Preliminary Statement

For the year ended
31 December 2013

Bank of Ireland Group

For small steps, for big steps, for life

Bank of Ireland

Preliminary Statement

for the year ended 31 December 2013

Forward-Looking statement

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

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

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

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

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

For further information please contact:

Andrew Keating
Group Chief Financial Officer
Tel: +353 76 623 5141

Mark Spain
Director of Group Investor Relations
Tel: +353 76 623 4850

Pat Farrell
Head of Group Communications
Tel: +353 76 623 4770

Contents

Business review

Financial information

Other Information

View this report online

This Preliminary Statement and other information relating to Bank of Ireland is available at:

www.bankofireland.com

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

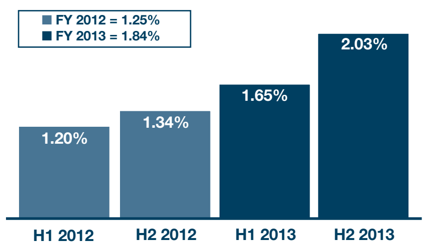
Key highlights

Business highlights

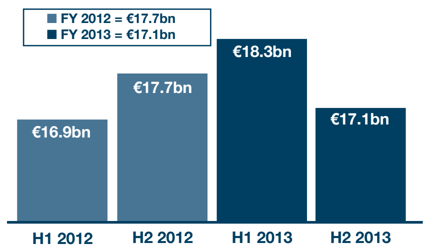
- Strategic position strengthened; New Ireland Assurance Company plc retained.
- Successful execution of the capital package in relation to the 2009 Preference Stock; 'step-up' addressed.
- Safely managed Eligible Liabilities Guarantee (ELG) Scheme expiry.
- Reimbursement of Irish Government investments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

Financial highlights

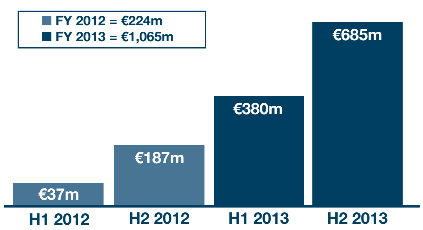
Net interest margin (before ELG fees) %



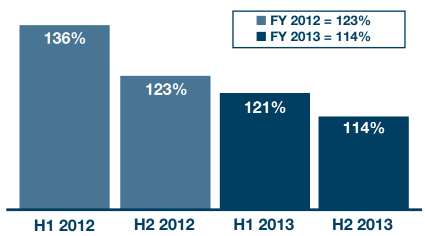
Defaulted loan volumes €bn



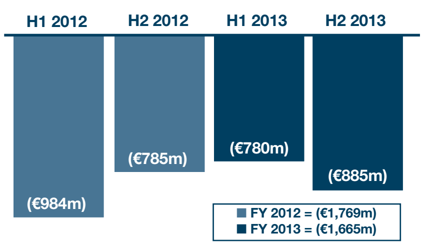
Underlying operating profit pre-impairment €m



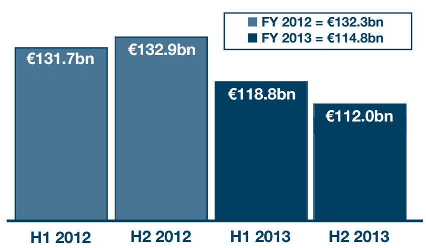
Loan to deposit ratio %



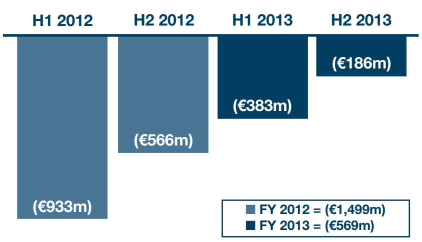
Impairment charges €m



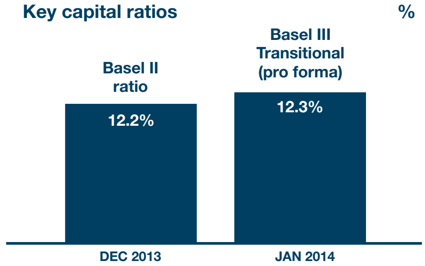
Average interest earning assets €bn



Underlying profit / (loss) before tax €m



Key capital ratios %



Group Chief Executive's review

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

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

Richie Boucher, Group Chief Executive Officer

2013 - a year of further substantial progress

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

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

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

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

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

We safely managed the ELG expiry

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

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

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

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

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

The regulatory BSA / AQR has been addressed

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

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

Taxpayers rewarded and repaid

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

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

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

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

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

We have accessed markets across all levels of our capital structure

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

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

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

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

Capital ratios maintained above planning and regulatory requirements

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

Strategic positioning strengthened by retaining New Ireland Assurance Company plc

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

Strong franchise positions

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

Economic conditions are improving with the outlook becoming more favourable

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

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

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

We are continuing to invest in our core franchises

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

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

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

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

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

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

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

We are also continuing to invest in our international businesses

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

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

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

Total focus on delivering our priorities for 2014 and beyond

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

Building strong relationships with customers continues to be our key priority

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

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

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

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

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

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

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

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

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

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

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

People – the key differentiator for our business

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

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

Outlook – confident in the Group's prospects

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

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

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

Richie Boucher
28 February 2014

Operating and financial review

Performance summary

	Year ended 31 December 2013 €m	Restated[1] Year ended 31 December 2012 €m
Group performance on an underlying[2] basis		
Net interest income (before ELG fees)	2,133	1,755
Eligible Liabilities Guarantee (ELG) Scheme fees[3]	(129)	(388)
Other income (net)	642	495
Operating income (net of insurance claims)	2,646	1,862
Operating expenses	(1,581)	(1,638)
Operating profit before impairment charges on financial assets	**1,065**	**224**
Impairment charges on loans and advances to customers	(1,665)	(1,724)
Impairment charges on available for sale (AFS) financial assets	-	(45)
Share of results of associates and joint ventures (after tax)	31	46
Underlying[2] loss before tax	**(569)**	**(1,499)**
Total non-core items (page 26)	44	(679)
Loss before tax	**(525)**	**(2,178)**
Group performance (underlying[2])		
Net interest margin[4] (%)	1.84%	1.25%
Average interest earning assets (€bn)	115	132
Per unit of €0.05 ordinary stock		
Basic loss per share (€ cent)	(2.3)	(6.7)
Underlying loss per share (€ cent)	(2.4)	(4.7)
Divisional performance[5]		
Underlying[2] operating profit before impairment charges on financial assets		
Retail Ireland	421	154
Bank of Ireland Life	107	96
Retail UK	231	15
Retail UK (Stg£ million equivalent)	*197*	*10*
Corporate and Treasury	619	507
Group Centre (including ELG fees)	(310)	(530)
Other reconciling items[6]	(3)	(18)
Underlying[2] operating profit before impairment charges on financial assets	**1,065**	**224**
Impairment charges on loans and advances to customers		
Residential mortgages	573	462
Non-property SME and corporate	468	413
Property and construction	583	797
Consumer	41	52
Impairment charges on loans and advances to customers	**1,665**	**1,724**
Defaulted loan volumes (€bn)	**17.1**	**17.7**

1 For the impact of restatements and reclassification of the comparative periods please see note 34 on page 158.
2 Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 26 for further information.
3 The Government Guarantee Scheme, the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG scheme) ended for all new liabilities on 28 March 2013. A fee is payable in respect of each liability guaranteed under the ELG scheme until the maturity of the guaranteed deposit or term funding.
4 The net interest margin is stated before ELG fees.
5 For more details on the performance of each division see pages 39 to 52.
6 This relates to segmental income on certain inter-segment transactions, which is eliminated at a Group level.

Performance summary (continued)

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

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

Basis of presentation

This operating and financial review is presented on an underlying basis. For an explanation of underlying see page 26.

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

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

Strategic report

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

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

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

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

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

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

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

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

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

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

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

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

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

All delivered by committed and motivated employees.

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

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

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

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

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

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

EU Restructuring Plan
On 9 July 2013, the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which has enabled the Group to retain NIAC. Further details are set out in note 35.

Overview and market environment

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

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

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

Irish economy

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

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

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

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

UK economy

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

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

Overview and market environment (continued)

levels recorded in more normal economic and credit environment. Property prices have also increased with house prices rising 8.4% in the year to December 2013[16] and are just 5.5% below the previous peak level set in late 2007.

House price gains accelerated in the second half of 2013 suggesting the housing market recovery should continue in 2014. The upturn in UK house prices is becoming broad based with all regions reporting house price increases in Q4 although this continues to be led by London and the South East which is recording the strongest pace of growth.

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

Group income statement

Summary consolidated income statement on an underlying[1] basis

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

[1] *Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 26 for further information.*
[2] *For the impact of restatements and reclassification of the comparative periods please see note 34 on page 158.*

Operating income (net of insurance claims)

Net interest income

TABLE: 1

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

[1] For the impact of restatements and reclassification of the comparative periods please see note 34 on page 158.
[2] The period on period changes in 'net interest income' and 'net other income' are affected by certain IFRS income classifications. Under IFRS, certain assets and liabilities can be designated at 'fair value through profit or loss' (FVTPL). Where the Group has designated liabilities at 'fair value through profit or loss', the total fair value movements on these liabilities, including interest expense, are reported in 'net other income'. However, the interest income on any assets which are funded by these liabilities is reported in the 'net interest income'. In addition, assets are purchased and debt is raised in a variety of currencies and the resulting foreign exchange and interest rate risk is economically managed using derivative instruments – the cost of which is reported in 'net other income'. To enable a better understanding of underlying business trends, the impact of these IFRS income classifications is shown in the table above.

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

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

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

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

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

Eligible Liabilities Guarantee (ELG) fees

TABLE: 2

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

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

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

Net other income

TABLE: 3

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

[1] For the impact of restatements and reclassification of the comparative periods please see note 34 on page 158.

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

Net other income (continued)

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

[1] *For the impact of restatements and reclassification of the comparative periods please see note 34 on page 158.*

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

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

- business income in Retail Ireland has increased by €24 million due to higher retail banking fees €14 million, higher interchange income of €7 million and increased gains on international investment properties €5 million in 2013;
- other income in Bank of Ireland Life of €131 million decreased by €2 million reflecting a change in the mix of new business sales resulting in an increase in the proportion of income recognised as Net interest income. Total operating income in Bank of Ireland Life has increased by 5% to €179 million in the year ended 31 December 2013 compared to the previous year (see page 44);
- business income in Retail UK has decreased by €37 million primarily due to commissions paid to the UK Post Office which were €29 million higher than the previous year. This reflects a change in the contractual arrangements for commission where revised commission arrangements for all products were agreed with the Post Office in August 2012 as part of the renegotiation and extension of the overall financial services relationship. Since August 2012, commission paid is primarily reflected in net other income whereas under previous contractual arrangements a small proportion of the total amount paid was included in operating costs; and
- business income in Corporate and Treasury increased by €4 million to €151 million which is broadly in line with the prior year.

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

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

Net other income (continued)

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

Operating expenses

TABLE: 4

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

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

[1] *For the impact of restatements and reclassification of the comparative periods please see note 34 on page 158.*

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

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

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

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

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

Impairment charges on loans and advances to customers

TABLE: 5

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

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

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

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

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

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

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

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

Impairment charges on loans and advances to customers (continued)

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

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

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

Republic of Ireland SME impairment charges of €233 million for the year ended 31 December 2013 have increased by €10 million from €223 million in the previous year. There have been some signs of improvement for the SME sector, as reflected in modest annual retail sales growth, increased consumer sentiment, and lower business insolvencies. However, there is a lag between consumer sentiment and consumer spending; hence, trading conditions remain difficult. As a result, Republic of Ireland SME impairment charges continue to be at an elevated level, particularly for those sectors correlated with consumer spending. The Group has made significant progress in agreeing end state resolution strategies with a large number of our challenged SME customers, and these strategies will be implemented over time. Impairment charges on our UK SME portfolio increased to €113 million for the year ended 31 December 2013 compared to €53 million in the previous year, primarily driven by a small number of large individual exposures and case specific events. The UK macro-economic conditions and outlook have been on an improving trend in recent months, with the unemployment rate falling.

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

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

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

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

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

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

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

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

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

Impairment charge on available for sale financial assets

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

TABLE: 6

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

Non-core items

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

TABLE: 7

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

Non-core items (continued)

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

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

The Group completed a review of the BSPF during 2013 and is implementing amendments to benefits to address the IAS 19 deficit. Based on the status of implementation of the amendments and assumption changes made at 31 December 2013, the Group has recognised a reduction in the deficit of €391 million net of directly related expenses. The Group has recognised €274 million of this amount as a non-core gain in the income statement, with the remaining €117 million recognised in other comprehensive income. At end February 2014, over 95% of serving staff had accepted the benefit changes and the Group expects to recognise a further reduction in the deficit of €81 million which is expected will be reported as part of non-core gains in the income statement during 2014. Further details are set out in note 28 on page 140.

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

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

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

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

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

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

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

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

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

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

Taxation

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

Group balance sheet

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

Summary consolidated balance sheet

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

[1] For the impact of restatements and reclassification of the comparative periods please see note 34 on page 158.
[2] With effect from 1 January 2013, the deduction for the Group's participation in its Life and pension business is deducted 50:50 from Core tier 1 and tier 2 capital in accordance with the Capital Requirements Directive (CRD). The comparative period has been restated to reflect this change. The previously reported ratio was 14.4%.

Loans and advances to customers

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

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

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

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

Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section of Risk Management see pages 56 to 87.

Liquid assets

TABLE: 8

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

The Group's portfolio of **liquid assets** of €27 billion has decreased by €6.2 billion since 31 December 2012. The reduction is primarily due to the termination of the IBRC repo transaction of €3.1 billion on a no gain / no loss basis, on 13 February 2013 (see note 33), together with a decrease in liquid assets held by Bank of Ireland (UK) plc of €2.8 billion. The reduction in liquid assets held by Bank of Ireland (UK) plc is as a result of more efficient balance sheet management including the sale of loans to the value of €1.5 billion from other Group entities to Bank of Ireland (UK) plc, together with a reduction in deposit volumes in line with the objective of optimising the level of deposits in Bank of Ireland (UK) plc to more appropriately reflect its balance sheet requirements.

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

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

Further analysis of the Group's sovereign and other bonds is set out on pages 163 to 172.

Customer deposits

TABLE: 9

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

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

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

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

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

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

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

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

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

Wholesale funding

TABLE: 10

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

[1] *For the impact of restatements and reclassification of the comparative periods please see note 34 on page 158.*

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

- the termination on a no gain / no loss basis of the IBRC repo transaction of €3.1 billion on 13 February 2013 (see note 17);
- the impact of lower net lending and the sale of assets from other Group entities to Bank of Ireland (UK) plc to the value of €1.5 billion, leading to a reduction in the liquid assets held by Bank of Ireland (UK) plc in excess of regulatory liquidity requirements; and
- the remaining reduction of €7 billion is primarily due to the reduction in funding requirements for the lending book.

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

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

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

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

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

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

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

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

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

Subordinated liabilities

TABLE: 11

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

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

Stockholders' equity

TABLE: 12

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

[1] *For the impact of restatements and reclassification of the comparative periods please see note 34 on page 158.*

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

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

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

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

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

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

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

Other assets and other liabilities

TABLE: 13

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

[1] *For the impact of restatements and reclassification of the comparative periods please see note 34 on page 158.*

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

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

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

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

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

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

Business Review
Financial Information
Other Information

Capital

Regulatory capital and key capital ratios

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

Capital (continued)

Risk weighted assets (RWA)

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

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

Basel II / CRD

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

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

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

1 *Equity is increased in the Basel III pro forma transitional and fully loaded ratios to account for the €81 million arising from the impact of changes made to defined benefit pension schemes which is being realised in Q1 2014 (see note 28).*

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

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

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

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

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

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

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

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

10 *Regulatory deductions fully applicable under Basel II and Basel III.*

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

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

13 *With effect from 1 January 2013, the deduction for the Group's participation in its Life and pension business is deducted 50:50 from Core tier 1 and Tier 2 capital in accordance with the Capital Requirements Directive (CRD). The comparative period has been restated to reflect this change. The previously reported Core tier 1 ratio under Basel II was 14.4%. Otherwise, the 31 December 2012 amounts remain as previously reported for regulatory purposes and have not been restated for the impact of the adoption of new accounting standards in the year ended 31 December 2013 as set out in note 34. The pro forma Core tier 1 ratio at 31 December 2012 would remain unchanged if the amounts were restated for the impact of the accounting changes.*

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

Capital (continued)

Capital actions

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

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

Basel III / CRD IV

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

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

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

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

Transitional Ratio at 1 January 2014

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

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

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

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

Fully Loaded Ratio

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

Capital (continued)

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

Leverage ratio

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

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

Regulatory initiatives

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

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

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

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

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Divisional performance

Divisional performance - on an underlying basis

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

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

[1] For the impact of restatements and reclassification of the comparative periods please see note 34 on page 158.
[2] This relates to segmental income on certain inter-segment transactions, which is eliminated at a Group level.

Retail Ireland

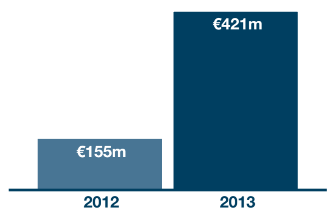
Retail Ireland: Income statement	Year ended 31 December 2013 €m	Restated[1] Year ended 31 December 2012 €m	Change %
Net interest income	886	674	31%
Net other income	326	310	5%
Operating income	**1,212**	**984**	**23%**
Operating expenses	(791)	(829)	5%
Operating profit before impairment charges on financial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

[1] *From 1 January 2013, the Group adopted IAS 19 Employee Benefits (Revised 2011) which resulted in an increase in the pension charge included in operating expenses of €4 million for the year ended 31 December 2012 (see note 34).*

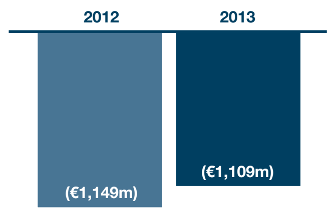
The Group adopted IFRS 10, from 1 January 2013, which resulted in the deconsolidation of certain entities with interests in an international investment property within Retail Ireland. The impact of this has been to reclassify the income statement lines relating to these entities to share of results of associates and joint ventures (after tax), but with no impact on underlying loss before tax. The comparative figures for the year ended 31 December 2012 have been restated to reflect this, resulting in a €9 million increase in net interest income, a €26 million decrease in net other income, a €11 million decrease in operating expenses and a €5 million increase in share of results of associates and joint ventures (after tax) (see note 34).

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

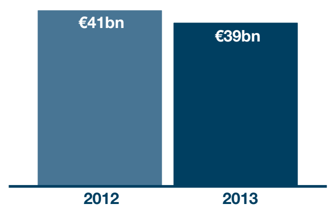
Pre-impairment operating profit €m



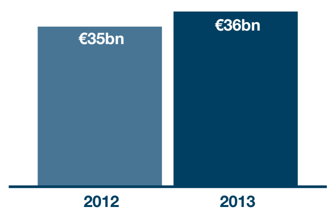
Impairment charges €m



Loans and advances to customers (net) €bn



Customer deposits €bn



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

As set out in note 35, on 9 July 2013 the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which permitted the retention of New Ireland Assurance Company plc (NIAC) its life assurance company which distributes protection, investment and pension products to the Irish market, through independent brokers, its financial advisors (direct sales force) and the Group's branch network, but required a range of substitution measures. One of these substitution measures is that the Group will exit from the origination of new mortgages through its intermediary channel, including the sale (or retirement) of the ICS Building Society's distribution platform together with the sale, if required by the acquirer, of up to €1.0 billion of intermediary originated mortgage assets and matched deposits.

Retail Ireland (continued)

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

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

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

The change in 'net interest income' and 'net other income' is impacted by IFRS income classifications between the two income categories (see page 20).

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

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

Retail Ireland (continued)

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

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

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

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

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

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

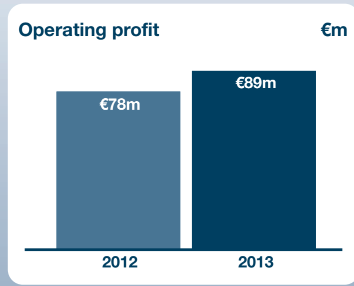
Further analysis and commentary on changes in the loan portfolios, asset quality and impairment is set out in the asset quality and impairment section.

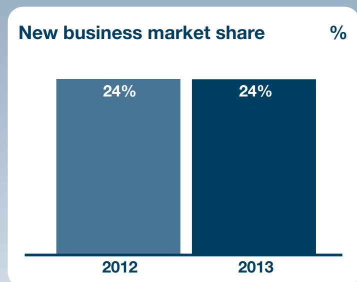
THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Bank of Ireland Life

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

[1] *From 1 January 2013, the Group adopted IAS 19 Employee Benefits (Revised 2011) which resulted in an increase in the pension charge included in operating expenses of €1 million for the year ended 31 December 2012 (see note 34).*





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

As set out in note 35, on 9 July 2013 the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which permitted the retention of NIAC but required a range of substitution measures (see page 162).

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

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

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

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

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

Bank of Ireland Life (continued)

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

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

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

Embedded value performance

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

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

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

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

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

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

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

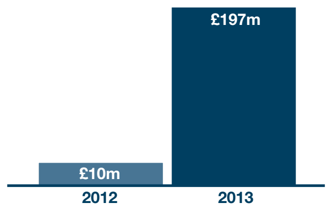
Retail UK (Sterling)

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

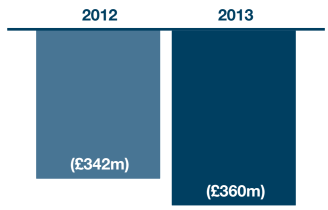
[1] *From 1 January 2013, the Group adopted IAS 19 Employee Benefits (Revised 2011) which resulted in an increase in the pension charge included in operating expenses of £1 million for the year ended 31 December 2012 (see note 34).*

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

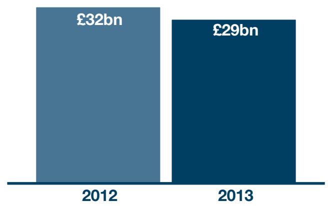
Pre-impairment operating profit £m



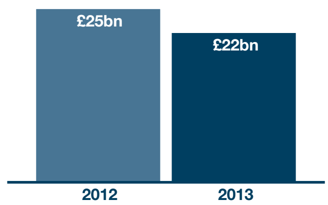
Impairment charges £m



Loans and advances to customers (net) £bn



Customer deposits £bn



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

As set out in note 35, on 9 July 2013, the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which permitted the retention of New Ireland Assurance Company plc (NIAC) but required a range of substitution measures. One of these substitution measures is that the Group will exit its existing Great Britain based business banking activities, with gross assets of c.£3 billion, which form part of the Retail UK division. This measure does not impact on the Group's consumer banking business in Great Britain including its partnership with the Post Office, or its activities in Northern Ireland.

Retail UK (Sterling) (continued)

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

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

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

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

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

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

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

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

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

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

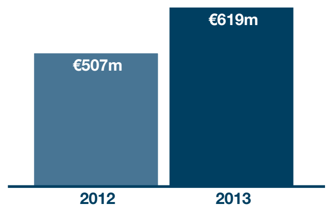
Corporate and Treasury

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

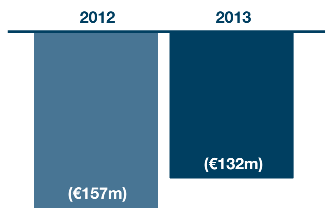
[1] *From 1 January 2013, the Group adopted IAS 19 Employee Benefits (Revised 2011) which resulted in an increase in the pension charge included in operating expenses of €1 million for the year ended 31 December 2012 (see note 34).*

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

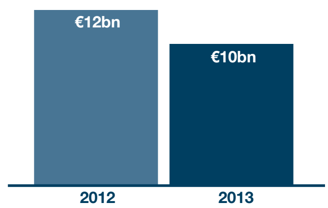
Pre-impairment operating profit €m



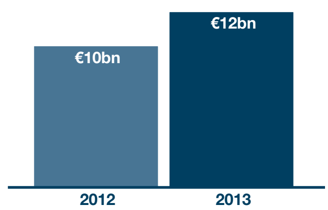
Impairment charges €m



Loans and advances to customers (net) €bn



Customer deposits €bn



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

As set out in note 35, on 9 July 2013, the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which permitted the retention of New Ireland Assurance Company plc (NIAC) but required a range of substitution measures. One of these substitution measures is that the Group will exit from its Great Britain based Corporate Banking activities, which form part of the Corporate and Treasury division. This measure does not impact on the Group's Leveraged Acquisition Finance business.

Corporate and Treasury (continued)

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

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

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

The change in 'net interest income' and 'net other income' is impacted by IFRS income classifications between the two income categories (see page 20).

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

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

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

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

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

Corporate and Treasury (continued)

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

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

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

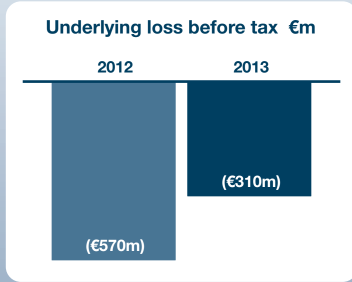
THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Group Centre

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

[1] *From 1 January 2013, the Group adopted IAS 19 Employee Benefits (Revised 2011) which resulted in an increase in the pension charge included in operating expenses of €3 million for the year ended 31 December 2012 (see note 34).*

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



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

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

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

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

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

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Income statement - Operating segments

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

[1] *Underlying performance excludes the impact of non-core items (see page 26).*

Income statement - Operating segments (continued)

Restated[1]

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

1 For the impact of restatements and reclassification of the comparative periods please see note 34 on page 158.
2 This relates to certain inter-segment transactions which are reported as core income in the Corporate and Treasury division but eliminated from the Group's measure of underlying (loss) / profit before tax.
3 Underlying performance excludes the impact of non-core items (see page 26).
4 This relates to charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at fair value through profit and loss.
5 The analysis of the changes arising on the movement in the Group's credit spreads between Other income and Insurance contract liabilities and claims paid has been represented to enhance comparability with the year ended 31 December 2013, with no change to the total amount.

