of the facility terms, to facilitate improved credit management of these portfolios.

Of the new forborne loans during the year, €1.1 billion or 46% was from the Group's Investment property portfolio, €0.6 billion or 25% was from the Republic of Ireland SME loan portfolio and €0.5 billion or 21% was from the Corporate portfolio.

Of the loans that exited forbearance during the year, €0.5 billion improved to or remained in non-default. €434 million, or 93% of these loans, had been categorised as non-default at 31 December 2012, and, €32 million categorised as default at 31 December 2012 improved to non-default. €150 million in forborne loans remained in or dis-improved to default without a specific provision. €105 million or 70% of these loans were in the Investment portfolio.

€0.98 billion in forborne loans dis-improved to default with a specific provision, of these €0.51 billion or 52% had been classified as default at 31 December 2012. The Investment property portfolio accounted for 54% of the total, with 19% from Corporate and 16% from Republic of Ireland SME portfolios.

When a specific provision is raised on a forborne loan, the loan ceases to be classified as forborne. It is expected that most loans that ultimately require a specific provision will previously have experienced a breach of loan terms and, in a large proportion of these cases, some element of forbearance will have been granted in order to provide flexibility to both the Group and the borrower to explore the optimum solution for both parties.

The volume of loans that exited forbearance during the year due to repayment, redemptions or sales reflected the impact of an improvement in market conditions and liquidity in the Group's principal markets during the year. €0.7 billion or 58% of these movements were in the Investment property and Corporate portfolios.

At 31 December 2013 €0.9 billion or 11% of total forborne loans were classified as default (31 December 2012: €1.5 billion or 18%). The reduction in forborne loans classified as default of €0.7 billion reflected the fact that a larger proportion of these forborne loans required a specific provision during the year and the fact that a higher proportion of forborne facilities transferred to longer term or permanent forbearance solutions during the year.

Consolidated average balance sheet and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the year ended 31 December 2013 and the year ended 31 December 2012. The calculations of average balances are based on daily, weekly or monthly averages, depending on the reporting unit. The average balances used are considered to be representative of the operations of the Group. The Group's operating divisions are managed on a product margin basis, with funding and interest exposure managed centrally. The explanation of the underlying business trends in the Group's net interest margin, after adjusting for the impact of IFRS income classifications, is outlined on page 22.

Average balance sheet

	Year ended 31 December 2013			Restated* Year ended 31 December 2012		
	Average Balance €m	**Interest[1] €m**	**Rate %**	Average Balance €m	Interest[1] €m	Rate %
Assets						
Loans and advances to banks	10,866	51	0.47	17,510	104	0.59
Loans and advances to customers	87,832	3,229	3.68	98,629	3,436	3.48
Available for sale financial assets and NAMA senior bonds	16,049	389	2.42	16,123	466	2.89
Other financial assets at fair value through profit or loss	12	-	-	29	-	-
Total interest earning assets	**114,759**	**3,669**	**3.20**	**132,291**	**4,006**	**3.03**
Non interest earning assets	21,821	-	-	20,285	-	-
Total assets	**136,580**	**3,669**	**2.69**	**152,576**	**4,006**	**2.6**
Liabilities and stockholders' equity						
Deposits from banks	15,307	137[1]	0.90	29,458	365[1]	1.24
Customer accounts	57,569	974[1]	1.69	59,121	1,381[1]	2.34
Debt securities in issue	14,910	247[1]	1.66	17,134	346[1]	2.02
Subordinated liabilities	1,628	178	10.9	1,388	159[2]	11.46
Total interest bearing liabilities	**89,414**	**1,536**	**1.72**	**107,101**	**2,251**	**2.10**
Current accounts	15,703	-	-	13,585	-	-
Non interest bearing liabilities	23,403	-	-	22,727	-	-
Stockholders' Equity	8,060	-	-	9,163	-	-
Total liabilities and stockholders' equity	**136,580**	**1,536**	**1.12**	**152,576**	**2,251**	**1.48**

* *As outlined in the Group accounting policies on page 186, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 58 for additional information.*
[1] *Excludes the cost of the ELG scheme of €129 million (31 December 2012: €388 million) which is included within interest expense.*
[2] *Excludes the gain on remeasurement of the Contingent Capital Note of €79 million.*

The yield on average interest bearing liabilities (including current accounts) for the year ended 31 December 2013 was 1.46% (year ended 31 December 2012: 1.87%)

