BANK OF IRELAND MORTGAGE BANK ANNUAL REPORT

31 December 2012

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DIRECTORS AND OTHER INFORMATION

Directors at 1 March 2013

Jonathan Byrne
John Clifford
Paul Flynn
Brian Kealy
Stephen Mason
Brian McConnell
Liam McLoughlin
Richard Milliken
Karena O'Sullivan

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PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
One Spencer Dock
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Secretary

Hill Wilson Secretarial Limited

The Directors hereby present their report, together with the audited financial statements of Bank of Ireland Mortgage Bank (the "Bank"), for the year ended 31 December 2012.

REVIEW OF BUSINESS

The Bank's principal activities are the provision of Irish residential mortgages and the issuance of securities in accordance with the Asset Covered Securities Acts, 2001 to 2007 (the "Acts").

The Bank is a wholly owned subsidiary of the Governor & Company of the Bank of Ireland ("Bank of Ireland").

A subdued domestic economy marked by stable but high unemployment levels and weak consumer sentiment has contributed to challenging trading conditions for the Bank during the year ended 31 December 2012. However, there are early signs that the residential property market may be stabilising, evidenced by the Residential Property Price Index published by the Central Statistics Office ("CSO"). The CSO Index for the year ended 31 December 2012 indicated that the 2012 annual rate of decline in residential property prices slowed to 4.5% (2011 annual rate of decline was 16.7%), its lowest rate in over four years. The overall Republic of Ireland new mortgage lending market amounted to €2.6 billion in 2012 (2011: €2.5 billion), with the Bank accounting for over 3 out of every 10 new mortgages extended in the Republic of Ireland. While the total market lending activity in 2012 was broadly in line with 2011, year on year growth was experienced in the second half of the year. Impairment charges incurred by the Bank remain elevated, reflecting unemployment and stressed mortgage affordability levels. While the volume of cases in arrears (based on the number of cases 90 days or more past due but not impaired) has continued to increase, the pace of arrears formation has abated significantly throughout the year with the net quarterly movement in arrears slowing progressively each quarter. The restructure of loans on a sustainable basis contributed to this improving trend.

The Bank has also made significant progress in relation to funding during the year ended 31 December 2012. On 13 November 2012 the Bank issued a €1 billion asset covered security with a 3 year maturity. This transaction is the first benchmark size public issuance based on Irish mortgage collateral since September 2009. Additionally, the Bank participated in the European Central Bank ("ECB") three year long term re-financing operation ("LTRO"), entering into a framework agreement on 29 February 2012 with the Central Bank of Ireland ("Central Bank") under which the Bank may issue mortgage backed promissory notes to the Central Bank, with the Bank having raised €615 million of mortgage backed promissory note funding. Full details are contained in note 18.

Asset Quality:

The Bank continues to focus actively on credit quality and the management of arrears. Arrears formation has continued to decline throughout the year. Based on the latest quarterly information available from the Central Bank, the Bank's default arrears (90 days or more past due) remain below the industry average. The Bank has continued to modify formally a significant number of customer loans which are deemed to be sustainable, with 11,942 accounts, representing 7.7% of total mortgage accounts, now with a formal forbearance treatment in place (31 December 2011: 8,592 accounts). 86% of those customers who have been subject to a formal forbearance arrangement are currently meeting their revised arrangement.

Loans and advances to customers (net of impairment provisions) amounted to €19.8 billion at 31 December 2012 (31 December 2011: €20.2 billion), of which loans greater than 90 days past due but not impaired are €1.5 billion (31 December 2011: €1.9 billion) and impaired loans are €1.8 billion (31 December 2011: €0.9 billion). The decrease in the loans and advances to customers is due to a combination of higher impairment provisions and the excess of repayments over new lending.

Impairment provisions have increased by €308.2 million from €715.3 million at 31 December 2011 to €1,023.5 million at 31 December 2012. Arrears on impaired loans have increased to 8.4% of impaired loan balances (31 December 2011: 7.2%) and total provisions as a percentage of loan balances in default and/or impaired amounts to 40.2% (31 December 2011: 37.9%). Unemployment and affordability remain the principal drivers of arrears.

A range of forbearance strategies are used for customers in arrears or facing potential arrears, in order to arrange, where possible, sustainable mortgage repayments. The Bank has adopted the requirements of the Central Bank of Ireland Code of Conduct on Mortgage Arrears ("CCMA") which, among other things, requires mortgage lenders to establish a Mortgage Arrears Resolution Process ("MARP") for defined owner occupied mortgages. The MARP sets out the framework for case by case consideration and implementation of a range of measures for qualifying borrowers. In addition, the Bank has set out a clearly defined Mortgages Arrears Resolution Strategy ("MARS") incorporating both owner occupied and buy to let mortgages. The strategy adopted by the Bank seeks to support customers as far as possible through a range of forbearance options which are designed to enable them to sustain their mortgages. Where mortgages are no longer considered sustainable, the Bank seeks to maximise recoveries on mortgages in default. At all times the Bank ensures that customers are treated with respect.

The Bank continues to invest in its MARP infrastructure and the implementation of restructure and resolution options for its customers. The increase in forbearance activity reflects the on-going effectiveness of the Bank's Mortgage Arrears Resolution Strategy programme in working with customers encountering mortgage difficulties.

The Personal Insolvency Act 2012 (the "Insolvency Act"), enacted in December 2012, provides for three debt resolution options for consumers deemed to have unsustainable indebtedness levels. These options are an alternative to bankruptcy and the Insolvency Act also amends existing bankruptcy provisions. The three debt resolution options are:

- Debt Relief Notice;
- Debt Settlement Arrangement; and
- Personal Insolvency Arrangement.

REVIEW OF BUSINESS (continued)

Asset Quality (continued)

The Bank is participating in an Unsecured Credit Protocol which seeks to agree alternative repayment schedules on unsecured debt between participating lenders, without requiring the customer to engage separately with each lender. This initiative seeks to deal with unsecured debt in a manner that supports sustainable mortgage repayment capacity. The Bank is actively engaged in preparing for the operational implications of the new Insolvency regime both internally and at industry level.

A range of forbearance treatments are deployed, for customers in arrears or facing potential arrears, in order to arrange, where possible, sustainable mortgage repayment solutions. Implementation of forbearance treatments on either a short term or long term basis is subject to individual case assessment.

The nature and type of forbearance treatments include:

- Full Interest: the borrower pays the interest on the principal balance, on a temporary or longer term basis, with the principal balance unchanged.
- Reduced payment (greater than full interest): a temporary or medium term arrangement whereby the borrower pays the full interest due plus an element of principal on the basis that principal payments will increase in the future.
- Term extension (including servicing interest): the original term of the mortgage is extended and all the interest is fully serviced.
- 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 contracted term.
- Other: comprising primarily a combination of forbearance treatments, short term / temporary payment suspensions and payment restructures.

In addition, the Bank is participating in the Department of the Environment, Community and Local Government Mortgage-to-Rent scheme.

Capital:

During the year, €240 million of share capital was issued at a price per share of €8 to the Bank’s parent company, Bank of Ireland (31 December 2011: €280 million at €8 per share). This represented a par value of €30 million (31 December 2011: €35 million) and a share premium of €210 million (31 December 2011: €245 million).

At 31 December 2012, the Bank’s total capital ratio was 9.5% (31 December 2011: 9.3%) including the impact of transitional capital floors. The Bank continues to assess the impact on its capital ratios arising from the phased transition to the Basel III capital framework and to develop the range of potential mitigation strategies available to it.

Balance sheet restructuring:

During the year ended 31 December 2011, the downgrade of one of Bank of Ireland’s credit ratings resulted in the re-categorisation of certain deposits held by the Bank with Bank of Ireland from substitution assets to credit transaction assets (“CTA”) as defined by the Acts. The Acts also define a limit on the level of CTA and as a result of this re-categorisation, the Bank was not in compliance with this limit. The Bank notified the Central Bank having confirmed the breach of limit. As a result of the breach, the Bank has incurred a monetary penalty of €120,000 which has been settled in full with the Central Bank during 2012. The Central Bank has since confirmed the matter to be closed.

As a result of the breach during 2011, and in order to comply with the Acts, the Bank has introduced a net funding model which has reduced its loans and advances to Bank of Ireland and borrowings from Bank of Ireland. The Bank is now funding its operations directly through the use of asset covered securities, a residential Mortgage Backed Promissory Note programme and the residual is borrowed from Bank of Ireland. As a consequence, loans and advances to banks have reduced to €3.0 billion as at 31 December 2012 (31 December 2011: €19.5 billion) and deposits by banks have fallen to €9.5 billion as at 31 December 2012 (31 December 2011: €26.5 billion), with a resulting reduction in interest income and interest expense.

RESULTS

The loss before tax for the year ended 31 December 2012 amounted to €279.2 million, as set out in the profit and loss account on page 13, compared to a loss before tax of €301.6 million for the year ended 31 December 2011.

Net Interest Income ("NII") decreased to €40.0 million for the year ended 31 December 2012, from €57.5 million for the year ended 31 December 2011. A number of factors have contributed to the decrease. Although the Bank has taken action to mitigate the pressure on NII, repricing elements of the loan book where commercially viable, funding costs remain high, reflecting elevated market deposit rates and high wholesale funding costs. For the year ended 31 December 2012, a change to the expected life of the mortgage portfolio's cash flows that determined the basis on which deferred discounts and broker commissions were amortised resulted in a credit to the profit and loss account of €17.0 million (31 December 2011: €36.6 million). In addition, in accounting for the debt securities in issue and their associated hedges, the split of interest flows between NII and trading income has changed in the current year compared to 2011, reflecting the introduction of the net funding model. Included in trading income is interest on derivative financial instruments which are economic hedges of debt securities in issue. This interest is included in the net interest margin calculation, which has increased to 0.20% (31 December 2011: 0.13%), primarily a function of lower balance sheet assets during 2012 as a result of the move to a net funding model.

Fees and commissions amounted to €1.5 million of income for the year ended 31 December 2012, compared to €0.8 million for the year ended 31 December 2011.

Operating expenses decreased by €28.1 million to €52.2 million for the year ended 31 December 2012 (31 December 2011: €80.3 million). The decrease in expense is primarily due to a reduction in the cost of servicing mortgages. The Bank terminated its arrangements under the terms of the Mortgage Servicing Agreement with ICS Building Society in October 2011. As a result, the servicing fee payable to ICS in the prior year, has been replaced by a direct service charge payable to Bank of Ireland Group companies for servicing the mortgage portfolio. This change has contributed to a decline in operating expenses, which has been partially offset by higher administrative expense due to increased activity associated with managing mortgage arrears.

The impairment charge of €298.6 million for the year ended 31 December 2012, increased from €295.4 million for the year ended 31 December 2011 as the volume of default arrears (based on the number of accounts 90 days or more past due) has continued to increase, albeit at a slower pace. The underlying increase in the impairment charge reflects the increased volume of default arrears in the owner occupied and particularly in the buy to let segments. This increase reflects the continuing adverse economic conditions in Ireland and affordability issues including falling disposable incomes and continued high unemployment levels. Additionally, buy to let customers are increasingly impacted by rising repayments as interest only periods come to an end.

The Bank enters into derivative transactions for interest rate hedging purposes only. Net trading income includes fair value movements on derivatives, fair value movements on debt securities in a fair value hedge relationship, interest flows on derivatives which do not qualify for hedge accounting and gains on the repurchase of the Bank's own debt securities. For the year ended 31 December 2012, this amounted to a net trading gain of €30.1 million (31 December 2011: €14.9 million), which includes a gain of €32.5 million (31 December 2011: nil) arising from the repurchase of €467.4 million of the Bank's own debt securities. Losses on fair value hedges account for €2.2 million of the trading income during the year ended 31 December 2012 (31 December 2011: €8.7 million gain).

At 31 December 2012, the Bank had a deferred tax asset of €71.2 million (31 December 2011: €39.5 million), an increase of €31.7 million relating to a combination of current year trading losses, timing adjustments and adjustments required under tax legislation.

FUNDING

The Bank has an approved funding policy that includes funding directly through the use of mortgage-backed securities, mortgage backed promissory note programmes and borrowings from the Bank of Ireland. The Bank also has the ability to access secured funding through the tendering operations of the ECB.

Covered bonds are a key element of the Bank's long term funding strategy. On 13 November 2012, the Bank issued a €1 billion asset covered security with a 3 year maturity. This transaction is the first benchmark size public issuance based on Irish mortgage collateral since September 2009 and represents an important step in the Bank's strategy to return to a more sustainable and normalised funding position.

During the year ended 31 December 2012, the Bank sought a rating for its covered bonds from Dominion Bond Rating Service, Inc. ("DBRS"). On 24 April 2012 DBRS initially rated the Bank as under review with negative implications. On 24 May 2012, DBRS assigned a final rating of A (low).

FUNDING (continued)

Additionally, the Bank obtains a rating for the covered bonds from Moody’s Investor Services.

	31 December 2012	31 December 2011
Rating Agency		
Moody’s Investor Services	Baa3	Baa3
DBRS	A(low)	-

At 31 December 2012, the Bank had a €19.8 billion customer loan portfolio funded through the Asset Covered Securities (“ACS”) programme €12.6 billion (64%), Capital and subordinated debt €1.0 billion (5%) and net Bank of Ireland Group borrowings €6.2 billion (31%). Of the €12.6 billion debt securities in issue, €4.7 billion is held by Bank of Ireland. The remaining €7.9 billion is issued to external bondholders with a range of maturities out to 2048.

Full details of debt securities in issue are contained in note 18 to the accounts.

As at 31 December 2012, the Bank had €402.5 million in subordinated loan borrowings from its parent company (31 December 2011: €403.3 million).

BOOKS OF ACCOUNT

The measures taken by the Directors to ensure compliance with obligations to keep proper books of account comprise the use of appropriate systems, the implementation of robust procedures and the employment of competent individuals with relevant experience. The books of account are kept at the Bank’s registered office.

DIRECTORS AND SECRETARY

The names of the persons who were Directors of the Bank at any time during the year ended 31 December 2012 and up to the date of the approval of the financial statements are set out below. Except where indicated, they served as directors for the entire period.

Directors

J Clifford	Non-Executive Chairman	
S Mason	Managing Director	
J Byrne	Executive Director	
K O’Sullivan	Executive Director	Appointed 28 November 2012
N Corcoran	Executive Director	Resigned 27 November 2012
L McLoughlin	Group Non-Executive Director	Appointed 28 February 2013
P Flynn	Group Non-Executive Director	
B Kealy	Group Non-Executive Director	
B McConnell	Independent Non-Executive Director	
R Milliken	Independent Non-Executive Director	

DIRECTORS’ AND SECRETARY’S INTERESTS

The interests of the Directors and Secretary, in office at 31 December 2012, and of their spouses and minor children, in the shares of Bank of Ireland and related Group entities, are disclosed in note 25 of the financial statements.

POLITICAL DONATIONS

The Electoral Act 1997 requires companies to disclose all political donations over €5,079 in aggregate made during the financial period. The Directors are satisfied that no political donations were made by the Bank during the year.

AUDIT COMMITTEE

The Bank's Audit Committee, which comprises only independent non-executive Directors, assists the Board to fulfill its responsibilities relating to:

- the integrity of the financial statements;
- the relationship between the Bank and its external auditors;
- the Bank's internal controls, internal audit and IT systems; and
- compliance functions.

CORPORATE GOVERNANCE

The statement on Corporate Governance as outlined in the Corporate Governance section on page 10, forms part of the Report of the Directors.

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 2012 is a period of twelve months from the date of approval of these annual financial statements (the "period of assessment").

In making this assessment, the Directors considered the Bank's business, profitability forecasts, funding and capital plans, together with a range of factors such as the outlook for the Irish economy taking account of the impact of fiscal realignment measures, the impact of the EU / IMF Programme, the availability of collateral to access the Eurosystem, together with the possible impact of the Eurozone sovereign debt crisis. The matters of primary consideration by the Directors are set out below:

The deterioration of the Irish economy throughout 2010, culminating in the Programme for the Recovery of the Banking System announced by the Irish Government on 28 November 2010, and running until November 2013, (the "EU / IMF programme"), adversely impacted the Bank's financial condition and performance and poses on-going challenges.

Since that time and in common with the Banking industry globally, the Bank and its parent has had limited access to market sources of wholesale funding and specifically neither has accessed the unguaranteed unsecured term wholesale funding markets. As a result of these factors, the Bank's parent became dependent on secured funding from the European Central Bank (the "ECB"). Apart from the Long-Term Refinancing Operation ("LTRO"), this ECB funding rolls over on a short term basis. The Bank is dependent on short term funding from its parent. This poses a liquidity risk for the Bank which the Directors addressed in detail as part of their going concern assessment. The Bank is also dependent on its parent for any potential future capital needs.