Risk Management

Credit risk

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

Definition of Credit Risk

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

How Credit Risk arises

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

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

Country risk

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

Country risk is governed by the Group Country Risk Policy which is approved by the Court. Limits are set and monitored for countries and for sovereign obligors in accordance with this policy. Further information is set out on page 57.

Settlement risk

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

Credit concentration risk

Credit concentration risk is the risk of loss due to exposures to a single entity or group of entities engaged in similar activities and having similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Undue concentrations could lead to increased volatility in the Group's impairment charges on financial assets, earnings, capital requirements and financial prospects. Management of risk concentrations is an integral part of the Group's approach to risk management. Target levels and, where appropriate, limits are defined by the Court for each credit category. In addition, monetary risk limits are set by the GRPC or its appointed committees and, where necessary, approved by the Court. These target levels and, where appropriate, limits, are informed by the Group's Risk Appetite Statement. Single name concentrations are also subject to limits. As the Group reduces the overall size of its balance sheet, concentration risk may increase in relative terms.

Credit risk (continued)

Definition of Credit Risk (continued)

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

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

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

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

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

Further information on the Group's exposures is set out in note 29.

Credit risk management

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

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

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

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

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

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

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

Credit risk (continued)

Credit risk measurement

All credit transactions are assessed at origination for credit quality and the borrower is assigned a credit grade based on a predefined credit rating scale. The risk, and consequently the credit grade, is reassessed periodically. The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes within the Group. Details of these internal credit rating models are outlined in section on Credit Risk Methodologies on page 81.

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

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

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

Under delegated authority from the Court, the Group's provisioning methodology is approved by the GRPC on a half yearly basis, details of which are set out in Credit Risk Methodologies on page 81.

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

An analysis of the Group's impairment provisions at 31 December 2013 is set out in note 21.

Credit risk mitigation

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

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

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

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

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

Credit risk (continued)

Credit risk mitigation (continued)

Collateral
Credit risk mitigation includes the requirement to obtain collateral, depending on the nature of the product and local market practice, as set out in the Group's policies and procedures. The nature and level of collateral required depends on a number of factors including, but not limited to, the amount of the exposure, the type of facility made available, the term of the facility, the amount of the borrower's own cash input and an evaluation of the level of risk or probability of default. The Group takes collateral as a secondary source, which can be called upon if the borrower is unable or unwilling to service and repay debt as originally assessed.

Various types of collateral are accepted, including property, securities, cash, guarantees and insurance, grouped broadly as follows:

- financial collateral (lien over deposits, shares, etc.);
- residential and commercial real estate;
- physical collateral (plant and machinery, stock, etc.); and
- other collateral (debtors, guarantees, insurance, etc.).

The Group's requirements around completion, valuation and management requirements for collateral are set out in appropriate Group or business unit policies and procedures. The extent to which collateral and other credit enhancements mitigate credit risk in respect of the Group's Residential mortgage portfolio is set out in table 3c on page 178.

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

Credit risk reporting / monitoring

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

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

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

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

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

Credit risk (continued)

Management of challenged assets

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

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

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

Group forbearance strategies

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

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

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

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

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

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

Credit risk (continued)

Management of challenged assets (continued)

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

Book profile - Loans and advances to customers

Loans and advances to customers are shown in the tables below and on pages 62 to 79. The 2012 comparative tables include loans held for sale.

Geographical and industry analysis of loans and advances to customers
The following table gives the geographical and industry breakdown of total loans (before impairment provisions).

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

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

Credit risk (continued)

Book profile - Loans and advances to customers (continued)

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

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

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

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

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

Impairment charges on loans and advances to customers

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

Credit risk (continued)

Impairment charges on loans and advances to customers (continued)

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

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

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

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

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

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

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

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

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

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

Credit risk (continued)

Impairment charges on loans and advances to customers (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit risk (continued)

Impairment charges on loans and advances to customers (continued)

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

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

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

The individual and collective specific provisions at 31 December 2013 are after provisions utilised in the year of €1.1 billion as set out in note 21 on page 134.

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

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

Credit risk (continued)

Impairment charges on loans and advances to customers (continued)

Impairment charge on forborne loans and advances

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

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

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

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

Credit risk (continued)

Impairment charges on loans and advances to customers (continued)

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

Asset Quality - Loans and advances to customers

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

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

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

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

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

Credit risk (continued)

Asset Quality - Loans and advances to customers

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

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

'Impaired' loans are defined as follows:

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

'Defaulted' loans are defined as follows:

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

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

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

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

Risk profile of loans and advances to customers

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

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

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

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

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

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

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

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

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

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

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

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

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

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

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

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

Risk profile of loans and advances to customers

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

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

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

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

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

'Past due and / or impaired'

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

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

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

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

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

31 December 2012 Risk profile of loans and advances to customers - past due and / or impaired	Residential mortgages €m	Non-property SME and corporate €m	Property and construction €m	Consumer €m	Total €m
Total loans and advances to customers					
Past due up to 30 days	810	193	197	71	1,271
Past due up to 31 - 60 days	1.049	69	230	42	1,390
Past due up to 61 - 90 days	456	29	129	20	634
	2,315	291	556	133	3,295
Past due more than 90 days but not impaired	1,407	-	-	-	1,407
Impaired	2,847	4,358	8,809	281	16,295
Defaulted loans	4,254	4,358	8,809	281	17,702
Total loans and advances to customers - past due and / or impaired	6,569	4,649	9,365	414	20,997

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

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

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

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

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

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

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

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

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

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

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

Credit risk (continued)

Asset Quality - Loans and advances to customers (continued)

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

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

The stock of **impairment provisions** increased from €7.5 billion at 31 December 2012 to €8.2 billion at 31 December 2013 and impairment provisions as a percentage of defaulted loans ('total provision cover') also increased from 43% at 31 December 2012 to 48% at 31 December 2013. Impairment provisions of €8.2 billion at 31 December 2013 are after provisions utilised of €1.1 billion as set out in note 21 on page 134.

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

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

Further additional disclosures on the Retail Ireland and Retail UK Residential mortgages is set out in the Supplementary Asset Quality Disclosures section on page 173.

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

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

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

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

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

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

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

Credit risk (continued)

Asset Quality - Segmental analysis

31 December 2013

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

31 December 2012

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

Credit risk (continued)

Asset Quality - Segmental analysis (continued)

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

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

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

Repossessed collateral

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

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

Credit risk (continued)

Asset Quality - Other financial instruments

Asset quality: Other financial instruments

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

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

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

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

In addition, the Group adopted IFRS 10, from 1 January 2013, which resulted in the deconsolidation of certain entities with interests in an international investment property within Retail Ireland. The comparative figures for 31 December have been restated to reflect this, resulting in a reduction of €4 million in liquid assets, which is included in the category A+ to A- above (see note 34 on page 158).

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

Credit risk (continued)

Credit risk methodologies

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit risk (continued)

Credit risk methodologies (continued)

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

Other uses of Internal Estimates

Internal estimates play an essential role in risk management and decision making processes, the credit approval functions, the internal capital allocation function and the corporate governance functions of the Group. The specific uses of internal estimates differ from portfolio to portfolio, and for retail and non-retail approaches, but typically include:

- internal reporting;
- credit management;
- calculation of risk adjusted return on capital (RAROC);
- credit decisioning / automated credit, decisioning;
- borrower credit approval; and
- internal capital allocation between businesses of the Group.

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

Control mechanisms for rating systems

The control mechanisms for rating systems are set out in the Group's model risk policy. Model risk is one of the ten key risk types identified by the Group, the governance of which is outlined in the Group's Risk Framework. RMC approves all risk rating models, model developments, model implementations and all associated policies. The Group mitigates model risk as follows:

- model development standards: the Group adopts centralised standards and methodologies over the operation and development of models. The Group has specific policies on documentation, data quality and management, conservatism and validation. This mitigates model risk at model inception;
- model governance: the Group adopts a uniform approach to the governance of all model related activities. This ensures the appropriate involvement of stakeholders, ensuring that responsibilities and accountabilities are clear;
- model performance monitoring: all models are subject to testing on a quarterly basis. The findings are reported to, and appropriate actions, where necessary, approved by RMC; and
- independent validation: all models are subject to in-depth analysis at least annually. This analysis is carried out by a dedicated unit (the Independent Control Unit – ICU). It is independent of credit origination and management functions.

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

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

Methodology for loan loss provisioning

All credit exposures, either individually or collectively, are regularly reviewed for objective evidence of impairment. Where such evidence of impairment exists, the exposure is measured for an impairment provision. The criteria used to determine if there is objective evidence of impairment include:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties;
- breach of loan covenants or conditions;
- granting a concession to a borrower, for economic or legal reasons, relating to the borrower's financial difficulty that would otherwise not be considered;
- deterioration of the borrower's competitive position;
- deterioration in the value of collateral;
- external rating downgrade below an acceptable level; or
- initiation of bankruptcy proceedings.

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

Residential mortgages

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

Non-property SME and Corporate

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

Credit risk (continued)

Credit risk methodologies (continued)

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

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

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

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

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

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

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

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

A significant element of the Group's credit exposures are assessed for impairment on an individual basis. An analysis of the Group's impairment provisions and impairment charge by nature of impairment provision is set out in the tables on pages 64 and 65.

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

Credit risk (continued)

Credit risk methodologies (continued)

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

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

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

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

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

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

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

The Group's critical accounting estimates and judgments on pages 109 to 110, includes sensitivity analysis disclosure on some of the key judgmental areas, including Residential mortgages, in the estimation of impairment charges.

Where there is objective evidence of impairment on a collective basis, this is reported as a specific provision ('collective specific') in line with individually assessed loans. An analysis of the Group's impairment provisions and impairment charge by nature of impairment provision is set out on pages 64 and 65.

Credit risk (continued)

Credit risk methodologies (continued)

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

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

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

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

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

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

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

The LGD is calculated using historical loan loss experience and is adjusted where appropriate to apply management's credit expertise to reflect current observable data (including an assessment of the

Credit risk (continued)

Credit risk methodologies (continued)

deterioration in the property sector, discounted collateral values and repayment prospects, etc.).

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

The Group's critical accounting estimates and judgements on pages 109 to 111 includes sensitivity analysis disclosure on some of the key judgemental areas in the estimation of IBNR provisions.

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

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

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

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

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

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

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

Credit risk (continued)

Credit risk methodologies (continued)

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

Methodologies for valuation of collateral

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

In relation to commercial property valuations, there is a Court approved policy which sets out the Group's approach to the valuation of commercial property collateral and the key principles applying in respect of the type and frequency of valuation required. This policy is consistent with the CBI regulatory guidance. In line with the policy, valuations may include formal written valuations from external professionals or internally assessed valuations.

Internally assessed valuations are informed by the most appropriate sources available for the assets in question. This may include property specific information / characteristics, local market knowledge, comparable transactions, professional advice (e.g. asset management reports) or a combination thereof, in line with more detailed guidance and metrics which are approved at least annually by GRPC. These guidelines and metrics are informed by both internal and externally sourced market data / valuation information, including input from the Group's Real Estate Advisory Unit (REAU).

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

Liquidity risk

Key points

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

Definition of Liquidity Risk

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

Liquidity risk management

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

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

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

Stress testing and scenario analysis

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

Liquidity risk (continued)

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

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

Liquidity risk measurement
The Group's cash flow and liquidity reporting processes provide management with daily liquidity risk information by designated cash flow categories. These processes capture the cash flows from both on balance sheet and off balance sheet transactions. The tables below summarise the maturity profile of the Group's financial assets and liabilities, excluding those arising from insurance and participating investment contracts at 31 December 2013 and 31 December 2012 based on the remaining contractual maturity period at the balance sheet date (discounted) and the totals agree to the balance sheet on page 100. Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,460 million and €8,502 million respectively (31 December 2012: €5,256 million and €7,988 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts. The Group measures liquidity risk by adjusting the contractual cash flows on retail deposit books to reflect their inherent stability.

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

Liquidity risk (continued)

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

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

1 Excluding equity shares which have no contractual maturity.
2 The maturity date of the NAMA senior bonds is based on their assessed behavioural maturity.
3 As outlined in the Basis of preparation on page 108, comparative periods have been restated the impact of the adoption of 'IFRS 10' Consolidated Financial Statements. See note 34 for additional information.

Liquidity risk (continued)

Liquidity risk mitigation

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

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

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

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

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

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

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

Liquidity risk (continued)

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

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

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

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

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

Funding position
The Group has access to the liquidity operations offered by Monetary Authorities using its pool of contingent collateral. The Group has decreased its usage of liquidity facilities made available by Monetary Authorities primarily by asset deleveraging and growing customer deposits. The Group's funding from Monetary Authorities decreased to €8 billion (net) from €12 billion (net and excluding the IBRC repo transaction) at 31 December 2012 and is all sourced via the ECB's Long Term Refinancing Operation (LTRO) facility. As described in note 33, the Group participated in the ELG scheme, which guaranteed certain liabilities of Irish financial institutions. The scheme was withdrawn effective 28 March 2013. Any existing qualifying liabilities (i.e. those opened from 11 January 2010 up to and including 28 March 2013) will continue to be covered until maturity up to a limit of five years.

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

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

Liquidity risk (continued)

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

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

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

Liquidity risk (continued)

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

- the termination on a no gain / no loss basis of the IBRC repo transaction of €3.1 billion on 13 February 2013 (see note 17);
- the impact of lower net lending and the sale of assets from other Group entities to Bank of Ireland (UK) plc to the value of €1.5 billion, leading to a reduction in the liquid assets held by Bank of Ireland (UK) plc in excess of regulatory liquidity requirements; and
- the remaining reduction of €7 billion is primarily due to the reduction in funding requirements for the lending book.

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

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

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

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

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

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

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

The Group repaid €2.8 billion of senior unsecured debt during 2013. As set out in note 33, the IBRC repo transaction was terminated by the Group on a no gain / no loss basis effective on 13 February 2013, reducing wholesale funding by €3.1 billion.

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

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

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

Capital management

Key points:

- Common equity tier 1 (CET1) ratio is 12.3% on a pro forma basis under the Basel III / CRD IV transitional rules at 1 January 2014. On a pro forma full implementation basis including the 2009 Preference Stock the CET1 ratio is 9.0% at 31 December 2013. The observations from the CBI's BSA / AQR at 30 June 2013 have been addressed in these reported capital ratios.
- Leverage ratio is 4.9% on a Basel III / CRD IV pro forma transitional basis and 3.7% on a pro forma full implementation basis including 2009 Preference Stock.
- The Capital Requirements Regulation (CRR) was published in the Official Journal of the EU on 27 June 2013 and applies from 1 January 2014. The Group continues to expect to maintain a buffer above a CET1 ratio of 10% on a Basel III transitional basis.
- The CBI's BSA / AQR confirmed that the Group had adequate capital to meet the requirements determined under the BSA. The Group was not required to raise additional capital as a result of the BSA.
- On 4 December 2013, the Group announced a capital package in relation to the 2009 Preference Shares which had been agreed with the Irish State and the CBI, comprising (i) the placing of new units of ordinary stock to generate proceeds of c.€537 million (net of expenses), to redeem c.€537 million of the 2009 Preference Shares and (ii) the sale by the NPRFC of €1.3 billion 2009 Preference Shares to private investors. In addition, the Group stated its intention not to redeem the 2009 Preference Stock prior to January 2016, save in certain limited circumstances which would include changes in regulatory capital treatment, breach of waiver deed and taxation. The Group also advised the CBI that it is not the Group's intention to recognise the 2009 Preference Shares as regulatory CET1 capital after July 2016, unless de-recognition would mean that an adequate buffer can not be maintained above applicable regulatory requirements.

Capital management objectives and policies

The objectives of the Group's capital management policy are to ensure that the Group has sufficient capital to cover the risks of its business and support its strategy and at all times to comply with regulatory capital requirements. It seeks to minimise refinancing risk by managing the maturity profile of non-equity capital whilst the currency mix of capital is managed to ensure that the sensitivity of capital ratios to currency movements is minimised. The capital adequacy requirements set by the Central Bank of Ireland are used by the Group as the basis for its capital management. These requirements set a floor under which capital levels must not fall. The Group seeks to maintain sufficient capital to ensure that even under difficult conditions these requirements are met.

The EU Capital Requirements Directive (CRD I) came into force on 1 January 2007 and is divided into three sections commonly referred to as Pillars.

- Pillar I introduced the Internal Ratings Based Approach (IRBA) which permits banks to use their own internal rating systems to calculate their capital requirements for credit risk. Use of IRBA is subject to regulatory approval Where credit portfolios are not subject to IRBA, the calculation of the minimum capital requirements is subject to the Standardised Approach;
- Pillar II of the CRD deals with the regulatory response to the first pillar whereby banks undertake an Internal Capital Adequacy Assessment Process (ICAAP) which is then subject to supervisory review; and
- Pillar III of the CRD (Market Discipline) involves the disclosure of a range of qualitative and quantitative information relating to capital and risk.

The CRD also introduced a requirement to calculate capital requirements, and to set capital aside, with respect to operational risk. In assessing capital adequacy the Group is also required to set capital aside for market risk. The Group considers other methodologies of capital metrics used by rating agencies. Separately it also calculates economic capital based on its own internal models. The Group stress tests the capital held to ensure that under difficult conditions, it continues to comply with regulatory minimum ratios.

Basel III / CRD IV

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

The Group continues to expect to maintain a buffer above a CET1 ratio of 10% on a transitional basis. The Basel III / CRD IV transition rules results in a number of new deductions from CET1 capital being introduced on a phased basis typically with a 20% impact in 2014, 40% in 2015 and so on until 2018. The Central CBI published their 'Implementation of Competent Authority Discretions and Options in CRD IV and CRR' on 24 December 2013 which clarifies the application of transitional rules in Ireland under CRD IV.

Capital management (continued)

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

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

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

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

Capital resources
The following table sets out the Group's capital resources.

Group capital resources	**31 December 2013 €m**	Restated[1] 31 December 2012 €m
Nominal amount outstanding of 2009 Preference Stock	1,300	1,837
Other equity (including equity reserves)	6,575	6,820
Stockholders' equity	7,875	8,657
Non-controlling interests – equity	(6)	(2)
Total equity	**7,869**	**8,655**
Undated subordinated loan capital	162	165
Dated subordinated loan capital	1,513	1,542
Total capital resources	**9,544**	**10,362**

[1] *As outlined in the Group accounting policies on page 108, the comparative period has been restated to reflect the adoption of IAS 19 Employee Benefits (Revised 2011) (IAS 19R) and IFRS 10 Consolidated Financial Statements. See note 34 for additional information.*

In the year ended 31 December 2013 the Group's total capital resources decreased by €0.8 billion to €9.5 billion due primarily to:
- the loss after tax arising during the year ended 31 December 2013 driven by impairment charges on loans and advances to customers;
- the payment of €0.2 billion in dividends for the State's preference shares.

THIS PAGE HAS INTENTIONALLY BEEN LEFT BLANK

Financial information

Consolidated income statement for the year ended 31 December 2013

	Note	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Interest income	2	3,669	4,006
Interest expense	3	(1,665)	(2,560)
Net interest income		**2,004**	**1,446**
Net insurance premium income	4	1,073	1,156
Fee and commission income	5	493	515
Fee and commission expense	5	(192)	(215)
Net trading income / (expense)	6	12	(275)
Life assurance investment income, gains and losses	7	531	678
Other operating income	8	68	148
Total operating income		**3,989**	**3,453**
Insurance contract liabilities and claims paid	9	(1,470)	(1,725)
Total operating income, net of insurance claims		**2,519**	**1,728**
Other operating expenses	10	(1,581)	(1,638)
Impact of amendments to defined benefit pension schemes	28	274	-
Cost of restructuring programme	11	(90)	(150)
Operating profit / (loss) before impairment charges on financial assets and loss on deleveraging		**1,122**	**(60)**
Impairment charges on financial assets	12	(1,665)	(1,769)
Loss on deleveraging of financial assets		(3)	(326)
Operating loss		**(546)**	**(2,155)**
Share of results of associates and joint ventures (after tax)		31	46
Loss on disposal / liquidation of business activities	13	(10)	(69)
Loss before tax		**(525)**	**(2,178)**
Taxation credit	14	35	337
Loss for the year		**(490)**	**(1,841)**
Attributable to stockholders		(487)	(1,835)
Attributable to non-controlling interests		(3)	(6)
Loss for the year		**(490)**	**(1,841)**
Earnings per unit of €0.05 ordinary stock	15	(2.3c)	(6.7c)
Diluted earnings per unit of €0.05 ordinary stock	15	(2.3c)	(6.7c)

* *As outlined in the Group accounting policies on page 108, comparative years have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

Archie G Kane	***Patrick O'Sullivan***	***Richie Boucher***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Consolidated statement of comprehensive income for the year ended 31 December 2013

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Loss for the year	**(490)**	**(1,841)**
Other comprehensive income, net of tax:		
Items that may be reclassified to profit or loss in subsequent years:		
Available for sale reserve, net of tax:		
Changes in fair value	361	889
Transfer to income statement		
- Asset disposal	(44)	(53)
- Impairment	-	39
Net change in available for sale reserve	**317**	**875**
Cash flow hedge reserve, net of tax:		
Changes in fair value	230	546
Transfer to income statement	(411)	(398)
Net change in cash flow hedge reserve	**(181)**	**148**
Foreign exchange reserve:		
Foreign exchange translation (losses) / gains	(93)	80
Transfer to income statement on liquidation of non-trading entities	12	56
Net change in foreign exchange reserve	**(81)**	**136**
Total items that may be reclassified to profit or loss in subsequent years	**55**	**1,159**
Items that will not be reclassified to profit or loss in subsequent years:		
Remeasurement of the net defined benefit pension liability	(117)	(775)
Revaluation of property, net of tax	-	(1)
Total items that will not be reclassified to profit or loss in subsequent years	**(117)**	**(776)**
Other comprehensive income for the year, net of tax	**(62)**	**383**
Total comprehensive income for the year, net of tax	**(552)**	**(1,458)**
Total comprehensive income attributable to equity stockholders	(549)	(1,452)
Total comprehensive income attributable to non-controlling interests	(3)	(6)
Total comprehensive income for the year, net of tax	**(552)**	**(1,458)**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

The effect of tax on these items is shown in note 14.