Consolidated income statement

for the year ended 31 December 2013

(EURO, US$ & STG£)	€m	US$m(1)	Stg£m(1)
Interest income	3,669	4,872	3,116
Interest expense	(1,665)	(2,211)	(1,414)
Net interest income	**2,004**	**2,661**	**1,702**
Net insurance premium income	1,073	1,425	911
Fee and commission income	493	655	419
Fee and commission expense	(192)	(255)	(163)
Net trading income / (expense)	12	16	10
Life assurance investment income, gains and losses	531	705	451
Other operating income	68	91	58
Total operating income	**3,989**	**5,298**	**3,388**
Insurance contract liabilities and claims paid	(1,470)	(1,952)	(1,248)
Total operating income, net of insurance claims	**2,519**	**3,346**	**2,140**
Other operating expenses	(1,581)	(2,099)	(1,342)
Impact of amendments to defined benefit benefit pension scheme	274	364	233
Cost of restructuring programme	(90)	(120)	(76)
Operating profit / (loss) before impairment charges on financial assets and loss on deleveraging	**1,122**	**1,491**	**955**
Impairment charges on financial assets	(1,665)	(2,212)	(1,414)
Loss on deleveraging of financial assets	(3)	(4)	(3)
Operating loss	**(546)**	**(725)**	**(462)**
Share of results of associates and joint ventures (after tax)	31	41	26
Loss on disposal / liquidation of business activities	(10)	(14)	(9)
Loss before tax	**(525)**	**(698)**	**(445)**
Taxation credit	35	47	29
Loss for the year	**(490)**	**(651)**	**(416)**
Attributable to stockholders	(487)	(647)	(413)
Attributable to non-controlling interests	(3)	(4)	(3)
Loss for the year	**(490)**	**(651)**	**(416)**

1 *Converted at average exchange rates as set out on page 191.*

Consolidated balance sheet

as at 31 December 2013

(EURO, US$ & STG£)	€m	US$m[1]	Stg£m[1]
Assets			
Cash and balances with central banks	6,385	8,806	5,323
Items in the course of collection from other banks	363	501	303
Trading securities	252	348	210
Derivative financial instruments	3,492	4,816	2,911
Other financial assets at fair value through profit or loss	10,306	14,212	8,592
Loans and advances to banks	4,759	6,563	3,968
Available for sale financial assets	12,104	16,692	10,091
NAMA senior bonds	3,957	5,457	3,299
Loans and advances to customers	84,514	116,553	70,459
Interest in associates	89	123	74
Interest in joint ventures	209	288	174
Intangible assets	374	516	312
Investment properties	805	1,110	671
Property, plant and equipment	322	443	268
Current tax assets	28	38	23
Deferred tax assets	1,714	2,364	1,429
Other assets	2,460	3,393	2,051
Retirement benefit asset	4	6	3
Total assets	**132,137**	**182,229**	**110,161**
Equity and liabilities			
Deposits from banks	12,213	16,843	10,182
Customer accounts	73,867	101,870	61,583
Items in the course of transmission to other banks	147	203	123
Derivative financial instruments	3,228	4,452	2,691
Debt securities in issue	15,280	21,072	12,738
Liabilities to customers under investment contracts	5,460	7,530	4,551
Insurance contract liabilities	8,502	11,724	7,087
Other liabilities	2,841	3,918	2,369
Current tax liabilities	28	39	23
Provisions	90	124	75
Deferred tax liabilities	92	127	77
Retirement benefit obligations	845	1,165	704
Subordinated liabilities	1,675	2,310	1,397
Total liabilities	**124,268**	**171,377**	**103,600**
Equity			
Capital stock	2,558	3,528	2,133
Stock premium account	1,135	1,565	946
Retained earnings	3,791	5,228	3,161
Other reserves	404	557	337
Own stock held for the benefit of life assurance policyholders	(13)	(18)	(11)
Stockholders' equity	**7,875**	**10,860**	**6,566**
Non-controlling interests	(6)	(8)	(5)
Total equity	**7,869**	**10,852**	**6,561**
Total equity and liabilities	**132,137**	**182,229**	**110,161**

[1] *Converted at closing exchange rates as set out on page 191 .*

Other disclosures

TARGET 2

1. On 15 February 2008 a first floating charge was placed in favour of the Central Bank of Ireland (CBI) over all Bank of Ireland's right, title, interest and benefit, present and future, in and to the balances now or at any time standing to the credit of Bank of Ireland's account held as a TARGET 2 participant with the CBI (the Charged Property) where TARGET 2 is a real time gross settlement system for payments in euro with settlement in central bank money.