The Bank has received a letter of support from its parent covering any required capital and liquidity for the period of assessment. It is expected that the Bank's parent will continue to require access to the Monetary Authorities for funding during the period of assessment. In the context of the Bank's parent's assessment of going concern, the parent 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 the Department of Finance (together "the State authorities") and it sought assurance on the continued availability of required liquidity from the Eurosystem during the period of assessment. The Bank's parent is satisfied, based on the announcements and the clarity of confirmations received from the state authorities, that, in all reasonable circumstances, the required liquidity and funding will be available to the Bank of Ireland Group in the period of assessment. On the basis of above, the Board of the Bank's parent has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt about the Bank of Ireland Group's ability to continue as a going concern.

Taking into account the above, the Directors of the Bank are satisfied that any risk attaching to the continued ability of the parent to provide capital, funding and liquidity to the Bank is satisfactorily addressed.

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 Bank's ability to continue as a going concern over the period of assessment.

POST BALANCE SHEET EVENTS

There are no significant post balance sheet events identified requiring disclosure prior to the approval of these financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office in accordance with Section 160 (2) of the Companies Act, 1963.

Stephen Mason **Managing Director**	**Brian McConnell** **Director**	**Karena O'Sullivan** **Director**	**Hill Wilson Secretarial Limited**

1 March 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Irish company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period.

In preparing the financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Directors are responsible for keeping proper 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 accounting standards generally accepted in Ireland and comply with Irish statute comprising the Companies Acts, 1963 to 2012, the European Communities (Credit Institutions: Accounts) Regulations, 1992 and the Asset Covered Securities Act 2001 to 2007. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information relating to the Bank, as published on the Bank of Ireland website.

The Directors confirm that they have considered, and believe they have satisfied, the above requirements in preparing the financial statements.

On behalf of the board

Stephen Mason **Managing Director**	**Brian McConnell** **Director**	**Karena O'Sullivan** **Director**

1 March 2013

CORPORATE GOVERNANCE STATEMENT

Introduction

A key objective of the Bank's governance framework is to ensure compliance with applicable legal and regulatory requirements. With effect from 1 January 2011, the Bank is subject to the Central Bank of Ireland Corporate Governance Code for Credit Institutions and Insurance Undertakings (which is available on www.centralbank.ie). The Bank is not required to comply with the additional requirements of the Code for major institutions.

During the year ended 31 December 2012, the Bank completed a programme to ensure full compliance with the Fitness and Probity Standards (the "Standards") introduced by the Central Bank of Ireland on 1 December 2011. The Standards apply to persons performing a prescribed "controlled function" or "pre approval controlled function" in a Regulated Financial Service Provider. The Standards are based on requirements of competence, capability, honesty, integrity and financial prudence.

Financial reporting process

The Board of Directors ("the Board"), supported by the Audit Committee, is responsible for establishing and maintaining adequate internal control and risk management systems of the Bank in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Bank's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. The Bank's overall control system around the financial reporting process includes:

- Clearly defined organisation structure with reporting mechanisms to the Board;
- A comprehensive set of policies and procedures, in line with the Bank of Ireland, relating to the controls around financial reporting and the process of preparing the financial statements;
- Ensuring the integrity of the financial statements and the accounting policies therein.

The Board evaluates and discusses significant accounting and reporting issues as the need arises.

Risk assessment

The Board is responsible for assessing the risk of irregularities whether caused by fraud or error in financial reporting and ensuring the processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting. The Board has also put in place processes to identify changes in accounting rules and recommendations and to ensure that these changes are accurately reflected in the Bank's financial statements.

Control activities

The Board is responsible for establishing and maintaining the design and implementation of control structures to manage the risks which they judge to be significant for internal control over financial reporting. Appropriate reconciliations support the prompt production of management accounts and board reports, plus Group consolidation returns that are required to be submitted within defined timetables. These control structures include appropriate division of responsibilities and specific control activities, with the objective of detecting or preventing the risk of significant deficiencies in financial reporting for every significant account in the financial statements and the related notes in the Bank's annual report.

The Audit Committee monitors the effectiveness and adequacy of the Bank's internal control, Internal Audit and IT systems, and reviews the effectiveness and adequacy of the Bank's compliance plan with the objective of maintaining an effective system of internal control. The composition and responsibilities of the audit committee are also outlined in the Report of the Directors.

Monitoring

The Board ensures that appropriate measures are taken to consider and address any shortcomings identified and measures recommended by the independent auditors.

Group Internal Audit function performs a review of controls and procedures employed by the Bank in order for the Board to perform effective monitoring and oversight of the internal control and risk management systems of the Bank in relation to the financial reporting process. The Board ensures that appropriate measures are taken to consider and address any shortcomings identified and measures recommended by these internal audits.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF IRELAND MORTGAGE BANK

We have audited the financial statements of Bank of Ireland Mortgage Bank for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the related notes to the financial statements on pages 17 to 54 and the information described as being an integral part of the audited financial statements as set out in the Basis of Preparation on page 18. The financial reporting framework that has been applied in their preparation is Irish law and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (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.

Scope of the audit of the financial statements

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 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 Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with Generally Accepted Accounting Practice in Ireland of the state of the Bank's affairs as at 31 December 2012 and of its loss and cash flows for the year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2012.

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Chartered Accountants

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF IRELAND MORTGAGE BANK (continued)

Matters on which we are required to report by the Companies Acts 1963 to 2012

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.
- The financial statements are in agreement with the books of account.
- In our opinion the information given in the Directors' Report is consistent with the financial statements.
- The net assets of the Bank, as stated in the 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 2012 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

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2012, which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

John McDonnell
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
1 March 2013

PROFIT AND LOSS ACCOUNT

	Notes	For the year ended 31 December 2012 €'000	For the year ended 31 December 2011 €'000
Interest income	2	712,180	1,010,470
Interest expense	3	(672,147)	(953,000)
NET INTEREST INCOME		40,033	57,470
Fee and commission income	4	1,533	815
TOTAL OPERATING INCOME/(LOSS)		41,566	58,285
Operating expenses	5	(52,175)	(80,270)
Impairment charges	13	(298,562)	(295,429)
(Loss)/profit on sale of assets to NAMA	7	(51)	946
Net trading income	8	30,052	14,906
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(279,170)	(301,562)
Taxation credit	9	40,723	38,836
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(238,447)	(262,726)

The notes on pages 17 to 54 form part of the financial statements.

Other than the fair value movements on financial instruments arising under FRS 26 as outlined in note 8, there is no material difference between the results on an unmodified historical cost basis and those included in the profit and loss account above.

Stephen Mason **Managing Director**	**Brian McConnell** **Director**	**Karena O'Sullivan** **Director**	**Hill Wilson Secretarial Limited**

1 March 2013

BALANCE SHEET

	Notes	As at 31 December 2012 €'000	As at 31 December 2011 €'000
ASSETS			
Cash and balances at central banks	10	50	50
Loans and advances to banks	11	2,967,053	19,493,552
Loans and advances to customers	12	19,762,065	20,224,722
Derivative financial instruments	16	398,804	417,973
Deferred tax asset	15	71,210	39,475
Other assets	14	7,643	16,564
		23,206,825	40,192,336
LIABILITIES			
Deposits by banks	17	9,494,619	26,528,738
Debt securities in issue	18	12,639,359	12,606,313
Derivative financial instruments	16	71,585	49,869
Other liabilities	19	5,589	11,982
Subordinated liabilities	20	402,546	403,261
		22,613,698	39,600,163
SHAREHOLDERS' FUNDS			
Called up share capital	21	709,000	679,000
Share premium	21	455,000	245,000
Reserves	23	(570,873)	(331,827)
		593,127	592,173
		23,206,825	40,192,336

The notes on pages 17 to 54 form part of the financial statements.

Stephen Mason
Managing Director

Brian McConnell
Director

Karena O'Sullivan
Director

Hill Wilson Secretarial Limited

1 March 2013

STATEMENT OF RECOGNISED GAINS AND LOSSES

	Notes	For the year ended 31 December 2012 €'000	For the year ended 31 December 2011 €'000
Loss for the year		(238,447)	(262,726)
(Loss)/gain movement on cash flow hedge reserves	23	(599)	-
Total loss recognised in year		**(239,046)**	**(262,726)**

Stephen Mason
Managing Director

Brian McConnell
Director

Karena O'Sullivan
Director

Hill Wilson Secretarial Limited

1 March 2013

CASH FLOW STATEMENT

Cash flows from operating activities	For the year ended 31 December 2012 €'000	For the year ended 31 December 2011 €'000
Loss on ordinary activities before taxation	(279,170)	(301,562)
Amortisation of commissions and mortgage discounts, bond fees and discounts	7,246	(24,913)
Interest charged on subordinated liabilities	14,939	5,852
Impairment charges	295,156	295,429
Loss/(profit) on sale of assets to NAMA	51	(946)
Fair value adjustments	5,385	(14,292)
Net cash flow from trading activities	43,607	(40,432)
Net decrease/(increase) in loans and advances to banks	16,519,739	(1,010,437)
Net decrease in loans and advances to customers	167,087	83,733
Net (increase)/decrease in other assets	(6,176)	68
Net (decrease)/increase in deposits by banks	(17,034,119)	2,149,842
Net increase/(decrease) in debt securities in issue	1,447	(1,517,380)
Net (decrease) in other liabilities	(6,053)	(9,137)
Net decrease/(increase) in derivative financial instruments	96,307	(30,589)
Net cash flow from operating activities	(218,161)	(374,332)
Financing activities		
Interest paid on subordinated liabilities	(15,654)	(5,255)
Issue of subordinated liabilities	-	90,000
Issue of ordinary share capital	240,000	280,000
Net cash flow from financing activities	224,346	364,745
Net increase/(decrease) in cash in the period	**6,185**	**(9,587)**

Stephen Mason **Managing Director**	**Brian McConnell** **Director**	**Karena O'Sullivan** **Director**	**Hill Wilson Secretarial Limited**

1 March 2013

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1 ACCOUNTING POLICIES

The significant accounting policies adopted by the Bank of Ireland Mortgage Bank (the "Bank") are as follows:

1.1 Basis of preparation

The financial statements of the Bank on pages 13 to 54 have been prepared under the historical cost convention, modified by the revaluation of certain financial instruments, in accordance with the Companies Acts, 1963 to 2012, the European Communities (Credit Institutions: Accounts) Regulations 1992, the Asset Covered Securities Acts 2001 to 2007 (the "Acts") and with accounting standards generally accepted in Ireland.

The financial statements are prepared in Euro (€) and except where otherwise indicated are expressed in thousands. Costs, assets and liabilities are inclusive of irrecoverable value added taxes, where appropriate. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

The financial statements comprise the profit and loss account, balance sheet, statement of total recognised gains and losses, cash flow statement and the notes to the financial statements set out on pages 17 to 54. The financial statements also include the information set out in the tables and totals in the supplementary disclosures described as being an integral part of the audited financial statements.

1.2 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 2012 is a period of twelve months from the date of approval of these annual financial statements (the "period of assessment").

In making this assessment, the Directors considered the Bank's business, profitability forecasts, funding and capital plans, together with a range of factors such as the outlook for the Irish economy taking account of the impact of fiscal realignment measures, the impact of the EU / IMF Programme, the availability of collateral to access the Eurosystem, together with the possible impact of the Eurozone sovereign debt crisis. The matters of primary consideration by the Directors are set out below:

The deterioration of the Irish economy throughout 2010, culminating in the Programme for the Recovery of the Banking System announced by the Irish Government on 28 November 2010, and running until November 2013, (the "EU / IMF programme"), adversely impacted the Bank's financial condition and performance and poses on-going challenges.

Since that time and in common with the Banking industry globally, the Bank and its parent has had limited access to market sources of wholesale funding and specifically neither has accessed the unguaranteed unsecured term wholesale funding markets. As a result of these factors, the Bank's parent became dependent on secured funding from the European Central Bank (the "ECB"). Apart from the Long-Term Refinancing Operation ("LTRO"), this ECB funding rolls over on a short term basis. The Bank is dependent on short term funding from its parent. This poses a liquidity risk for the Bank which the Directors addressed in detail as part of their going concern assessment. The Bank is also dependent on its parent for any potential future capital needs.

The Bank has received a letter of support from its parent covering any required capital and liquidity for the period of assessment. It is expected that the Bank's parent will continue to require access to the Monetary Authorities for funding during the period of assessment. In the context of the Bank's parent's assessment of going concern, the parent 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 of Ireland (the "Central Bank") and the Department of Finance (together "the State authorities") and it sought assurance on the continued availability of required liquidity from the Eurosystem during the period of assessment. The Bank's parent is satisfied, based on the announcements and the clarity of confirmations received from the state authorities, that, in all reasonable circumstances, the required liquidity and funding will be available to the Bank of Ireland Group in the period of assessment. On the basis of above, the Board of the Bank's parent has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt about the Bank of Ireland Group's ability to continue as a going concern.

Taking into account the above, the Directors of the Bank are satisfied that any risk attaching to the continued ability of the parent to provide capital, funding and liquidity to the Bank is satisfactorily addressed.

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 Bank's ability to continue as a going concern over the period of assessment.

1.3 Interest income and expense

Interest income and expense are recognised in the profit and loss account for all instruments measured at amortised cost using the effective interest method. Interest income/expense in derivative financial instruments qualifying for hedge accounting are accounted for in net interest income, in line with the underlying hedged asset/liability. Interest in relation to derivatives not qualifying for hedge accounting is included in trading income.

1 ACCOUNTING POLICIES (continued)

1.3 Interest income and expense (continued)

The effective interest rate 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 Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees, broker commissions 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 Bank revises its estimates of payments or receipts on a financial instrument measured at amortised cost, the carrying value of the financial instrument (or group of financial instruments) is adjusted to reflect actual and revised estimated cash flows. The Bank 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 the profit and loss account as income or expense.

1.4 Fee and commission income / expense

Fees and commissions which are not an integral part of the effective interest rate are generally recognised on an accruals basis when the service has been provided. Fees and commissions payable relating to the cost of services received are recognised on an accrual basis.

1.5 Financial assets

Classification, Recognition and Measurement
The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, and loans and receivables. The Bank 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.

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 Bank 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 profit and loss account.

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 Bank 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 Bank 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.

Derecognition
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

1 ACCOUNTING POLICIES (continued)

1.6 Financial liabilities

The Bank 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 profit and loss account 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.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

1.7 Profit/(loss) on disposal of assets to NAMA

Derecognition of the assets transferred to the National Asset Management Agency ("NAMA") occurred when substantially all of the risks and rewards of ownership were transferred to NAMA. This occurred on a phased basis when ownership of the beneficial interest in each tranche was legally transferred to NAMA.

On the derecognition date, a gain or loss has been recognised which was measured as the difference between the fair value of the consideration received and the balance sheet value of the assets transferred, less transaction costs and any provision for the ongoing cost of servicing these assets on behalf of NAMA. The consideration received was measured at fair value at initial recognition.

1.8 Deferred taxation

Deferred taxation is recognised on all timing differences where the transaction or event that gives rise to an obligation to pay more tax in the future or a right to pay less tax in the future, has occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted by the balance sheet date. Deferred tax is measured on a non discounted basis.

A deferred tax asset is recognised to the extent that it is more than likely that future taxable profits will be available against which deductible timing differences and unutilised tax 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 judgement takes into consideration the impact of both positive and negative income, the impact of tax legislation and future reversals of existing taxable temporary differences.

The most significant judgement relates to the assessment of the recoverability of the portion of the deferred tax asset relating to trading losses. Under current Irish tax legislation; there is no time restriction on the utilisation of these losses. Based on its projection of future taxable income, the Directors have concluded that it is more than likely that sufficient taxable profits will be generated to recover this deferred tax asset, and it has been recognised in full.

Deferred tax on items taken to reserves is also recognised in reserves and is subsequently reclassified to the profit and loss account together with the deferred gain or loss.

1 ACCOUNTING POLICIES (continued)

1.9 Impairment of financial assets carried at amortised cost

The Bank 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 charges 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 Bank about the following loss events:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties;
- breach of loan covenants or conditions;
- deterioration of the borrower's competitive position;
- deterioration in the value of collateral;
- external rating downgrade below an acceptable level; and
- initiation of bankruptcy proceedings.