Archie G Kane	***Patrick O'Sullivan***	***Richie Boucher***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Consolidated balance sheet as at 31 December 2013

	Note	31 December 2013 €m	Restated* As at 31 December 2012 €m	Restated* As at 1 January 2012[1] €m
Assets				
Cash and balances at central banks		6,385	8,472	8,181
Items in the course of collection from other banks		363	448	443
Trading securities		252	143	6
Derivative financial instruments		3,492	5,847	6,362
Other financial assets at fair value through profit or loss	16	10,306	9,460	8,914
Loans and advances to banks	17	4,759	9,502	8,051
Available for sale financial assets	18	12,104	11,093	10,262
NAMA senior bonds	19	3,957	4,428	5,016
Loans and advances to customers	20	84,514	92,621	99,314
Interest in associates		89	91	79
Interest in joint ventures		209	227	245
Intangible assets		374	371	393
Investment properties		805	848	995
Property, plant and equipment		322	333	336
Current tax assets		28	33	9
Deferred tax assets	27	1,714	1,640	1,371
Other assets		2,460	2,405	2,269
Retirement benefit asset	28	4	2	8
Assets classified as held for sale		-	-	2,446
Total assets		**132,137**	**147,964**	**154,700**
Equity and liabilities				
Deposits from banks	22	12,213	21,125	31,382
Customer accounts	23	73,867	75,170	70,506
Items in the course of transmission to other banks		147	268	271
Derivative financial instruments		3,228	5,274	6,018
Debt securities in issue	24	15,280	18,073	19,124
Liabilities to customers under investment contracts		5,460	5,256	4,954
Insurance contract liabilities		8,502	7,988	7,037
Other liabilities		2,841	3,137	3,106
Current tax liabilities		28	23	86
Provisions	26	90	119	38
Deferred tax liabilities	27	92	92	88
Retirement benefit obligations	28	845	1,077	348
Subordinated liabilities	25	1,675	1,707	1,426
Liabilities classified as held for sale		-	-	13
Total liabilities		**124,268**	**139,309**	**144,397**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

[1] *Opening balance sheet as at 1 January 2012 reflects the Group's restated closing balance as at 31 December 2011.*

Consolidated balance sheet as at 31 December 2013 (continued)

	Note	31 December 2013 €m	Restated* As at 31 December 2012 €m	Restated* As at 1 January 2012 €m
Equity				
Capital stock	31	2,558	2,452	2,452
Stock premium account	32	1,135	1,210	5,127
Retained earnings		3,791	4,673	3,571
Other reserves		404	336	(869)
Own stock held for the benefit of life assurance policyholders		(13)	(14)	(15)
Stockholders' equity		**7,875**	**8,657**	**10,266**
Non-controlling interests		(6)	(2)	37
Total equity		**7,869**	**8,655**	**10,303**
Total equity and liabilities		**132,137**	**147,964**	**154,700**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

Archie G Kane	***Patrick O'Sullivan***	***Richie Boucher***	***Helen Nolan***
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Consolidated statement of changes in equity for the year ended 31 December 2013

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Capital stock		
Balance at the beginning of the year	2,452	2,452
Issue of ordinary stock (note 30)	111	-
Redemption of the 2009 Preference Stock (note 30)	(5)	-
Balance at the end of the year	**2,558**	**2,452**
Stock premium account		
Balance at the beginning of the year	1,210	5,127
Issue of ordinary stock (note 30)	469	-
Transaction costs on issue of ordinary stock (note 30)	(12)	-
Redemption of the 2009 Preference Stock (note 30)	(532)	-
Transfer to retained earnings (note 32)	-	(3,920)
Transaction costs on transfer to retained earnings (note 32)	-	3
Balance at the end of the year	**1,135**	**1,210**
Retained earnings		
Balance at the beginning of the year (prior to restatement)	4,607	3,507
Effect of change in accounting policy*	66	64
Balance at the beginning of the year (restated)	4,673	3,571
Loss retained	(727)	(2,031)
- Loss for year attributable to stockholders	*(487)*	*(1,835)*
- Dividends on 2009 Preference Stock and other preference equity interests paid in cash	*(240)*	*(196)*
Transfer to capital reserve	(17)	(47)
Transaction costs on the transfer of the 2009 Preference Stock	(27)	-
Remeasurement of the net defined benefit pension liability	(117)	(775)
Transfer from share based payment reserve	4	-
Other movements	2	(4)
Transfer from stock premium account	-	3,920
Purchase of non-controlling interest	-	39
Balance at the end of the year	**3,791**	**4,673**
Other Reserves:		
Available for sale reserve		
Balance at the beginning of the year	150	(725)
Net changes in fair value	414	1,015
Transfer to income statement (pre tax)		
- Asset disposal (note 8)	(50)	(60)
- Impairment (note 12)	-	45
Deferred tax on reserve movements	(47)	(125)
Balance at the end of the year	**467**	**150**
Cash flow hedge reserve		
Balance at the beginning of the year	227	79
Changes in fair value	259	590
Transfer to income statement (pre tax)		
- Net trading income (foreign exchange)	(329)	(473)
- Net interest income (note 2)	(132)	56
Deferred tax on reserve movements	21	(25)
Balance at the end of the year	**46**	**227**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

Consolidated statement of changes in equity for the year ended 31 December 2013 (continued)

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Foreign exchange reserve		
Balance at the beginning of the year	(726)	(862)
Exchange adjustments during the year	(93)	80
Transfer to income statement on liquidation of non-trading entities (note 13)	12	56
Balance at the end of the year	**(807)**	**(726)**
Capital contribution	**116**	**116**
Capital reserve		
Balance at the beginning of the year	557	510
Transfer from retained earnings	17	47
Balance at the end of the year	**574**	**557**
Share based payment reserve		
Balance at the beginning of the year	7	7
Transfer to retained earnings	(4)	-
Balance at the end of the year	**3**	**7**
Revaluation reserve		
Balance at the beginning of the year	5	6
Revaluation of property	-	(2)
Deferred tax on revaluation of property	-	1
Balance at the end of the year	**5**	**5**
Total other reserves	**404**	**336**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

Consolidated statement of changes in equity for the year ended 31 December 2013 (continued)

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Own stock held for the benefit of life assurance policyholders		
Balance at the beginning of the year	(14)	(15)
Changes in value and amount of stock held	1	1
Balance at the end of the year	**(13)**	**(14)**
Total stockholders' equity excluding non-controlling interests	**7,875**	**8,657**
Non-controlling interests		
Balance at the beginning of the year (prior to restatement)	13	50
Effect of change in accounting policy*	(15)	(13)
Balance at the beginning of the year (restated)	(2)	37
Share of net loss	(3)	(6)
Capital contribution by non-controlling interest	-	14
Purchase of non-controlling interest	-	(47)
Other movements	(1)	-
Balance at the end of the year	**(6)**	**(2)**
Total equity	**7,869**	**8,655**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

Archie G Kane	**Patrick O'Sullivan**	**Richie Boucher**	**Helen Nolan**
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Consolidated cash flow statement
for the year ended 31 December 2013

	Note	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Cash flows from operating activities			
Loss before tax		(525)	(2,178)
Share of results of associates and joint ventures		(31)	(46)
Loss on disposal / liquidation of business activities	13	10	69
Depreciation and amortisation		118	142
Impairment charges on financial assets	12	1,665	1,769
Loss on deleveraging of financial assets		3	326
Charge arising on revaluation of property		1	11
Revaluation of investment property		32	25
Interest expense on subordinated liabilities	3	178	159
Charge for retirement benefit obligation	10	133	70
Impact of amendments to defined benefit pension schemes	28	(274)	-
Gain on liability management exercises	8	(4)	(69)
Charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss'	6	154	297
Gain on Contingent Capital Note	3	-	(79)
Net change in accruals and interest payable		(464)	30
Other non-cash items		78	109
Cash flows from operating activities before changes in operating assets and liabilities		**1,074**	**635**
Net change in items in the course of collection from other banks		(41)	(4)
Net change in trading securities		(109)	(137)
Net change in derivative financial instruments		481	(111)
Net change in other financial assets at fair value through profit or loss		(848)	(545)
Net change in loans and advances to banks		3,189	(3,107)
Net change in loans and advances to customers		5,301	5,467
Net change in other assets		382	414
Net change in deposits from banks		(8,901)	(10,265)
Net change in customer accounts		(687)	3,970
Net change in debt securities in issue		(2,477)	(509)
Net change in liabilities to customers under investment contracts		204	302
Net change in insurance contract liabilities		514	951
Net change in other liabilities		25	(433)
Effect of exchange translation and other adjustments		(405)	(679)
Net cash flow from operating assets and liabilities		**(3,372)**	**(4,686)**
Net cash flow from operating activities before tax		**(2,298)**	**(4,051)**
Tax paid		(50)	(36)
Net cash flow from operating activities		**(2,348)**	**(4,087)**
Investing activities (section a below)		(766)	3,150
Financing activities (section b below)		(694)	(751)
Net change in cash and cash equivalents		**(3,808)**	**(1,688)**
Opening cash and cash equivalents		14,328	15,764
Effect of exchange translation adjustments		234	252
Closing cash and cash equivalents		**10,754**	**14,328**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

Consolidated cash flow statement
for the year ended 31 December 2013 (continued)

	Note	**Year ended 31 December 2013 €m**	Restated* Year ended 31 December 2012 €m
(a) Investing activities			
Additions to available for sale financial assets	18	(3,346)	(5,570)
Disposal / redemption of available for sale financial assets	18	2,549	6,013
Additions to property, plant and equipment[1]		(33)	(42)
Disposal of property, plant and equipment		2	6
Additions to intangible assets		(84)	(78)
Disposals of intangible assets		-	3
Disposal of investment property		12	127
Dividends received from joint ventures		50	60
Net change in interest in associates		(2)	(5)
Net proceeds from disposal of loan portfolios		86	1,981
Net proceeds from disposal of business activities		-	655
Cash flows from investing activities		**(766)**	**3,150**
(b) Financing activities			
Redemption of the 2009 Preference Stock	30	(537)	-
Transaction costs on the transfer of the 2009 Preference Stock	30	(27)	-
Net proceeds from issue of ordinary stock	30	568	-
Interest paid on subordinated liabilities		(159)	(136)
Dividend paid on 2009 Preference Stock and other preference equity interests		(240)	(196)
Consideration paid in respect of liability management exercises		(299)	(680)
Proceeds from issue of new subordinated liabilities		-	250
Capital contribution by non-controlling interest		-	14
Consideration paid in respect of purchase of non-controlling interest		-	(3)
Cash flows from financing activities		**(694)**	**(751)**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*
[1] *Excludes €1 million (year ended 31 December 2012: €12 million) of property, plant and equipment acquired under finance lease agreements.*

Archie G Kane	**Patrick O'Sullivan**	**Richie Boucher**	**Helen Nolan**
Governor	*Deputy Governor*	*Group Chief Executive*	*Group Secretary*

Basis of preparation, going concern and other information

Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU) and with those parts of the Companies Acts, 1963 to 2013 applicable to companies reporting under IFRS, with the European Communities (Credit Institutions: Accounts) Regulations, 1992 and with the Asset Covered Securities Acts, 2001 to 2007. The EU adopted version of IAS 39 currently relaxes some of the hedge accounting rules in IAS 39 'Financial Instruments - Recognition and Measurement'. The Group has not availed of this, hence these financial statements comply with both IFRS as adopted by the EU and IFRS as issued by the IASB.

The financial statements have been prepared under the historical cost convention as modified to include the fair valuation of certain financial instruments and land and buildings.

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. A description of the critical estimates and judgements is set out on pages 109 to 111.

The financial statements in this preliminary announcement are not the statutory financial statements of the Group, a copy of which is required to be annexed to the Bank's annual return to the Companies Registration Office in Ireland. A copy of the statutory financial statements required to be annexed to the Bank's annual return in respect of the year ended 31 December 2012 has in fact been so annexed. The auditors of the Group have made a report, without any qualification, on their audit of those statutory financial statements. A copy of the statutory financial statements in respect of the year ended 31 December 2013 will be annexed to the next annual return. The directors approved the Group's statutory financial statements for the year ended 31 December 2013 on 28 February 2014 and the auditors have made a report without any qualification on their audit of those statutory financial statements.

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

Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2013 is a period of twelve months from the date of approval of these financial statements ('the period of assessment').

In making this assessment, the Directors considered the Group's business, profitability projections, funding and capital plans, under both base and plausible stress scenarios, together with a range of other factors such as the outlook for the Irish economy, taking due account of the impact of fiscal realignment measures and the availability of collateral to access the Eurosystem together with the likely evolution and impact of the eurozone crises. The matters of primary consideration by the Directors are set out below:

Capital
On 2 December 2013, the Central Bank of Ireland's Balance Sheet Assessment (BSA)/Asset Quality Review (AQR) confirmed that the Bank had adequate capital as at 30 June 2013 to meet the requirements determined under the BSA, and consequently the Central Bank of Ireland did not require the Bank to raise additional capital as a result of the BSA.

A European-wide stress test is currently expected during 2014 and the phased implementation of CRD IV impacts the Group's capital position during the period of assessment. The Group has developed capital plans under base and stress scenarios and expects to maintain a buffer over regulatory minima throughout the period of assessment.

Basis of preparation, going concern and other information (continued)

During December 2013, the Group successfully executed a Capital Package in relation to the 2009 Preference Stock comprising the placing of new units of ordinary stock to generate proceeds of c.€537 million (net of expenses), to redeem c.€537 million of 2009 Preference Stock, and the sale by the National Pensions Reserve Fund Commission of €1.3 billion of 2009 Preference Stock to private investors. The Capital Package was substantially oversubscribed.

The Directors believe this satisfactorily addresses the capital risk.

Liquidity and funding
During 2013 the Group accessed wholesale funding markets through both secured and unsecured issuances, with a further unsecured issuance in January 2014.

The Group's drawings from Monetary Authorities reduced by €4 billion during the year ended 31 December 2013, from €12 billion at 31 December 2012 (excluding €3 billion relating to the IBRC repo transaction) to €8 billion at 31 December 2013. The €8 billion of Monetary Authority funding matures in the period of assessment, in line with the ECB's 3-year LTRO. The ECB fixed rate full allotment policy in respect of its main refinancing operations, which roll on a short term basis, has been extended to July 2015 at the earliest and is available to the Group during the period of assessment.

It is expected that the Group will continue to require access to the Monetary Authorities for funding during the period of assessment. In addition, in the context of its assessment of going concern, the Group discussed the relevant public announcements from the ECB, the EC and the IMF and the Minister for Finance (together the announcements) with the Central Bank and it sought assurance on the continued availability of required liquidity from the Eurosystem during the period of assessment. The Directors are satisfied, based on the announcements and the clarity of confirmations received from the Central Bank, that, in all reasonable circumstances, the required liquidity and funding from the ECB and the Central Bank will be available to the Group during the period of assessment.

The Directors believe that this satisfactorily addresses the liquidity risk.

Conclusion
On the basis of the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment.

Comparatives

Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current period.

Comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'.

See note 34 for additional information.

Foreign currency translation

The principal rates of exchange used in the preparation of the financial statements are as follows:

	31 December 2013		31 December 2012	
	Average	**Closing**	Average	Closing
€ / Stg£	0.8493	0.8337	0.8109	0.8161
€ / US$	1.3281	1.3791	1.2848	1.3194

Critical accounting estimates and judgements

In preparing the financial statements, the Group makes estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As management judgement involves an estimate of the likelihood of future events, actual results could differ from those estimates, which could affect the future reported amounts of assets and liabilities. The estimates and judgements that have had the most significant effect on the amounts recognised in the Group's financial statements are set out below.

(a) Impairment charges on financial assets

The Group reviews its loan portfolios for impairment on an ongoing basis. The Group first assesses whether objective evidence of impairment exists. This assessment is performed individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The use of historical loss experience is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to differ from those suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess inherent loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances by adjusting the impairment loss derived solely from historical loss experience.

A key judgemental area is in relation to the Residential mortgages portfolio, which has been significantly impacted by the current economic climate, due to a considerable reduction in security values and very low levels of activity in the sector. At 31 December 2013, the Residential mortgages portfolio before impairment provisions amounted to €52 billion (31 December 2012: €55 billion), against which were held provisions for impairment of €2.0 billion (31 December 2012: €1.6 billion). A key assumption used in the calculation of the impairment charge for Residential mortgages is the expected decline in the value of the underlying residential properties securing the loans. At 31 December 2013, the assumption adopted by the Group in respect of the expected average decline in the value of Irish residential properties was 55% from their peak in 2007. The assumptions relating to the anticipated peak to trough house price decline, together with all other key impairment provisioning model factors, continue to be reviewed as part of the Group's year-end and half year financial reporting cycle. A 2% decline in average values beyond this assumed level would give rise to additional impairment provisions of c.€70 million to €80 million. At 31 December 2013 a 2% decline in average values in UK residential properties beyond the assumed peak to trough would give rise to additional impairment provisions of c.£4 million to £6 million.

Residential mortgage impairment charges, in addition to containing judgements in relation to expected declines in residential property prices, also contain key assumptions relating to 'Time to Sale' and 'Loss Emergence periods'. The impairment charges can be sensitive to movements in these assumptions.

'Time to Sale' assumptions estimate the period of time taken from the recognition of the impairment charge to the sale of that collateral. An increase of three months in this assumption for Irish Residential mortgage properties would give rise to additional impairment provisions of c.€8 million to €12 million. An increase of three months in this assumption for UK Residential mortgage properties would give rise to additional impairment provisions of c.£1.5 million to £2.5 million.

'Loss emergence periods' refer to the period of time between the occurrence and reporting of a loss event. An increase of one month in this assumed loss emergence period for Irish residential properties would give rise to additional impairment provisions of c.€5 million to €15 million. An increase of one month in this assumed loss emergence period for UK residential properties would give rise to additional impairment provisions of c.£0.5 million to £1.5 million.

'Weighted average cure rate' assumptions refer to the percentage of loans estimated to return from default to less than 30 days past due and satisfactorily complete a twelve month probation period. A 1% increase in this factor for Irish Residential mortgage properties would give rise to a release of impairment provisions of c.€8 million to €10 million.

A further important judgemental area is in relation to the level of impairment provisions applied to the Property and construction portfolio. The loans in this portfolio have been similarly affected by the current economic climate. Property and construction loans before impairment provisions at 31 December 2013 amounted to €16.8 billion (31 December 2012: €19.2 billion), against which were held provisions for impairment of €4.1 billion (31 December 2012: €3.9 billion).

In the case of the Property and construction portfolio a collective impairment provision is also made for impairment charges that have been incurred but not reported (IBNR). A key assumption used in calculating this charge is the emergence period between the occurrence and reporting of the loss event. An increase of one month in this emergence period beyond this assumed level would give rise to additional impairment provisions of c.€40 million to €45 million.

The estimation of impairment charges is subject to uncertainty, which has increased in the current economic environment, and is highly sensitive to factors such as the level of economic activity, unemployment rates, bankruptcy trends, property price trends and interest rates. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment charges are reviewed regularly in the light of differences between loss estimates and actual loss experience.

In the case of the non-property SME and corporate portfolio a collective impairment provision is also made for impairment charges that have been incurred but not reported (IBNR). A key assumption used in calculating this charge is the emergence period between the occurrence and reporting of the loss event. An increase of one month in this emergence period beyond this assumed level would give rise to additional impairment provisions of c.€30 million to €35 million.

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Group's impairment charge on financial assets are set out in the Credit Risk Methodologies section on pages 81 to 87.

(b) Taxation

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

At 31 December 2013, the Group had a net deferred tax asset of €1,622 million (31 December 2012: €1,548 million (restated)), of which €1,650 million (31 December 2012: €1,500 million) related to trading losses, see note 27.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unutilised tax losses can be utilised. In order for the Group to recognise an asset for unutilised losses it must have convincing evidence of sufficient future taxable profits against which the losses can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of future taxable profits, and the future reversals of existing taxable temporary differences.

To the extent that the recognition of a deferred tax asset is dependent on sufficient future profitability, a degree of estimation and the use of assumptions are required. The Group's judgement takes into consideration the impact of both positive and negative evidence, including historical financial performance, projections of future taxable income, the impact of tax legislation and future reversals of existing taxable temporary differences.

The most significant judgement relates to the Group's assessment of the recoverability of the portion of the deferred tax asset relating to trading losses. Under current Irish and UK tax legislation there is no time restriction on the utilisation of these losses. The Finance (No 2) Act 2013 abolished the tax provision applicable to financial institutions participating in NAMA which restricted by 50% the amount of profits against which the carried forward trading losses could be utilised. The effect of this change is to accelerate the Group's ability to utilise its tax losses carried forward and shorten the recovery period of the deferred tax asset. The Group expects to recover a significant portion of the deferred tax asset in a period more than ten years from the balance sheet date, however it expects that the greater part of the deferred tax asset will be recovered within ten years of the balance sheet date. Of the Group's total deferred tax asset of c.€1.6 billion at 31 December 2013, c.€1.3 billion related to Irish tax losses.

Based on its projections of future taxable income, the Group has concluded that it is probable that sufficient taxable profits will be generated to recover this deferred tax asset and it has been recognised in full.

(c) Retirement benefits

The Group operates a number of defined benefit pension schemes. In determining the actual pension cost, the actuarial values of the liabilities of the schemes are calculated by external actuaries. This involves modelling their future growth and requires management to make assumptions as to discount rates, price inflation, salary and pensions increases, and employee mortality. There are acceptable ranges in which these estimates can validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used. An analysis of the sensitivity of the defined benefit pension liability to changes in the key assumptions is set out in note 28 on retirement benefit obligations.

(d) Life assurance operations

The Group accounts for the value of the stockholders' interest in long term assurance business using the embedded value basis of accounting. Embedded value is comprised of the net tangible assets of Bank of Ireland Life and the present value of in force business. The value of in force business is calculated by projecting future surpluses and other net cash flows attributable to the shareholder arising from business written up to the balance sheet date and discounting the result at a rate which reflects the shareholder's overall risk premium, before provision has been made for taxation.

Future surpluses will depend on experience in a number of areas such as investment returns, lapse rates, mortality and investment expenses. Surpluses are projected by making assumptions about future experience, having regard to both actual experience and forecast long term economic trends.

Changes to these assumptions may cause the present value of future surpluses to differ from those assumed at the balance sheet date and could significantly affect the value attributed to the in force business. The value of in force business could also be affected by changes in the amounts and timing of other net cash flows (principally annual management charges and other fees levied upon the policyholders) or the rate at which the future surpluses and cash flows are discounted. In addition, the extent to which actual experience is different from that assumed will be recognised in the income statement for the period.

(e) Fair value of financial instruments

The Group measures certain of its financial instruments at fair value on the balance sheet. This includes trading securities, other financial assets and liabilities at fair value through profit or loss, all derivatives and available for sale financial assets. The fair values of financial instruments are determined by reference to observable market prices where available and where an active market exists. Where market prices are not available or are unreliable, fair values are determined using valuation techniques including discounted cash flow models which, to the extent possible, use observable market inputs. Where valuation techniques are used they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparable market prices. Using valuation techniques may necessitate the estimation of certain pricing inputs, assumptions or model characteristics such as credit risk, volatilities and correlations and changes in these assumptions could affect reported fair values.

The fair value movements on assets and liabilities held at fair value through profit or loss, including those held for trading, are included in net trading income.

The most significant area of judgement is in relation to certain financial assets and liabilities classified within level 3 of the 3-level fair value hierarchy.

Index to selected note information

1 Operating segments

The Group has five reportable operating segments which reflect the internal financial and management reporting structure and are organised as follows:

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

As set out in note 35, on 9 July 2013 the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which permitted the retention of New Ireland Assurance Company plc (NIAC) its life assurance company which distributes protection, investment and pension products to the Irish market, through independent brokers, its financial advisors (direct sales force) and the Group's branch network, but required a range of substitution measures. One of these substitution measures is that the Group will exit from the origination of new mortgages through its intermediary channel, including the sale (or retirement) of the ICS Building Society's distribution platform together with the sale, if required by the acquirer, of up to €1.0 billion of intermediary originated mortgage assets and matched deposits.

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

As set out in note 35, on 9 July 2013 the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which permitted the retention of NIAC but required a range of substitution measures (see page 162).

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

As set out in note 35, on 9 July 2013, the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which permitted the retention of NIAC but required a range of substitution measures. One of these substitution measures is that the Group will exit its existing Great Britain based business banking activities, with gross assets of c.£3 billion, which form part of the Retail UK division. This measure does not impact on the Group's consumer banking business in Great Britain including its partnership with the Post Office, or its activities in Northern Ireland.

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

As set out in note 35, on 9 July 2013, the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, which permitted the retention of NIAC but required a range of substitution measures. One of these substitution measures is that the Group will exit from its Great Britain based Corporate banking activities, which form part of the Corporate and Treasury division. This measure does not impact on the Group's Leveraged Acquisition Finance business.

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

Other reconciling items
Other reconciling items represent inter segment transactions which are eliminated upon consolidation.

1 Operating segments (continued)

Basis of preparation of segmental information

The analysis of results by operating segment is based on the information used by the chief operating decision maker to allocate resources and assess performance. Transactions between the business segments are on normal commercial terms and conditions. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

The measures of segmental assets and liabilities provided to the chief operating decision maker are not adjusted for transfer pricing adjustments or revenue sharing agreements as the impact on the measures of segmental assets and liabilities is not significant.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

On an ongoing basis, the Group reviews the methodology for allocating funding and liquidity costs in order to ensure that the allocations continue to reflect each division's current funding requirement. During the year ended 31 December 2013, the Group amended the allocation of funding and liquidity costs across the divisions resulting in a reduction of €39 million (31 December 2012: €nil) in net interest income in the Retail UK division with a corresponding increase in net interest income in the Retail RoI and Corporate and Treasury divisions of €32 million (31 December 2012: €nil) and €7 million (31 December 2012: €nil) respectively.

Gross external revenue comprises interest income, net insurance premium income, fee and commission income, net trading income, life assurance investment income gains and losses, other operating income and share of results of associates and joint ventures.

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as 'Underlying profit' in its internal management reporting systems. Underlying profit or loss excludes:

- Impact of changes to pension benefits in the Bank sponsored defined benefit schemes;
- Change arising on the movement in the Group's credit spreads;
- Cost of restructuring programme;
- Gross-up for policyholder tax in the Life business;
- Loss on disposal / liquidation of business activities;
- Loss on deleveraging of financial assets;
- Gain on liability management exercises;
- Investment return on treasury stock held for policyholders; and
- Gain on Contingent Capital Note.

1 Operating segments (continued)

Year ended 31 December 2013	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Net interest income	**886**	**48**	**572**	**617**	**(120)**	**1**	**2,004**
Other income, net of insurance claims	326	149	3	174	(6)	(4)	642
Total operating income, net of insurance claims	**1,212**	**197**	**575**	**791**	**(126)**	**(3)**	**2,646**
Other operating expenses	(759)	(86)	(312)	(167)	(139)	-	(1,463)
Depreciation and amortisation	(32)	(4)	(32)	(5)	(45)	-	(118)
Total operating expenses	**(791)**	**(90)**	**(344)**	**(172)**	**(184)**	**-**	**(1,581)**
Underlying operating profit / (loss) before impairment charges on financial assets	**421**	**107**	**231**	**619**	**(310)**	**(3)**	**1,065**
Impairment charges on financial assets	(1,109)	-	(424)	(132)	-	-	(1,665)
Share of results of associates and joint ventures	(9)	-	40	-	-	-	31
Underlying (loss) / profit before tax	**(697)**	**107**	**(153)**	**487**	**(310)**	**(3)[1]**	**(569)**

Reconciliation of underlying loss before tax to loss before tax	**Group €m**
Underlying loss before tax	(569)
Impact of changes to pension benefits in the Group sponsored defined benefit schemes	274
Change arising on the movement in the Group's credit spreads	(154)
Cost of restructuring programme	(90)
Gross-up for policyholder tax in the Life business	26
Loss on disposal / liquidation of business activities	(10)
Loss on deleveraging of financial assets	(3)
Gain on liability management exercises	4
Investment return on treasury stock held for policyholders	(3)
Loss before tax	**(525)**

[1] *This relates to segmental income on certain inter-segment transactions, which is eliminated at a Group level.*

1 Operating segments (continued)

Restated[1] Year ended 31 December 2012	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Net interest income	674	38	368	633	(347)	1	1,367
Other income, net of insurance claims	309	151	31	58	(35)	(19)	495
Total operating income, net of insurance claims	983	189	399	691	(382)	(18)	1,862
Other operating expenses	(786)	(87)	(349)	(177)	(97)	-	(1,496)
Depreciation and amortisation	(43)	(6)	(35)	(7)	(51)	-	(142)
Total operating expenses	(829)	(93)	(384)	(184)	(148)	-	(1,638)
Underlying operating profit / (loss) before impairment charges on financial assets	154	96	15	507	(530)	(18)	224
Impairment charges on financial assets	(1,149)	-	(423)	(157)	(40)	-	(1,769)
Share of results of associates and joint ventures	6	-	40	-	-	-	46
Underlying (loss) / profit before tax	(989)	96	(368)	350	(570)	(18)[2]	(1,499)

Reconciliation of underlying loss before tax to loss before tax	Group €m
Underlying loss before tax	(1,499)
Change arising on the movement in the Group's credit spreads	(297)
Cost of restructuring programme	(150)
Gross-up for policyholder tax in the Life business	16
Loss on disposal / liquidation of business activities	(69)
Loss on deleveraging of financial assets	(326)
Gain on liability management exercises	69
Investment return on treasury stock held for policyholders	(1)
Gain on Contingent Capital Note	79
Loss before tax	(2,178)

[1] *From 1 January 2013, the Group adopted IFRS 10, which resulted in the deconsolidation of certain entities with interests in an international investment property within Retail Ireland. The impact of this has been to reclassify the income statement lines relating to these entities to share of results of associates and joint ventures (after tax), but with no impact on underlying loss before tax. The comparative figures for the year ended 31 December 2012 for Retail Ireland have been restated to reflect this, resulting in a €9 million increase in Net interest income, a €26 million decrease in Other income, net of insurance claims, an €11 million decrease in Other operating expenses and a €5 million increase in share of results of associates and joint ventures (after tax) (see note 34).*

From 1 January 2013, the Group adopted IAS 19 Employee Benefits (Revised 2011) which resulted in an increase totalling €11 million across the segments in the pension charge included within Other operating expenses for the year ended 31 December 2012 (see note 34).