This floating charge contains a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, Bank of Ireland shall:

(a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the charged property or any part thereof; or

(b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the charged property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

2. On 15 February 2008 a first floating charge was placed in favour of the CBI over all Bank of Ireland's right, title, interest and benefit, present and future, in and to certain segregated securities (the Charged Property) listed in an Eligible Securities Schedule kept by Bank of Ireland for purposes of participating in TARGET 2 where TARGET 2 is a real time gross settlement system for payments in euro with settlement in central bank money.

This floating charge contains a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, Bank of Ireland shall:

(a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the charged property or any part thereof; or

(b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

Capital stock

Defined terms

Capital Stock Resolution	any resolution proposed at a General Court of the Bank to alter the capital stock of the Bank by way of: (a) an increase in the capital stock of the Bank, the reissue of treasury stock or the allotment of any unissued capital stock of the Bank save for the issue of additional preference stock pursuant to the rights attaching to existing preference stock or the issue of capital stock to fund a repurchase or redemption of the 2009 Preference Stock; (b) the redemption, consolidation, conversion or sub-division of the capital stock of the Bank save for the repurchase or redemption of the 2009 Preference Stock; or (c) any other changes in the capital structure of the Bank.
Government entity	(i) the NTMA, the NPRFC, the NPRF, the Minister for Finance or any Minister or Department of the Government, in each case holding 2009 Preference Stock, but excludes any other holder of 2009 Preference Stock provided however this shall not include any occupational pension scheme approved by the Revenue Commissioners and registered with the Pension Board; and (ii) any custodian or nominee holding 2009 Preference Stock on behalf of the NPRFC, the Minister for Finance, any Minister or Department of the Government provided however that where such custodian or nominee holds 2009 Preference Stock for any other person, such holding shall not be taken into account for the purpose of determining the voting rights of the Stockholder.
Thirty Day Average Price	(i) 100% of the average daily closing price of the ordinary stock on the Irish Stock Exchange over the 30 dealing days immediately preceding the original scheduled dividend declaration date, (in the event that the ordinary stock issued in the event of non-payment of dividends on the 2009 Preference Stock is settled on the dividend payment date to which it relates); or (ii) 95% of the average daily closing price of the ordinary stock on the Irish Stock Exchange over the 30 dealing days immediately preceding the original scheduled dividend declaration date (in the event that the ordinary stock, issued in the event of non-payment of dividends on the 2009 Preference Stock, is settled after the dividend payment date to which it relates).

Stockholder information

Holders of ordinary stock

Stockholder profile	**31 December 2013 % by value**	31 December 2012 % by value
Ireland	16%	17%
UK	16%	8%
US	50%	55%
Europe / other	8%	8%
Retail	10%	12%
	100%	**100%**

Analysis of stockholdings:

Stockholding range - units of stock As at 31 December 2013	**Number of stockholders**	**% of total holders**	**Stock held units**	**% of total stock**
Up to 500	21,020	20.21%	4,183,393	0.01%
501 to 1,000	10,810	10.39%	8,333,943	0.03%
1,001 to 5,000	31,729	30.51%	82,240,079	0.25%
5,001 to 10,000	12,757	12.26%	93,920,745	0.29%
10,001 to 50,000	19,857	19.09%	450,938,215	1.39%
50,001 to 100,000	3,946	3.79%	284,955,576	0.88%
100,001 to 500,000	2,982	2.87%	600,485,825	1.86%
Over 500,000[1]	911	0.88%	30,818,529,526	95.29%
Total	**104,012**	**100.00%**	**32,343,587,302**	**100.00%**

[1] *Excludes stockholdings held by New Ireland Assurance Company plc*

Stockholding range - units of stock As at 31 December 2012	Number of stockholders	% of total holders	Stock held units	% of total stock
Up to 500	21,038	20.84%	4,189,939	0.01%
501 to 1,000	10,799	10.70%	8,316,275	0.03%
1,001 to 5,000	31,646	31.36%	81,635,526	0.27%
5,001 to 10,000	12,361	12.25%	90,781,310	0.30%
10,001 to 50,000	18,329	18.16%	410,515,030	1.36%
50,001 to 100,000	3,490	3.46%	250,762,076	0.83%
100,001 to 500,000	2,580	2.56%	510,468,345	1.70%
Over 500,000[1]	678	0.67%	28,752,260,191	95.50%
Total	100,921	100.00%	30,108,928,692	100.00%