The Bank 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 Bank 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 charge 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 to customers 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 impairment 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 profit and loss account. The discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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 cost 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 Bank's grading process that considers asset type, 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 Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. 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 Bank to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment charge decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account.

1 ACCOUNTING POLICIES (continued)

1.10 Valuation of financial instruments

The Bank recognises certain financial assets, financial liabilities and derivative financial instruments at fair value in the balance sheet. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

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 Bank 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 Bank 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 primarily uses observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Bank recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price.

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.

1.11 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. Derivatives are valued using valuation techniques commonly used by market participants. These consist of discounted cash flow models which typically incorporate observable market data, principally interest rates.

All derivatives are carried as assets when the fair value is positive and as liabilities when the 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 profit and loss account. 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.

(a) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, 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 are recognised in the Statement of Total Recognised Gains and Losses. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Amounts accumulated in reserves are reclassified to the profit and loss account 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 reserves at that time remains in reserves and is recognised in the profit and loss account when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the Statement of Total Recognised Gains and Losses is immediately reclassified to the profit and loss account.

(c) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the profit and loss account in net trading income.

1.12 Debt securities in issue

Issued debt securities, which comprise Mortgage Covered Securities, are initially recognised at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Issued debt securities are subsequently measured at amortised cost. Any difference between the proceeds net of transaction costs and the redemption value is recognised in the profit and loss account using the effective interest rate method.

1 ACCOUNTING POLICIES (continued)

1.13 Pensions

The Bank is a minority participating employer in the ICS Building Society Pension Plan. The scheme is a Defined Benefit Scheme based on final pensionable pay and operated for eligible employees of ICS Building Society, Bank of Ireland and the Bank.

Whilst the scheme is a defined benefit scheme, the company does not identify its share of the underlying assets and liabilities of the scheme as, despite encompassing several employers (all of whom are members of the Bank of Ireland), the scheme is essentially run as one scheme rather than independent, separately identifiable units. The manner in which the scheme is run assists in the mobility of staff across the Bank of Ireland and therefore no sub-unitisation of the scheme takes place either in terms of differential contribution levels or sharing of underlying assets and liabilities. Consequently, the scheme has been accounted for as a defined contribution scheme.

Contributions are charged to the profit and loss account in the period in which they became payable as shown in note 27.

1.14 Accrued interest

Accrued interest is presented on the balance sheet with the relevant financial asset/liability.

1.15 Subordinated liabilities

Borrowings are initially recognised at fair value and subsequently measured at amortised cost.

1.16 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 profit and loss account when the hedged transactions impact the Bank's profit or loss.

1.17 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.

1.18 Critical accounting estimates or judgements

In preparing the financial statements, the Bank 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The estimates and judgements that have had the most significant effect on the amounts recognised in the Bank's financial statements are set out below.

(a) Impairment charges on financial assets
The Bank reviews its loan portfolios for impairment on an ongoing basis. The Bank first assesses whether objective evidence of impairment exists. This assessment is performed individually for financial assets. Impairment provisions are individually calculated for financial assets that are significant and individually or collectively calculated for financial assets that are not individually significant. Loan losses 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 historical loss experience for assets with similar 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 management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to differ from that suggested by historical experience. 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.

The risk profile of the residential mortgage portfolio has continued to be adversely affected in the current economic climate, as values of properties continue to fall (albeit in line with the Bank's expectations) and with the pace of deterioration showing substantial slowdown in 2012 overall economic conditions remaining difficult, consumer confidence remaining poor, and there are very low levels of property transactions being undertaken. The assumption adopted by the Bank in respect of the expected average decline in the value of Irish residential properties was 55% from its peak in 2007. If house prices were assumed to have declined by a further 2% from the Bank's assumed peak to trough fall of 55%, the resulting impact on the collateral supporting residential mortgages in Republic of Ireland would translate to additional impairment provisions within this book of circa €55 million.

1 ACCOUNTING POLICIES (continued)

1.18 Critical accounting estimates or judgements (continued)

(a) Impairment charges on financial assets (continued)
Residential mortgage loans before impairment provisions at 31 December 2012 amounted to €20.8 billion (31 December 2011: €20.9 billion), against which were held provisions for impairment of €1.0 billion (31 December 2011: €0.7 billion).

Impairment criteria and loan loss provisioning methodologies have been revised to include forborne and non-forborne loan pool segmentations and critical accounting estimates and judgments outlined below including sensitivity analysis disclosures on some of the key judgmental areas/factors used in the estimation of impairment charges.

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 assumption estimates the period of time taken from impairment recognition to repossession and sale of the underlying collateral. An increase of 3 months in the assumed time to sale period would give rise to additional impairment provisions of c. €8 million.
- loss emergence periods refer to the period between a loss event occurring and the recognition of the impairment charge. An increase of 1 month in the assumed loss emergence period would give rise to additional impairment provisions of c. €10 million.

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Bank’s impairment charge on financial assets are set out in note 28 on Risk Management and Control.

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 methodology and the assumptions used in calculating impairment charges are reviewed regularly in the light of differences between loss estimates and actual loss experience.

(b) Taxation
At 31 December 2012 the Bank had a deferred tax asset of €71.2 million (31 December 2011: €39.5 million) relating to a combination of current year trading losses, timing adjustments and adjustments required under tax legislation.

A deferred tax asset is recognised to the extent that it is more likely than not that future taxable profits will be available against which deductible timing differences and unutilised tax 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 Bank’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 Bank’s assessment of the recoverability of the portion of the deferred tax asset relating to trading losses. Under current Irish tax legislation, there is no time restriction on the utilisation of these losses. There is however, a restriction on the utilisation of tax losses carried forward by an institution participating in NAMA. This lengthens the period over which the deferred tax asset will reverse by restricting by 50% the amount of profits against which the carried forward trading losses can be utilised. The balance continues to be available for indefinite carry forward and there is no time limit on the utilisation of these losses.

Based on its projection of future taxable income, the Bank 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.

1 ACCOUNTING POLICIES (continued)

1.18 Critical accounting estimates or judgements (continued)

(c) Effective interest rate method
The effective interest rate 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 Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees, broker commissions 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.

In determining the effective interest rate, management exercise judgement on such matters as the expected life, expected cash flows and the appropriateness of how the cash flows are spread over the expected life. As part of this review, economic factors such as unemployment levels, consumer confidence and economic and fiscal stability were considered, along with mortgage market specific factors such as house price levels, switcher activity and consumer demand.

For the year ended 31 December 2012, a change to the expected life of the mortgage portfolio’s cash flows that determined the basis on which deferred discounts and broker commissions were amortised resulted in a credit to the profit and loss account of €17.0 million (31 December 2011: €36.6 million).

2 INTEREST INCOME

	For the year ended 31 December 2012 €'000	For the year ended 31 December 2011 €'000
Loans and advances to banks	151,249	389,685
Loans and advances to customers	560,931	620,785
	712,180	1,010,470
Of which receivable from Bank of Ireland	151,249	389,685

Included within interest income on loans and advances to customers is €19.0 million (for the year ended 31 December 2011: €14.4 million) relating to loans on which an impairment provision has been recognised.

3 INTEREST EXPENSE

	For the year ended 31 December 2012 €'000	For the year ended 31 December 2011 €'000
Debt securities in issue	215,683	263,052
Other interest payable	441,525	684,096
Interest on subordinated liabilities	14,939	5,852
	672,147	953,000
Of which payable to Bank of Ireland	422,143	630,112

4 FEE AND COMMISSION INCOME

	For the year ended 31 December 2012 €'000	For the year ended 31 December 2011 €'000
Other income	1,533	815
	1,533	815

5 OPERATING EXPENSES

	For the year ended 31 December 2012 €'000	For the year ended 31 December 2011 €'000
Staff costs:		
- wages and salaries	201	404
- social security costs	22	28
- pension costs	38	41
	261	473
Other operating expenses	51,914	79,797
Total operating expenses	52,175	80,270

Staff costs include an allocation of amounts payable to persons not directly employed by the Bank.

Fees payable to Bank of Ireland Group companies for servicing the Bank's mortgage portfolio for the year ended 31 December 2011 have been reclassified from fees and commissions income / expense to other operating expenses in the prior year. For the year ended 31 December 2012 operating expenses include recharges from Bank of Ireland for support service costs. In addition, the Bank has continued to invest in the management of mortgage arrears, resulting in incremental operating expenses in the current year.

Employee Information

For the year ended 31 December 2012, the average number of employees was 3 (31 December 2011: 4 employees).

6 AUDITORS' REMUNERATION

	For the year ended 31 December 2012 €'000	For the year ended 31 December 2011 €'000
Auditors' remuneration (excluding VAT)		
Statutory audit	50	53
Other assurance services	40	20
Taxation services	-	-
Other non-audit services	-	-
Total	90	73

7 (LOSS)/PROFIT ON SALE OF ASSETS TO NAMA

	For the year ended 31 December 2012 €'000	For the year ended 31 December 2011 €'000
(Loss)/profit on sale of assets to NAMA	(51)	946

During the year ended 31 December 2012, the Bank recognised a net loss of €51 thousand, which relates primarily to an adjustment to the consideration in respect of assets previously transferred to NAMA. The Bank of Ireland Group, of which the Bank is a wholly owned subsidiary did not transfer any assets to NAMA during the year ended 31 December 2012.

During the year ended 31 December 2011, the Bank recognised a net profit of €946 thousand on the sale of assets to NAMA, comprised of a charge of €2.5 million in relation to loans sold to NAMA during the year and a profit of €3.5 million related to an adjustment to the consideration in respect of assets previously transferred to NAMA.

8 NET TRADING INCOME

	For the year ended 31 December 2012 €'000	For the year ended 31 December 2011 €'000
Gains arising on the repurchase of the Bank's own debt securities	32,534	-
Interest rate contracts	(250)	6,224
	32,284	6,224
Fair value hedges		
Fair value (loss)/gain on derivative contracts in fair value hedge relationships	(22,969)	49,725
Fair value gain/(loss) on liabilities in fair value hedge relationships	20,737	(41,043)
	(2,232)	8,682
	30,052	14,906

The €2.2 million loss (31 December 2011: €8.7 million gain) on fair value hedges represents the net hedge ineffectiveness in relation to fair value hedges. During the years ended 31 December 2012 and 31 December 2011 there was no hedge ineffectiveness in relation to cash flow hedges. See note 16 for details of interest rate contracts and hedging accounting arrangements. Interest rate contracts includes interest and fair value movements on derivative contracts that do not qualify for hedge accounting, including those that were originally in a fair value hedge relationship which no longer qualify for hedge accounting.

9 TAXATION

	For the year ended 31 December 2012 €'000	For the year ended 31 December 2011 €'000
Current Tax		
Reallocation from deferred tax	6,396	15,926
Amounts receivable in respect of Group relief	2,519	2,181
Prior year adjustment	159	16
	9,074	18,123
Deferred Tax		
Trading losses	38,377	36,639
Reallocation to current tax	(6,396)	(15,926)
Prior year adjustment	(332)	-
	31,649	20,713
	40,723	38,836

The Bank has surrendered the benefit of tax losses to another Bank of Ireland company for a consideration of €2.5 million (2011: €2.2 million), which is expected to be received in the following financial period.

The current tax credit for the period is lower than the credit that would result from applying the standard rate of Irish corporation tax (12.5%) to profit / (loss) on ordinary activities. The difference is explained below:

	For the year ended 31 December 2012 €'000	For the year ended 31 December 2011 €'000
Loss on ordinary activities before tax	(279,170)	(301,562)
Loss @12.5%	(34,896)	(37,695)
Effects of:		
Trading losses carried forward	38,377	36,639
Transfer pricing adjustment	(6,000)	(1,125)
Group relief	2,519	2,181
Current tax credit for the year	-	-

10 CASH AND BALANCES AT CENTRAL BANKS

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Funds placed with Central Bank of Ireland	50	50
Funds placed with Central Bank of Ireland by remaining maturity		
Repayable on demand	-	-
3 months or less	-	-
1 year or less but over 3 months	50	50
	50	50

The Bank is required to maintain balances with the Central Bank.

11 LOANS AND ADVANCES TO BANKS

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Funds placed with Bank of Ireland	2,967,053	19,493,552
Loans and advances to banks by remaining maturity		
Repayable on demand	26,992	20,807
3 months or less	2,495,711	16,350,837
1 year or less but over 3 months	42,000	2,080,000
5 years or less but over 1 year	276,000	142,250
Over 5 years	126,350	899,658
	2,967,053	19,493,552

The loans and advances to banks have reduced as a result of the Bank introducing a net funding model during the year ended 31 December 2012, whereby the majority of the existing deposits by banks used to fund the mortgage portfolio were collapsed along with a number of loans to banks placed with Bank of Ireland. The residual funding requirement is met by borrowing from the Bank of Ireland on a rolling short-term basis.

12 LOANS AND ADVANCES TO CUSTOMERS

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Loan and advances to customers	20,767,772	20,922,337
Accrued interest receivable	17,787	17,706
Less impairment provisions (note 13)	(1,023,494)	(715,321)
Total loan and advances to customers	19,762,065	20,224,722
Loans and advances to customers by remaining maturity		
Repayable on demand	-	-
3 months or less	430,479	347,598
1 year or less but over 3 months	624,870	617,529
5 years or less but over 1 year	3,423,305	3,375,143
Over 5 years	16,306,905	16,599,773
Less impairment provisions (note 13)	(1,023,494)	(715,321)
	19,762,065	20,224,722

The Bank's exposure to credit risk on loans and advances to customers is from its mortgage lending activities on residential property in Ireland. For details of impairment provisions see note 13.

13 IMPAIRMENT PROVISIONS

The movement on impairment provisions is shown below:

	For the year ended 31 December 2012 €'000	For the year ended 31 December 2011 €'000
Opening balance	715,321	417,329
Charge to profit and loss account	298,562	295,429
Impairment provisions on assets sold to NAMA	-	(4,370)
Other movements	9,611	6,933
Closing balance	1,023,494	715,321

14 OTHER ASSETS

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Amounts receivable from Bank of Ireland Group companies	7,592	16,255
Other	51	309
	7,643	16,564

15 DEFERRED TAX ASSET

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Opening balance	39,475	18,762
Cash flow hedge	86	-
Profit and loss credit	31,649	20,713
Closing balance	71,210	39,475

The deferred tax asset of €71.2 million (31 December 2011: €39.5 million) consists of operating losses of €71.1 million which are available to relieve future profits from tax. This deferred tax asset has been recognised on the basis that it will be recovered, as the Directors are satisfied that it is more than likely that there will be sufficient future taxable profits against which the deferred tax can be utilised to the extent it has not already been reversed. Under current Irish tax legislation, there is no time restriction on the utilisation of these losses.

16 DERIVATIVE FINANCIAL INSTRUMENTS

The notional amounts of certain types of financial instruments 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 Bank's exposure to credit risk. The derivative instruments become assets or liabilities as a result of fluctuations in market rates or prices relating to their terms. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivatives held for trading are derivatives entered into with economic hedging intent but do not meet the requirement for hedge accounting. Further information on the hedging policy of the Bank is outlined in note 28.

The fair values and notional amounts of derivative instruments held are set out in the following tables:

As at 31 December 2012	Contract/ notional amount €'000	Fair Values Assets €'000	Fair Values Liabilities €'000
Derivatives held for trading			
Interest rate swaps	41,618,699	129,140	(70,844)
Derivatives held as fair value hedges			
Interest rate swaps	3,566,100	269,664	-
Derivatives held as cash flow hedges			
Interest rate swaps	1,000,000	-	(741)
Total derivative assets / liabilities		**398,804**	**(71,585)**

16 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

As at 31 December 2011	Contract/ notional amount €'000	Fair Values Assets €'000	Liabilities €'000
Derivatives held for trading			
Interest rate swaps	30,709,574	54,063	(49,869)
Derivatives held as fair value hedges			
Interest rate swaps	5,895,500	363,910	-
Derivatives held as cash flow hedges			
Interest rate swaps	-	-	-
Total derivative assets / liabilities		**417,973**	**(49,869)**

17 DEPOSITS BY BANKS

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Deposits by credit institutions	9,494,619	26,528,738
Deposits by remaining maturity		
3 months or less	7,302,754	5,409,548
1 year or less but over 3 months	825,806	1,353,325
5 years or less but over 1 year	1,212,752	2,053,811
Greater than 5 years	153,307	17,712,054
Due to Bank of Ireland	9,494,619	26,528,738

18 DEBT SECURITIES IN ISSUE

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Debt securities in issue	12,639,359	12,606,313
Bonds and medium term notes by remaining maturity		
3 months or less	775,096	500,785
1 year or less but over 3 months	3,034,053	1,191,910
5 years or less but over 1 year	8,492,836	10,301,946
Greater than 5 years	337,374	611,672
	12,639,359	12,606,313
Included in the above are amounts due to Bank of Ireland	4,718,884	5,956,760

18 DEBT SECURITIES IN ISSUE (continued)

In accordance with the Acts, see the required disclosures set out in note 18(a) – 18(f) below.