The total loss on sale of assets to NAMA of €1 million for the year ended 31 December 2012 which had previously been reported across the segments as a separate line item is now included in Other income, net of insurance claims under each impacted division.

[2] *This relates to segmental income on certain inter-segment transactions, which is eliminated at a Group level.*

1 Operating segments (continued)

Year ended 31 December 2013 Analysis by operating segment	**Retail Ireland €m**	**Bank of Ireland Life €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Group Centre €m**	**Other reconciling items €m**	**Group €m**
Investment in associates and joint ventures	**196**	**36**	**66**	**-**	**-**	**-**	**298**
External assets	40,514	13,153	43,928	30,222	4,320	-	132,137
Inter segment assets	51,134	2,397	23,000	103,403	35,394	(215,328)	-
Total assets	**91,648**	**15,550**	**66,928**	**133,625**	**39,714**	**(215,328)**	**132,137**
External liabilities	47,421	14,438	29,836	29,929	2,630	14	124,268
Inter segment liabilities	43,920	321	34,731	102,861	33,489	(215,322)	-
Total liabilities	**91,341**	**14,759**	**64,567**	**132,790**	**36,119**	**(215,308)**	**124,268**

Restated* Year ended 31 December 2012 Analysis by operating segment	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Investment in associates and joint ventures	210	42	66	-	-	-	318
External assets	43,292	12,288	51,193	37,264	3,927	-	147,964
Inter segment assets	51,267	2,558	43,589	129,317	40,830	(267,561)	-
Total assets	94,559	14,846	94,782	166,581	44,757	(267,561)	147,964
External liabilities	47,059	13,644	34,213	42,031	2,349	13	139,309
Inter segment liabilities	47,608	389	58,387	123,888	37,289	(267,561)	-
Total liabilities	94,667	14,033	92,600	165,919	39,638	(267,548)	139,309

* *As outlined in the Accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

1 Operating segments (continued)

Year ended 31 December 2013 **Gross revenue by operating segments**	**Retail Ireland €m**	**Bank of Ireland Life €m**	**Retail UK €m**	**Corporate and Treasury €m**	**Group Centre €m**	**Other reconciling items €m**	**Group €m**
Gross external revenue	1,739	1,615	1,450	1,059	17	(3)	5,877
Inter segment revenues	792	142	769	1,493	302	(3,498)	-
Gross revenue	**2,531**	**1,757**	**2,219**	**2,552**	**319**	**(3,501)**	**5,877**
Insurance contract liabilities and claims paid	-	(1,466)	-	-	(4)	-	(1,470)
Gross revenue after claims paid	**2,531**	**291**	**2,219**	**2,552**	**315**	**(3,501)**	**4,407**
Capital expenditure	**24**	**1**	**18**	**3**	**72**	**-**	**118**

Restated* Year ended 31 December 2012 Gross revenue by operating segments	Retail Ireland €m	Bank of Ireland Life €m	Retail UK €m	Corporate and Treasury €m	Group Centre €m	Other reconciling items €m	Group €m
Gross external revenue	1,726	1,861	1,750	1,073	(122)	(14)	6,274
Inter segment revenues	1,168	148	1,244	2,262	339	(5,161)	-
Gross revenue	2,894	2,009	2,994	3,335	217	(5,175)	6,274
Insurance contract liabilities and claims paid	-	(1,720)	-	-	(5)	-	(1,725)
Gross revenue after claims paid	2,894	289	2,994	3,335	212	(5,175)	4,549
Capital expenditure	28	3	12	2	87	-	132

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

1 Operating segments (continued)

The analysis below is on a geographical basis - based on the location of the business unit where revenues are generated.

Year ended 31 December 2013 Geographical analysis	**Republic of Ireland €m**	**United Kingdom €m**	**Rest of World €m**	**Other reconciling items €m**	**Total €m**
Gross external revenue	4,268	1,534	78	(3)	5,877
Inter segment revenues	182	510	36	(728)	-
Gross revenue	4,450	2,044	114	(731)	5,877
Insurance contract liabilities and claims paid	(1,466)	-	(4)	-	(1,470)
Gross revenue after claims paid	**2,984**	**2,044**	**110**	**(731)**	**4,407**
Capital expenditure	**100**	**18**	**-**	**-**	**118**
External assets	84,726	45,963	1,448	-	132,137
Inter segment assets	27,446	11,179	2,418	(41,043)	-
Total assets	**112,172**	**57,142**	**3,866**	**(41,043)**	**132,137**
External liabilities	92,257	31,317	694	-	124,268
Inter segment liabilities	15,159	23,523	2,361	(41,043)	-
Total liabilities	**107,416**	**54,840**	**3,055**	**(41,043)**	**124,268**

Restated* Year ended 31 December 2012 Geographical analysis	Republic of Ireland €m	United Kingdom €m	Rest of World €m	Other reconciling items €m	Total €m
Gross external revenue	4,337	1,860	77	-	6,274
Inter segment revenues	435	930	61	(1,426)	-
Gross revenue	4,772	2,790	138	(1,426)	6,274
Insurance contract liabilities and claims paid	(1,720)	-	(5)	-	(1,725)
Gross revenue after claims paid	3,052	2,790	133	(1,426)	4,549
Capital expenditure	120	12	-	-	132
External assets	92,587	54,237	1,140	-	147,964
Inter segment assets	34,774	14,347	2,727	(51,848)	-
Total assets	127,361	68,584	3,867	(51,848)	147,964
External liabilities	102,569	35,544	1,196	-	139,309
Inter segment liabilities	18,438	30,969	2,441	(51,848)	-
Total liabilities	121,007	66,513	3,637	(51,848)	139,309

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

2 Interest income

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Loans and advances to customers	3,128	3,332
Available for sale financial assets	389	466
Finance leases and hire purchase receivables	101	104
Loans and advances to banks	51	104
Interest income	**3,669**	**4,006**

Interest income recognised on loans and advances to customers

Interest income recognised on loans and advances to customers includes:

- €212 million (year ended 31 December 2012: €231 million) of interest recognised on impaired loans and advances to customers on which a specific impairment provision has been recognised at the year end. €165 million of this amount (year ended 31 December 2012: €189 million) relates to loans on which specific provisions have been individually assessed and €47 million (year ended 31 December 2012: €42 million) relates to loans on which specific provisions have been collectively assessed;
- €77 million of interest recognised on loans and advances to customers classified as greater than 90 days past due but on which a specific impairment provision has not been recognised at the year end; and
- €331 million of interest recognised on loans and advances to customers classified as forborne and which are not in default at the year end.

For the year ended 31 December 2013, interest recognised on total forborne loans and advances to customers was €379 million.

Interest income received on loans and advances to customers

For the year ended 31 December 2013:

- €291 million of interest income was received on impaired loans and advances to customers on which a specific impairment provision has been recognised at the year end;
- €67 million of interest income was received on loans and advances to customers classified as greater than 90 days past due but on which a specific impairment provision has not been recognised at the year end; and
- €320 million of interest income was received on arising on loans and advances to customers classified as forborne and which are not in default at the year end.

For the year ended 31 December 2013, interest income received on total forborne loans and advances to customers was €358 million.

Interest income recognised on available for sale financial assets

Interest income of €15 million (year ended 31 December 2012: €17 million) relates to interest on impaired available for sale financial assets on which an individually assessed specific impairment charge has been recognised.

Transferred from cash flow hedge reserve

Net interest income also includes €132 million (year ended 31 December 2012: €56 million) transferred from the cash flow hedge reserve (see page 102).

3 Interest expense

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Customer accounts	1,066	1,659
Debt securities in issue	283	450
Deposits from banks	138	371
Subordinated liabilities	178	80
- Gross interest expense on subordinated liabilities	*178*	*159*
- Gain on Contingent Capital Note	-	*(79)*
Interest expense	**1,665**	**2,560**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

Included within interest expense for the year ended 31 December 2013 is an amount of €129 million (year ended 31 December 2012: €388 million) relating to the cost of the Eligible Liabilities Guarantee Scheme (ELG). The cost of this scheme is classified as interest expense as it is directly attributable and incremental to the issue of specific financial liabilities. Further information on this scheme is outlined in note 33.

Interest expense on subordinated liabilities for the year ended 31 December 2012 includes a gain of €79 million in relation to a change in the expected cashflows of future coupon payments on the Convertible Contingent Capital Note 2016.

4 Net insurance premium income

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Gross premiums written	1,297	1,241
Ceded reinsurance premiums	(224)	(89)
Net premiums written	1,073	1,152
Change in provision for unearned premiums	-	4
Net insurance premium income	**1,073**	**1,156**

5 Fee and commission income and expense

Income	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Retail banking customer fees	395	384
Insurance commissions	22	61
Credit related fees	34	44
Asset management fees	4	5
Brokerage fees	2	3
Other	36	18
Fee and commission income	**493**	**515**

Included in other fees is an amount of €1 million (year ended 31 December 2012: €2 million) related to trust and other fiduciary fees.

Expense

Fee and commission expense of €192 million (year ended 31 December 2012: €215 million) primarily comprises brokerage fees, sales commissions and other fees paid to third parties.

6 Net trading income / (expense)

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Financial assets designated at fair value	13	4
Financial liabilities designated at fair value		
- Credit spreads relating to the Group's liabilities designated at fair value through profit or loss (see table below)	(112)	(245)
- Other	(86)	(116)
Related derivatives held for trading	3	38
	(182)	**(319)**
Other financial instruments held for trading	195	33
Net fair value hedge ineffectiveness	3	11
Cash flow hedge ineffectiveness	(4)	-
Net trading income / (expense)	**12**	**(275)**

Net trading income / (expense) includes the gains and losses on financial instruments held for trading and those designated at fair value through profit or loss (other than unit linked life assurance assets and investment contract liabilities). It includes the gains and losses arising on the purchase and sale of these instruments, the interest income receivable and expense payable and the fair value movement on these instruments, together with the funding cost of the trading instruments. It also includes €34 million (year ended 31 December 2012: €32 million) in relation to net gains arising from foreign exchange.

Net trading income / (expense) includes the total fair value movement (including interest receivable and payable) on liabilities that have been designated at fair value through profit or loss. The interest receivable on amortised cost assets, which are funded by those liabilities, is reported in net interest income.

Net trading income / (expense) also includes the total fair value movements on derivatives that are economic hedges of assets and liabilities which are measured at amortised cost, the net interest receivable or payable on which is also reported within net interest income. The net amount reported within net interest income relating to these amortised cost instruments was €10 million (year ended 31 December 2012: €87 million).

Net fair value hedge ineffectiveness reflects a net gain from hedging instruments of €24 million (year ended 31 December 2012: net charge of €65 million) offsetting a net charge from hedged items of €21 million (year ended 31 December 2012: net gain of €76 million).

The table below sets out the impact on the Group's income statement of the (charges) / gains arising on the movement in credit spreads on the Group's own debt and deposits:

Credit spreads relating to the Group's liabilities designated at fair value through profit or loss	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Recognised in		
- Net trading expense	(112)	(245)
- Insurance contract liabilities and claims paid	(36)	(47)
- Other operating income	(6)	(5)
	(154)	**(297)**
Cumulative (charges) / gains arising on the movement in credit spreads relating the Group's liabilities designated at fair value through profit or loss	(26)	128

7 Life assurance investment income, gains and losses

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Gross life assurance investment income, gains and losses	532	679
Elimination of investment return on treasury stock held for the benefit of policyholders in the Life businesses	(1)	(1)
Life assurance investment income, gains and losses	**531**	**678**

Life assurance investment income, gains and losses comprise the investment return, realised gains and losses and unrealised gains and losses which accrue to the Group on all investment assets held by Bank of Ireland Life, other than those held for the benefit of policyholders whose contracts are considered to be investment contracts.

IFRS requires that Bank of Ireland stock held by the Group, including that held by Bank of Ireland Life for the benefit of policyholders, is reclassified as treasury stock and accounted for as a deduction from equity. The impact on the Group income statement for the year ended 31 December 2013 is that the gain arising on life assurance investment income, gains and losses of €532 million is reduced by €1 million which is the change in the value of Bank of Ireland stock held under insurance contracts.

8 Other operating income

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Transfer from available for sale reserve on asset disposal (note 18)	50	60
Other insurance income	32	27
Dividend income	5	2
Movement in value of in force asset	(21)	(1)
Gain on liability management exercises[1]	4	69
Elimination of investment return on treasury stock held for the benefit of policyholders in the Life businesses	(2)	-
Other income	-	(9)[2]
Other operating income	**68**	**148**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

[1] *Included within other operating income is a gain on liability management exercises of €4 million (year ended 31 December 2012: €69 million). These gains were previously shown on a separate line item on the face of the income statement. During the year ended 31 December 2013, the Group repurchased debt securities for cash generating gains before tax of €4 million (year ended 31 December 2012: €69 million) being the difference between the consideration paid of €299 million (year ended 31 December 2012: €680 million) and the carrying value of the securities repurchased of €303 million (year ended 31 December 2012: €749 million).*

[2] *Included in other income is a loss of €1 million for the year ended 31 December 2012 in relation to adjustments to the consideration in respect of assets previously transferred to NAMA. These losses were previously shown on a separate line item.*

There was no charge relating to the Group's share of joint operations (JO) during the year ended 31 December 2013 (year ended 31 December 2012: €2 million charge).

9 Insurance contract liabilities and claims paid

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Claims paid		
Policy surrenders	(895)	(856)
Death and critical illness claims	(126)	(145)
Annuity payments	(59)	(48)
Policy maturities	(1)	(1)
Other claims	(29)	(25)
Gross claims paid	**(1,110)**	**(1,075)**
Recovered from reinsurers	71	69
Net claims paid	**(1,039)**	**(1,006)**
Change in insurance contract liabilities		
Gross liabilities	(514)	(951)
Reinsured liabilities	83	232
Net change in insurance contract liabilities	**(431)**	**(719)**
Insurance contract liabilities and claims paid	**(1,470)**	**(1,725)**

10 Other operating expenses

Administrative expenses and staff costs	**Year ended 31 December 2013 €m**	Restated* Year ended 31 December 2012 €m
Staff costs excluding cost of restructuring programme	824	841
Amortisation of intangible assets	78	101
Depreciation of property, plant and equipment	40	41
Revaluation of property	1	11
Other administrative expenses excluding cost of restructuring programme	638	644
Total	**1,581**	**1,638**
Total staff costs are analysed as follows:		
Total staff costs excluding restructuring	824	841
- Wages and salaries	*613*	*686*
- Social security costs	*67*	*73*
- Retirement benefit costs (defined benefit plans) (note 28)	*132*	*69*
- Retirement benefit costs (defined contribution plans)	*1*	*1*
- Other staff costs	*11*	*12*
Staff costs included in cost of restructuring programme (note 11)	48	134
Total staff costs	**872**	**975**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

10 Other operating expenses (continued)

Retirement benefit costs exclude a gain of €274 million in relation to the impact of amendments to the Group's sponsored defined benefit pension scheme, the Bank of Ireland Staff Pensions Fund (BSPF). The Group completed a review of the Group sponsored BSPF during 2013 and made amendments to benefits to partly address the scheme deficit. Based on the status of implementation of the amendments and assumption changes made at 31 December 2013, the Group recognised a reduction in the scheme deficit of €394 million, of which €274 million has been recognised within the income statement as a separate line item, net of any directly related expenses, and €117 million has been recognised within other comprehensive income. Further details are set out in note 28 on page 142.

Defined benefit retirement benefit costs of €132 million for the year ended 31 December 2013 (year ended 31 December 2012: €69 million) includes a trustee approved recovery of €28 million in respect of the Irish pension levy in respect of 2013 for the BSPF and 2011, 2012 and 2013 for a number of smaller schemes (year ended 31 December 2012: €43 million) (see note 28).

Other administrative expenses includes an amount of €70 million (year ended 31 December 2012: €60 million) relating to operating lease payments.

Also included in other administrative expenses is an amount of €5 million (year ended 31 December 2012: €2 million) relating to the Group's share of joint operation (JO).

Staff numbers
At 31 December 2013, the number of staff (full time equivalents) was 11,255 (31 December 2012: 12,016).

The average number of staff (full time equivalents) during the year was 11,831 (year ended 31 December 2012: 13,091) categorised as follows in line with the operating segments as stated in note 1.

Average number of staff (full time equivalents)	**Year ended 31 December 2013**	Year ended 31 December 2012
Retail Ireland	4,794	4,887
Retail UK	1,446	2,112
Bank of Ireland Life	968	1,023
Corporate and Treasury	580	686
Group Centre	4,043	4,383
Total	**11,831**	**13,091**

11 Cost of restructuring programme

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Staff costs (note 10)	48	134
Property and other	42	16
	90	**150**

12 Impairment charges on financial assets

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Loans and advances to customers (note 20)	1,665	1,724
Available for sale financial assets (AFS)	-	45
Impairment charges on financial assets	**1,665**	**1,769**

Included within impairment charges on available for sale financial assets is a charge of €nil (year ended 31 December 2012: €40 million) relating to the NAMA subordinated bonds.

13 Loss on disposal / liquidation of business activities

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Corporate and Treasury Division		
Burdale	-	(14)
Bank of Ireland Asset Management (BIAM)	1	(1)
Bank of Ireland Securities Services (BOISS)	1	2
Transfer of foreign exchange reserve to income statement on liquidation of non-trading entities	**(12)**	**(56)**
Loss on disposal / liquidation of business activities	**(10)**	**(69)**

Transfer of foreign exchange reserve to income statement on liquidation of non-trading entities
As part of the Group's focus on simplifying its corporate structure, the Group has an ongoing programme of winding up a number of wholly owned, dormant and non-trading companies, a number of which are foreign operations. During this process, the Group voluntarily appointed a liquidator to manage the winding up. Upon appointment of the liquidator, the Group is considered to have lost control of the companies and has accounted for this loss of control as a disposal. In accordance with IAS 21, the Group has reclassified net cumulative foreign exchange losses of €12 million relating to these companies from the foreign exchange reserve to the income statement during the year ended 31 December 2013 (year ended 31 December 2012: €56 million) (page 103).

14 Taxation

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Current tax		
Irish Corporation Tax		
- Current year	(20)	(20)
- Adjustments in respect of prior year	-	24
- Transfer from deferred tax	6	11
Double taxation relief	2	2
Foreign tax		
- Current year	(25)	(9)
- Adjustments in respect of prior year	(44)	6
- Transfer from deferred tax	19	34
	(62)	**48**
Deferred tax		
- Current year losses	175	363
- Impact of Corporation Tax rate change (note 27)	(58)	(33)
- Origination and reversal of temporary differences	(66)	(14)
- Transfer to current tax	(25)	(45)
- Reassessment of the value of tax losses carried forward (note 27)	65	-
- Adjustments in respect of prior year	6	18
Taxation credit	**35**	**337**

The reconciliation of tax on the loss before taxation at the standard Irish corporation tax rate to the Group's actual tax credit for the years ended 31 December 2013 and 31 December 2012 is as follows:

	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Loss before tax multiplied by the standard rate of corporation tax in Ireland of 12.5% (2012: 12.5%)	66	271
Effects of:		
Reassessment of the value of tax losses carried forward	65	-
Foreign earnings subject to different rates of tax	15	66
Other adjustments for tax purposes	(8)	9
Share of results of associates and joint ventures shown post tax in the income statement	5	5
Impact of corporation tax rate change on deferred tax	(58)	(33)
Adjustments in respect of prior year	(38)	48
Bank of Ireland Life companies - different basis of accounting	(12)	(21)
Gain / (loss) on disposal / liquidation of business activities	-	(8)
Taxation credit	**35**	**337**

The effective taxation rate on a statutory basis for the year ended 31 December 2013 is 7% (tax charge) (year ended 31 December 2012: 16% (tax credit)). However excluding the impact of amendments to defined benefit pension schemes, the gain on liability management exercises, the loss on deleveraging of financial assets, the charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss', the loss on disposal / liquidation of business activities, the gross-up for policyholder tax in the Life business, the cost of the restructuring programme, the gain on the Contingent Capital Note and the investment return on treasury stock held for policyholders the effective taxation rate was 12% (tax credit) for the year ended 31 December 2013 (year ended 31 December 2012: 17% (tax credit)).

14 Taxation (continued)

The tax effects relating to each component of other comprehensive income are as follows:

	Year ended 31 December 2013			Restated* Year ended 31 December 2012		
	Pre tax €m	**Tax €m**	**Net of tax €m**	Pre tax €m	Tax €m	Net of tax €m
Available for sale reserve						
Changes in fair value	414	(53)	361	1,015	(126)	889
Transfer to income statement						
- On asset disposal	(50)	6	(44)	(60)	7	(53)
- Impairment	-	-	-	45	(6)	39
Net change in reserve	**364**	**(47)**	**317**	**1,000**	**(125)**	**875**
Remeasurement of the net defined benefit pension liability	**(130)**	**13**	**(117)**	**(892)**	**117**	**(775)**
Cash flow hedge reserve						
Changes in fair value	259	(29)	230	590	(44)	546
Transfer to income statement	(461)	50	(411)	(417)	19	(398)
Net change in cash flow hedge reserve	**(202)**	**21**	**(181)**	**173**	**(25)**	**148**
Net change in foreign exchange reserve	**(81)**	**-**	**(81)**	**136**	**-**	**136**
Net change in revaluation reserve	**-**	**-**	**-**	**(2)**	**1**	**(1)**
Other comprehensive income for the year	**(49)**	**(13)**	**(62)**	**415**	**(32)**	**383**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)'. See note 34 for additional information.*

15 Earnings per share

The calculation of basic earnings per unit of €0.05 ordinary stock is based on the loss attributable to ordinary stockholders divided by the weighted average number of units of ordinary stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders.

The diluted earnings per share is based on the loss attributable to ordinary stockholders divided by the weighted average number of units of ordinary stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders adjusted for the effect of all dilutive potential ordinary stock.

For the year ended 31 December 2013 and the year ended 31 December 2012 there was no difference in the weighted average number of units of stock used for basic and diluted earnings per share as the effect of all potentially dilutive ordinary units of stock outstanding was anti-dilutive.

	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Basic and diluted earnings per share		
Loss attributable to stockholders	(487)	(1,835)
Dividend on 2009 Preference Stock	(185)	(188)
Adjustment on partial redemption of 2009 Preference Stock[1]	(23)	-
Dividend on other preference equity interests	(7)	(7)
Loss attributable to ordinary stockholders	**(702)**	**(2,030)**
	Units (millions)	Units (millions)
Weighted average number of units of stock in issue excluding treasury stock and own stock held for the benefit of life assurance policyholders[2]	30,252[3]	30,109
Basic and diluted earnings per share (cent)	**(2.3c)**	**(6.7c)**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. The restatement has had no impact on the basic or diluted earnings per share in the current or prior period. See note 34 for additional information.*

1 *537,041,304 units of 2009 Preference Stock were redeemed at the subscription price of €1 per unit. This was greater than its carrying value of €0.9577 per unit due to transaction costs and warrants issued on the issue of the stock on 31 March 2009. Under IAS 33 , the difference of €23 million on redemption has been reflected in the EPS calculation by reducing the profit or loss attributable to ordinary equity holders of the parent entity.*

2 *The weighted average number of units of treasury stock and own stock held for the benefit of life assurance policyholders amounted to 42.9 million units (year ended 31 December 2012: 45.3 million).*

3 *The weighted average number of units of stock in issue is calculated based on daily averages. As a result the number of weighted average number of units of stock in issue reflect c.20 days of the units of the Placing Stock.*

As at 31 December 2013, the Convertible Contingent Capital Note and options over 1.2 million units of potential ordinary stock (31 December 2012: 2.7 million units) could potentially have a dilutive impact in the future, but were anti-dilutive in the year ended 31 December 2013 and the year ended 31 December 2012.

16 Other financial assets at fair value through profit or loss

	31 December 2013 €m	31 December 2012 €m
Assets linked to policyholder liabilities		
Equity securities	6,735	6,305
Government bonds	933	993
Unit trusts	994	713
Debt securities	381	290
	9,043	**8,301**
Other financial assets		
Government bonds	890	810
Other	373	349
	1,263	**1,159**
Other financial assets at fair value through profit or loss	**10,306**	**9,460**

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying investment is held by the Group, but the inherent risks and rewards in the investments are borne by the policyholders. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal change in the value of the amounts due to policyholders. The associated liabilities are included in liabilities to customers under investment contracts and insurance contract liabilities on the balance sheet. At 31 December 2013, such assets amounted to €9,043 million (31 December 2012: €8,301 million).

Other financial assets of €1,263 million (31 December 2012: €1,159 million) primarily relate to assets held by the Group's life assurance business for solvency margin purposes or as backing for non-linked policyholder liabilities.