[1] *Excludes stockholdings held by New Ireland Assurance Company plc*

Stockholder information

Listings

The Governor and Company of the Bank of Ireland is a corporation established in Ireland in 1783 under Royal Charter. Its ordinary stock, of nominal value €0.05 per unit, has a primary listing on the Irish Stock Exchange and a premium listing on the London Stock Exchange. In the US the Bank's ordinary stock (symbol IRE) is traded on the New York Stock Exchange in the form of American Depository Shares (ADSs), each ADS representing the right to receive forty shares of ordinary stock and evidenced by American Depository Receipts (ADRs).

Registrar

The Bank's Registrar is:
Computershare Investor Services (Ireland) Limited,
PO Box 954,
Sandyford Industrial Estate,
Dublin 18.

Telephone: + 353 1 247 5414,
Facsimile: + 353 1 447 5571
or
Contact via website: www.investorcentre.com/ie/contactus

Stockholders may check their accounts on the Bank's stock register by accessing the Bank's website at: www.bankofireland.com/investor and then clicking on Check your Stock. This facility allows stockholders to check their stockholdings and to download standard forms required to initiate changes in details held by the Registrar.

Amalgamating your stockholdings

If you receive more than one copy of stockholder mailing with similar details on your accounts, it may be because the Bank has more than one record of stockholdings in your name. To ensure that you do not receive duplicate mailings in future and to reduce the cost and waste associated with this, please have all your stockholdings amalgamated into one account by contacting the Bank's Registrar (we cannot merge joint accounts with sole accounts or vice versa).

Stockholder enquiries

All enquiries concerning stockholdings should be addressed to the Bank's Registrar.

Communication

It is the policy of the Bank to communicate with Stockholders by electronic means or through the www.bankofireland.com website in the interest of protecting the environment. Those stockholders who do not wish to receive documents or information by electronic means may request to receive the relevant information in paper form.

Form 20-F

The Form 20-F for the year ended 31 December 2013 will be filed with the US Securities and Exchange Commission in due course. Copies will be available to download from the Bank's website (www.bankofireland.com/investor) or on the website of the US Securities and Exchange Commission.

Holders of American Depositary Shares

ADRs are negotiable securities that are used to represent, among other things, a non-US company's publicly traded ordinary share capital. ADRs are traded and dividends are distributed in US dollars just like any US security, alleviating certain obstacles associated with investing directly in the home markets of non-US companies. The Bank of New York is the Depositary Bank for the Bank of Ireland's ADR Program.

Address
BNY Mellon Depositary Receipts
P.O. Box 43006
Providence, RI 02940-3006

Overnight correspondence should be mailed to:
BNY Mellon Depositary Receipts
250 Royall Street
Canton, MA 02021

Toll Free # for Domestic Calls: 1-866-257-5729

International Calls: 201-680-6825

Email:
shrrelations@bnymellon.com

Website:
www.bnymellon.com/shareowner

Internet address
Further information about the Bank of Ireland Group can be obtained from the internet at www.bankofireland.com