During the year ended 31 December 2012, the Bank issued €0.6 billion of securities in transactions with its parent, Bank of Ireland and €0.6 billion through the ECB three year long term re-financing operation. In November 2012 the Bank successfully returned to the market with a public transaction for €1 billion with a three-year maturity.

During the year ended 31 December 2012, €467.4 million of debt securities were repurchased, generating net trading gains of €32.5 million and €1.7 billion of debt securities matured. This brought the total mortgage covered securities in issue as at 31 December 2012 to €11.7 billion.

During the year ended 31 December 2011, the Bank issued €5.4 billion of securities in transactions with its parent, Bank of Ireland. During the same period there were €27.5 million in repurchases, €2.1 billion in part-redemptions with its parent, and €1.2 billion in maturities. This brought the total mortgage covered securities in issue as at 31 December 2011 to €12.2 billion.

The Bank participated in the ECB three year long term re-financing operation entering into a framework agreement on 29 February 2012 with the Central Bank under which the Bank may issue mortgage backed promissory notes to the Central Bank. These obligations are secured by way of a first floating charge 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. The deed of floating charge ("Deed of Charge") contains a provision whereby during the subsistence of the security constituted by the Deed of Charge, otherwise than with the prior written consent of the Central Bank, the Bank shall:

(a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the property charged under the Deed of Charge or any part thereof; or

(b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property charged under the Deed of Charge 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.

To date the Bank has raised €615 million in mortgage backed promissory notes funding.

The Bank entered into a framework agreement on 5 July 2004 with the Central Bank under which the Bank may issue short-term mortgage backed promissory notes to the Central Bank. These obligations are secured by way of a first floating charge over all the Banks 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. This deed of floating charge ("Deed of Charge 2004") contains a provision whereby during the subsistence of the security constituted by the Deed of Charge 2004, otherwise than with the prior written consent of the Central Bank, the Bank shall:

(a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the property charged under the Deed of Charge 2004 or any part thereof; or

(b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property charged under the Deed of Charge 2004 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.

For the year ended 31 December 2012 or 31 December 2011 the Bank has not utilised this short-term facility.

During the year ended 31 December 2011, the downgrade of one of Bank of Ireland's credit ratings resulted in the re-categorisation of certain deposits held by the Bank with Bank of Ireland from substitution assets to credit transaction assets ("CTA") as defined by the Acts. The Acts also places a limit on the level of CTA and as a result of this re-categorisation the Bank was not in compliance with this limit. The Bank notified the Central Bank having confirmed the breach of limit. As a result of the breach, the Bank has incurred a monetary penalty of €120,000 which has been settled in full with the Central Bank during 2012. The Central Bank has confirmed the matter to be closed.

As a result of the breach during 2011, and in order to comply with the Acts, the Bank has introduced a net funding model which has reduced its loans and advances to Bank of Ireland. The Bank is now funding its operations via the use of asset covered securities, residential Mortgage Backed Promissory Note programme and the residual is borrowed from Bank of Ireland.

18 DEBT SECURITIES IN ISSUE (continued)

18(a) Mortgage Accounts & Principal Outstanding in the Mortgage Covered Pool

		31 December 2012		31 December 2011	
From Range €'000	To Range €'000	Number of Accounts	Total Balances of Accounts €'000	Number of Accounts	Total Balances of Accounts €'000
0	100	50,521	2,235,176	50,847	2,312,829
100	200	32,275	4,756,456	32,941	4,872,891
200	500	21,661	5,998,700	23,885	6,656,145
Over 500		1,633	1,273,358	1,837	1,413,339
		106,090	14,263,690	109,510	15,255,204

The total balance of accounts represents the cumulative amount outstanding on all the mortgage accounts in the Pool as at 31 December 2012 and 31 December 2011 respectively.

18(b) Geographic Location and Details for the Pool

	31 December 2012		31 December 2011	
	Dublin	Outside Dublin	Dublin	Outside Dublin
% of overall properties	22%	78%	22%	78%
Number of accounts	23,581	82,509	24,212	85,298
Number of properties	19,817	70,353	20,203	72,451

The number of accounts represents the cumulative number of mortgage accounts held in the Pool, as at 31 December 2012 and 31 December 2011 respectively. There could be one or more accounts per mortgaged property giving rise to different figures for the number of accounts and the number of properties in the Pool as at 31 December 2012 and at 31 December 2011.

18(c) Pool Accounts in Default at year end

	As at 31 December 2012	As at 31 December 2011
Number of accounts in default	143	258
	€'000	€'000
Cumulative current balance on above accounts	29,405	57,698
of which arrears represent	501	872

Default is defined as mortgage accounts that are 90 days or more in arrears.

18 DEBT SECURITIES IN ISSUE (continued)

18(d) Pool Accounts with Arrears of more than €1,000

	For the year ended 31 December 2012	For the year ended 31 December 2011
Pool accounts with Arrears of more than €1,000		
Number of accounts in default with arrears of more than €1,000	3,086	3,030
	€'000	**€'000**
Cumulative current balance on above accounts	687,177	703,129
of which arrears represent	13,240	13,340
Pool accounts with Arrears of more than €1,000 at Year End		
Number of accounts with arrears in excess of €1,000	481	537
	€'000	**€'000**
Cumulative current balance on above accounts	109,622	130,481
of which arrears represent	1,808	1,910

18(e) Replacement of Non Performing Assets in the Pool

During the year ended 31 December 2012, 3,072 accounts (31 December 2011: 2,930 accounts) were non-performing (the term non-performing is defined as relating to mortgage accounts that are in arrears exceeding 90 days) and were replaced with other mortgage credit assets. The total amount in arrears greater than 90 days in respect of mortgage assets that had not been written off as at 31 December 2012 was €500,709 (31 December 2011: €871,576).

18(f) Total Mortgage Principal and Interest Repayments on Pooled Accounts by customers

	For the year ended 31 December 2012 €'000	For the year ended 31 December 2011 €'000
Interest paid in respect of mortgage credit assets	402,860	450,438
Capital repaid in respect of mortgage credit assets	843,101	780,003

19 OTHER LIABILITIES

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Amounts due to Bank of Ireland	5,023	10,912
Amounts due to other Bank of Ireland Group Companies	-	271
Provisions for other liabilities and charges	-	341
Other sundry liabilities	566	458
	5,589	11,982

20 SUBORDINATED LIABILITIES

On 2 July 2004, the Bank availed of a €162 million interest bearing subordinated loan from its parent, Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other creditors of the Bank. The loan rate is based off the three-month EURIBOR rate plus a margin of 35 basis points and it reprices quarterly. The loan matures on 4 July 2014.

On 30 June 2005, the Bank availed of a further €80 million interest bearing subordinated loan from its parent, Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other creditors of the Bank. The loan rate is based off the three-month EURIBOR rate plus a margin of 30 basis points and it reprices quarterly. The loan matures on 2 July 2015.

On 11 February 2008, the Bank availed of a further €70 million interest bearing subordinated loan from its parent, Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other creditors of the Bank. The loan rate is based off the three-month EURIBOR rate plus a margin of 75 basis points (125 basis points from 11 February 2013) and it reprices quarterly. The loan matures on 13 February 2018.

20 SUBORDINATED LIABILITIES (continued)

On 23 December 2011, the Bank availed of a further €90 million interest bearing subordinated loan from its parent, Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other senior creditors of the Bank. The loan rate is based on the three-month EURIBOR rate plus a margin of 11.5% without a step up in margin during its life. The loan matures on 30 December 2021.

As at 31 December 2012, total subordinated loans and accrued interest is €402.5 million (31 December 2011: €403.3 million).

21 SHARE CAPITAL AND PREMIUM

	As at 31 December 2012 '000 Units	As at 31 December 2011 '000 Units
Authorised		
1,000 million units of €1.00 of Ordinary Shares	1,000,000	1,000,000

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Allotted and fully paid		
Equity		
709 million units of €1.00 of Ordinary Shares (31 December 2011: 679 million units of €1.00 of Ordinary Shares)	709,000	679,000

Share premium	For the year ended 31 December 2012 €'000	For the year ended 31 December 2011 €'000
Balance at the beginning of the year	245,000	-
Premium in issue of ordinary stock	210,000	245,000
Balance at the end of the year	**455,000**	**245,000**

Share capital issued during the year ended 31 December 2012 is as follows:

Date of issuance	Issue price per share	Number of issued ordinary shares in 000's	Ordinary share value €'000	Premium €'000	Total €'000
28 March 2012	€8.00	13,750	13,750	96,250	110,000
26 June 2012	€8.00	16,250	16,250	113,750	130,000
Total		**30,000**	**30,000**	**210,000**	**240,000**

Share capital issued during the year ended 31 December 2011 was as follows:

Date of issuance	Issue price per share	Number of issued ordinary shares in 000's	Ordinary share value €'000	Premium €'000	Total €'000
31 March 2011	€8.00	5,000	5,000	35,000	40,000
30 June 2011	€8.00	8,750	8,750	61,250	70,000
29 September 2011	€8.00	13,750	13,750	96,250	110,000
23 December 2011	€8.00	7,500	7,500	52,500	60,000
Total		**35,000**	**35,000**	**245,000**	**280,000**

The shares were issued to the Bank's parent company, Bank of Ireland. The issuance assisted in maintaining an adequate capital position. All units of Ordinary Shares in issue carry the same voting rights.

22 NOTE TO THE CASH FLOW STATEMENT

	Cash	Loans and advances to / from Banks on demand	Total Cash
31 December 2012			
	€'000	**€'000**	**€'000**
Net change in cash and cash equivalents	-	6,185	6,185
Opening cash and cash equivalents	50	20,807	20,857
Closing cash and cash equivalents	**50**	**26,992**	**27,042**
31 December 2011			
	€'000	**€'000**	**€'000**
Net change in cash and cash equivalents	-	(9,587)	(9,587)
Opening cash and cash equivalents	50	30,394	30,444
Closing cash and cash equivalents	**50**	**20,807**	**20,857**

23 RESERVES

	For the year ended 31 December 2012 €'000	For the year ended 31 December 2011 €'000
Reconciliation of retained earnings		
Opening balance	(331,827)	(69,101)
Loss for the year	(238,447)	(262,726)
Closing balance	**(570,274)**	**(331,827)**
Reconciliation of cash flow hedge reserve		
Opening balance	-	-
Loss movement on cash flow hedge reserves	(685)	-
Deferred tax on reserve movement	86	-
Closing balance	**(599)**	**-**
Total reserves	**(570,873)**	**(331,827)**

24 DIVIDEND

No dividends were paid during the year ended 31 December 2012 (31 December 2011: no dividends paid).

25 DIRECTORS' & SECRETARY'S INTERESTS

The interests of the Directors and Secretary, in office as at 31 December 2012, and of their spouses and minor children, in the shares of Bank of Ireland or the Bank of Ireland Group undertakings are set out in the tables below:

Shares in Bank of Ireland

	As at 31 December 2012	As at 31 December 2011 or at date of appointment if applicable
Directors	**Shares**	**Shares**
J Byrne	1,455	1,455
J Clifford	344,820	344,820
P Flynn	110,473	110,473
B Kealy	10,781	10,781
S Mason	39,164	39,164
B McConnell	7,829	7,829
R Milliken	Nil	Nil
K O'Sullivan	794	794
Secretary		
Hill Wilson Secretarial Limited	Nil	Nil

25 DIRECTORS' & SECRETARY'S INTERESTS (continued)

Stock options held by Directors and Secretary in Bank of Ireland

Directors	Date of Grant	Earliest Exercise Date	Expiry Date	Exercise Price €	As at 31 December 2012 Number of shares	As at 31 December 2011 or at date of appointment if applicable Number of shares
B Kealy	26 Jul 2004	26 Jul 2007	26 Jul 2014	10.76	11,500	11,500
	21 Jun 2005	21 Jun 2008	21 Jun 2015	12.85	9,500	9,500
S Mason	24 Jun 2002	24 Jun 2005	24 Jun 2012	12.50	Nil	10,000
	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	11,500	11,500
	21 Jun 2005	21 Jun 2008	21 Jun 2015	12.85	9,000	9,000

No stock options were held by the following Directors in Bank of Ireland: J Byrne, J Clifford, P Flynn, B McConnell, L McLoughlin, R Milliken and K O'Sullivan.

Directors' & Secretary's interests in Bank of Ireland Long Term Incentive Plan* ("LTIP")

No interests in the LTIP* stock options were held by the following Directors:

J Byrne, J Clifford, P Flynn, B Kealy, S Mason, B McConnell, L McLoughlin, R Milliken and K O'Sullivan.

*Since 2004 Bank of Ireland has operated a Long Term Incentive Plan ("LTIP"), with stockholder approval, for key senior executives who are best placed to maximise stockholder value.

For further details on the above schemes please refer to note 46 Capital Stock in the annual report of the Bank's parent company, Bank of Ireland.

Directors' & Secretary's interests in savings shares in ICS Building Society

Directors	As at 31 December 2012 or at date of appointment if applicable €'000	As at 31 December 2011 or at date of appointment if applicable €'000
J Byrne	1	1
J Clifford	103	102
P Flynn	-	-
S Mason	1	1
K O'Sullivan	1	1

No interests in savings shares in ICS Building Society were held by the following Directors:

B Kealy, B McConnell, L McLoughlin and R Milliken.

26 SEGMENTAL INFORMATION

The Bank's income and assets are entirely attributable to mortgage lending activity in the Republic of Ireland.

27 PENSION COSTS

Bank of Ireland Mortgage Bank is a minority participating employer in the ICS Building Society Pension Plan. The scheme is a defined benefit scheme based on final pensionable pay and operated for eligible employees of Bank of Ireland, ICS Building Society and the Bank.

An independent actuary, on the basis of triennial actuarial reviews, determines the Bank's contributions to the ICS scheme. The most recent full actuarial valuation was performed at 1 January 2010 and the next full actuarial review will be completed with an effective date of 1 January 2013. With effect from 1 October 2010 the Bank is contributing to the ICS Plan at a rate of 24.8% of pensionable salaries with a reduction for member contributions of 1% that commenced in April 2012. The net deficit on the scheme as at 31 December 2012 amounted to €20.7 million (31 December 2011: €9.1 million).

Whilst the scheme is a defined benefit scheme, it has not identified separately its share of the underlying assets and liabilities of the scheme and hence it is treated as a defined contribution scheme in the financial statements of the Bank.

Contributions on behalf of the Bank's employees amounted to €28,731 for the year ended 31 December 2012 (31 December 2011: €124,671). As at 31 December 2012, the Bank had no outstanding amounts to be paid to the scheme (31 December 2011: Nil).

28 RISK MANAGEMENT AND CONTROL

Financial risk management

The Board of Directors approves policies and limits with respect to credit risk, market risk, liquidity risk and operational risk. The Bank utilises a range of service level agreements with Bank of Ireland to support its overall risk management and control processes. The Head of Credit has responsibility for credit policy implementation and the Head of Finance has responsibility for financial risk policy implementation. The Bank of Ireland Treasury Unit has responsibility for day-to-day monitoring of market and liquidity risks. The Compliance and Operational Risk Unit has responsibility for operational risk policy and controls. The Bank's risk management and control policies comply with Bank of Ireland risk management policies, which include reviews on a regular basis. In addition, Bank of Ireland control functions (e.g. Credit, Group Internal Audit, etc.) independently review compliance with Bank of Ireland policies as part of their ongoing work in the Bank. The general scheme of risk management, financial and operational controls is designed to safeguard the Bank's assets.

Credit risk

The Bank takes an exposure to credit risk, which is the risk of loss resulting from a counterparty failing to meet its contractual obligations to the Bank. Credit risk is one of the main types of risk to which the Bank's business is exposed, and is managed accordingly. Apart from exposures to entities within the Bank of Ireland, credit exposures arise principally from lending to customers to purchase residential property. The Bank's exposure to credit risk is governed by credit policy which is approved by the Board of Directors, and the Bank of Ireland Group Risk Policy Committee ("GRPC").

Structure and organisation of the credit risk management function

The Bank has an established credit risk governance framework by which it executes its accountabilities and responsibilities in relation to credit risk management.