17 Loans and advances to banks

	31 December 2013 €m	Restated* 31 December 2012 €m
Placements with other banks	3,264	4,436
Securities purchased with agreement to resell		
- IBRC repo transaction (note 33)	-	3,060
- Other	184	332
Mandatory deposits with central banks	1,311	1,293
Funds placed with central banks	-	381
Loans and advances to banks	**4,759**	**9,502**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

17 Loans and advances to banks (continued)

Placements with other banks includes cash collateral of €1.1 billion (31 December 2012: €1.7 billion) placed with derivative counterparties in relation to net derivative liability positions.

The Group has entered into transactions to purchase securities with agreement to resell and has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. The fair value of this collateral at 31 December 2013 was €207 million (31 December 2012: €3,863 million).

Mandatory deposits with central banks includes €1,134 million relating to collateral in respect of the Group's issued bank notes in circulation in Northern Ireland (31 December 2012: €1,051 million).

Loans and advances to banks of €4,759 million (31 December 2012: €9,502 million) included €312 million (31 December 2012: €350 million) of assets held on behalf of Bank of Ireland Life policyholders.

For the purpose of disclosure of credit risk exposures, loans and advances to banks are included within other financial instruments of €29.5 billion (31 December 2012: €35.5 billion) in Risk Management on page 80.

18 Available for sale financial assets

	31 December 2013 €m	31 December 2012 €m
Government bonds	6,619	5,642
Other debt securities		
- listed	5,251	5,120
- unlisted	198	277
Equity securities		
- listed	4	1
- unlisted	32	53
Available for sale financial assets	**12,104**	**11,093**

At 31 December 2013, available for sale financial assets with a fair value of €4 billion (31 December 2012: €6.7 billion) had been pledged to third parties in sale and repurchase agreements. The Group has not derecognised any securities delivered in such sale and repurchase agreements.

Included within unlisted debt securities are subordinated bonds issued by NAMA with a fair value of €132 million (31 December 2012: €117 million) and a nominal value of €281 million (31 December 2012: €281 million). These bonds represented 5% of the nominal consideration received for assets sold to NAMA, with the remaining 95% received in the form of NAMA senior bonds (see note 19). The subordinated bonds are not guaranteed by the State, they are not marketable and the payment of interest and repayment of capital is dependent on the performance of NAMA. During the years ended 31 December 2013 and 31 December 2012, no interest was paid by NAMA on subordinated bonds. During the year ended 31 December 2013, the Group did not incur any impairment charge on the NAMA subordinated bonds (year ended 31 December 2012: €40 million) (see note 12).

Further details on the Group's available for sale financial assets are set out on pages 168.

19 NAMA senior bonds

	31 December 2013 €m	31 December 2012 €m
NAMA senior bonds	**3,957**	**4,428**

The Group received as consideration for the assets transferred to NAMA a combination of Government guaranteed bonds (NAMA senior bonds) issued by NAMA (95% of the nominal consideration), and non-guaranteed subordinated bonds issued by NAMA (5% of nominal consideration).

At 31 December 2013, €2.8 billion of NAMA senior bonds had been pledged to Monetary Authorities in sale and repurchase agreements.

The interest rate on the NAMA senior bonds is six month Euribor, set semi-annually on 1 March (0.336%) and 1 September (0.345%). The contractual maturity of these bonds is 1 March 2014. NAMA may, only with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

During the year ended 31 December 2013, NAMA redeemed senior bonds held by the Group with a nominal value of €484 million (year ended 31 December 2012: €615 million).

20 Loans and advances to customers

	31 December 2013 €m	31 December 2012 €m
Loans and advances to customers	91,214	98,658
Finance leases and hire purchase receivables (see below)	1,541	1,507
	92,755	100,165
Less allowance for impairment charges on loans and advances to customers (note 21)	(8,241)	(7,544)
Loans and advances to customers	**84,514**	**92,621**
Amounts include		
Due from joint ventures and associates	170	102

Further details on the Group's loans and advances to customers are set out on page 61 of Risk Management.

21 Impairment provisions

The following tables show the movement in the impairment provisions on total loans and advances to customers during the year ended 31 December 2013 and 31 December 2012.

31 December 2013	**Residential mortgages €m**	**Non-Property SME and corporate €m**	**Property and construction €m**	**Consumer €m**	**Total impairment provisions €m**
Provision at 1 January 2013	1,594	1,836	3,876	238	7,544
Exchange adjustments	(3)	(12)	(22)	(1)	(38)
Charge against income statement	573	468	583	41	1,665
Provisions utilised	(187)	(579)	(233)	(89)	(1,088)
Other movements	26	196	(86)	22	158
Provision at 31 December 2013	**2,003**	**1,909**	**4,118**	**211**	**8,241**

31 December 2012	Residential mortgages €m	Non-Property SME and corporate €m	Property and construction €m	Consumer €m	Total impairment provisions €m
Provision at 1 January 2012	1,159	1,723	3,205	278	6,365
Exchange adjustments	3	8	23	1	35
Charge against income statement	462	413	797	52	1,724
Provisions utilised	(51)	(376)	(164)	(115)	(706)
Release of provision on loan book disposals	-	-	(18)	-	(18)
Other movements	21	68	33	22	144
Provision at 31 December 2012	1,594	1,836	3,876	238	7,544

Provisions include specific and 'incurred but not reported' (IBNR) provisions. IBNR provisions are recognised on all categories of loans for incurred losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Provisions utilised reflect impairment provisions which have been utilised against the related loan balance; the utilisation of a provision does not alter a customer's obligations nor does it impact on the Group's rights to take relevant enforcement action.

Further details on the Group's impaired loans and impairment provisions are set out on page 62 of Risk Management.

22 Deposits from banks

	31 December 2013 €m	Restated* 31 December 2012 €m
Securities sold under agreement to repurchase	10,533	19,307
Monetary Authorities		
- IBRC repo transaction (note 33)	*-*	*3,060*
- Other	*6,415*	*11,040*
Private market repos	*4,118*	*5,207*
Deposits from banks	1,537	1,602
Other bank borrowings	143	216
Deposits from banks	**12,213**	**21,125**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

At 31 December 2013, total drawings from Monetary Authorities amounted to €8 billion (net) (31 December 2012: €15 billion (net)), of which €2 billion (31 December 2012: €1 billion) is included in debt securities in issue (see note 24). €8 billion is on a term funding basis, utilising the ECB's three year Long Term Refinancing Operation (LTRO). The LTRO matures in two tranches in January and February 2015. The Group has an option, from February 2013, to repay these facilities at an earlier date.

Deposits from banks include cash collateral of €0.9 billion (31 December 2012: €1.1 billion) received from derivative counterparties in relation to net derivative asset positions.

23 Customer accounts

	31 December 2013 €m	31 December 2012 €m
Term deposits and other products	37,056	42,318
Demand deposits	19,453	17,647
Current accounts	17,358	15,205
Customer accounts	**73,867**	**75,170**
Amounts include		
Due to associates and joint ventures	55	36

Deposit accounts where a period of notice is required to make a withdrawal are classified within term deposits and other products.

Term deposits and other products include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category.

At 31 December 2013, the Group's largest 20 customer deposits amounted to 7% (31 December 2012: 5%) of customer accounts. Information on the contractual maturities of customer accounts is set out on page 90 in Risk Management.

Included within Term deposits and other products is €0.5 billion (31 December 2012: €1 billion) relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

24 Debt securities in issue

	31 December 2013 €m	31 December 2012 €m
Bonds and medium term notes	11,548	14,687
Monetary Authorities - LTRO (note 22)	1,885	1,260
Other debt securities in issue	1,847	2,126
Debt securities in issue	**15,280**	**18,073**

During the year ended 31 December 2013, the Group issued €4,465 million (year ended 31 December 2012: €2,317 million) of new debt, repurchases amounted to €303 million (year ended 31 December 2012: €749 million), redemptions amounted to €6,658 million (year ended 31 December 2012: €2,988 million) and other movements of €297 million (year ended 31 December 2012: €369 million).

25 Subordinated liabilities

	31 December 2013 €m	31 December 2012 €m
Undated loan capital		
Bank of Ireland UK Holdings plc		
€600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities	32	32
Bank of Ireland		
Stg£75 million 13⅜% Perpetual Subordinated Bonds	91	93
Bristol & West plc		
Stg£32.6 million 8⅛% Non-Cumulative Preference Shares	39	40
	162	**165**
Dated loan capital		
CAD$400 million Fixed / Floating Rate Subordinated Notes 2015	63	64
€1,000 million 10% Convertible Contingent Capital Note 2016	977	986
€600 million Subordinated Floating Rate Notes 2017	1	1
€1,002 million 10% Fixed Rate Subordinated Notes 2020	230	239
Stg£197 million 10% Fixed Rate Subordinated Notes 2020	2	2
€250 million 10% Fixed Rate Subordinated Notes 2022	240	250
	1,513	**1,542**
Total subordinated liabilities	**1,675**	**1,707**

26 Provisions

	Restructuring €m	Onerous contracts €m	Legal €m	Other €m	Total €m
As at 1 January 2013	65	19	2	33	119
Charge to income statement	90	-	2	11	103
Utilised during the year	(88)	(7)	(1)	(27)	(123)
Unused amounts reversed during the year	-	(7)	-	(2)	(9)
As at 31 December 2013	**67**	**5**	**3**	**15**	**90**

Of the €67 million closing provision for restructuring, €24 million relates to staff exits and €43 million relates to property and other costs.

Expected utilisation	Restructuring €m	Onerous contracts €m	Legal €m	Other €m	Total €m
Less than 1 year	38	1	2	14	55
1 to 2 years	13	1	1	1	16
2 to 5 years	9	1	-	-	10
5 to 10 years	6	1	-	-	7
More than 10 years	1	1	-	-	2
Total	**67**	**5**	**3**	**15**	**90**

The Group has recognised provisions in relation to restructuring costs, onerous contracts, legal and other. Such provisions are sensitive to a variety of factors, which vary depending on their nature. The estimation of the amounts of such provisions is judgemental because the relevant payments are due in the future and the quantity and probability of such payments is uncertain.

The methodology and the assumptions used in the calculation of provisions are reviewed regularly and, at a minimum, at each reporting date.

27 Deferred tax

	31 December 2013 €m	Restated* 31 December 2012 €m
The movement on the deferred tax account is as follows:		
At beginning of year	1,548	1,293
Income statement credit for year	97	289
Pension	16	106
Available for sale financial assets – charge to other comprehensive income	(47)	(125)
Cash flow hedges – charge to other comprehensive income	21	(25)
Revaluation / reclassification of property during the year	-	1
Other movements	(13)	9
At end of year	**1,622**	**1,548**
Deferred tax assets and liabilities are attributable to the following items:		
Deferred tax assets		
Unutilised tax losses	1,650	1,500
Pensions and other post retirement benefits	115	148
Accelerated capital allowances on equipment used by the Group	20	12
Provision for loan impairment	12	12
Cash flow hedge reserve	3	-
Other temporary differences	-	19
Deferred tax assets	**1,800**	**1,691**
Deferred tax liabilities		
Available for sale reserve	(72)	(25)
Life companies	(69)	(54)
Property revaluation surplus	(9)	(10)
Accelerated capital allowances on finance leases	(5)	(13)
Cash flow hedge reserve	-	(18)
Other temporary differences	(23)	(23)
Deferred tax liabilities	**(178)**	**(143)**
Represented on the balance sheet as follows:		
Deferred tax assets	1,714	1,640
Deferred tax liabilities	(92)	(92)
	1,622	**1,548**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

27 Deferred tax (continued)

In accordance with IAS 12, in presenting the deferred tax balances above the Group offsets deferred tax assets and liabilities where:

- an entity has a legally enforceable right to set off current tax assets against current tax liabilities, and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred tax liabilities have not been recognised for tax that may be payable if earnings of certain overseas subsidiaries were remitted to Ireland as the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Unremitted earnings for overseas subsidiaries totalled €121 million (31 December 2012: €164 million).

The deferred tax asset of €1,714 million (31 December 2012: €1,640 million (restated)) shown on the balance sheet is after netting by jurisdiction (€1,800 million before netting by jurisdiction, 31 December 2012: €1,691 million (restated)). This includes an amount of €1,650 million at 31 December 2013 (31 December 2012: €1,500 million) in respect of operating losses which are available to relieve future profits from tax. In order for the Group to recognise an asset for unutilised losses it must have convincing evidence of sufficient future taxable profits against which the losses can be utilised. The deferred tax asset has been recognised on the basis that it is probable it will be recovered as the Directors are satisfied that it is probable that the Group will have sufficient future taxable profits against which the unutilised losses can be utilised.

Under current Irish and UK tax legislation there is no time restriction on the utilisation of trading losses. The Finance (No 2) Act 2013 abolished the tax provision applicable to financial institutions participating in NAMA which restricted by 50% the amount of profits against which the carried forward trading losses could be utilised. The effect of this change is to accelerate the Group's ability to utilise its tax losses carried forward and shorten the recovery period of its deferred tax asset. The Group expects to recover a significant portion of the deferred tax asset in a period more than ten years from the balance sheet date, however it expects that the greater part of the deferred tax asset will be recovered within ten years of the balance sheet date. The deferred tax asset has been recognised on the basis that it is probable the tax losses will be recovered as the Directors are satisfied that it is probable that the Group will have sufficient future taxable profits against which the deferred tax assets can be utilised to the extent they have not already reversed. Under accounting standards these assets are measured on an undiscounted basis.

The Group's projections of future taxable profits incorporate estimates and assumptions on economic factors such as employment levels and interest rates as well as other measures such as loan volumes and impairment losses. The Group projections are based on the current business plan for the four years to 2017. The Group assumes long term growth in profitability thereafter. The use of alternative assumptions representing reasonably possible alternative outcomes would not impact the recognition of the Group's deferred tax assets, although they could increase or decrease the recovery period. If the projected rate of growth of taxable profits was increased or decreased by 2 percentage points, the Group estimates that this would respectively decrease or increase the recovery period by up to 2 years.

The UK Government announced that the main rate of corporation tax would reduce to 21% from 1 April 2014 and 20% for years beginning on or after 1 April 2015. The reduction in the corporation tax rate to 20% from 1 April 2015 was substantively enacted at the balance sheet date and the effect of this change has been to reduce the deferred tax asset at 31 December 2012 by €66 million.

Deferred tax assets have not been recognised in respect of US tax losses of €73 million (31 December 2012: €70 million) and US temporary differences of €2 million (31 December 2012: €4 million). €27 million (31 December 2012: €23 million) of the tax losses expire in the period 2020 to 2028 with €46 million due to expire in 2029. There is no expiry date on the tax credits. Deferred tax assets have not been recognised in respect of these losses due to an annual limitation on use.

The amount of the deferred tax asset expected to be recovered after more than one year is c.€1.7 billion (31 December 2012: c.€1.7 billion). The amount of deferred tax liability expected to be settled after more than one year is c.€0.2 billion (31 December 2012: c.€0.1 billion).

27 Deferred tax (continued)

The deferred tax credit in the income statement comprises the following temporary differences:

	31 December 2013 €m	Restated* 31 December 2012 €m
Current year losses	175	363
Reassessment of the value of tax losses carried forward	65[1]	-
Impact of corporation tax rate change	(58)	(33)
Pensions and other retirement benefits	(50)	(20)
Life companies	(15)	(8)
Accelerated tax depreciation	14	15
Other temporary differences	(15)	(1)
Transfer to current tax	(25)	(45)
Adjustments in respect of prior year	6	18
Total deferred tax	**97**	**289**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

[1] *During the year the Group's assessment of the value of UK losses has increased by €65 million.*

28 Retirement benefit obligations

The Group sponsors a number of defined benefit and defined contribution schemes in Ireland and overseas. The defined benefit schemes are funded and the assets of the schemes are held in separate trustee administered funds. In determining the level of contributions required to be made to each scheme and the relevant charge to the income statement the Group has been advised by independent actuaries, which in the case of the majority of the Group's schemes is Towers Watson.

The most significant defined benefit scheme in the Group is the Bank of Ireland Staff Pensions Fund (BSPF) which accounts for approximately 71% of the pension deficit on the consolidated Group balance sheet at 31 December 2013. The BSPF was closed to new members from 1 October 2006, with the exception of a number of new entry-level employees (who joined from 1 October 2006 to 21 November 2007), who were offered a one-off option to join the scheme. All new employees in the Group from 21 November 2007 are eligible to become members of the Bank of Ireland Group Pensions Fund (BIGPF) or the Bank of Ireland Group UK Pension Fund. The BIGPF is a hybrid scheme which includes elements of both a defined benefit and a defined contribution scheme.

Retirement benefits under the BSPF and a majority of the other defined benefit plans are calculated by reference to pensionable service and pensionable salary at normal retirement date.

During the year ended 31 December 2013, the Group adopted IAS19 Employees Benefits (Revised 2011) (IAS19R), see Impact of adopting new accounting standards (see note 34).

Regulatory Framework

The Group operates the defined benefit plans under broadly similar regulatory frameworks. Benefits under the BSPF are paid to members from a fund administered by Trustees, who are responsible for ensuring compliance with the Pensions Act 1990 and other relevant legislation. These responsibilities include ensuring that contributions are received, investing the scheme assets and making arrangements to pay the benefits. Plan assets are held in trusts and are governed by local regulations and practice in each country.

In order to assess the level of contributions required, triennial valuations are carried out with plan obligations generally measured using prudent assumptions and discounted based on the return expected from assets held in accordance with the actual scheme investment policy.

28 Retirement benefit obligations (continued)

The BSPF is also subject to an annual valuation under the Irish Pensions Board Minimum Funding Standard (MFS). The MFS valuation is designed to provide a check that a scheme has sufficient funds to provide a minimum level of benefits in a wind-up scenario. If the MFS valuation indicates a funding level of below 100%, action would be required. This generally takes the form of agreeing a 'Funding Proposal' with the Trustees with the aim of meeting the MFS at a specified future point in time.

The responsibilities of the Trustees, and the regulatory framework, are broadly similar for the Group's other defined benefit schemes and take account of pension regulations in each specific jurisdiction. The Group works closely with the Trustees of each scheme to manage the plans.

The nature of the relationship between the Group and the Trustees is governed by local regulations and practice in each country and by the respective legal documents underpinning each plan.

Actuarial Valuation of the BSPF

The last formal Triennial valuation of the BSPF, using the Attained Age method, was carried out as at 31 December 2012. The Attained Age method measures liabilities taking account of the projected future levels of pensionable earnings at the time of commencement of benefits i.e. at normal retirement date. For measurement of the obligation in the financial statements under IAS 19R the defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The Triennial valuation disclosed that the fair value of scheme assets represented 88% of the benefits that had accrued to members after allowing for expected future increases in earnings and pensions. The valuation did not take account of the impact of changes in the pension benefits set out below as negotiations in relation to the Pensions 2013 Review (see below) with staff representative bodies had not concluded by the valuation due date. Following conclusion of the valuation the actuary recommended that the future service contribution rate increase to 21.7% of basic salaries (inclusive of employee contributions), from 19.8% previously.

The actuarial valuations are available for inspection by members but are not available for public inspection.

Following acceptance of the Pensions 2013 Review by the largest staff representative body, the IBOA, the actuary recalculated the joint future service contribution rate and the funding level of the scheme, taking account of the impact of post-retirement changes to benefits and assumptions as set out below. The fair value of the scheme assets represented 97% of the liabilities on this revised basis. The actuary recommended a joint contribution rate of 19.8% following this change (unchanged from 19.8% at the previous triennial valuation). Following the conclusion of the staff acceptance process in relation to the pensionable salary changes outlined in the Pensions 2013 Review (see below), a revised contribution rate and schedule of deficit-reducing contributions are expected to be agreed with the Trustees during 2014.

In addition to the future service contributions the Group continues to make additional contributions of €25.75 million per quarter to mid-2016 to the BSPF arising from the 2010 Group Pensions Review.

The next formal triennial valuation of the BSPF will be carried out during 2016 with an effective date no later than 31 December 2015.

The MFS valuation of the BSPF disclosed that the fund satisfied the statutory Funding Standard at 31 December 2012.

Pension levy

The Irish Finance (No. 2) Act 2011 introduced a stamp duty levy of 0.6% on the market value of assets under management in Irish pension funds, for the years 2011 to 2014 (inclusive). The levy is based on scheme assets as at 30 June in each year, or as at the end of the preceding scheme financial year.

The Group has recognised a charge of €24 million in respect of the 2013 pension levy through other comprehensive income for the year ended 31 December 2013.

28 Retirement benefit obligations (continued)

During 2012 and 2013, the Group and the Trustees of the Bank of Ireland Staff Pensions Fund (BSPF) agreed that in exchange for additional security for scheme members, the cost of the pension levies incurred to date would be borne by the relevant Republic of Ireland scheme members, in the form of adjustments to members' benefits. The additional security was provided by a charge over a portfolio of Group assets (a contingent asset) with an initial value of €250 million which increased to €375 million at 31 December 2013, including Group properties with a fair value of €42 million at 31 December 2013 (31 December 2012: €42 million), which will remain in place until the scheme's assets exceed the core liabilities under the Minimum Funding Standard by a satisfactory margin. The Trustees of the BIF, ICS and BAPF schemes have also agreed that the cost of the levies incurred to date would be borne by the relevant Republic of Ireland scheme members, in the form of an adjustment to member's benefits.

The Group has recognised a negative past service cost of €28 million in the income statement during the year ended 31 December 2013 (31 December 2012: €43 million) in relation to these benefit adjustments.

Pensions 2013 Review

During 2013, the Group completed a review of the BSPF and the IAS 19R deficit of same. This review involved communication with the members of the scheme, together with an extensive process of consultation with staff representative bodies and other stakeholders. The proposals arising from the review were accepted by the largest staff representative body, the IBOA.

The objectives of this review were to continue to sponsor competitive pension arrangements and benefits and help secure the future viability of the scheme, while recognising the need to substantially reduce the IAS 19R deficit and associated volatility.

Arising from this review the Group proposed a number of amendments to the scheme. These amendments involved the employee members of the BSPF agreeing to some changes to how potential future salary increases qualify for pension. The Group has also advised members of changes to how increases to pensions in payment will be determined. The Group also made certain assumption changes following the review.

In return for agreement from employee members to changes in how potential future salary increases qualify for pension, the Group has agreed to increase its support for the BSPF, above existing support arrangements, so as to broadly match the IAS 19R deficit reductions arising from changes to potential benefits. It is also intended, subject to consultation with the BSPF's Trustees, that there will be reductions in the proportion of the BSPF's assets which are invested in return seeking assets. This has had no accounting impact as at 31 December 2013.

By 31 December 2013, the amendments and changes in assumptions in respect of future levels of pension increases had been implemented.

The impact of the Pensions 2013 Review at 31 December 2013 has been to reduce the Group's pension deficit by €394 million, which was recognised as follows:

	€m
Income Statement	
Amendment to future pension increases	251
Amendment to future increases in members' pensionable salary	26
Negative past service cost	277
Directly related costs	(3)
Total recognised in the income statement, net of directly related costs	274
Statement of comprehensive income	
Change in assumptions in respect of future pension increases	117
Total reduction in pension deficit	**394**

In relation to the amendment to future increases in members' pensionable salaries, active members in RoI were asked to individually accept the changes during 2013. As at 31 December 2013, 19% of those members had accepted the changes and the defined benefit pension scheme deficit at 31 December 2013 reflects this level of acceptances. This has been recognised as a negative past service cost of €26 million. As at 28 February 2014, the acceptance level had increased to over 95%, giving rise to an estimated further negative past service cost of c.€81 million.

28 Retirement benefit obligations (continued)

In relation to the negotiated package of pension amendments, the IBOA recommended the solution to its members and the changes were put to ballot in late November 2013. The ballot was passed in early December 2013. By 31 December 2013, the amendments to future levels of pension increases had been implemented. As a result, a negative past service cost of €251 million has been recognised in the income statement at 31 December 2013.

The total income statement impact of the amendments, net of directly related expenses, amounted to a gain of €274 million.

In addition, the Pensions 2013 Review outcome also resulted in a financial assumption change. As a result, at 31 December 2013, €117 million has been recognised in other comprehensive income.

Plan details

The following table sets out details of the membership of the BSPF.

Plan details at last valuation date	Number of members	Proportion of funding liability
Active members	8,598	37%
Deferred members	6,380	19%
Pensioner members	3,097	44%
Total	**18,075**	**100%**

Financial and Demographic assumptions

The assumptions used in calculating the accounting costs and obligations of the Group's defined benefit pension plans, as detailed below, are set by the Directors after consultation with independent actuaries.

Discount rates are determined in consultation with the Group's independent actuary with reference to market yields at the balance sheet date on high quality corporate bonds (AA rated or equivalent) with a term corresponding to the term of the benefit payments. The yield curve is extrapolated when the term of the benefit payments is longer than the term of available bonds and the single discount rate specified takes the shape of the yield curve and the benefit payments into account. The assumption for ROI price inflation is set by reference to the European Central Bank inflation target for eurozone countries, which is to maintain inflation at below 2% per annum, and to the long term expectation for eurozone inflation as implied by the difference between eurozone fixed interest and indexed linked bonds. The assumptions for UK price inflation are set by reference to the difference between yields on longer-term conventional government bonds and index-linked bonds with appropriate adjustments to reflect distortions due to supply and demand, except for UK CPI inflation, which is set by reference to RPI inflation, with an adjustment applied, as no CPI-linked bonds exist.

The salary assumption takes into account inflation, seniority, promotion and current employment markets relevant to the Group.

28 Retirement benefit obligations (continued)

The financial assumptions used in measuring the Group's defined benefit pension liability under IAS 19 are set out in the table below.