Abbreviations

ACS	Asset Covered Securities
ADR	American Depository Receipts
ADS	American Depository Shares
AFS	Available for sale
AGC	Annual General Court
AIB	Allied Irish Banks plc
ALCO	Group Asset and Liability Committee
AQR	Asset Quality Review
AT1	Additional Tier 1
BIAM	Bank of Ireland Asset Management
BIGPF	Bank of Ireland Group Pension Fund
BoI	Bank of Ireland
BoI Life	Bank of Ireland Life
BoIGM	Bank of Ireland Global Markets
BoISS	Bank of Ireland Securities Services
bps	Basis points
BSA	Balance Sheet Assessment
BSPF	Bank of Ireland Staff Pensions Fund
BTL	Buy to Let
CA	Comprehensive Assessment
CBI	Central Bank of Ireland
CCMRO	Chief Credit & Market Risk Officer
CCN	Contingent Capital Note
CDO	Collateralised debt obligation
CDS	Credit Default Swap
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CGU	Cash generating units
CIF	Chief Investment Officer
CMBS	Commercial Mortgage-Backed Securities
CML	Council Mortgage Lenders
COREP	Common Reporting
CPI	Consumer Price Index
CRC	Court Risk Committee
CRD	Capital Requirements Directive (European Union)
CRR	Capital Requirements Regulation
CSAs	Credit Support Annexes
CSO	Central Statistics Office
CVA	Credit Valuation Adjustment
DBRS	Dominion Bond Rating Service
DCF	Discounted Cash Flow
DGS	Deposit Guarantee Scheme
DIRT	Deposit Interest Retention Tax
DIV	Data Integrity Verification
DTA	Deferred Tax Asset
EAD	Exposure at default
EBA	European Banking Authority
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECB	European Central Bank
EGC	Extraordinary General Court
ELG	Eligible Liabilities Guarantee Scheme
EMIR	European Market Infrastructure Regulation
EPS	Earnings per share
ESB	Electricity Supply Board
ESOS	Executive Stock Option Scheme
ESRI	Economic and Social Research Institute
EU	European Union
Euribor	Euro Inter Bank Offered Rate
EV	Expected Value
FRA	Full Risk Assessment
FRES	First Rate Exchange Services Limited
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
FVTPL	Fair Value Through Profit or Loss
FX	Foreign Exchange
GAAP	Generally Accepted Accounting Practice
GAC	Group Audit Committee
GB	Great Britain
GCC	Group Credit Committee
GCR	Group Credit Review
GDP	Gross Domestic Product
GEC	Group Executive Committee
GIA	Group Internal Audit
GIC	Group Investment Committee
GRCORC	Group Regulatory Compliance and Operational Risk Committee
GRPC	Group Risk Policy Committee
HICP	Harmonised Index of Consumer Prices
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBNR	Incurred but not Reported
IBRC	Irish Banking Resolution Corporation
ICAAP	Internal Capital Adequacy Assessment Process
ICU	Independent Control Unit
IFRIC	IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
ILP	Irish Life and Permanent
IMF	International Monetary Fund
IOM	Isle of Man
IPD	Investment Property Databank
IPO	Initial Public Offering
IRBA	Internal Ratings Based Approach
IRE	Ireland
ISA	Individual Savings Account
ISDA	International Swaps and Derivative Association
IT	Information Technology
JO	Joint Operation
KMP	Key management personnel
KRAs	Key Result Areas
LAF	Leveraged Acquisition Finance
LCR	Liquidity Coverage Ratio
LDI	Liability Driven Investment
LGD	Loss Given Default
Libor	London Inter Bank Offered Rate
LLC	Limited Liability Company
LLP	Limited Liability Partnership
LTIP	Long Term Incentive Plan
LTPSP	Long Term Performance Stock Plan
LTRO	Long Term Refinancing Operation
LTV	Loan to Value
MARS	Mortgage Arrears Resolution Strategy
MFS	Minimum Funding Standard
MI	Management Information

NAMA	National Asset Management Agency
NAMAIL	National Asset Management Agency Investment Limited
NIAC	New Ireland Assurance Company plc
NIE	Northern Ireland Electricity
NPRF	National Pensions Reserve Fund
NPRFC	National Pensions Reserve Fund Commission
NSFR	Net Stable Funding Ratio
NTMA	National Treasury Management Agency
NYSE	New York Stock Exchange
N&G	Group Nomination and Governance Committee
OCI	Other Comprehensive Income
OTC	Over The Counter
PCAR	Prudential Capital Assessment Review
PD	Probability of default
PiT	Point in Time
PLAR	Prudential Liquidity Assessment Review
PRC	Portfolio Review Committee
PwC	PricewaterhouseCoopers
RAR	Risk Adjusted Returns
RAS	Risk Appetite Statement
RAROC	Risk adjusted return on capital
REM COM	Group Remuneration Committee
RMC	Risk Measurement Committee
RoI	Republic of Ireland
RoW	Rest of World
RPI	Retail Price Index
RWAs	Risk weighted assets
SAYE	Save as you earn
SEPA	Single European Payments Area
SIC	Standing Interpretations Committee
SID	Senior Independent Director
SMBPN	Special Mortgage Backed Promissory Note
SME	Small Medium Enterprise
SOx	Sarbanes Oxley Act of 2002
SPE	Special Purpose Entity
SREP	Supervisory Review & Evaluation Process
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TSR	Total shareholder return
TtC	Through-the-Cycle
UK	United Kingdom
US	United States
VaR	Value at Risk
VAT	Value Added Tax

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