The credit risk function of Bank of Ireland is a key function responsible for proposing credit policy to the Board and the management and safety of lending in accordance with approved policies. Underwriting and Credit Management / Collections activities are centralised within Bank of Ireland.

Lending officers are allocated lending limits according to credit competence, proven judgement, experience and the nature and scale of lending particular to the Bank. Existing credit risk is reviewed periodically and exposures which demonstrate adverse trends are subject to closer supervision and management.

In the Bank, the application of risk ratings is automatic through the use of risk rating models appropriate to the facilities at the time of application and monthly thereafter based on the account performance. Performance monitoring and management of all risk rating models is undertaken.

In addition, an independent control unit within Bank of Ireland, Credit & Market Risk Division, undertakes periodic reviews of the appropriateness of the risk rating models that are used within the business and evaluates whether the models are 'fit for purpose' and are compliant under Basel II requirements.

Bank of Ireland Credit Review undertakes periodic reviews of the quality and management of credit risk assets across the Bank of Ireland Group, including the Bank. Its reviews incorporate an examination of adherence to credit policies and procedures within the portfolio.

Credit Reporting / Monitoring

It is the Bank'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 information 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, and loan impairment provisions. The Bank allocates significant resources to ensure ongoing monitoring and compliance with approved risk limits.

Management of credit risk

The Bank manages limits, and controls concentrations of credit risk and structures the levels of credit risk it undertakes by placing limits on the amounts of risk accepted in relation to one borrower or groups of borrowers. Such risks are monitored appropriately.

Measurement of credit risk

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

28 RISK MANAGEMENT AND CONTROL (continued)

Measurement of credit risk (continued)

In measuring the credit risk of loans and advances to customers, the Bank considers three components:
- the "probability of default" ("PD") by the client;
- current exposure and its likely future development, from which the "exposure at default" ("EaD") is derived; and
- the likely loss ratio on the defaulted obligations – the "loss given default" ("LGD").

These credit risk measurements which reflect expected loss (the "expected loss model") are employed in the Bank's day to day management of credit.

The Bank assesses the probability of default of borrowers using internal rating tools. The use of credit risk rating models, which measure the degree of risk inherent in lending to specific counterparties, complemented by expert judgement, is central to credit risk management within the Bank.

The risk rating system is continuously refined and validated to ensure that the level of risk incurred is acceptable to the Bank.

The results arising from the risk rating system are used in regulatory capital calculation, guiding economic capital allocation and strategic portfolio management.

Accounts are managed on the basis of performance with those past due measured by the amount, and number of instalments in arrears.

Loan loss provisioning or impairment allowances required under FRS 26 are based on losses that have been incurred at the balance sheet date and requires that there is objective evidence of impairment and that the loss has been incurred. The standard does not permit the recognition of expected losses, no matter how likely these expected losses may appear.

Credit risk mitigation and collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most important of these is the initial assessment of the borrower's capacity to repay the facility over the agreed timescale and the taking of security for funds advanced. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. In relation to loans and advances to customers, the principal type of security taken is residential property. The Bank's 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 Central Statistics Office ("CSO"). Equity/Negative equity values are determined using the Residential property price index published by the CSO for the year ended 31 December 2012. The weighted average indexed LTV for the total loan book was 105% at 31 December 2012 (31 December 2011: 102%).

Security for each account in the Bank's mortgage portfolio consists of a first legal charge over residential real estate with supporting life and fire cover as appropriate. A dedicated team is responsible for the receipt and maintenance of security.

The Bank's requirements around completion, valuation and management requirements for collateral/security are set out in appropriate policies and procedures. The Bank's credit risk processes are designed to ensure that mortgage charges are enforceable at the time the credit agreement is concluded and that mortgage charges are filed on a timely basis. The objective of this approach is to enable the Bank to realise the value of the protection within a reasonable timeframe, should that become necessary.

Impairment criteria and provisions

Impairment provisions are recognised for losses that have been incurred and/or reported at the balance sheet date, details of which are provided in the tables to this note.

The impairment provision shown in the balance sheet at the year end is driven by internal rating grades. In addition, individual significant accounts in default (90 days+) are assessed for impairment and provisioning by evaluating the incurred loss at the balance sheet date. The assessment takes account of collateral held and anticipated repayments for each such account.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties;
- breach of loan covenants or conditions;
- deterioration of the borrower's competitive position
- deterioration in the value of collateral;
- external rating downgrade below an acceptable level and
- initiation of bankruptcy proceedings.

28 RISK MANAGEMENT AND CONTROL (continued)

Impairment criteria and provisions (continued)

As at 31 December 2012, the occurrence of the following specific events required an impairment assessment to determine whether a loss event had occurred at the balance sheet date that may lead to recognition of impairment losses:

- Loan asset has fallen 90 days past due;
- A forbearance measure has been requested by a borrower and formally assessed;
- Notification of or intended application for bankruptcy proceedings, debt settlement or personal insolvency arrangement or similar; or
- Anticipated shortfall following sale of property security whether or not sale by voluntary means.

Where such evidence of impairment exists, the exposure is measured for an impairment provision.

Loans with a specific impairment provision attaching to them are included as impaired loans.

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 profit and loss account.

Impairment criteria and loan loss provisioning methodologies have been revised to include forborne and non-forborne loan pool segmentations and critical accounting estimates and judgments on page 23 include sensitivity analysis disclosures on some of the key judgmental areas/factors used in the estimation of impairment charges.

Methodology for Individually Assessing Impairment and Calculating the Specific Provision Requirement

An individual impairment assessment is performed for any exposure for which there is objective evidence 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 cash flow 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.

Methodology for Calculating the Collective Specific Provision Requirement

Where exposures have been assessed for impairment and the balance falls below the threshold for significance, such exposures with similar credit risk characteristics are pooled and are collectively assessed when calculating the specific provision requirement. The provision requirement is calculated by estimating the future cash flows of a group of exposures that are collectively evaluated for impairment. This estimation considers the expected cash flows of the exposures in the collective portfolio and the historical loss experience for exposures with credit risk characteristics similar to those in the portfolio being assessed. Assumptions 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.

Any residential mortgage customer exposures are provisioned for impairment on a collective basis and are pooled based on similar credit risk characteristics such as:

- asset type;
- geographical location;
- origination channel; and
- forbearance status.

The key change to the collective mortgage model segmentation compared to the prior year is the inclusion of forbearance. The provisioning model assumptions and parameters use historical loan loss experience adjusted where appropriate for current conditions and current observable data. Some of the key factors used in the calculation of the portfolio specific provision for the Residential mortgage portfolio include assumptions in relation to:

- residential property price peak to trough;
- forced sale discount; and
- time to sale.

While the factors and assumptions underpinning the collective model have been updated for our most recent observed experience, there have been no material changes compared to 31 December 2011. At 31 December 2012, the assumption adopted by the Bank in respect of the expected average decline in the value of Irish residential properties was 55% from their peak in 2007 (55% at 31 December 2011). The Bank's critical accounting estimates and judgments on page 23, include sensitivity analysis disclosure on some of the key judgmental areas, including Residential mortgages, in the estimation of impairment charges.

28 RISK MANAGEMENT AND CONTROL (continued)

Methodology for Calculating the Collective Specific Provision Requirement (continued)

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 Bank's impairment provisions and impairment charge by nature of impairment provision is set out below.

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 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. 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);
- 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).

Impairment criteria and provisions

Where there are loan arrears, the account is downgraded to reflect the higher underlying risk. 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. The emergence period is calculated using historical loan loss experience. Given the current economic environment the emergence periods may be adjusted to reflect the more intensive credit management model in place, where all vulnerable portfolios are reviewed on a shortened cycle. The loss given default ("LGD") is calculated using historical loan loss experience and is adjusted where appropriate to apply management's credit expertise to reflect current observable data (including an assessment of the deterioration in the property sector, discounted collateral values, unemployment levels and reduced repayment prospects, etc).

Impairment charge by nature of impairment provision	**For the year ended 31 December 2012**	**For the year ended 31 December 2011**
	€'000	**€'000**
Specific provisions - individually assessed	183,816	69,017
Specific provisions - collectively assessed	200,077	83,704
Incurred but not reported	(85,331)	142,708
	298,562	**295,429**

Impairment provision by nature of impairment provision	**As at 31 December 2012**	**As at 31 December 2011**
	€'000	**€'000**
Specific provisions - individually assessed	360,527	175,491
Specific provisions - collectively assessed	454,682	246,213
Incurred but not reported	208,285	293,617
	1,023,494	**715,321**

Asset quality

The Bank classifies loans and advances to customers as 'neither past due nor impaired', 'past due but not impaired' and 'impaired' in line with the requirements of FRS 26.

The Bank applies internal ratings to loans based on an assessment of the credit quality of the customer, as part of its credit risk management system. A seven point credit grade rating scale is used for mortgages. This credit scale has a defined correlation with the Group's PD scale.

28 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

'Neither past due nor impaired' ratings are summarised as set out below:

- high quality ratings apply to loans to customers, with whom the Bank has an excellent repayment experience. High quality ratings are derived from grades 1 and 2 on the seven point grade scale;
- satisfactory quality ratings apply to good quality loans that are performing as expected. Satisfactory quality ratings are derived from grade 3 on the seven point grade. In addition, satisfactory quality ratings can also apply to certain temporary and permanent mortgage restructuring arrangements that are neither past due nor impaired; and
- 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. Acceptable quality ratings are derived from grade 4 outstandings within the seven point scale. In addition, acceptable quality ratings can also apply to certain temporary mortgage restructuring arrangements that are neither past due nor impaired.

'Past due and / or impaired' ratings are summarised as set out below:

- Past due but not impaired, loans where repayment of interest and / or principal are overdue by at least one day but which are not impaired.
- 'Impaired' loans with a specific impairment provision attaching to them.

Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum Exposure	
	As at 31 December 2012 €'000	**As at 31 December 2011 €'000**
Loans and advances to banks	2,967,053	19,493,552
Loans and advances to customers	19,640,608	20,105,635
Derivative financial instruments	398,804	417,973
Commitments	752,369	718,858
Total	**23,758,834**	**40,736,018**

The above table represents a worst case scenario of credit risk exposure to the Bank, without taking account of any collateral held or other credit enhancements attached. The exposures set out above are based on net carrying amounts, net of provisions, as reported in the balance sheet, adjusted for deferred acquisition costs.

In the table above, the loans and advances to customers relate to residential mortgages. The loans and advances to banks and derivative financial instruments relate to Bank of Ireland and entities who have been approved by the Board of Directors in conjunction with recommendations by the Bank of Ireland Group Risk Policy Committee.

Loans and advances

Loans and advances to banks (note 11) and loans and advances to customers (note 12) are the main classes of financial assets that the Bank is exposed to from a credit risk perspective. The tables below provide further details in relation to these loans and advances.

28 RISK MANAGEMENT AND CONTROL (continued)

Loans and advances to customers

(i) Loans and advances to customers neither impaired nor past due

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
High quality	16,439,476	17,169,981
Satisfactory quality	274,062	177,908
Acceptable quality	778,746	760,535
Total	**17,492,284**	**18,108,424**

(ii) Loans and advances to customers past due but not impaired

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Past due 1 - 29 days	365,751	443,271
Past due 30 - 59 days	216,281	296,695
Past due 60- 89 days	148,817	206,945
Past due greater than 90 days	748,408	964,118
Total	**1,479,257**	**1,911,029**

Loans and advances where balances are in arrears are considered impaired unless information is available to suggest that the Bank is unlikely to incur a loss. This decision is determined by such factors as the financial circumstances of the borrower and an assessment of their ability to address the arrears.

(iii) Loans and advances to customers impaired balances

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Impaired balances	1,796,230	920,589

Arrears on impaired loans have increased to 8.4% of impaired loan balances (31 December 2011: 7.2%) and total provisions as a percentage of loan balances in default and/or impaired amounts to 40.2% (31 December 2011: 37.9%). The level of accounts falling into arrears is increasing, albeit at a slower pace, and is being actively managed by the Bank.

Loans and advances to customers reduced from €20.9 billion at 31 December 2011 to €20.8 billion at 31 December 2012 due to principal repayments exceeding new business. Impaired loans increased from €0.9 billion or 4% of Loans and advances to customers at 31 December 2011 to €1.8 billion or 9% at 31 December 2012, reflecting increasing default arrears (90 days or more past due) and a downgrade of loans from past due but not impaired to impaired status. In the owner occupied segment, this increase is primarily attributed to the general economic downturn in Ireland and affordability issues including falling disposable incomes and continued high unemployment levels. In the buy to let segment, while there has been some improvement in rents in 2012, overall rent levels are significantly down on peak and buy to let borrowers are increasingly impacted by rising repayments as interest only periods come to an end. This continues to impact default arrears in the second half of the year. Loans and advances to customers classified as either 'past due but not impaired' or 'impaired' amounted to €3.3 billion or 16% of the Bank's loan book at 31 December 2012 compared to €2.8 billion or 14% at 31 December 2011 reflecting increasing default arrears (90 days or more past due) in the owner occupied and particularly in the buy to let segments.

The impairment charge on the mortgage loan book has remained high during the year ended 31 December 2012, reflecting increasing default arrears (90 days or more past due) in the owner occupied and particularly in the buy to let segments. The underlying increase in the impairment charge reflects the increased volume of default arrears in the owner occupied and particularly in the buy to let segments and a continuing conservative view being adopted by the Bank reflecting on-going challenging economic conditions. This increase is primarily attributed to the general economic downturn in Ireland with high unemployment levels, including affordability issues and falling disposable income.

28 RISK MANAGEMENT AND CONTROL (continued)

Loans and advances to banks

For both the year ended 31 December 2012 and year ended 31 December 2011, all loans and advances to banks were performing fully in line with their terms with no amounts past due. These balances relate to receivables from Bank of Ireland.

Derivative financial instruments

Derivative contracts are only entered into with counterparties who are considered reputable and have been approved by the Board of Directors in conjunction with recommendations by the Bank of Ireland Group Risk Policy Committee. There are no amounts past due or impaired as at 31 December 2012 (31 December 2011: Nil).

Repossessed collateral

As at 31 December 2012, the Bank had 119 properties in possession (31 December 2011: 106 properties). Repossessed property is sold as soon as practicable, with the proceeds used to reduce indebtedness. The value of these properties is as follows:

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Residential mortgages	10,018	10,241

Concentration of risks of financial assets with credit risk exposure

(i) Geographical sectors

The table below analyses the Bank's main credit exposure for loans and advances to customers at their carrying amounts, as categorised by geographical region. For this table, the Bank has allocated exposures based on the location of the asset.

	As at 31 December 2012 €'000	As at 31 December 2011 €'000
Loans and advances to customers		
- Dublin	6,753,360	6,702,358
- Rest of Ireland	14,014,412	14,237,684
Total	**20,767,772**	**20,940,042**

(ii) Industry Sectors

All loans and advances to banks and derivative financial instruments are categorised as financial assets. Loans and advances to customers are all categorised as Personal (residential mortgages).

Market risk

Market risk is the potential adverse change in earnings or the value of net worth arising from movements in interest rates, exchange rates or other market prices. The Bank has adopted the Group's policy on market risk and the Bank complies with this policy. The management of market risk in the Bank is governed by Bank of Ireland Group policy, approved by the Bank's Board of Directors and the Group Risk Policy Committee ("GRPC"). It is a policy requirement that interest rate basis risk arising from customer-facing businesses such as the Bank is transferred, by way of internal economic hedging arrangements, to Bank of Ireland Global Markets ("BoIGM"). The Board of Directors of the Bank has approved the adoption of the Group's policy on market risk and the Bank complies with this policy.

The current interest rate risk strategy aims to provide the Bank with protection against material adverse changes in interest and related funding rates by undertaking controlled management of the interest rate structure in the Bank's mortgage and funding products. The strategy operates within limits set by the Board of Directors. The Bank's interest rate risk strategy incorporates the policies of Bank of Ireland Group. The Bank has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures.

During the year ended 31 December 2012, the bank introduced a net funding model. The bank is now funding its operations through the use of asset covered securities, a residential Mortgage Backed Promissory Note programme, and the residual funding requirement is borrowed from Bank of Ireland.

28 RISK MANAGEMENT AND CONTROL (continued)

Market risk (continued)

Loans and Advances to Customers

At 31 December 2012 the Bank had €18.0 billion of floating-rate loans and advances to customers, where the interest rate is either linked to the ECB Base rate (31 December 2011: €16.3 billion) or the Bank's standard variable rate.