Financial assumptions	31 December 2013 % p.a.	31 December 2012 % p.a.
Irish schemes		
Inflation rate	2.00	2.00
Discount rate	3.65	3.90
Rate of general increase in salaries	*2.50	*2.50
Rate of increase in pensions in payments	*1.24	*1.90
Rate of increase to deferred pensions	1.90	1.90
UK schemes		
Consumer Price Inflation	2.70	2.40
Retail Price Inflation	3.60	2.90
Discount rate	4.45	4.60
Rate of general increase in salaries	*4.10	*3.40
Rate of increase in pensions in payments	*2.49	*2.70
Rate of increase to deferred pensions	2.70	2.40

* *Weighted average increase across all Group schemes.*

Mortality assumptions

The mortality assumptions adopted for Irish pension arrangements are based on the results of the Society of Actuaries in Ireland mortality investigation.

	31 December 2013 €m	31 December 2012 €m
Longevity at age 70 for current pensioners		
Males	17.5	17.3
Females	18.9	18.7
Longevity at age 60 for active members currently aged 60 years		
Males	27.1	26.9
Females	28.7	28.5
Longevity at age 60 for active members currently aged 40 years		
Males	29.6	29.5
Females	30.8	30.7

28 Retirement benefit obligations (continued)

Amounts recognised in financial statements

The table below outlines where the Group's defined benefit plans are recognised in the financial statements

31 December 2013	**Irish Pension Plans €m**	**UK Pension[1] Plans €m**	**Total €m**
Income statement credit / (charge)			
- Other operating expenses	(110)	(22)	(132)
- Impact of amendments to the defined benefit pension scheme, net of directly related expenses	237	37	274
- Cost of restructuring programme	3	2	5
Statement of other comprehensive income			
Impact of remeasurement	(106)	(23)	(129)
Balance sheet obligations	(747)	(94)	(841)
This is shown on the balance sheet as:			
Retirement benefit obligation			(845)
Retirement benefit asset			4
Total net liability			**(841)**

All figures above are shown before deferred tax.

Restated* 31 December 2012	Irish Pension Plans €m	UK Pension[1] Plans €m	Total €m
Income statement credit / (charge)			
- Other operating expenses	(45)	(24)	(69)
- Cost of restructuring programme	2	(1)	1
Statement of other comprehensive income			
- Impact of remeasurement	(869)	(25)	(894)
Balance sheet obligations	(954)	(121)	(1,075)
This is shown on the balance sheet as:			
Retirement benefit obligation			(1,077)
Retirement benefit asset			2
Total net liability			(1,075)

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)'. See note 34 for additional information.*

1 *The UK Pension Plans include a portion of the BSPF which relates to UK members.*

28 Retirement benefit obligations (continued)

The movement in the net defined benefit obligation over the year in respect of the Group's defined benefit plans is as follows:

	Present value of obligation	Fair value of plan assets	(Surplus) / deficit of plans
At 1 January 2013	**(6,137)**	**5,062**	**(1,075)**
Impact of Pensions 2013 Review	394	-	394
- Negative Past service cost (income statement)	*277*	-	*277*
- Change in financial assumptions (other comprehensive income)	*117*	-	*117*
Cost of restructuring programme	5	-	5
- Negative Past service cost	*5*	-	*5*
Other operating expenses	(333)	201	(132)
- Current service cost	*(122)*	-	*(122)*
- Negative past service cost	*28*	-	*28*
- Interest (expense) / income	*(239)*	*201*	*(38)*
Return on plan assets not included in income statement	-	85	85
Change in demographic assumptions	-	-	-
Other changes in financial assumptions	(355)	-	(355)
Experience gains	8	-	8
Employer contributions	-	213	213
- Deficit clearing[1]	-	*119*	*119*
- Other	-	*94*	*94*
Employee contributions	(13)	13	-
Benefit payments	153	(153)	-
Changes in exchange rates	25	(9)	16
At 31 December 2013	**(6,253)**	**5,412**	**(841)**

The above amounts are recognised in the financial statements as follows: (charge) / credit

	Present value of obligation	Fair value of plan assets	(Surplus) / deficit of plans
Other operating expenses	(333)	201	(132)
Impact of amendments to defined benefit pension schemes, net of directly related costs	274	-	274
Cost of restructuring programme	5	-	5
Total amount recognised in income statement	**(54)**	**201**	**147**
Changes in financial assumptions	(238)	-	(238)
Return on plan assets not included in income statement	-	85	85
Change in demographic assumptions	-	-	-
Changes in exchange rates	25	(9)	16
Experience gains	8	-	8
Total remeasurements in other comprehensive income	**(205)**	**76**	**(129)**

Total Negative past service cost comprises

Impact of amendments to defined benefit pension schemes	277
Impact of restructuring programme	5
Other operating expenses	28
Total	**310**

[1] Deficit reducing contributions are additional contributions related to the Group's Pensions Reviews.

28 Retirement benefit obligations (continued)

Restated*	Present value of obligation	Fair value of plan assets	(Surplus) / deficit of plans
At 1 January 2012	(4,802)	4,463	(339)
Cost of restructuring programme	1	-	1
- Negative Past service cost	*1*	*-*	*1*
Other operating expenses	(306)	237	(69)
- Current service cost	*(99)*	*-*	*(99)*
- Negative past service cost	*43*	*-*	*43*
- Interest (expense) / income	*(250)*	*237*	*(13)*
Return on plan assets not included in income statement	-	268	268
Change in demographic assumptions	-	-	-
Other changes in financial assumptions	(1,162)	-	(1,162)
Experience gains	16	-	16
Employer contributions	-	226	226
- Deficit clearing[1]	*-*	*120*	*120*
- Other	*-*	*106*	*106*
Employee contributions	(14)	14	-
Benefit payments	155	(155)	-
Changes in exchange rates	(25)	9	(16)
At 31 December 2012	(6,137)	5,062	(1,075)

The above amounts are recognised in the financial statements as follows: (charge) / credit

Other operating expenses	(306)	237	(69)
Cost of restructuring programme	1	-	1
Total amount recognised in income statement	(305)	237	(68)
Changes in financial assumptions	(1,162)	-	(1,162)
Return on plan assets not included in income statement	-	268	268
Change in demographic assumptions	-	-	-
Changes in exchange rates	(25)	9	(16)
Experience gains	16	-	16
Total remeasurements in other comprehensive income	(1,171)	277	(894)

Total Negative past service cost comprises	
Impact of restructuring programme	1
Other operating expenses	43
Total	44

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)'. See note 34 for additional information.*

[1] *Deficit reducing contributions are additional contributions related to the Group's Pensions Reviews.*

28 Retirement benefit obligations (continued)

Asset breakdown	Year ended 31 December 2013 €m	Year ended 31 December 2012 €m
Equities (quoted)	2,375	2,372
Liability Driven Investment (unquoted)	1,219	1,382
Corporate bonds (quoted)	318	315
Property (unquoted)	314	252
Government bonds (quoted)	283	282
Cash (quoted)	251	225
Senior secured loans (unquoted)	197	-
Reinsurance (unquoted)	196	-
Hedge funds (unquoted)	193	184
Private equities (unquoted)	66	51
Total fair value of assets	**5,412**	**5,063**

The retirement benefit schemes' assets include Bank of Ireland stock amounting to €7 million (31 December 2012: €3 million) and property occupied by Bank of Ireland Group companies to the value of €25 million (31 December 2012: €24 million).

Sensitivity of defined benefit obligation to key assumptions
The table below sets out how the defined benefit obligation would have been affected by changes in the significant actuarial assumptions that were reasonably possible at 31 December 2013:

Impact on defined benefit obligation	Change in assumption	Impact on actuarial liabilities €m
Discount rate	0.25% decrease	318
RPI inflation*	0.10% decrease	(111)
Salary growth	0.10% decrease	(21)
Life expectancy	1 year increase	152

* *Including other inflation-linked assumptions (CPI inflation, pension increases, salary growth)*

The sensitivity analysis is prepared by the independent actuaries calculating the defined benefit obligation under the alternative assumptions.

While the table above shows the estimated impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

Some of the above changes in assumptions may have an impact on the value of the schemes' investment holdings. For example, the plans hold a proportion of their assets in corporate bonds. A fall in the discount rate as a result of lower corporate bond yields would be expected to lead to an increase in the value of these assets, thus partly offsetting the increase in the defined benefit obligation. The extent to which these sensitivities are managed is discussed further below.

28 Retirement benefit obligations (continued)

Future cash flows
The plans' liabilities represent a long-term obligation and most of the payments due under the plans will occur several decades into the future.

The duration, or average term to payment for the benefits due weighted by liability, is c.20 years for the Irish plans and c.21 years for the UK plans.

Expected employer contributions for the year ended 31 December 2014 are €214 million, inclusive of €131 million of additional contributions related to the Group pensions reviews. Expected employee contributions for the year ended 31 December 2014 are €13 million.

Risks and risk management
The Group's defined benefit pension plans have a number of areas of risk. The key areas of risk, and the ways in which the Group has sought to manage them, are set out in the table below.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements.

28 Retirement benefit obligations (continued)

Risk	Description
Asset volatility	The defined benefit pension plans hold a significant proportion of their assets in equities and other return-seeking assets. The returns on such assets tend to be volatile. For the purposes of the triennial valuation, the defined benefit liabilities, however, are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. For measurement of the obligation in the financial statements under IAS19R the defined benefit obligation is calculated using a discount rate set with reference to high-quality corporate bond yields. The movement in the asset portfolio is not fully correlated with the movement in the two liability measures and this means that the funding level is likely to be volatile in the short-term, potentially resulting in short-term cash requirements and an increase in the net defined benefit deficit recorded on the balance sheet. In order to limit the volatility in asset returns, the schemes' assets are well-diversified by investing in a range of asset classes, including listed equity, private equity, hedge funds, infrastructure, reinsurance, property, government bonds and corporate bonds. The investment in bonds is discussed further below.
Changes in bond yields	Interest rate and inflation risks, along with equity risk, are the defined benefit schemes' largest risks. From an accounting liability perspective, the schemes are also exposed to movements in corporate bond spreads. As part of its Risk Management the largest Group sponsored pension scheme, the BSPF has invested 29% in a Liability Driven Investment (LDI) approach to help manage its interest rate and inflation risk. The LDI approach invests in cash, sovereign bonds and interest rate and inflation swaps to create a portfolio which is both euro inflation-linked and of significantly longer duration than possible in the physical bond market. The portfolio will broadly hedge against movements in long-term interest rates and inflation expectations. The LDI portfolio only hedges a portion of the BSPF's interest rate and inflation risks. Furthermore, the portfolio does not hedge against changes in the credit spread on corporate bonds used to derive the accounting liabilities, nor protect against differences between expectations for eurozone average inflation and the Fund's Irish inflation exposure. However, the investment in corporate and government bonds offers a further degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is further reduced.
Inflation risk	The majority of the plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plans against high inflation and the Pensions 2013 Review changes have further limited this exposure.
Life expectancy	The majority of the plans' obligations are to provide a pension for the life of the member, which means that increases in life expectancy will result in an increase in the plans' liabilities.

Although investment decisions are the responsibility of the trustees, the Group takes an active interest to support the efficient management of risk including through the appointment of a Group Pensions Chief Investment Officer. The role of Group Pensions Chief Investment Officer is to advise and support the Trustees of the Group sponsored pension schemes in the design, implementation and management of investment strategy to meet the various scheme liabilities. The duties include, but not are limited to, the identification and management of risks such as the risk of insufficient asset returns, changing interest rates, inflation, counterparty exposures, geographical risk, asset concentration risk, liquidity risk, regulatory risk, manager risk and longevity risk.

29 Contingent liabilities and commitments

The table below gives the contract amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

	31 December 2013 Contract amount €m	31 December 2012 Contract amount €m
Contingent liabilities		
Acceptances and endorsements	9	9
Guarantees and irrevocable letters of credit	819	742
Other contingent liabilities	327	349
	1,155	**1,100**
Commitments		
Documentary credits and short term trade related transactions	85	93
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- revocable or irrevocable with original maturity of 1 year or less	13,043	13,284
- irrevocable with original maturity of over 1 year	2,764	3,202
	15,892	**16,579**

In common with other banks, the Group conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

An **acceptance** is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. **Endorsements** are residual liabilities of the Group in respect of bills of exchange, which have been paid and subsequently rediscounted.

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Other contingent liabilities primarily include performance bonds and are generally short term commitments to third parties which are not directly dependent on the customers' credit worthiness. The Group is also party to legal, regulatory and other actions arising out of its normal business operations. In this context, the Group has received correspondence from certain parties considering taking legal action against the Group with respect to their participation in Tier 1 and Tier 2 security exchanges in June 2011. The Group considers that it has a robust defence to any such claims and will defend them vigorously, should they arise.

Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions.

30 Capital Package in relation to 2009 Preference Stock

The 2009 Preference Stock was issued by the Bank on 31 March 2009. At 31 December 2012, the National Pensions Reserve Fund Commission (NPRFC) held 1,837,041,304 units of the 2009 Preference Stock, which could be repurchased at the option of the Bank, in whole or in part, at a price per unit equal to the issue price of €1.00 per unit before 31 March 2014 and thereafter at a price per unit of €1.25 (a 'step-up' of 25% of par value), subject in either case to the consent of the Central Bank of Ireland being obtained.

Having considered its options, the Bank agreed a Capital Package with the NPRFC and the Central Bank of Ireland which it implemented in December 2013 which included the following:

(i) the placing of new units of ordinary stock (the Placing Stock) to generate proceeds of c.€537 million (net of expenses), to redeem c.€537 million of the 2009 Preference Stock;

(ii) the sale by the NPRFC of €1.3 billion 2009 Preference Stock to Baggot Securities Limited (Baggot), a special purpose company, which funded the purchase using the proceeds of the issuance of €1.3 billion 10.24% perpetual non-cumulative notes (the Notes) to private investors. Baggot irrevocably waived its rights to the step-up by Waiver Deed (the Waiver Deed) in favour of the Bank;

(iii) the Bank advised Central Bank of Ireland that it is not the Bank's intention to recognise 2009 Preference Stock as regulatory Common equity tier 1 (CET1) capital after July 2016, unless derecognition would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements; and

(iv) the Bank announced that it does not expect to redeem the €1.3 billion of the 2009 Preference Stock sold to Baggot prior to 1 January 2016, save in certain limited circumstances[1].

- **Issue of Ordinary Stock:** On 4 December 2013, a total of 2,230,769,231 units of Placing Stock were placed at a price of 26 cent per unit of ordinary stock (being a discount of 3% to the previous days closing price), generating gross proceeds of €580 million. The Placing Stock represented approximately 7.4% of the Group's issued ordinary stock prior to the issue. The Placing Stock ranks pari passu in all respects with the existing ordinary stock of the Group, including the right to receive all dividends and other distributions declared, made or paid on or in respect of such stock after the date of issue of the Placing Stock.

- **Redemption of the 2009 Preference Stock:** On 9 December 2013, net proceeds of €537,041,304 from the issue of the Placing Stock were used to redeem 537,041,304 units of the 2009 Preference Stock at the initial issue price of €1.00 per unit. In addition to redeeming 2009 Preference Stock, the Group paid the dividend accrued up to that date, amounting to €44 million to the NPRFC, representing the 10.25% interest over 288 days since 20 February 2013.

- **Transfer of the 2009 Preference Stock to private investors:** The State sold its holding of 1.3 billion units of the 2009 Preference Stock to Baggot, a structured entity, not controlled by the Group. The Group mandated a team of investment banks to manage and underwrite the sale to private investors of the Notes which are secured on 1.3 billion units of the 2009 Preference Stock. The sale was structured so that Baggot has waived its rights to the step-up and consequently, none of Baggot or the private investors is entitled to receive or seek the step-up. The costs of the sale of the 2009 Preference Stock to Baggot were paid by the Group, but otherwise, the sale had no impact on the financial statements of the Group. The State generated a gain of €62 million on the sale.

[1] *These circumstances would include changes in regulatory capital treatment, breach of Waiver Deed and taxation.*

The following table shows the impact for the year ended 31 December 2013 of the redemption and sale of the 2009 Preference Stock on capital stock, stock premium and retained earnings.

	Capital stock		Stock premium	Retained earnings	
	Number	€m	€m	€m	Total
Issue of ordinary stock	2,230,769,231	111	469	-	**580**
Redemption of the 2009 Preference Stock	(537,041,304)	(5)	(532)	-	**(537)**
Dividend paid on redemption of the 2009 Preference Stock		-	-	(44)	**(44)**
Transaction costs		-	(12)	(27)	**(39)**
Total		**106**	**(75)**	**(71)**	**(40)**

31 Capital stock

Authorised	31 December 2013	31 December 2012
Eur€	**€m**	€m
90 billion units of ordinary stock of €0.05 each	4,500	4,500
228 billion units of deferred stock of €0.01 each	2,280	2,280
100 million units of non-cumulative preference stock of €1.27 each	127	127
100 million units of undesignated preference stock of €0.25 each	25	25
3.5 billion units of non-cumulative 2009 Preference Stock of €0.01 each	35	35
Stg£	**£m**	£m
100 million units of non-cumulative preference stock of Stg£1 each	100	100
100 million units of undesignated preference stock of Stg£0.25 each	25	25
US$	**$m**	$m
8 million units of non-cumulative preference stock of US$25 each	200	200
100 million units of undesignated preference stock of US$0.25 each	25	25

Allotted and fully paid	31 December 2013 €m	31 December 2012 €m
32.344 billion units of €0.05 ordinary stock (31 December 2012: 30.109 billion units)	1,616	1,505
91.981 billion units of €0.01 deferred stock	920	920
41.696 million units of €0.05 treasury stock (31 December 2012: 45.586 million units)	2	2
1.9 million units of non-cumulative preference stock of Stg£1 each	3	3
3.0 million units of non-cumulative preference stock of €1.27 each	4	4
1.3 billion units of non-cumulative 2009 Preference Stock of €0.01 each (31 December 2012: 1.837 billion units)	13	18
	2,558	**2,452**

Ordinary stock

All units of ordinary stock carry the same voting rights.

The weighted average number of units of ordinary stock in issue at 31 December 2013, used in the earnings per share calculation, excludes treasury stock which does not represent ordinary stock in issue. Treasury stock does not rank for dividend. While own stock held for the benefit of life assurance policyholders legally ranks for dividend, in line with accounting standards any dividend would not accrue in the Group financial statements.

Movements in ordinary and treasury stock (units)	Ordinary Stock 31 December 2013	Ordinary Stock 31 December 2012	Treasury Stock 31 December 2013	Treasury Stock 31 December 2012
At beginning of year	30,108,928,692	30,109,381,214	45,585,840	45,133,318
Issue of ordinary stock	2,230,769,231	-	-	-
Stock (purchased) / sold and held for the benefit of life assurance policyholders	3,889,379	(452,522)	(3,889,379)	452,522
At end of year	**32,343,587,302**	**30,108,928,692**	**41,696,461**	**45,585,840**

On 9 December 2013, the Bank issued 2,230,769,231 units of ordinary stock (the 'Placing Stock') with nominal value of €0.05 each. Following the issuance of the Placing Stock the Bank's total ordinary stock in issue is 32,343,587,302 units (net of stock held for the benefit of life assurance policyholders).

At 31 December 2013, New Ireland Assurance Company plc held 19,687,771 units of ordinary stock as 'own shares' (31 December 2012: 23,577,150 units).

32 Stock premium account

	31 December 2013 €m	31 December 2012 €m
Stock premium account		
Balance at the beginning of the year	1,210	5,127
Issue of ordinary stock	469	-
Redemption of the 2009 Preference Stock	(532)	-
Transaction costs, net of tax	(12)	3
Reduction in stock premium transferred to retained earnings	-	(3,920)
Balance at the end of the year	**1,135**	**1,210**

During the year ended 31 December 2012, the Irish High Court approved the application by the Bank for a reduction in the Stock premium account of €3,920 million. As a result, this amount was transferred to retained earnings.

33 Summary of relations with the State

The State, through both the Group's participation in the ELG scheme[1] and the investment by the National Pensions Reserve Fund Commission (NPRFC) in the 2009 Preference Stock of the Bank during the year, is a related party of the Group.

A relationship framework between the Minister for Finance and the Bank has been in place since 30 March 2012. The purpose of this framework is to provide the basis on which the relationship shall be governed. This framework is available on the Department of Finance website.

(a) Ordinary stock
At 31 December 2013, the State through the NPRFC held 14.08% (31 December 2012: 15.13%) of the ordinary stock of the Bank.

(b) 2009 Preference Stock
At 31 December 2012, NPRFC held 1,837,041,304 units of the 2009 Preference Stock, which could be repurchased at the option of the Bank, in whole or in part, at a price per unit equal to the issue price of €1.00 per unit before 31 March 2014 and thereafter at a price per unit of €1.25 (a 'step-up' of 25% of par value), subject in either case to the consent of the Central Bank of Ireland being obtained.

Having considered its options, the Bank agreed a Capital Package with the NPRFC and the Central Bank of Ireland which it implemented in December 2013 which included the following:

(i) the placing of new units of ordinary stock (the Placing Stock) to generate proceeds of c.€537 million (net of expenses), to redeem c.€537 million of the 2009 Preference Stock;
(ii) the sale by the NPRFC of €1.3 billion 2009 Preference Stock to Baggot Securities Limited (Baggot), a special purpose company, which funded the purchase using the proceeds of the issuance of €1.3 billion 10.24% perpetual non-cumulative notes (the Notes) to private investors. Baggot irrevocably waived its rights to the step-up by Waiver Deed (the Waiver Deed) in favour of the Bank;
(iii) the Bank advised Central Bank of Ireland that it is not the Bank's intention to recognise 2009 Preference Stock as regulatory Common equity tier 1 (CET1) capital after July 2016, unless derecognition would mean that an adequate capital buffer cannot be maintained above applicable regulatory requirements; and
(iv) the Bank announced that it does not expect to redeem the €1.3 billion of the 2009 Preference Stock sold to Baggot prior to 1 January 2016, save in certain limited circumstances[2].

On 11 December 2013, the balance of 1,300,000,000 units of the 2009 Preference Stock was sold by the NPRFC to Baggot Securities Limited (Baggot) a special purpose company, which funded the purchase using the proceeds of the issuance of €1,300,000,000 of 10.24% perpetual non-cumulative notes to private investors.

On 9 December 2013, the Group paid a cash dividend to the NPRFC of €44 million in relation to €537 million of the 2009 Preference Stock that was redeemed. The State generated a gain of €62 million on the sale.

[1] This includes all existing term deposits and eligible liabilities up to the date of withdrawal of the scheme for new liabilities from midnight 28 March 2013.
[2] These circumstances would include changes in regulatory capital treatment, breach of the Waiver Deed and taxation.

33 Summary of relations with the State (continued)

On 20 February 2013, the Group paid a cash dividend of €188.3 million (20 February 2012: €188.3 million) on the 2009 Preference Stock to the NPRFC.

(c) Contingent Capital Note

In July 2011, the Group issued a Contingent Capital Note to the State, satisfying the requirement under the 2011 PCAR to issue €1 billion of contingent capital. The nominal value of this note is €1 billion and cash proceeds of €985 million were received (net of a fee paid to the State of €15 million). The note has a term of five years and a coupon of 10%. On 9 January 2013, the State sold its entire holding in the Convertible Contingent Capital Note 2016 at a small premium to a diverse group of international institutional investors.

(d) Guarantee schemes

Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG scheme)

The ELG scheme ended for all new liabilities on 28 March 2013. After this date no new liabilities were guaranteed under the scheme. All qualifying deposits made up to the date of expiry from the ELG scheme continued to be covered until the date of maturity of the deposit.

After the date of expiry, eligible liabilities will continue to include the following until date of maturity:

- deposits to the extent not covered by deposit protection schemes in Ireland or any other jurisdiction;
- senior unsecured certificates of deposit;
- senior unsecured commercial paper;
- other senior unsecured bonds and notes; and
- other forms of senior unsecured debt which may be specified by the Minister, consistent with EU State aid rules and the EU Commission's Banking Communication (2008 / C270 / 02) and subject to prior consultation with the EU Commission.

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

A fee is payable in respect of each liability guaranteed under the ELG scheme. The following table summarises the fees paid under the ELG scheme during the years ended 31 December 2013 and 2012 and the liabilities covered at each balance sheet date.

	Year ended 31 December 2013	Year ended 31 December 2012
Liabilities covered at year end	**€bn**	**€bn**
ELG		
- Customer deposits	2	21
- Debt securities in issue	3	5
Total	**5**	**26**
Fees for the year	**€m**	**€m**
ELG	129	388
Total	**129**	**388**

European Communities (Deposit Guarantee Schemes) Regulations, 1995

Under the European Communities (Deposit Guarantee Schemes) Regulations, 1995 as amended by the State on 20 September 2008, deposits of up to €100,000 per depositor per licensed financial institution regulated by the Central Bank are guaranteed by the State. This Scheme covers current accounts, demand deposit accounts and term deposit accounts. The Scheme is funded by credit institutions lodging funds in a deposit protection account maintained at the Central Bank.

In addition to the deposits covered by these Regulations and by the ELG scheme as set out above, certain other Group deposits are covered by the deposit protection schemes in other jurisdictions, chiefly the UK Financial Services Compensation Scheme (in respect of deposits issued by Bank of Ireland (UK) plc) and the Isle of Man Depositors Compensation Scheme (in respect of deposits issued by Bank of Ireland (I.O.M.) Limited). At 31 December 2013, €20.4 billion (31 December 2012: €24.2 billion) of Bank of Ireland (UK) plc deposits and €28 million (31 December 2012: €156 million) of Bank of Ireland (I.O.M.) Limited deposits were covered under these schemes.

33 Summary of relations with the State (continued)

(e) Bonds issued by the State

At 31 December 2013, the Group held sovereign bonds issued by the State with a carrying value of €6,846 million (31 December 2012: €5,751 million) of which €6,403 million (31 December 2012: €5,420 million) are classified as available for sale financial assets and €443 million (31 December 2012: €331 million) are classified as other financial assets at fair value through profit or loss. Further details are set out on page 169.

(f) National Asset Management Agency (NAMA)

At 31 December 2013, the Group held bonds issued by NAMA with a carrying value of €4,089 million (31 December 2012: €4,545 million)

	31 December 2013 €m	31 December 2012 €m
NAMA senior bonds (guaranteed by the State) (note 19)	3,957	4,428
NAMA subordinated bonds	132	117
Total	**4,089**	**4,545**

(g) National Asset Management Agency Investment Limited (NAMAIL)

On 30 March 2010, the Group, through its wholly-owned subsidiary New Ireland Assurance Company plc, acquired 17 million B shares in NAMAIL, corresponding to one-third of the 51 million B shares issued by NAMAIL. The balance of the B shares were acquired at that time in equal proportion by Irish Life Assurance and major pension and institutional clients of AIB Investment Managers. The cost to the Group of acquiring these B shares was €17 million. NAMAIL has also issued 49 million A shares to NAMA. As a result the Group holds 17% of the total ordinary share capital of NAMAIL. NAMAIL is a holding company and its subsidiaries include the entities to which NAMA Participating Institutions transfer Eligible Bank Assets and which issue the NAMA senior bonds and NAMA subordinated debt as consideration for those assets.

The A shares and B shares generally rank equally, except as otherwise provided in the Articles of Association of NAMAIL. NAMA may appoint up to six Directors to the board of NAMAIL. In total, the B shareholders may also jointly appoint up to six Directors and have collectively appointed one director. As holder of the A shares, NAMA has veto rights in relation to: the declaration of dividends; the appointment or removal of Directors; the exercise of voting rights in respect of any subsidiary of NAMAIL and the appointment of a Chairman. In addition NAMA can veto any actions by NAMAIL, which NAMA considers in any manner to be inconsistent with its objectives. A holder of the B shares may not sell the shares without the consent of NAMA.

On a winding-up, the return on B shares is capped at 110% of the capital invested, (€18.7 million in the case of the Group), and the maximum loss that may be suffered is limited to the original amount invested (€17 million in the case of the Group).

A discretionary non-cumulative dividend on the capital invested may be paid on an annual basis and this is limited to the yield on ten year State bonds. A dividend of €0.7 million was received by the Group on 2 April 2013 (2 April 2012: €1.15 million).

(h) Securities repurchase transaction with Irish Bank Resolution Corporation (IBRC)

On 29 March 2012, the Bank, the State and IBRC, reached a conditional agreement to enter into a securities repurchase transaction (repo) whereby the Group would purchase long term Irish Government Bonds from IBRC for a purchase price of €3.1 billion, less any cash margin payable by IBRC to the Bank on the purchase date. IBRC had an obligation to repurchase the bonds for €3.1 billion in cash, less any cash margin held by the Bank on the repurchase date, not later than 364 days after the effective date of the transaction. The transaction was considered to be a related party transaction under the Listing Rules and consequently required independent stockholder approval which involved the publication of a stockholder circular and an Extraordinary General Court (EGC) which approved the transaction on 18 June 2012. The transaction was financed by the Group by using the bonds, which are eurosystem eligible, to access standard ECB open market operations. The margin for the Group over ECB funding which applies to this transaction was 135 basis points. The transaction was governed by a Global Master Repurchase Agreement which incorporates standard market terms including daily margining provisions with respect to changes in the value of the bonds. All IBRC's payment obligations to the Group under the terms of the transaction were guaranteed by the Minister for Finance. The impact of this transaction on the financial statements at 31 December 2012 was an increase in Loans and advances to banks of €3.1 billion, an increase in Deposits from banks of €3.1 billion and net interest income of €22 million. Transaction costs of €6 million were incurred and, under the terms of the transaction agreement, were reimbursed by IBRC.

33 Summary of relations with the State (continued)

Following the announcement by the Irish Government in early February 2013 that it would liquidate the Irish Bank Resolution Corporation (IBRC), the Group's IBRC repo transaction was terminated by the Group on a no gain / no loss basis effective on 13 February 2013.

(i) Other transactions with the State and entities under its control or joint control
In addition to the matters set out above, the Group enters into other transactions in the normal course of business with the State, its agencies and entities under its control or joint control. These transactions include the provision of banking services, including money market transactions, dealing in government securities and trading in financial instruments issued by certain banks.

At 31 December 2013, the Group held senior bonds with a carrying value of €822 million issued by the following entities which are related parties of the Group, as follows:

	31 December 2013 €m	31 December 2012 €m
Allied Irish Banks plc (AIB)	618	602
Permanent TSB Group Holdings plc	204	204
Total	**822**	**806**

At 31 December 2013, €566 million (31 December 2012: €551 million) of the AIB senior bonds and €204 million (31 December 2012: €204 million) of the Permanent TSB Group Holdings plc senior bonds were guaranteed under the ELG scheme.

At 31 December 2013, the Group also had loans of €59 million to AIB (31 December 2012: €46 million) and €6 million to Permanent TSB Group Holdings plc (31 December 2012: €6 million) which were included within loans and advances to banks.

At 31 December 2013, the Group held deposits from the National Treasury Management Agency (NTMA) of €1.7 billion (31 December 2012: €1.3 billion). The maximum amount of these deposits during the period was €2.1 billion (31 December 2012: €1.3 billion).

The Group also held a number of deposits from the State, its agencies and entities under its control or joint control, which are considered to be collectively significant, totalling c.€0.8 billion (31 December 2012: c.€0.9 billion).

In addition, at 31 December 2013, the Group held accounts from IBRC (in Special Liquidation) and its associates of €668 million (31 December 2012: €13 million) which were included in the Customer accounts at 31 December 2013.

(j) Irish bank levy
The Finance Bill (No. 2) 2013 which was enacted on 18 December 2013, introduced a bank levy on certain financial institutions, including the Group. The levy will equal 35% of each financial institution's Deposit Interest Retention Tax (DIRT) payment for 2011 and will be charged for three-years, from 2014 to 2016 inclusive. The annual levy payable by the Group will be c.€41 million.

34 Impact of adopting new accounting standards

From 1 January 2013, the Group adopted 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. Each standard is required to be applied retrospectively and accordingly the Group has restated the comparative periods.

The following tables reflect the impact on the Group's financial statements at 31 December 2013 of the adoption of these standards at 1 January 2013.

Income statement – year ended 31 December 2013	**IAS 19R Gain / (loss) €m**	**IFRS 10 Gain / (loss) €m**	**Total Gain / (loss) €m**
Interest expense	-	10	10
Other operating income	-	(21)	(21)
Share of results of associates and joint ventures (after tax)	-	(1)	(1)
Other operating expenses	(40)	10	(30)
Loss before tax	**(40)**	**(2)**	**(42)**
Taxation credit	5	-	5
Loss for the year	**(35)**	**(2)**	**(37)**
Remeasurement of the net defined benefit pension liability, net of tax	38	-	38
Total comprehensive income for the year, net of tax	**3**	**(2)**	**1**
Attributable to stockholders	3	-	3
Attributable to non-controlling interests	-	(2)	(2)
Total comprehensive income for the year, net of tax	**3**	**(2)**	**1**
Basic and diluted earnings per share (cent)	-	-	-

Balance sheet – 31 December 2013	**IAS 19R €m**	**IFRS 10 €m**	**Total €m**
Loans and advances to banks	-	(9)	(9)
Loans and advances to customers	-	11	11
Interest in associates	-	49	49
Investment properties	-	(213)	(213)
Deferred tax assets	(15)	-	(15)
Other assets	-	(4)	(4)
Total assets	**(15)**	**(166)**	**(181)**
Deposits from banks	-	(139)	(139)
Retirement benefit obligations	(84)	-	(84)
Other liabilities	-	(10)	(10)
Total liabilities	**(84)**	**(149)**	**(233)**
Non-controlling interests	-	(17)	(17)
Retained earnings – current year	3	-	3
Retained earnings – prior years	66	-	66
Total equity	**69**	**(17)**	**52**

34 Impact of adopting new accounting standards (continued)

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

From 1 January 2013, the Group adopted IAS 19 Employee Benefits (Revised 2011) which resulted in an increase in the pension charge included in operating expenses of €11 million for the year ended 31 December 2012.

As a result of this restatement stockholders' equity at 31 December 2012 has been increased by €66 million and total assets have been reduced by €13 million.

IFRS 10 Consolidated Financial Statements

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

The balance sheet impact of this deconsolidation has been to reclassify the balance sheet lines relating to these entities to interest in associated undertakings. The comparative figures for 31 December 2012 have been restated to reflect this, resulting in a reduction of €169 million in total assets and a reduction of €147 million in wholesale funding.

Other

In addition to the adoption of new accounting standards as described above, a reclassification has been made to the income statement for the year ended 31 December 2012. The gains on liability management exercises of €69 million and loss on sale of assets to NAMA of €1 million which had previously been reported as a separate line item is now included in other income as it is not material enough to require separate disclosure.

34 Impact of adopting new accounting standards (continued)

The following tables set out the impact of the adoption of these standards on the Group's financial statements for the year ended 31 December 2012. In addition, the Group has reclassified gains on liability management exercises and gains / losses on sale of assets to NAMA from the face of the income statement to other lines within the income statement. These items are included under the heading 'Reclassifications' in the following tables:

	31 December 2012				
	Published €m	IAS 19R €m	IFRS 10 €m	Reclassifications €m	Restated €m
CONSOLIDATED INCOME STATEMENT (selected lines)					
Interest expense	(2,569)	-	9	-	(2,560)
Fee and commission income	515	-	-	-	515
Gain on liability management exercises	69	-	-	(69)	-
Other operating income	106	-	(26)	68	148
Other operating expenses	(1,638)	(11)	11	-	(1,638)
(Loss) / gain on sale of assets to NAMA including associated costs	(1)	-	-	1	-
Share of results of associates and joint ventures (after tax)	41	-	5	-	46
Loss before tax	(2,166)	(11)	(1)	-	(2,178)
Loss after tax	(1,829)	(11)	(1)	-	(1,841)
Basic and diluted earnings per share (cent)	6.7c	-	-	-	6.7c
CONSOLIDATED BALANCE SHEET (selected lines)					
Assets					
Loans and advances to banks	9,506	-	(4)	-	9,502
Interest in associates	39	-	52	-	91
Investment properties	1,066	-	(218)	-	848
Other assets	2,404	-	1	-	2,405
Deferred tax assets	1,653	(13)	-	-	1,640
Total assets	148,146	(13)	(169)	-	147,964
Liabilities					
Deposits from banks	21,272	-	(147)	-	21,125
Other liabilities	3,144	-	(7)	-	3,137
Retirement benefit obligations	1,156	(79)	-	-	1,077
Total liabilities	139,542	(79)	(154)	-	139,309
Equity					
Retained earnings	4,607	66	-	-	4,673
Non-controlling interests	13	-	(15)	-	(2)
Total equity	8,604	66	(15)	-	8,655

34 Impact of adopting new accounting standards (continued)

The tables below outline the impact of the restatement on the relevant financial statement line items for the year ended 31 December 2012:

	31 December 2012				
	Published €m	IAS19R €m	IFRS10 €m	Reclassifications €m	Restated €m
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (selected lines)					
Loss for the year	(1,829)	(11)	(1)	-	(1,841)
Remeasurement of net defined benefit pension liability, net of tax	(789)	14	-	-	(775)
Other comprehensive income for the year, net of tax	369	14	-	-	383
Total comprehensive income for the year, net of tax	(1,460)	3	(1)	-	(1,458)
Total comprehensive income attributable to equity stockholders	(1,455)	3	-	-	(1,452)
Total comprehensive income attributable to non-controlling interests	(5)	-	(1)	-	(6)
Total comprehensive income for the year, net of tax	(1,460)	3	(1)	-	(1,458)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (selected lines)					
Retained earnings					
Balance at the beginning of the year	3,507	64	-	-	3,571
Loss for the period attributable to stockholders	(1,824)	(11)	-	-	(1,835)
Remeasurement of net defined benefit pension liability	(789)	14	-	-	(775)
Balance at the end of the year	4,607	66	-	-	4,673
Non-controlling interests					
Balance at the beginning of the year	50	-	(13)	-	37
Share of net loss	(5)	-	(1)	-	(6)
Balance at the end of the year	13	-	(15)	-	(2)
CONSOLIDATED CASH FLOW STATEMENT (selected lines)					
Cash flows from operating activities before changes in operating assets and liabilities	628	-	7	-	635
Net cash flow from operating assets and liabilities	(4,682)	-	(4)	-	(4,686)
Cash flows from investing activities	3,149	-	1	-	3,150
Net change in cash and cash equivalents	(1,692)	-	4	-	(1,688)
Closing cash and cash equivalents	14,332	-	(4)	-	14,328

34 Impact of adopting new accounting standards (continued)

The tables below outline the impact of the restatement on the consolidated balance sheet for the year commencing 1 January 2012:

	1 January 2012				
	Published €m	IAS19R €m	IFRS10 €m	Reclassifications €m	Restated €m
CONSOLIDATED BALANCE SHEET (selected lines)					
Assets					
Loans and advances to banks	8,059	-	(8)	-	8,051
Interest in associates	31	-	48	-	79
Investment properties	1,204	-	(209)	-	995
Other assets	2,270	-	(1)	-	2,269
Deferred tax assets	1,381	(10)	-	-	1,371
Total assets	154,880	(10)	(170)	-	154,700
Liabilities					
Deposits from banks	31,534	-	(152)	-	31,382
Other liabilities	3,111	-	(5)	-	3,106
Retirement benefit obligations	422	(74)	-	-	348
Total liabilities	144,628	(74)	(157)	-	144,397
Equity					
Retained earnings	3,507	64	-	-	3,571
Non-controlling interests	50	-	(13)	-	37
Total equity	10,252	64	(13)	-	10,303

35 EU restructuring plan

Amendment to the Group's Revised 2011 EU Restructuring Plan

On 9 July 2013, the European Commission gave approval under the State aid rules to amend the Group's Revised 2011 EU Restructuring Plan, with substitutions for the measure to divest of NIAC. The Group is no longer required to sell NIAC its life assurance company which distributes protection, investment and pension products to the Irish market, through independent brokers, its financial advisors (direct sales force) and the Group's branch network. The NIAC divestment measure will be replaced with substitution measures summarised below:

- the Group will exit from its Great Britain (GB) based business banking and corporate banking activities having gross loan assets of c.€3.5 billion at 31 December 2013 (31 December 2012: c.€4.6 billion). This measure does not impact on the Group's consumer banking businesses in GB including its partnership with the Post Office, or its activities in Northern Ireland or its Leveraged Acquisition Finance business;
- the Group will exit from the origination of new mortgages through its intermediary channel, including the sale (or retirement) of the ICS Building Society's distribution platform together with the sale, if required by an acquirer, of up to €1.0 billion of intermediary originated mortgage assets and matched deposits;
- the Group's market opening measures will be prolonged by one year to 31 December 2016; and
- under the July 2013 Amended EU Restructuring Plan, the Bank had restrictions on the payment of dividends on its ordinary stock. These dividend restrictions no longer apply as the 2009 Preference Stock is no longer owned by the State following the capital transaction executed by the Group in December 2013.

36 Post balance sheet events

€750 million debt issuance

On 8 January 2014, the Group raised €750 million of five-year senior unsecured funding with a yield of 3.337% from a diversified range of investors.

2009 Preference Stock Dividend

On 20 February 2014 the Group paid a cash dividend of €133.3 million on the 2009 Preference Stock to Baggot Securities Limited.

NAMA

On 20 February 2014, NAMA informed the Group that it would pay the Group a coupon of c.€15 million on 3 March 2014 on its holding of NAMA subordinated bonds. On 28 February 2014, NAMA announced that it would repurchase €3 billion nominal of the outstanding NAMA senior bonds, on a pro rata basis and at a price of par plus accrued interest. For the Group, the amount to be repurchased is estimated as c.€528 million nominal, which will reduce the Group's nominal holding to c.€3,463 million on the intended settlement date of 12 March 2014.

Other Information

Group exposures to selected countries

Set out in the tables below is a summary of the Group's exposure to sovereign debt and other country exposures for selected balance sheet line items as at 31 December 2013. For these line items, further information on the Group's exposures to eurozone countries that have a Standard & Poor's credit rating of AA or below where the Group has an exposure of over €250 million (being Ireland, Spain and France), is set out on pages 169 to 172.

31 December 2013 **Assets**	**Ireland €m**	**United Kingdom €m**	**United States €m**	**Spain €m**	**France €m**	**Other[4] €m**	**Total €m**
Cash and balances at central banks	663	4,948	484	-	-	290	6,385
Trading securities	17	-	36	11	25	163	252
Derivative financial instruments (net)[1]	129	433	12	16	5	41	636
Other financial assets at fair value through profit or loss[2]	449	37	26	12	386	353	1,263
Loans and advances to banks[2]	188[3]	2,586	49	-	980	644	4,447
Available for sale financial assets	7,364	840	331	956	647	1,966	12,104
NAMA senior bonds	3,957	-	-	-	-	-	3,957
Total	**12,767**	**8,844**	**938**	**995**	**2,043**	**3,457**	**29,044**

Restated* 31 December 2012 Assets	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[5] €m	Total €m
Cash and balances at central banks	-	8,040	128	-	-	304	8,472
Trading securities	-	45	-	-	35	63	143
Derivative financial instruments (net)[1]	204	622	34	18	12	133	1,023
Other financial assets at fair value through profit or loss[2]	372	67	8	8	372	332	1,159
Loans and advances to banks[2]	3,702	3,469	189	3	951	838	9,152
Available for sale financial assets	6,409	1,248	382	1,117	678	1,259	11,093
NAMA senior bonds	4,428	-	-	-	-	-	4,428
Total	15,115	13,491	741	1,146	2,048	2,929	35,470

[1] *Net Derivative exposure is calculated after the application of master netting arrangements and associated cash collateral received.*
[2] *This excludes those assets held by the Group's life assurance business which are linked to policyholder liabilities. See page 166 for details.*
[3] *The decrease in Loans and advances to banks from 31 December 2012 primarily reflects the termination of the IBRC repo transaction in February 2013 of €3.1 billion. See note 33 for details.*
[4] *At 31 December 2013, other is primarily made up of exposures to the following countries: Netherlands: €0.5 billion, Germany: €0.2 billion, Norway: €0.2 billion, Austria: €0.2 billion, Italy: €0.2 billion, Sweden €0.2 billion, Switzerland: €0.2 billion and other Supranational bonds: €0.9 billion. Also included in other is the Group's euro cash holding in branches.*
[5] *At 31 December 2012, other is primarily made up of exposures to the following countries: Netherlands: €0.4 billion, Switzerland: €0.4 billion, Austria: €0.2 billion, Canada: €0.2 billion, Finland: €0.2 billion, Luxembourg: €0.2 billion. Also included in other is the Group's euro cash holding in branches.*

* *As set out in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

Group exposures to selected countries (continued)

Set out in the following tables is more detailed analysis of the Group's exposures at 31 December 2013 by asset class:

Cash and balances at central banks

Cash and balances at central banks is made up as follows:

Cash and balances at central banks	**Year ended 31 December 2013 €m**	Year ended 31 December 2012 €m
United Kingdom (Bank of England)	4,903	8,002
United States (Federal Reserve)	484	128
Other (cash holdings)	998	342
Total	**6,385**	**8,472**

Trading securities

31 December 2013 Trading securities	**Ireland €m**	**United Kingdom €m**	**United States €m**	**Spain €m**	**France €m**	**Other[1] €m**	**Total €m**
Government bonds	17	-	36	11	-	18	82
Corporate and other bonds	-	-	-	-	25	145	170
Total	**17**	**-**	**36**	**11**	**25**	**163**	**252**

31 December 2012 Trading securities	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[2] €m	Total €m
Government bonds	-	45	-	-	-	24	69
Corporate and other bonds	-	-	-	-	35	39	74
Total	-	45	-	-	35	63	143

[1] At 31 December 2013, other is made up of exposures to the following countries: Netherlands: €50 million, Australia: €39 million, Sweden: €32 million, Italy €23 million and Canada: €19 million.
[2] At 31 December 2012, other is primarily made up of exposures to the following countries: Finland: €36 million, Canada: €11 million and Denmark: €10 million.

Trading securities are carried in the balance sheet at their fair value. Any changes in the fair value of these assets are treated as gains or charges in the Group's income statement.

Group exposures to selected countries (continued)

Derivative financial instruments

31 December 2013	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[2] €m	Total €m
Gross Derivative Assets							
Sovereign	5	-	-	-	-	-	5
Financial institutions	39	1,295	504	7	307	776	2,928
Corporate	129	372	8	11	4	34	558
Total	**173**	**1,667**	**512**	**18**	**311**	**810**	**3,491**
Net Derivative Assets[1]							
Sovereign	-	-	-	-	-	-	-
Financial institutions	8	67	4	5	1	7	92
Corporate	121	366	8	11	4	34	544
Total	**129**	**433**	**12**	**16**	**5**	**41**	**636**

Restated* 31 December 2012	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[3] €m	Total €m
Gross Derivative Assets							
Sovereign	62	-	-	-	-	-	62
Financial institutions	88	2,224	896	3	416	1,239	4,866
Corporate	174	615	24	16	12	78	919
Total	324	2,839	920	19	428	1,317	5,847
Net Derivative Assets[1]							
Sovereign	1	-	-	-	-	-	1
Financial institutions	39	8	10	2	-	55	114
Corporate	164	614	24	16	12	78	908
Total	204	622	34	18	12	133	1,023

[1] Net Derivative Assets exposure is calculated after the application of master netting arrangements and associated cash collateral received.
[2] At 31 December 2013, other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Canada: €26 million, Austria: €7 million, Australia: €6 million and Netherlands: €2 million.
[3] At 31 December 2012, other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Canada: €50 million, Germany: €39 million, Denmark: €12 million, Australia: €11 million, Austria: €11 million and Netherlands: €5 million.

Group exposures to selected countries (continued)

Other financial assets at fair value through profit or loss

31 December 2013	**Ireland €m**	**United Kingdom €m**	**United States €m**	**Spain €m**	**France €m**	**Other[1] €m**	**Total €m**
Government bonds	354	-	-	-	333	203	890
Other	95	37	26	12	53	150	373
Total	**449**	**37**	**26**	**12**	**386**	**353**	**1,263**

31 December 2012	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[2] €m	Total €m
Government bonds	229	-	-	-	326	255	810
Other	143	67	8	8	46	77	349
Total	372	67	8	8	372	332	1,159

[1] *At 31 December 2013, other is primarily made up of exposures to the following country: Austria: €0.2 billion.*
[2] *At 31 December 2012, other is primarily made up of exposures to the following country: Austria: €0.2 billion.*

The Group's holdings of 'Other financial assets at fair value through profit or loss' primarily relate to the Group's life assurance business.

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying asset is held by the Group, but the inherent risks and rewards in the assets are borne by the policyholders. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal change in the value of the amounts due to policyholders. These assets have been excluded from the analysis of the Groups exposure in the tables above.

At 31 December 2013, such assets which were included in Other financial assets at fair value through profit or loss amounted to €9,043 million (31 December 2012: €8,301 million). At 31 December 2013, Loans and advances to banks also included an amount of €312 million (31 December 2012: €350 million) relating to such assets.

Group exposures to selected countries (continued)

Loans and advances to banks

31 December 2013	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[3] €m	Total €m
Loans and advances to banks[1]	188[2]	2,586	49	-	980	644	4,447

Restated* 31 December 2012	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[4] €m	Total €m
Loans and advances to banks[1]	3,702	3,469	189	3	951	838	9,152

[1] *Loans and advances to banks of €312 million (31 December 2012: €350 million) is held on behalf of Bank of Ireland Life policyholders and has been excluded from the analysis above.*
[2] *The decrease in Loans and advances to banks from 31 December 2012 primarily reflects the termination of the IBRC repo transaction in February 2013 of €3.1 billion. See note 33 for details.*
[3] *At 31 December 2013, other is primarily made up of exposures to the following countries: Germany: €0.2 billion, Switzerland: €0.2 billion and Turkey: €0.2 billion.*
[4] *At 31 December 2012, other is primarily made up of exposures to the following country: Switzerland: €0.3 billion.*

* *As set out in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

Loans and advances to banks include loans to and placements with credit institutions and certain placements with central banks which are accounted for at amortised cost. No provisions are held against these balances. The Group exposures disclosed above are prepared on the basis of exposure to the country of operations of the counterparty.

Group exposures to selected countries (continued)

Available for sale financial assets

31 December 2013 Available for sale financial assets	**Ireland €m**	**United Kingdom €m**	**United States €m**	**Spain €m**	**France €m**	**Other[2] €m**	**Total €m**
Government bonds	6,403	118	2	-	-	97	6,620
Senior bank debt and other senior debt	770	-	40	-	210	1,238	2,258
Covered bonds	52	521	252	903	428	581	2,737
Subordinated debt	132[1]	1	-	-	-	-	133
Asset backed securities	7	200	37	53	9	50	356
Total	**7,364**	**840**	**331**	**956**	**647**	**1,966**	**12,104**

31 December 2012 Available for sale financial assets	Ireland €m	United Kingdom €m	United States €m	Spain €m	France €m	Other[3] €m	Total €m
Government bonds	5,420	123	1	-	10	88	5,642
Senior bank debt and other senior debt	755	157	58	-	81	593	1,644
Covered bonds	51	691	258	1,060	577	526	3,163
Subordinated debt	117[1]	-	-	-	-	-	117
Asset backed securities	66	277	65	57	10	52	527
Total	6,409	1,248	382	1,117	678	1,259	11,093

[1] *NAMA subordinated debt of €132 million (31 December 2012: €117 million) is classified as an available for sale debt instrument. The Group incurred an impairment charge of €nil on the NAMA subordinated bonds during the year ended 31 December 2013 (31 December 2012: €40 million).*

[2] *At 31 December 2013, other is primarily made up of exposures to the following countries: Netherlands: €0.4 billion, Norway: €0.2 billion, Sweden: €0.2 billion and other Supranational bonds: €0.9 billion.*

[3] *At 31 December 2012, other is primarily made up of exposures to the following countries: Netherlands: €0.3 billion, Italy: €0.2 billion and Luxembourg: €0.2 billion.*

Available for sale financial assets are carried in the balance sheet at their fair value. Other than in respect of impairment, any change in fair value is treated as a movement in the AFS reserve in Stockholder's equity.