At 31 December 2012 the Bank had €2.7 billion of loans and advances to customers, where the rate is typically fixed for periods of 1, 2, 3 and 5 years (31 December 2011: €3.96 billion). The interest rate exposure of the Bank relating to its Irish residential loans is managed through maturity matched borrowing from BoIGM and has no material sensitivity to changes in interest rates.

Asset Covered Securities

At 31 December 2012 the Bank had €11.7 billion (nominal) in issued asset covered securities. €6.8 billion of the issued asset covered securities are at fixed rates (31 December 2011: €5.9 billion (nominal)) and the remaining €4.9 billion have an interest rate that resets based on short-dated EURIBOR (31 December 2011: €6.25 billion (nominal)).

The Bank enters into interest rate swaps to hedge the interest rate exposure on its fixed rate asset covered securities in issue. The majority of these swaps and related fixed rate asset covered securities qualify for hedge accounting. At 31 December 2012, the nominal value of swaps qualifying for hedge accounting is €3.6 billion (31 December 2011: €5.90 billion). Please refer to note 16 for a detailed breakdown. Additionally, market risk arises where the rate charged on variable rate mortgage lending re-sets with changes in ECB rates, but the related funding is at short-dated EURIBOR. The Bank enters into interest rate swaps to manage this risk, although these interest rate swaps do not qualify for hedge accounting.

The Bank measures its interest rate risk in terms of the sensitivity of its fixed assets and fixed liabilities, in Net Present Value ("NPV") terms, to a 1% parallel shift in the yield curve. The Bank is required to ensure that this sensitivity remains within a low operational hedging limit of €800 thousand at 31 December 2012. At 31 December 2012, the Bank's exposure to a parallel 1% upward shift in the euro yield curve was €80 thousand (31 December 2011: €9 thousand), with an average of €23 thousand for the year ended 31 December 2012 (31 December 2011: €19 thousand).

Currency risk

The Bank is not exposed to currency risk as all financial assets and liabilities are denominated in Euro.

Liquidity risk

Liquidity risk is the risk that a credit institution will experience difficulty in financing its assets and meeting its contractual payment obligations, or will only be able to do so at substantially above the prevailing market cost of funds. Liquidity distress is almost invariably associated with a severe deterioration in financial performance, but it can also result from unexpected adverse events or systemic difficulties. The Bank has in place a risk management framework to manage that risk.

The Bank's Board of Directors has approved a funding policy for the business that permits funding through the use of asset covered securities, residential Mortgage Backed Promissory Note programmes and borrowing from Bank of Ireland.

It is the Bank's policy to ensure that resources are at all times available to meet the Bank's obligations arising from mortgage products, asset covered securities, capital and expenditure. The management of liquidity is the responsibility of the Bank, supported by Bank of Ireland Group Treasury.

The Bank uses a cash flow liquidity reporting tool which provides daily liquidity risk information by designated cash flow buckets to management. The system captures the cash flows from both balance sheet and off-balance sheet transactions. In the case of specific products such as mortgage repayments and off-balance sheet commitments the Bank applies behavioural adjustments to reflect the Bank's experience of these cash flows based on historical trends.

The Bank is also required to report regularly to its parent, Bank of Ireland, all relevant balance sheet and off balance sheet items to ensure compliance with Bank of Ireland liquidity procedures.

While the Bank raises a significant level of its funding from the Bank of Ireland, the Bank has the capability to fund outside the Bank of Ireland if required.

During the year ended 31 December 2012, the Bank introduced a net funding model, whereby the majority of the existing deposits by banks used to fund the mortgage portfolio were collapsed along with a number of loans to banks placed with Bank of Ireland. The residual funding requirement is met by borrowing from the Bank of Ireland on a rolling short-term basis.

28 RISK MANAGEMENT AND CONTROL (continued)

Liquidity risk (continued)

The tables below analyse liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. In line with the requirements of FRS 29, the liabilities table below shows principal balances and undiscounted interest cash flows over the life of the liabilities and so the totals will not agree directly to the balance sheet. It excludes non cash items such as fair value adjustments.

As at 31 December 2012 **Liabilities**	**Demand** **€'000**	**Within 3 months** **€'000**	**After 3 months but within 1 year** **€'000**	**After 1 year but within 5 years** **€'000**	**After 5 years** **€'000**	**Total** **€'000**
Deposits by banks	-	7,295,155	862,063	1,323,968	127,203	9,608,389
Debt securities in issue	-	781,300	3,171,058	8,667,203	376,271	12,995,832
Subordinated debt	-	3,129	9,524	292,069	210,236	514,958
Commitments	752,369	-	-	-	-	752,369
Total liabilities	**752,369**	**8,079,584**	**4,042,645**	**10,283,240**	**713,710**	**23,871,548**

As at 31 December 2011 **Liabilities**	**Demand** **€'000**	**Within 3 months** **€'000**	**After 3 months but within 1 year** **€'000**	**After 1 year but within 5 years** **€'000**	**After 5 years** **€'000**	**Total** **€'000**
Deposits by banks	-	5,412,582	1,121,320	2,158,516	21,540,377	30,232,795
Debt securities in issue	-	533,858	1,504,225	10,644,455	657,661	13,340,199
Subordinated debt	-	4,353	13,156	223,939	210,168	451,616
Commitments	718,858	-	-	-	-	718,858
Total liabilities	**718,858**	**5,950,793**	**2,638,701**	**13,026,910**	**22,408,206**	**44,743,468**

Deposits by banks represent intergroup funding provided by Bank of Ireland Global Markets for the purposes of fixed mortgage book funding, residual variable mortgage book funding, and ACS Swap collateral.

The tables below analyse cash flows on derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Cash flows associated with derivatives are undiscounted cash flows anticipated over the life of the derivatives based on expected interest rates at year end. Derivative cash flows are included for the pay and receive legs of net settled contracts with negative fair values.

As at 31 December 2012	**Within 3 months** **€'000**	**After 3 months but within 1 year** **€'000**	**After 1 year but within 5 years** **€'000**	**After 5 years** **€'000**	**Total** **€'000**
Net cash outflows on derivative financial instruments	14,427	19,121	38,875	(1,270)	71,153

As at 31 December 2011	**Within 3 months** **€'000**	**After 3 months but within 1 year** **€'000**	**After 1 year but within 5 years** **€'000**	**After 5 years** **€'000**	**Total** **€'000**
Net cash outflows on derivative financial instruments	6,756	19,125	26,786	1,019	53,686

28 RISK MANAGEMENT AND CONTROL (continued)

Operational risk

Operational risk is the risk that human error, systems failure, and inadequate controls or procedures will result in unexpected loss. The Bank operates systems of risk identification, assessment and monitoring designed to ensure that operational risk management is consistent with the approach, aims and strategic goals of the Bank and the Bank of Ireland. The Bank manages operational risk through accountable executives monitored by the Compliance and Operational Risk Unit and the Bank's Audit Committee. In addition, there is oversight by the Bank of Ireland Group Regulatory, Compliance and Operational Risk Committee, supported by the Group Operational Risk function. Potential risk exposures are assessed on a regular basis and appropriate controls are put in place or adapted as considered necessary. Recognising that operational risk cannot be entirely eliminated, the Bank implements risk mitigation controls including fraud prevention, contingency planning and incident management. This strategy is further supported by risk transfer mechanisms such as insurance, where appropriate.

Regulatory risk

Regulatory risk arises from a failure to comply with the laws, regulations or codes applicable to the Irish financial services industry. Non-compliance would have adverse reputational implications and could lead to fines, public reprimands, enforced suspension of operations or, in extreme cases, withdrawal of authorisation to operate.

Regulatory risk and compliance risk in the Bank is managed in accordance with Bank of Ireland Group policy which has been adopted by the Board of the Bank. This requires the conduct of business in accordance with applicable regulations and an awareness of regulatory risk by all employees.

The effective management of regulatory compliance is the responsibility of each manager in the Bank. At an overall level, the Bank reassesses its regulatory risk profile on a regular basis, monitors compliance and reports findings to the Board of Directors and separately to the Bank of Ireland Group Regulatory and Operational Risk function.

Capital management

The objectives of the Bank's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Bank has sufficient capital to cover the risks of its business and support its strategy. The capital adequacy requirements set by the Central Bank are used by the Bank as the basis for its capital management. These requirements set a floor under which capital levels must not fall. The Group is committed to maintain sufficient capital to ensure that even under stressed conditions these requirements are met.

The Bank's capital includes the Bank's shareholders' funds (subject to regulatory adjustments) together with dated subordinated debt. Regulatory capital requirements are determined by risk asset levels. The Bank meets its objectives in terms of capital management through the holding of capital ratios above the minimum levels set by the Central Bank.

Capital strategy is integrated into the overall business strategy of the Bank and the Bank of Ireland.

29 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table represents the carrying amount and the fair value of financial assets and financial liabilities of the Bank.

		As at 31 December 2012		As at 31 December 2011	
		Carrying amount €'000	Fair values €'000	Carrying amount €'000	Fair values €'000
Assets					
Loans and advances to banks	(1)	2,967,053	2,978,736	19,493,552	19,625,984
Loans and advances to customers	(2)	19,762,065	15,798,708	20,224,722	16,825,989
Derivative financial instruments	(5)	398,804	398,804	417,973	417,973
Liabilities					
Deposits by banks	(3)	9,494,619	9,603,249	26,528,738	26,528,738
Debt securities in issue	(4)	12,639,359	12,038,064	12,606,313	10,397,959
Derivative financial instruments	(5)	71,585	71,585	49,869	49,869
Subordinated Liabilities	(4)	402,546	383,769	403,261	304,049

29 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

The following notes summarise the methods and assumptions used in estimating the fair values of financial instruments shown above.

(1) Loans and advances to banks
The Bank places funds with Bank of Ireland. Several different techniques are employed, as considered appropriate, in estimating the fair value of loans and advances. The carrying amount of variable rate loans is considered to be at market value. The fair value of fixed rate loans is calculated by discounting expected cash flows using market rates where practicable, or rates currently offered by other financial institutions with similar characteristics.

(2) 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 credit losses over the life of the loans; and
- recent arm's length transactions in similar assets.

(3) Deposits by banks
The carrying amount of variable rate deposits is considered to be at market value. The fair value of fixed rate deposits is calculated by discounting expected cash flows using market rates where practicable, or rates currently offered by other financial institutions with similar characteristics.

(4) Debt securities in issue and subordinated debt
The fair values of these instruments are calculated based on quoted market prices where available. 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 Bank of Ireland for the remaining term to maturity. The yield curve used incorporates the effect of changes in the Bank of Ireland's own credit spread.

(5) Derivative financial instruments
The carrying value and fair value of interest rate contracts represents amounts accrued and their clean fair value at the balance sheet date. The fair value is based on the discounted future cash flows of these contracts.

Fair value hierarchy

The table below shows the Bank's financial assets and liabilities that are recognised and subsequently measured in the balance sheet at fair value and their classification within the fair valuation hierarchy. All are classified as Level 2. The bank has no financial assets and liabilities classified as Level 1 or Level 3.

Fair value hierarchy Level 2	**As at 31 December 2012**	**As at 31 December 2011**
	€'000	**€'000**
Financial assets held at fair value		
Derivative financial instruments	398,804	417,973
Total financial assets held at fair value	**398,804**	**417,973**
Financial liabilities held at fair value		
Derivative financial instruments	71,585	49,869
Total financial liabilities held at fair value	**71,585**	**49,869**

Level 1 comprises financial assets and liabilities valued using quoted market prices in active markets. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2 comprises financial assets and liabilities valued using techniques based significantly on observable market data.

Level 3 comprises financial assets and liabilities valued using techniques using non-observable market data. Non-observable market data is not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

30 COMMITMENTS

At 31 December 2012, the Bank has €752 million of approved mortgage loan applications that as at 31 December 2012 had not been drawn down. Undrawn mortgage loan applications at 31 December 2011 calculated on the same basis were €719 million.

31 RELATED PARTY TRANSACTIONS

The Bank's immediate and ultimate parent undertaking is the Bank of Ireland, a company incorporated by royal charter in Ireland. Group accounts are available at Bank of Ireland, Head Office, Mespil Road, Dublin 4.

(a) Irish Government

The Irish Government, through both the Bank's participation in the Government Guarantee Schemes and the recapitalisation of the Bank of Ireland through the National Pension Reserve Fund Commission ("NPRFC") became a related party of the Bank. For further details on Guarantee Schemes see note 32. During the year ended 31 December 2011, the State's proportionate holding of the ordinary stock of Bank of Ireland reduced significantly following the 8 July 2011 rights issue, the debt for equity and cash offers and in particular the sale by the State of a significant number of units of ordinary stock in Bank of Ireland to a group of institutional investors and fund managers.

As a result, at 31 December 2012 the State held 15% of the ordinary stock of Bank of Ireland (31 December 2011: 15%).

(b) Transactions with Directors and Key Management Personnel

The following information is presented in accordance with the Companies Act 1990 as amended.

For the purposes of the Companies Act disclosures, "Directors" means the Board of Directors of the Bank, any past Directors who were Directors during the relevant period and Directors of the parent company, Bank of Ireland.

Directors' emoluments and details of compensation paid to key management personnel are provided within this note.

(i) Loans to Directors - Companies Acts Disclosures

	Balance as at 1 January 2012 [1] €'000	Balance as at 31 December 2012 [1] €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2012 €'000
Directors at 31 December 2012			
J Byrne			
Mortgages total	495	471	495
P Flynn			
Mortgages total	634	604	634
B Kealy			
Mortgages total*	499	578	591
S Mason			
Mortgages total	1,399	1,357	1,399
K O'Sullivan			
Mortgages total	445	436	445
Directors no longer in office at 31 December 2012			
N Corcoran			
Mortgages total	515	501	515

J Clifford, B McConnell and R Milliken had no loans with the Bank during the year ended 31 December 2012.

*a portion of the mortgage total is on a preferential staff rate.

[1] Balances include principal and interest.

[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.

31 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with Directors and Key Management Personnel (continued)

(i) Loans to Directors - Companies Acts Disclosures (continued)

	Balance as at 1 January 2011 [1] €'000	Balance as at 31 December 2011 [1] €'000	Aggregate maximum amount outstanding during the period during the year ended [2] 31 December 2011 €'000
Directors at 31 December 2011			
J Byrne			
Mortgages total	517	495	517
N Corcoran			
Mortgages total	527	515	527
P Flynn			
Mortgages total	663	634	662
B Kealy			
Mortgages total*	406	499	507
S Mason			
Mortgages total	1,398	1,399	1,400
Directors no longer in office at 31 December 2011			
B Nevin			
Mortgages total	350	345	350

J Clifford, M Davis, M Finan, J Martin, B McConnell, M Meagher and R Milliken had no loans with the Bank during the year ended 31 December 2011.

(ii) Loans to Directors of parent company

	Balance as at [1] 1 January 2012 €'000	Balance as at [1] 31 December 2012 €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2012 €'000
Directors of parent company at 31 December 2012			
R Boucher			
Mortgages Total	176	145	176
P Kennedy			
Mortgages Total	4,211	3,958	4,211
Directors of parent company no longer in office at 31 December 2012			
J Kennedy			
Mortgages Total	300	300	300

K Atkinson, P Butler, T Considine, A Kane, A Keating, P Haren, P Molloy, P Mullvhill, P O'Sullivan, W Ross, J Walsh and P Watsa had no loans with the Bank during the year ended 31 December 2012.

*a portion of the mortgage total is on a preferential staff rate.

[1] Balances include principal and interest.

[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.

31 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with Directors and Key Management Personnel (continued)

(ii) Loans to Directors of parent company (continued)

	Balance as at [1] 1 January 2011 €'000	Balance as at [1] 31 December 2011 €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2011 €'000
Directors of parent company at 31 December 2011			
R Boucher			
Mortgages Total	206	176	206
J Kennedy			
Mortgages Total	425	300	425
P Kennedy			
Mortgages Total	4,211	4,211	4,211
Directors of parent company no longer in office at 31 December 2011			
D Crowley			
Mortgages Total	496	542	575
P Haran			
Mortgages Total	105	89	105
H McSharry			
Mortgages Total	92	-	92

P Butler, T Considine, D Donovan, D Holt, R Hynes, P Molloy, P Mullvhill, J O'Donovan, P O'Sullivan and J Walsh had no loans with the Bank during the year ended 31 December 2011.

[1] Balances include principal and interest.

[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.

There are no specific 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.

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.

Loans relate to mortgages secured on residential property.

(iii) Loans to connected persons[+] and Central Bank licence condition disclosures

All loans to Connected Persons 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.

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.

+ Connected persons of Directors are defined by Section 26 of the Companies Act 1990 as the Director's spouse, 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.

31 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with Directors and Key Management Personnel (continued)

(iii) Loans to connected persons+ and Central Bank licence condition disclosures (continued)

The following information is presented in accordance with this licence condition:

2012 Connected person of the following Director	Balance as at [1] 31 December 2012 €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2012 €'000	Number of persons as at 31 December 2012	Maximum number of persons [2] during the year ended 31 December 2012 €'000
Persons connected to K O'Sullivan	144	147	1	1

2011 Connected person of the following Director	Balance as at [1] 31 December 2011 €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2011 €'000	Number of persons as at 31 December 2011	Maximum number of persons [2] during the year ended 31 December 2011 €'000
Persons connected to P Flynn	91	102	1	1

[1] Balances include principal and interest.

[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.

(iv) Key management personnel ("KMP") - loans

The following information is prepared in accordance with FRS 8: Related party disclosures.

For the purposes of FRS 8: Related Party Disclosures, key management personnel ("KMP") comprise the Directors of the Bank and key management personnel ("Head of Credit (Mortgage Arrears Resolution Strategy)" and "Head of Mortgage and Consumer Credit"). Key management personnel also comprise KMP of the parent company, Bank of Ireland.

Key management personnel including Directors hold mortgages with the Bank in the ordinary course of business. All loans to Non-Executive Directors are made in the ordinary course of business on normal commercial terms. 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.

31 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with Directors and Key Management Personnel (continued)

(iv) Key management personnel ("KMP") – loans (continued)

The aggregate amounts outstanding, in respect of all loans, quasi-loans and credit transactions between the Bank, its key management personnel, as defined above, including members of their close families and entities influenced by them, and key management personnel of the parent Bank of Ireland, are shown in the table below.

FRS 8 Disclosures	**Balance as at 1 January [1] 2012**	**Balance as at 31 December [1] 2012**	**Aggregate maximum amounts outstanding during the year ended [2] 31 December 2012**	**Number of KMP as at 1 January 2012**	**Number of KMP as at 31 December 2012**
2012	**€'000**	**€'000**	**€'000**		
Key Management Personnel					
Loans	10,121	9,862	11,485	17	14

	Balance as at 1 January [1] 2011	**Balance as at 31 December [1] 2011**	**Aggregate maximum amounts outstanding during the year ended [2] 31 December 2011**	**Number of KMP as at 1 January 2011**	**Number of KMP as at 31 December 2011**
2011	**€'000**	**€'000**	**€'000**		
Key Management Personnel					
Loans	9,102	10,121	10,547	15	17

[1] Balances include principal and interest.

[2] The maximum amount outstanding during the year is calculated using the highest balance on each account. The highest maximum outstanding liability in respect of a loan or mortgage during the year ended 31 December 2012 for any member of key management personnel and their close family did not exceed €4.2 million (31 December 2011: €4.2 million). While the maximum amounts do not include interest accrued, interest accrued is included in the closing balance.

Loans relate to mortgages secured on residential property.

Included in the above FRS 8 loan disclosure are loans to key management personnel on preferential staff rates amounting to €23,000 (31 December 2011: €125,000).

There are no specific provisions 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.

There are no guarantees entered into by the Bank in favour of KMP of the Bank and no guarantees in favour of the Bank have been entered into by the KMP of the Bank.

(v) Directors' remuneration

	For the year ended 31 December 2012 €'000	**For the year ended 31 December 2011 €'000**
Fees	105	115
Other emoluments*	229	260
Total remuneration	**334**	**375**

* No other fees or bonuses were paid to directors during the year ended 31 December 2012 or the year ended 31 December 2011.

The Bank has availed of the exemption under FRS 8 not to disclose the KMP remuneration.

32 GOVERNMENT GUARANTEE SCHEME

Credit Institutions (Eligible Liabilities Guarantee) Scheme

On 26 February 2013, the Minister for Finance announced that the Irish Government's Eligible Liabilities Guarantee Scheme (the "ELG Scheme") will be withdrawn from midnight 28 March 2013 for all participating banks. After this date no new liabilities will be guaranteed under the ELG Scheme. All existing and future qualifying deposits made up to the date of withdrawal of the ELG Scheme will continue to be guaranteed until the date of maturity of the deposit.

After the date of withdrawal 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, and subject to prior consultation with the EU Commission.

Dated subordinated debt and covered bonds and other forms of secured funding are not guaranteed under the ELG Scheme.

The Bank had no eligible liabilities under the scheme and therefore has no charge in the financial statement for the year ended to 31 December 2012 or the year ended 31 December 2011.

33 SIGNIFICANT EVENTS

There are no other material significant events requiring disclosure which have not already been addressed in the notes to these financial statements and the Report of the Directors.

34 POST BALANCE SHEET EVENTS

There are no significant post balance sheet events identified requiring disclosure prior to the approval of these financial statements.

35 APPROVAL OF THE FINANCIAL STATEMENTS

The Directors approved these financial statements on 1 March 2013.

SUPPLEMENTARY DISCLOSURES

The information in tables 1, 2, 3a, 3c, 3d, 4, 6 & 7 and the total on table 5 (denoted as audited) within these supplementary disclosures forms an integral part of the audited financial statements as described in the Basis of Preparation on page 18.

All other information (including all other numbers in table 5) is additional disclosure and it does not form an integral part of the audited financial statements as described in the Basis of Preparation on page 18.

The following disclosures provide additional detail on the composition and quality of the Bank's mortgage portfolio.

The Bank, as part of the Bank of Ireland Group, has a long established infrastructure for the origination, underwriting and management of its mortgage portfolio. The portfolio has all been underwritten by the Bank of Ireland which manages this entire portfolio under a formal service level agreement. 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 evidence of key borrower information including an independent valuation of the security property.

Mortgage origination lending policy and guidelines are subject to regular review. Each applicant is primarily assessed based on their ability and capacity to repay the loan. In addition to the above, the creditworthiness of the borrower, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision. At 31 December 2012, lending criteria, terms and conditions for the Bank's mortgage portfolio include:

- repayment capacity of borrower;
- loan to value ("LTV") limits;
- mortgage term duration;
- repayment types (amortising repayment or interest only); and
- loan specific terms and conditions.

Book Composition

Table 1

Mortgage loan book - volumes (before impairment provisions)	As at 31 December 2012 €'m	As at 31 December 2011 €'m
Owner occupied	15,938	15,912
Buy to let	4,830	5,028
Total	**20,768**	**20,940**

The mortgage book, before provisions, amounted to €20.8 billion at 31 December 2012 compared to €20.9 billion at 31 December 2011. The decrease of €172 million or 0.82% in the year reflects the excess of repayments over new lending.

At 31 December 2012, 84% of the Bank's mortgage portfolio was on a 'principal and interest'[1] repayment basis (31 December 2011: 84%) and 16% was on an 'interest only'[2] repayment basis (31 December 2011: 16%). Of the owner occupied mortgages of €15.9 billion, 92% was on a 'principal and interest' repayment basis (31 December 2011: 93%). Of the buy to let mortgages of €4.8 billion, 58% was on 'principal and interest' repayment basis (31 December 2011: 55%).

[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 ranged from 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.*

Book Composition (continued)

Table 2

Loan origination profile of mortgage loan book (before impairment provision)

As at 31 December 2012	Total residential mortgage loan book		Loans > 90 days past due or impaired	
	Balance €'m	Number of accounts[3]	Balance €'m	Number of accounts[3]
1996 and before	60	4,114	4	205
1997	36	1,549	3	92
1998	66	2,433	5	132
1999	124	3,443	11	204
2000	231	4,817	20	285
2001	339	5,479	24	336
2002	582	7,514	52	489
2003	988	10,682	106	801
2004	1,689	14,320	204	1,218
2005	2,670	18,578	367	1,865
2006	3,898	22,417	689	2,857
2007	3,536	18,813	656	2,476
2008	2,466	14,033	327	1,354
2009	1,342	9,248	65	366
2010	1,033	6,630	10	63
2011	900	5,785	2	15
2012	808	5,397	-	-
Total	**20,768**	**155,252**	**2,545**	**12,758**

The table above reports the year of the initial drawdown as the year of origination.

As at 31 December 2011	Total residential mortgage loan book		Loans > 90 days past due or impaired	
	Balance €'m	Number of accounts[3]	Balance €'m	Number of accounts[3]
1996 and before	80	4,854	4	192
1997	47	1,917	3	83
1998	80	2,656	4	114
1999	146	3,696	9	160
2000	262	5,125	16	238
2001	371	5,746	20	263
2002	638	8,157	37	360
2003	1,066	11,111	83	618
2004	1,791	14,721	157	893
2005	2,803	18,977	282	1,377
2006	4,060	22,767	520	2,088
2007	3,669	19,083	490	1,783
2008	2,570	14,243	224	892
2009	1,408	9,459	34	210
2010	1,074	6,762	2	19
2011	875	5,834	-	2
Total	**20,940**	**155,108**	**1,885**	**9,292**

The table above reports the year of the initial drawdown as the year of origination.

The table above illustrates that €6.8 billion or 33% of the mortgage loan book originated before 2006, €9.9 billion or 48% between 2006 and 2008 and €4.1 billion or 19% in the years since.

[3] *The number of accounts does not equate to either the number of customers or the number of properties.*

Book Composition (continued)

Loan origination profile of mortgage loan book (before impairment provision) (continued)

Total loans that are greater than 90 days past due and / or impaired were €2.5 billion or 12% of the mortgage loan book at 31 December 2012, of which €1.7 billion or 8.1% were originated between 2006 and 2008. The increase in 90 days past due and / or impaired primarily reflects the continued impact of the general economic downturn in Ireland and affordability issues including falling disposable incomes and sustained high unemployment levels.

As at 31 December 2012, total mortgage provisions amounted to €1.0 billion with total provision coverage of 40% - refer to page 62.

Table 3a

Risk profile of mortgage loan book (before impairment provisions)

As at 31 December 2012	**Owner-occupied**		**Buy to let**		**Total**	
	€'m	**%**	**€'m**	**%**	**€'m**	**%**
Neither past due or impaired	13,979	88	3,513	73	17,492	84
1-90 days past due but not impaired	516	3	215	4	731	4
>90 days past due and / or impaired	1,443	9	1,102	23	2,545	12
Total	**15,938**	**100**	**4,830**	**100**	**20,768**	**100**

As at 31 December 2011	**Owner-occupied**		**Buy to let**		**Total**	
	€'m	**%**	**€'m**	**%**	**€'m**	**%**
Neither past due or impaired	14,207	89	3,902	78	18,109	86
1-90 days past due but not impaired	632	4	314	6	946	5
>90 days past due and / or impaired	1,073	7	812	16	1,885	9
Total	**15,912**	**100**	**5,028**	**100**	**20,940**	**100**

The tables above illustrate that €17.5 billion or 84% of the total mortgage loan book at 31 December 2012 was classified as 'neither past due nor impaired' compared to €18.1 billion or 86% at 31 December 2011.

The '1 – 90 days past due but not impaired' category amounted to €0.7 billion or 4% of the total mortgage loan book at 31 December 2012 compared to €0.9 billion or 5% at 31 December 2011.

The 'greater than 90 days past due and / or Impaired' category amounted to €2.5 billion or 12% of total mortgages at 31 December 2012 compared to €1.9 billion or 9% of total mortgages at 31 December 2011.

Owner occupied mortgages 'greater than 90 days past due and / or impaired' have increased from €1.1 billion at 31 December 2011 to €1.4 billion at 31 December 2012.

Buy to let mortgages 'greater than 90 days past due and / or impaired' have increased from €0.8 billion at 31 December 2011 to €1.1 billion at 31 December 2012.

The volume of 'greater than 90 days past due and / or impaired' in the Buy to let segment has continued to increase primarily reflecting the continued impact on borrowers of rising repayments as 'interest only' periods come to an end and customers move to fully amortising loans. The Bank's Buy to let mortgage loan portfolio reduced by €198 million or 4% in 2012 and the percentage of the Buy to let portfolio on a 'principal and interest' repayment basis increased from 55% at 31 December 2011 to 58% at 31 December 2012.

Book Composition (continued)

Table 3b

Mortgage Arrears >90 days past due and / or impaired (number of accounts)	**As at 31 December 2012**	**As at 30 September 2012**	**As at 30 June 2012**	**As at 31 March 2012**	**As at 31 December 2011**
Owner occupied mortgages	6.89%	6.88%	6.49%	6.26%	5.16%
Industry owner occupied (number of accounts)[5]	Not available	11.31%[4]	10.59%[4]	9.9%[4]	9.02%[4]
Buy to let mortgages	14.54%	13.87%	12.92%	12.27%	9.81%
Industry buy to let (number of accounts)[5]	Not available	17.9%[4]	16.57%[4]	Not available	Not available

Mortgage Arrears >90 days past due and / or impaired (value)	**As at 31 December 2012**	**As at 30 September 2012**	**As at 30 June 2012**	**As at 31 March 2012**	**As at 31 December 2011**
Owner occupied mortgages	9.12%	9.05%	8.53%	8.32%	6.79%
Industry owner occupied (value)[5]	Not available	15.12%[4]	14.08%[4]	13.3%[4]	12.04%[4]
Buy to let mortgages	22.95%	21.65%	20.20%	19.60%	16.24%
Industry buy to let (value)[5]	Not available	25.55%[4]	23.87%[4]	Not available	Not available

Based on the latest quarterly information available, default arrears (90 days or more past due) for both the Bank's owner occupied and Buy to let mortgages remain below the industry average.

The pace of increase in arrears has abated significantly during the second half of 2012 with default arrears formation reflecting a stabilisation in unemployment levels and the restructure of customer mortgages on a sustainable basis.

Loan-to-value (LTV) ratio of total mortgage loan book

In the following tables, 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 CSO at 31 December 2012 or 31 December 2011, as appropriate.

The CSO Index for December 2012 reported that national residential prices were 50% below peak (December 2011: 47%), with Dublin residential prices and outside of Dublin residential prices 56% and 47% below peak respectively. In 2012 the annual rate of decline in residential property prices slowed to 4.5% as reflected in the CSO Index (2011 annual rate of decline was 16.7%), its lowest rate in over four years, with residential property prices in Dublin (particularly house prices) being the key driver of this improvement.

[4] *Source: CBI Mortgage Arrears Statistics Report September 2012.*

[5] *Industry statistics do not include impaired loans < 90 days past due.*

Book Composition (continued)

Table 3c

Loan-to-value (LTV) ratio of total mortgage loan book

	Owner-occupied		Buy to let		Total	
As at 31 December 2012	**€'m**	**%**	**€'m**	**%**	**€'m**	**%**
Less than 50%	2,211	14%	284	6%	2,495	12%
51% to 70%	2,041	13%	353	7%	2,394	12%
71% to 80%	1,222	7%	223	5%	1,445	7%
81% to 90%	1,410	9%	376	8%	1,786	8%
91% to 100%	1,419	9%	317	6%	1,736	8%
Subtotal	**8,303**	**52%**	**1,553**	**32%**	**9,856**	**47%**
101% to 120%	2,637	17%	762	16%	3,399	16%
121% to 150%	2,782	17%	1,244	26%	4,026	20%
151% to 180%	1,537	10%	721	15%	2,258	11%
Greater than 180%	679	4%	550	11%	1,229	6%
Subtotal	**7,635**	**48%**	**3,277**	**68%**	**10,912**	**53%**
Total	**15,938**	**100%**	**4,830**	**100%**	**20,768**	**100%**
Average LTV[6]:						
Stock of residential mortgages at year end		**99%**		**123%**		**105%**
New residential mortgages during the year		**73%**		**58%**		**73%**

	Owner-occupied		Buy to let		Total	
As at 31 December 2011	**€'m**	**%**	**€'m**	**%**	**€'m**	**%**
Less than 50%	2,409	15%	259	5%	2,668	13%
51% to 70%	2,061	13%	369	8%	2,430	12%
71% to 80%	1,157	7%	300	6%	1,457	7%
81% to 90%	1,267	8%	307	6%	1,574	7%
91% to 100%	1,445	9%	355	7%	1,800	8%
Subtotal	**8,339**	**52%**	**1,590**	**32%**	**9,929**	**47%**
101% to 120%	2,829	18%	911	18%	3,740	18%
121% to 150%	2,848	18%	1,605	32%	4,453	21%
151% to 180%	1,265	8%	649	13%	1,914	9%
Greater than 180%	631	4%	273	5%	904	5%
Subtotal	**7,573**	**48%**	**3,438**	**68%**	**11,011**	**53%**
Total	**15,912**	**100%**	**5,028**	**100%**	**20,940**	**100%**
Average LTV[6]:						
Stock of residential mortgages at year end		**97%**		**118%**		**102%**
New residential mortgages during the year		**78%**		**60%**		**77%**

The tables above illustrate the indexed loan to value ("LTV") ratio of the total mortgage loan book at 31 December 2012 and 31 December 2011. €9.9 billion (47%) of mortgages are in positive equity. 52% of Owner occupied mortgages and 32% of Buy to let mortgages are in positive equity. The weighted average indexed LTV for the total mortgage loan book is 105% at 31 December 2012 (99% for Owner occupied and 123% for Buy to let).

The weighted average indexed LTV for new Residential mortgages to the year ended 31 December 2012 was 73% (73% for Owner occupied mortgages and 58% for Buy to let mortgages).

At 31 December 2012, the total calculated negative equity in the Bank's mortgage loan book was €2.8 billion (31 December 2011 €2.6 billion). The majority of the Bank's borrowers in negative equity continue to meet their mortgage repayments with €2.0 billion in negative equity (73%) related to 'neither past due nor impaired', €0.1 billion (4%) related to '1 – 90 days past due but not impaired' and €0.6 billion (23%) related to loans that were 'greater than 90 days past due and / or impaired'.

[6] *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)

Table 3d

Loan-to-value (LTV) ratio of residential mortgages > 90 days past due and / or impaired

	Owner-occupied		Buy to let		Total	
As at 31 December 2012	**€'m**	**%**	**€'m**	**%**	**€'m**	**%**
Less than 50%	85	6%	18	2%	103	4%
51% to 70%	100	7%	28	3%	128	5%
71% to 80%	72	5%	26	2%	98	4%
81% to 90%	79	5%	59	5%	138	5%
91% to 100%	101	7%	44	4%	145	6%
Subtotal	**437**	**30%**	**175**	**16%**	**612**	**24%**
101% to 120%	206	14%	148	13%	354	14%
121% to 150%	360	25%	328	30%	688	27%
151% to 180%	286	20%	237	22%	523	21%
Greater than 180%	154	11%	214	19%	368	14%
Subtotal	**1,006**	**70%**	**927**	**84%**	**1,933**	**76%**
Total	**1,443**	**100%**	**1,102**	**100%**	**2,545**	**100%**

	Owner-occupied		Buy to let		Total	
As at 31 December 2011	**€'m**	**%**	**€'m**	**%**	**€'m**	**%**
Less than 50%	74	7%	22	3%	96	5%
51% to 70%	91	8%	42	5%	133	7%
71% to 80%	53	5%	38	5%	91	5%
81% to 90%	74	7%	33	4%	107	6%
91% to 100%	73	7%	44	5%	117	6%
Subtotal	**365**	**34%**	**179**	**22%**	**544**	**29%**
101% to 120%	179	17%	139	17%	318	17%
121% to 150%	263	25%	320	39%	583	31%
151% to 180%	179	17%	130	17%	309	16%
Greater than 180%	87	7%	44	5%	131	7%
Subtotal	**708**	**66%**	**633**	**78%**	**1,341**	**71%**
Total	**1,073**	**100%**	**812**	**100%**	**1,885**	**100%**

For the Bank's mortgages 'greater than 90 days past due and / or impaired' the tables above illustrate the indexed loan to value ratios at the applicable reporting dates, which reflect the application of the CSO index to the portfolio, capital reductions and out of course customer payments.

Of the loans that were 'greater than 90 days past due and / or impaired', €0.6 billion (24%) are in positive equity (31 December 2011: €0.5 billion (29%)), while €1.9 billion (76%) are in negative equity at 31 December 2012 (31 December 2011: €1.3 billion (71%)).

Of the Owner occupied mortgages, 30% of the loans 'greater than 90 days past due and / or impaired' are in positive equity (31 December 2011: 34%) and 16% of the Buy to let mortgages 'greater than 90 days past due and / or impaired are in positive equity.

Asset Quality

Table 4

Loans and advances to customers composition and impairment

As at 31 December 2012	Advances €'m	Loans >90 days past due and / or impaired loans €'m	Loans >90 days past due and / or impaired loans as a % of advances %	Impairment provisions €'m	Impairment provisions as a % of loans >90 days past due and / or impaired loans %
Owner occupied mortgages	15,938	1,443	9%	494	34%
Buy to let mortgages	4,830	1,102	23%	529	48%
Total residential mortgages	**20,768**	**2,545**	**12%**	**1,023**	**40%**

As at 31 December 2011	Advances €'m	Loans >90 days past due and / or impaired loans €'m	Loans >90 days past due and / or impaired loans as a % of advances %	Impairment provisions €'m	Impairment provisions as a % of loans >90 days past due and / or impaired loans %
Owner occupied mortgages	15,912	1,073	7%	338	32%
Buy to let mortgages	5,028	812	16%	377	46%
Total residential mortgages	**20,940**	**1,885**	**9%**	**715**	**38%**

The Bank's mortgages that were 'greater than 90 days past due and / or impaired' at 31 December 2012 amounted to €2.5 billion (12%) as compared to €1.9 billion (9%) at 31 December 2011, primarily reflecting the continued impact of the general economic downturn in Ireland and affordability issues including falling disposable incomes and elevated unemployment levels. In such circumstances, the Bank has a range of product options and resolution strategies available to deliver outcomes that maximise recoveries for the Bank while being supportive of our customers.

Mortgage Forbearance

Forbearance occurs when a borrower is granted a temporary or permanent agreed change to the original contractual terms of a mortgage loan ("forbearance treatment"), 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 treatment' is a 'forborne mortgage'.

The Bank has a long established operating infrastructure in place to assess and, where appropriate, implement sustainable forbearance treatments 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.

A range of forbearance strategies are used by the Bank 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. The forbearance strategies adopted by the Bank 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.

Asset Quality (continued)

The nature and type of forbearance treatments include:

- Full Interest: the borrower pays the interest on the principal balance, on a temporary or longer term basis, with the principal balance unchanged.
- Reduced payment (greater than full interest): a temporary or medium term arrangement whereby the borrower pays the full interest due plus an element of principal on the basis that principal payments will increase in the future.
- Term extension (including servicing interest): the original term of the mortgage is extended and all the interest is fully serviced.
- 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 contracted term.
- Other: comprising primarily a combination of forbearance treatments, short term / temporary payment suspensions and payment restructures.

The table below sets out the loan stock[7] of forborne mortgages that have current active formal forbearance treatments in place at 31 December 2012 (i.e. excludes mortgages that have expired forbearance treatments).

Table 5

Formal forbearance treatments - mortgage book (before impairment provisions) As at 31 December 2012	Current and / or loans not in default		Loans > 90 days in arrears and / or impaired		All loans	
	Balance €'m	Number of accounts[3]	Balance €'m	Number of accounts[3]	Balance €'m	Number of accounts[3]
Owner occupied						
Full Interest	336	2,381	277	1,945	613	4,326
Reduced Payment (greater than interest only)[8]	220	1,205	68	300	288	1,505
Term Extension (including interest servicing)	173	2,067	18	210	191	2,277
Arrears Capitalisation[9]	53	444	5	14	58	458
Other	72	529	20	144	92	673
Total	**854**	**6,626**	**388**	**2,613**	**1,242**	**9,239**
Buy to let						
Full Interest	136	721	78	424	214	1,145
Reduced Payment (greater than interest only)[8]	169	689	45	142	214	831
Term Extension (including interest servicing)	55	434	8	42	63	476
Arrears Capitalisation[9]	10	57	7	23	17	80
Other	28	142	7	29	35	171
Total	**398**	**2,043**	**145**	**660**	**543**	**2,703**
Total						
Full Interest	472	3,102	355	2,369	827	5,471
Reduced Payment (greater than interest only)[8]	389	1,894	113	442	502	2,336
Term Extension (including interest servicing)	228	2,501	26	252	254	2,753
Arrears Capitalisation[9]	63	501	12	37	75	538
Other	100	671	27	173	127	844
Total (audited)	**1,252**	**8,669**	**533**	**3,273**	**1,785**	**11,942**

[3] The number of accounts does not equate to either the number of customers or the number of properties.

[7]Comprises the current stock position of forbearance arrangements agreed since November 2008 that remain in place as at 31 December 2012, for example, where a mortgage loan is granted a full interest forbearance treatment for a defined period of time, and this treatment has expired prior to 31 December 2012, this mortgage loan is not included in the stock of current active forbearance treatments.

[8]Hybrids are reported at 31 December 2011 with 'Reduced payment (greater than full interest)' and are now reported in 'Other'.

[9]Arrears capitalisation were reported at December 2011 within Term Extensions (including interest servicing) and are now being reported separately.

Asset Quality (continued)

Table 5 (continued)

Formal forbearance treatments - mortgage book (before impairment provisions) As at 31 December 2011	Current and / or loans not in default		Loans > 90 days in arrears and / or impaired		All loans	
	Balance €'m	Number of accounts[3]	Balance €'m	Number of accounts[3]	Balance €'m	Number of accounts[3]
Owner occupied						
Full Interest	387	2,637	142	921	529	3,558
Reduced Payment (greater than interest only)	181	870	12	63	193	933
Term Extension (including interest servicing)	139	1,647	8	82	147	1,729
Arrears Capitalisation	1	15	3	3	4	18
Other	32	211	7	49	39	260
Total	**740**	**5,380**	**172**	**1,118**	**912**	**6,498**
Buy to let						
Full Interest	153	793	50	239	203	1,032
Reduced Payment (greater than interest only)	140	583	16	33	156	616
Term Extension (including interest servicing)	48	364	4	20	52	384
Arrears Capitalisation	-	4	5	17	5	21
Other	6	36	3	5	9	41
Total	**347**	**1,780**	**78**	**314**	**425**	**2,094**
Total						
Full Interest	540	3,430	192	1,160	732	4,590
Reduced Payment (greater than interest only)	321	1,453	28	96	349	1,549
Term Extension (including interest servicing)	187	2,011	12	102	199	2,113
Arrears Capitalisation	1	19	8	20	9	39
Other	38	247	10	54	48	301
Total (audited)	**1,087**	**7,160**	**250**	**1,432**	**1,337**	**8,592**

The above tables show the volume of the Bank's mortgage accounts in formal forbearance treatments. These have increased from €1.3 billion or 8,592 accounts at December 2011 to €1.8 billion or 11,942 accounts at 31 December 2012. Owner occupied forbearance treatments have increased from €0.9 billion or 6,498 accounts to €1.2 billion or 9,239 accounts at 31 December 2012. Buy to let forbearance treatments have increased from €0.4 billion or 2,094 accounts to €0.5 billion or 2,703 accounts. This movement is in line with the Bank of Ireland Group's strategy to maximise the level of sustainable forbearance treatments in place for borrowers in financial difficulty.

In addition to the 11,942 accounts in formal forbearance treatments outlined in the table on the previous page, there were a further 1,400 arrears accounts, as at 31 December 2012, for which the borrower is meeting their contractual payments and an informal arrangement is in place to pay down their arrears.

[3] The number of accounts does not equate to either the number of customers or the number of properties.

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)

As at 31 December 2012, €0.8 billion or 5,471 accounts were subject to Full Interest forbearance treatments, compared to €0.7 billion or 4,590 accounts on 31 December 2011. 4,099 of the 5,471 accounts with Full Interest forbearance were new forbearance treatments put in place during the year. In addition, a further 2,439 accounts exited forbearance (i.e. migration to neither past due nor impaired, less than 90 days past due or greater than 90 days past due and/or impaired) and 779 accounts changed their forbearance treatment type during the year. This movement also reflects the introduction of a new long term Full Interest forbearance treatment during the second half of 2012 with 394 accounts on this treatment as at 31 December 2012.

Reduced payment (greater than full interest) also increased from €350 million or 1,549 accounts compared to €502 million or 2,336 accounts on 31 December 2012. 1,821 of the 2,336 accounts with Reduced payment (greater than full interest) were new forbearance treatments put in place during the year. In addition, a further 730 accounts exited forbearance and a further 304 accounts changed their forbearance treatment type during the year. This movement also reflects the introduction of a new long term Full Interest plus forbearance treatment during the second half of 2012 with 273 accounts on this treatment as at 31 December 2012.

During 2012, Term Extensions increased to €254 million or 2,753 accounts at 31 December 2012 from €199 million or 2,113 accounts at 31 December 2011, 'Other' forbearance treatments, increased to €127 million or 844 accounts at 31 December 2012 from €48 million or 301 accounts. These primarily include combination forbearance treatments. Balances on which arrears were capitalised increased to €75 million or 538 accounts at 31 December 2012 from €9 million or 39 accounts in 31 December 2011.

Of the €1.8 billion of mortgages (before impairment provisions) subject to forbearance at 31 December 2012 (December 2011 €1.3 billion), 99% of these are for repayments of full interest or greater on their balances (December 2011: 98%).

Mortgage Arrears

The Bank continues to invest in its Mortgage Arrears Resolution Process ("MARP") infrastructure and the implementation of restructuring and resolution options for our customers. The increase in forbearance activity reflects the on-going effectiveness of the Bank's Mortgage Arrears Resolution Strategy ("MARS") in dealing with customers encountering mortgage difficulties.

The Bank has adopted the requirements of the Central Bank of Ireland Code of Conduct on Mortgage Arrears (CCMA)[10], which, among other things, requires mortgage lenders to establish a MARP for defined owner occupied mortgages. The MARP sets out the framework for case by case consideration and implementation of a range of measures for qualifying borrowers.

The revised CCMA includes more detailed procedural and operational requirements for lenders when dealing with borrowers experiencing arrears and financial difficulties.

The CCMA only applies to those borrowers who have notified their lender that they are facing financial difficulties and may be at risk of mortgage arrears i.e. pre-arrears cases or existing arrears cases. The CCMA does not require the Bank to provide forbearance treatments to borrowers who are not in financial difficulty, regardless of whether or not the borrower is in negative equity.

In addition to the MARP established by the Bank, a clearly defined MARS incorporating both owner occupied and buy to let mortgages is in place. To implement this strategy the Bank has established a programme which 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. In addition, the Bank has set out a clearly defined MARS incorporating both owner occupied and buy to let mortgages.

The Personal Insolvency Act 2012

The Personal Insolvency Act 2012 (the "Insolvency Act"), enacted in December 2012, provides for three debt resolution options for consumers deemed to have unsustainable indebtedness levels. These options are an alternative to bankruptcy and the Insolvency Act also amends existing bankruptcy provisions. The three debt resolution options are:

- Debt Relief Notice;
- Debt Settlement Arrangement; and
- Personal Insolvency Arrangement.

[10] The revised Code of Conduct on Mortgage Arrears (CCMA) was issued by the Central Bank of Ireland in December 2010.

Asset Quality (continued)

The Bank is participating in an Unsecured Credit Protocol which seeks to agree alternative repayment schedules on unsecured debt between participating lenders, without requiring the customer to engage separately with each lender. This initiative seeks to deal with unsecured debt in a manner that supports a sustainable mortgage repayment capacity. The Bank is actively preparing for the operational implications of the new Insolvency regime both internally and at industry level.

Repossessions

At 31 December 2012, the Bank had possession of properties held as security as follows:

Table 6

Repossessions	31 December 2012		31 December 2011	
	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
Owner occupied mortgages	64	16	64	19
Buy to let mortgages	55	15	42	10
Total residential repossessions	**119**	**31**	**106**	**29**

Table 7

Disposals of repossessions

31 December 2012	Number of disposals during the year	Balance outstanding after provision €'m
Disposals of repossessions		
Owner occupied mortgages	66	8
Buy to let mortgages	37	2
Total residential repossessions	**103**	**10**

31 December 2011	Number of disposals during the year	Balance outstanding after provision €'m
Disposals of repossessions		
Owner occupied mortgages	42	5
Buy to let mortgages	6	1
Total residential repossessions	**48**	**6**

During the year ended 31 December 2012 the Bank disposed of 103 repossessed properties[11] (31 December 2011: 48). The total contracted disposal proceeds was adequate to cover the balance outstanding after the related provisions.

During the year ended 31 December 2012, the proceeds from disposals of Owner occupied repossessed properties was €8 million (year ended 31 December 2011: €6 million).

During the year ended 31 December 2012, the proceeds from disposals of Buy to let repossessed properties was €2 million (year ended 31 December 2011: €1 million).

[11] *The number of properties disposed of during the year ended 31 December 2012 and year ended 31 December 2011 includes those which were subject to an unconditional contract for sale at year end date.*