NAMA senior bonds

At 31 December 2013, the Group had holdings of NAMA senior bonds which are guaranteed by the Irish Government with a nominal value of €3,991 million (31 December 2012: €4,475 million) and a fair value at that date of €3,986 million (31 December 2012: €4,467 million). The contractual maturity date of the NAMA senior bonds is 1 March 2014. NAMA may, only with the consent of the Group, settle the bonds by issuing new bonds with the same terms and conditions and a maturity date of up to 364 days.

NAMA senior bonds are classified as 'Loans and receivables' and accounted for at amortised cost which includes any provisions for impairment. The carrying value of these assets is not adjusted for changes in their fair value.

Group exposures to selected countries (continued)

Additional information on selected European countries

The tables below show the Group's exposures to eurozone countries that have a Standard & Poor's credit rating of AA or below where the Group has an exposure of over €250 million (being Ireland, Spain, Italy and France). The maturity analysis in the tables below is based on the residual contractual maturity of the exposures (except where otherwise indicated).

Ireland

As at 31 December 2013, Ireland's credit rating from Standard & Poor's was BBB+ (31 December 2012: BBB+). The table below shows the Group's exposure to Ireland by selected balance sheet line items:

	Carrying Value							Nominal value
As at 31 December 2013	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Other financial assets at fair value through profit or loss[1]	30	42	-	7	140	230	449	412
- Government bonds	*-*	*-*	*-*	*6*	*118*	*230*	*354*	*325*
- Other	*30*	*42*	*-*	*1*	*22*	*-*	*95*	*87*
Loans and advances to banks[1]	46	142[2]	-	-	-	-	188	188
Available for sale financial assets	3	-	1,541	3,376	2,444	-	7,364	6,902
- Government bonds	*-*	*-*	*751*	*3,340*	*2,312*	*-*	*6,403*	*5,816*
- Senior bank debt and other[3]	*3*	*-*	*790*	*36*	*132*	*-*	*961*	*1,086*
NAMA senior bonds[4]	-	417	417	1,770	1,353	-	3,957	3,991
Total[5]	**79**	**601**	**1,958**	**5,153**	**3,937**	**230**	**11,958**	**11,493**

	Carrying Value							Nominal value
As at 31 December 2012	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Total €m
Other financial assets at fair value through profit or loss	51	47	25	77	119	53	372	347
- Government bonds	-	-	-	77	99	53	229	211
- Other	51	47	25	-	20	-	143	136
Loans and advances to banks[1]	526	3,176	-	-	-	-	3,702	3,702
Available for sale financial assets	6	51	334	4,833	1,133	52	6,409	6,245
- Government bonds	-	51	327	4,027	1,015	-	5,420	5,099
- Senior bank debt and other[3]	6	-	7	806	118	52	989	1,146
NAMA senior bonds[4]	-	667	396	1,484	1,881	-	4,428	4,475
Total[5]	583	3,941	755	6,394	3,133	105	14,911	14,769

[1] This excludes those assets held by the Group's life assurance business which are linked to policyholder liabilities.
[2] The decrease in Loans and advances to banks from 31 December 2012 primarily reflects the termination of the IBRC repo transaction in February 2013 of €3.1 billion. See note 33 for details.
[3] Senior bank debt and other primarily relates to the Group's holdings of Irish Government senior bank debt issued by Irish financial institutions.
[4] The maturity date of the NAMA senior bonds is based on their ultimate expected maturity.
[5] The Group also has a net derivative asset exposure to Ireland at 31 December 2013 of €129 million (31 December 2012: €204 million).

Business Review
Financial Information
Other Information

Group exposures to selected countries (continued)

Ireland (continued)

Available for sale financial assets As at 31 December 2013 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	3	-	1,486	3,046	2,367	-	6,902
Fair value	3	-	1,541	3,376	2,444	-	7,364
AFS reserve (before tax)	-	-	85	370	176	-	631

Available for sale financial assets As at 31 December 2012 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	7	50	328	4,571	1,237	52	6,245
Fair value	6	51	334	4,833	1,133	52	6,409
AFS reserve (before tax)	-	1	6	362	55	-	424

During 2013, the maturity profile of the liquid asset book was extended. Irish Sovereign bonds maturing in 2014 and 2015 were sold and longer dated securities were purchased.

Spain

As at 31 December 2013, Spain's credit rating from Standard & Poor's was BBB- (31 December 2012: BBB-). The table below shows the Group's exposure to Spain by selected balance sheet line items:

	Carrying Value							**Nominal Value**
As at 31 December 2013	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Other financial assets at fair value through profit or loss	-	-	-	-	12	-	12	11
Loans and advance to banks	-	-	-	-	-	-	-	-
Available for sale financial assets								
- Covered bonds and other	7	-	136	648	155	10	956	932
Total[1]	**7**	**-**	**136**	**648**	**167**	**10**	**968**	**943**

	Carrying Value							Nominal Value
As at 31 December 2012	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Total €m
Other financial assets at fair value through profit or loss	-	-	-	-	8	-	8	7
Loans and advance to banks	3	-	-	-	-	-	3	3
Available for sale financial assets								
- Covered bonds and other	100	132	-	698	177	10	1,117	1,166
Total[1]	103	132	-	698	185	10	1,128	1,176

[1] *The Group also has a net derivative asset exposure to Spain at 31 December 2013 of €16 million (31 December 2012: €18 million).*

Group exposures to selected countries (continued)

Spain (continued)

Available for sale financial assets As at 31 December 2013 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	8	-	133	623	157	11	932
Fair value	7	-	136	648	155	10	956
AFS reserve (before tax)	(1)	-	(1)	(25)	-	(25)	(52)

Available for sale financial assets As at 31 December 2012 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	100	134	-	713	207	12	1,166
Fair value	100	132	-	698	177	10	1,117
AFS reserve (before tax)	-	(5)	-	(85)	(67)	(2)	(159)

France

As at 31 December 2013, France's credit rating from Standard & Poor's was AA (31 December 2012: AA+). The table below shows the Group's exposure to France by selected balance sheet line items:

	Carrying Value							**Nominal value**
As at 31 December 2013	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**	**Total €m**
Other financial assets at fair value through profit or loss	-	-	-	3	32	351	386	367
- Government bonds	*-*	*-*	*-*	*-*	*-*	*333*	*333*	*315*
- Other	*-*	*-*	*-*	*3*	*32*	*18*	*53*	*52*
Loans and advances to banks	960	20	-	-	-	-	980	980
Available for sale financial assets	65	51	84	243	204	-	647	614
- Government bonds	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Senior bank debt and other	*65*	*51*	*84*	*243*	*204*	*-*	*647*	*614*
Total	**1,025**	**71**	**84**	**246**	**236**	**351**	**2,013**	**1,961**

	Carrying Value							Nominal value
As at 31 December 2012	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m	Total €m
Other financial assets at fair value through profit or loss	-	-	-	2	25	345	372	310
- Government bonds	-	-	-	-	-	326	326	267
- Other	-	-	-	2	25	19	46	43
Loans and advances to banks	933	-	-	-	-	18	951	951
Available for sale financial assets	50	240	130	258	-	-	678	643
- Government bonds	-	-	10	-	-	-	10	10
- Senior bank debt and other	50	240	120	258	-	-	668	633
Total[1]	983	240	130	260	25	363	2,001	1,904

[1] *The Group also has a net derivative asset exposure to France at 31 December 2013 of €5 million (31 December 2012: €12 million).*

Group exposures to selected countries (continued)

France (continued)

Available for sale financial assets As at 31 December 2013 Maturity profile	**0-3 months €m**	**3-12 months €m**	**1-2 years €m**	**2-5 years €m**	**5-10 years €m**	**Over 10 years €m**	**Total €m**
Nominal value	65	50	80	224	195	-	614
Fair value	65	51	84	243	204	-	647
AFS reserve (before tax)	-	-	-	-	-	(1)	(1)

Available for sale financial assets As at 31 December 2012 Maturity profile	0-3 months €m	3-12 months €m	1-2 years €m	2-5 years €m	5-10 years €m	Over 10 years €m	Total €m
Nominal value	50	235	125	233	-	-	643
Fair value	50	240	130	258	-	-	678
AFS reserve (before tax)	-	-	(1)	(3)	-	-	(4)

Supplementary Asset Quality Disclosures

Retail Ireland mortgages

Loans and advances (excluding Residential mortgages)

Retail Ireland mortgages

The following disclosures refer to the Retail Ireland mortgage loan book and provide additional detail and analysis on the composition and quality of this loan book.

The Group has a long established infrastructure for the origination, underwriting and management of its mortgage portfolio. The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. The mortgage process is a comprehensively documented process with documentary evidence of key borrower information including an independent valuation of the security property.

Retail Ireland mortgage origination lending policy and guidelines are subject to annual governance. Each applicant is primarily assessed based on their ability and capacity to repay the loan while the creditworthiness of the applicant, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

At 31 December 2013, lending criteria for the Retail Ireland mortgage portfolio include:

- repayment capacity of the borrower;
- loan to value (LTV) limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book composition

Loan volumes

TABLE 1

Retail Ireland mortgages - Volumes (before impairment provisions)	31 December 2013 €m	31 December 2012 €m
Owner occupied mortgages	20,437	20,815
Buy to let mortgages	6,263	6,670
Total Retail Ireland mortgages	**26,700**	**27,485**

Retail Ireland mortgages were €26.7 billion at 31 December 2013 compared to €27.5 billion at 31 December 2012. The decrease of €785 million or 2.9% reflects a combination of factors including muted demand for new mortgage lending, accelerated capital repayments and the significant progress made by the Group in returning interest only mortgage borrowers to a 'principal and interest'[1] repayment basis.

The proportion of the Retail Ireland mortgage portfolio on a 'principal and interest' repayment basis at 31 December 2013 was 86% (31 December 2012: 82%) with the balance of 14% on an 'interest only'[2] repayment basis (31 December 2012: 18%). Of the Owner occupied mortgages of €20.4 billion, 93% were on a 'principal and interest' repayment basis (31 December 2012: 91%), while 65% of the Buy to let mortgages of €6.3 billion were on a 'principal and interest' repayment basis (31 December 2012: 52%).

[1] *'Principal and interest' repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was 20 to 30 years.*
[2] *'Interest only' mortgages typically consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes 'principal and interest' contracted to be repaid over the agreed term. 'Interest only' periods on Retail Ireland mortgages typically range between 3 and 5 years.*

Book composition (continued)

Origination profile

TABLE 2

31 December 2013 Origination of Retail Ireland mortgage loan book (before impairment provisions)	Total Retail Ireland mortgage loan book Balance €m	 Number of accounts[1]	Defaulted loans Balance €m	 Number of accounts[1]
1996 and before	68	4,701	7	268
1997	43	1,940	5	131
1998	77	2,601	8	180
1999	145	4,238	15	266
2000	272	5,815	29	395
2001	402	6,657	39	492
2002	748	9,590	91	770
2003	1,283	13,320	189	1,295
2004	2,163	18,129	315	1,831
2005	3,427	23,344	528	2,618
2006	5,067	28,479	1,036	4,107
2007	4,404	23,258	917	3,347
2008	3,029	17,005	481	1,848
2009	1,648	11,227	108	586
2010	1,176	7,609	22	123
2011	978	6,750	5	33
2012	920	6,034	1	9
2013	850	5,151	-	1
Total	**26,700**	**195,848**	**3,796**	**18,300**

31 December 2012 Origination of Retail Ireland mortgage loan book (before impairment provisions)	Total Retail Ireland mortgage loan book Balance €m	 Number of accounts[1]	Defaulted loans Balance €m	 Number of accounts[1]
1996 and before	94	5,792	9	365
1997	53	2,113	5	150
1998	94	3,196	9	207
1999	171	4,525	18	301
2000	312	6,195	32	428
2001	448	7,054	40	503
2002	825	10,108	90	802
2003	1,397	14,212	181	1,266
2004	2,317	18,733	314	1,794
2005	3,638	24,018	524	2,581
2006	5,361	29,135	999	3,996
2007	4,631	23,658	861	3,240
2008	3,185	17,333	427	1,705
2009	1,739	11,491	85	474
2010	1,235	7,781	13	86
2011	1,004	6,852	3	24
2012	981	6,115	-	-
Total	27,485	198,311	3,610	17,922

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

Book composition (continued)

Origination profile (continued)

The tables above illustrate that at 31 December 2013, €8.6 billion or 32% of the Retail Ireland mortgage loan book originated before 2006, €12.5 billion or 47% between 2006 and 2008 and €5.6 billion or 21% in the years since.

At 31 December 2013, total defaulted loans were €3.8 billion (31 December 2012: €3.6 billion) or 14.2% of the Retail Ireland mortgage loan book, of which €2.4 billion originated between 2006 and 2008. While there has been an increase in defaulted loans since 31 December 2012, the overall pace of increase during 2013 was significantly slower than 2012, reflecting the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions.

At 31 December 2013, impairment provisions were €1.9 billion equating to 49% of defaulted balances on the Retail Ireland mortgage book.

Risk profile

TABLE 3a

31 December 2013 Risk profile of Retail Ireland mortgage loan book (before impairment provisions)	**Owner occupied**		**Buy to let**		**Total**	
	€m	**%**	**€m**	**%**	**€m**	**%**
Neither past due nor impaired	17,822	87%	4,252	68%	22,074	83%
1-90 days past due but not impaired	564	3%	266	4%	830	3%
Defaulted loans	2,051	10%	1,745	28%	3,796	14%
Total	**20,437**	**100%**	**6,263**	**100%**	**26,700**	**100%**

31 December 2012 Risk profile of Retail Ireland mortgage loan book (before impairment provisions)	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Neither past due nor impaired	18,068	87%	4,812	72%	22,880	83%
1-90 days past due but not impaired	704	3%	291	4%	995	4%
Defaulted loans	2,043	10%	1,567	24%	3,610	13%
Total	20,815	100%	6,670	100%	27,485	100%

The tables above illustrate that €22.1 billion or 83% of the total Retail Ireland mortgage loan book at 31 December 2013 was classified as 'neither past due nor impaired' compared to €22.9 billion or 83% at 31 December 2012.

The '1-90 days past due but not impaired' category amounted to €0.8 billion or 3% of the total Retail Ireland mortgage loan book at 31 December 2013 compared to €1.0 billion or 4% at 31 December 2012.

The defaulted category amounted to €3.8 billion or 14% of the total Retail Ireland mortgage loan book at 31 December 2013 compared to €3.6 billion or 13% at 31 December 2012.

Defaulted Owner occupied mortgages increased marginally to €2.1 billion at 31 December 2013 from €2.0 billion at 31 December 2012, reflecting a significant slowdown in the growth in defaulted balances during 2013.

Defaulted Buy to let mortgages increased to €1.7 billion at 31 December 2013 from €1.6 billion at 31 December 2012.

The slowdown in default formation for both Owner occupied and Buy to let mortgages reflects the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions. While increased repayments as 'interest only' periods come to an end and customers move to fully amortising loans continue to impact Buy to let borrowers, the slowdown in default formation for Buy to let mortgages also reflects improved rental market conditions, particularly evident in primary urban areas.

The Retail Ireland Buy to let mortgage loan portfolio reduced by €407 million or 6.1% in 2013 and the percentage of the Buy to let portfolio on a 'principal and interest' repayment basis increased from 52% at 31 December 2012 to 65% at 31 December 2013.

Book composition (continued)

Arrears profile

TABLE 3b

Mortgage Arrears - defaulted loans (number of accounts)	**31 December 2013 %**	30 June 2013 %	31 December 2012 %
Retail Ireland Owner occupied mortgages	7.4%	7.9%	7.5%
Industry[1] Owner occupied (Number of accounts)	Not available	14.1%[2]	13.1%[2]
Retail Ireland Buy to let mortgages	18.2%	17.6%	15.8%
Industry[1] Buy to let (Number of accounts)	Not available	21.9%[2]	20.5%[2]

Mortgage Arrears - defaulted loans (value)	**31 December 2013 %**	30 June 2013 %	31 December 2012 %
Retail Ireland Owner Occupied mortgages	10.1%	10.5%	9.9%
Industry[1] Owner Occupied (value)	Not available	18.6%[2]	17.2%[2]
Retail Ireland Buy to let mortgages	27.7%	26.0%	23.4%
Industry[1] Buy to let (value)	Not available	30.0%[2]	28.7%[2]

[1] *Industry statistics do not include impaired loans less than or equal to 90 days past due (all quoted Bank of Ireland statistics include impaired loans less than or equal to 90 days past due).*
[2] *Industry source: CBI Mortgage Arrears Statistics Report September 2013 - adjusted to exclude Bank of Ireland.*

The latest information published by the Central Bank of Ireland pertains to the quarter ended 30 September 2013. This information indicates that the proportion of the Retail Ireland mortgage book in default arrears (greater than 90 days past due) consistently remains significantly below the industry average for both Owner occupied and Buy to let mortgages. At 30 September 2013, 8.0% and 18.6% of Bank of Ireland's Retail Ireland Owner occupied and Buy to let mortgages respectively (by number of accounts) were greater than '90 days past due and / or impaired' compared to 14.4% and 22.6% for the industry (respectively).

Book composition (continued)

Loan to value profiles - total loans

TABLE 3c

31 December 2013

Loan to value (LTV) ratio of total Retail Ireland mortgages	**Owner occupied €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
Less than 50%	2,901	14%	462	7%	3,363	13%
51% to 70%	2,823	14%	486	8%	3,309	12%
71% to 80%	1,909	9%	325	5%	2,234	8%
81% to 90%	2,049	10%	565	9%	2,614	10%
91% to 100%	1,800	9%	443	7%	2,243	9%
Subtotal	**11,482**	**56%**	**2,281**	**36%**	**13,763**	**52%**
101% to 120%	3,411	17%	1,095	18%	4,506	17%
121% to 150%	3,619	18%	1,848	30%	5,467	20%
151% to 180%	1,593	8%	714	11%	2,307	9%
Greater than 181%	332	1%	325	5%	657	2%
Subtotal	**8,955**	**44%**	**3,982**	**64%**	**12,937**	**48%**
Total	**20,437**	**100%**	**6,263**	**100%**	**26,700**	**100%**
Weighted average LTV[1]:						
Stock of Retail Ireland mortgages at year end	94%		115%		99%	
New Retail Ireland mortgages during the year	70%		53%		70%	

31 December 2012

Loan to value (LTV) ratio of total Retail Ireland mortgages	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	2,663	13%	409	6%	3,072	11%
51% to 70%	2,461	12%	478	7%	2,939	11%
71% to 80%	1,497	7%	293	5%	1,790	7%
81% to 90%	1,746	8%	493	7%	2,239	8%
91% to 100%	1,796	9%	417	6%	2,213	8%
Subtotal	10,163	49%	2,090	31%	12,253	45%
101% to 120%	3,484	17%	1,056	16%	4,540	16%
121% to 150%	3,901	19%	1,763	26%	5,664	21%
151% to 180%	2,223	10%	1,109	17%	3,332	12%
Greater than 181%	1,044	5%	652	10%	1,696	6%
Subtotal	10,652	51%	4,580	69%	15,232	55%
Total	20,815	100%	6,670	100%	27,485	100%
Weighted average LTV[1]:						
Stock of Retail Ireland mortgages at year end	102%		124%		108%	
New Retail Ireland mortgages during the year	74%		57%		73%	

[1] *Weighted Average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.*

Book composition (continued)

Loan to value profiles - total loans (continued)

The tables above set out the weighted average indexed LTV for the total Retail Ireland mortgage loan book which was 99% at 31 December 2013, 94% for Owner occupied mortgages and 115% for Buy to let mortgages. The weighted average indexed LTV for new Residential mortgages written during 2013 was 70%, 70% for Owner occupied mortgages and 53% for Buy to let mortgages.

Point in time property values are determined by reference to the original or latest property valuations held, indexed to the Residential Property Price Index published by the Central Statistics Office (CSO). The indexed LTV profile of the Retail Ireland mortgage loan book contained in Table 3c is based on the CSO Residential Property Price Index, at the applicable reporting date.

The CSO index for December 2013 reported that average national residential property prices were 46% below peak (31 December 2012: 50% below peak), with Dublin residential prices and outside of Dublin residential prices 49% and 47% below peak respectively (31 December 2012: 56% and 47% below peak respectively). The annual rate of increase in residential property prices was 6.4% as at 31 December 2013, compared to an annual rate of decline of 4.5% as at 31 December 2012. In the year, the market experienced the first year of average residential property price increases since 2007, with residential property prices in Dublin being the key driver of this improvement.

At 31 December 2013, €13.8 billion or 52% of Retail Ireland mortgages are in positive equity, 56% for Owner occupied mortgages and 36% for Buy to let mortgages.

At 31 December 2013, the total calculated negative equity in the Retail Ireland mortgage loan book was €3.0 billion (31 December 2012: €4.0 billion). The majority of Retail Ireland mortgage borrowers in negative equity continue to meet their mortgage repayments with €2.0 billion negative equity related to loans that were ‘neither past due nor impaired’ at 31 December 2013. Of the remaining €1.0 billion of calculated negative equity, €0.1 billion related to loans that were ‘1 – 90 days past due but not impaired’ and €0.9 billion related to loans that were defaulted.

Book composition (continued)

Loan to value profiles - defaulted loans

TABLE 3d

31 December 2013

Loan to value (LTV) ratio of total Retail Ireland mortgages - defaulted loans	**Owner occupied €m**	**Owner occupied %**	**Buy to let €m**	**Buy to let %**	**Total €m**	**Total %**
Less than 50%	117	6%	43	2%	160	4%
51% to 70%	145	7%	48	3%	193	5%
71% to 80%	101	5%	39	2%	140	4%
81% to 90%	116	6%	102	6%	218	6%
91% to 100%	153	7%	81	5%	234	6%
Subtotal	**632**	**31%**	**313**	**18%**	**945**	**25%**
101% to 120%	330	16%	245	14%	575	15%
121% to 150%	548	27%	647	37%	1,195	32%
151% to 180%	420	20%	358	21%	778	20%
Greater than 181%	121	6%	182	10%	303	8%
Subtotal	**1,419**	**69%**	**1,432**	**82%**	**2,851**	**75%**
Total	**2,051**	**100%**	**1,745**	**100%**	**3,796**	**100%**

31 December 2012

Loan to value (LTV) ratio of total Retail Ireland mortgages - defaulted loans	Owner occupied €m	Owner occupied %	Buy to let €m	Buy to let %	Total €m	Total %
Less than 50%	112	5%	37	2%	149	4%
51% to 70%	133	7%	42	3%	175	5%
71% to 80%	93	5%	33	2%	126	4%
81% to 90%	108	5%	79	5%	187	5%
91% to 100%	130	6%	62	4%	192	5%
Subtotal	576	28%	253	16%	829	23%
101% to 120%	293	15%	209	14%	502	14%
121% to 150%	515	25%	456	29%	971	27%
151% to 180%	412	20%	363	23%	775	21%
Greater than 181%	247	12%	286	18%	533	15%
Subtotal	1,467	72%	1,314	84%	2,781	77%
Total	2,043	100%	1,567	100%	3,610	100%

The tables above illustrate the indexed loan to value ratios at the applicable reporting dates for defaulted Retail Ireland mortgages. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio, capital reductions and out of course customer payments.

Of the defaulted Retail Ireland mortgages €0.9 billion or 25% are in positive equity (31 December 2012: €0.8 billion or 23%) while €2.9 billion or 75% are in negative equity at 31 December 2013 (31 December 2012: €2.8 billion or 77%).

For the defaulted category, 31% of the Owner occupied Retail Ireland mortgages (31 December 2012: 28%) and 18% of the Buy to let Retail Ireland mortgages (31 December 2012: 16%) are in positive equity at 31 December 2013.

Asset quality

Composition and impairment

TABLE 4

31 December 2013 Retail Ireland mortgages	**Total**					**Of which**			
	Retail Ireland mortgages €m	**Defaulted loans €m**	**Defaulted loans as % of advances %**	**Impairment provisions €m**	**Impairment provisions as % of defaulted loans %**	**Forborne Retail Ireland mortgages €m**	**Defaulted[1] forborne loans €m**	**Impairment provisions forborne Retail Ireland mortgages €m**	**Impairment provisions as % of defaulted forborne Retail Ireland mortgages %**
Owner occupied mortgages	20,437	2,051	10.0%	869	42%	1,869	578	243	42%
Buy to let mortgages	6,263	1,745	27.9%	994	57%	657	207	115	56%
Total Retail Ireland	**26,700**	**3,796**	**14.2%**	**1,863**	**49%**	**2,526**	**785**	**358**	**46%**

31 December 2012 Retail Ireland mortgages	Total					Of which			
	Retail Ireland mortgages €m	Defaulted loans €m	Defaulted loans as % of advances %	Impairment provisions €m	Impairment provisions as % of defaulted loans %	Forborne Retail Ireland mortgages €m	Defaulted[1] forborne loans €m	Impairment provisions forborne Retail Ireland mortgages €m	Impairment provisions as % of defaulted forborne Retail Ireland mortgages %
Owner occupied mortgages	20,815	2,043	9.8%	711	35%	1,707	546	165	30%
Buy to let mortgages	6,670	1,567	23.5%	741	47%	731	200	78	39%
Total Retail Ireland	27,485	3,610	13.1%	1,452	40%	2,438	746	243	33%

[1] *The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted' loans during the year. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.*

Defaulted Retail Ireland mortgages at 31 December 2013 were €3.8 billion or 14.2% of advances compared to €3.6 billion or 13.1% of advances at 31 December 2012. During 2013, the increase in value in defaulted loans in the overall mortgage portfolio was significantly lower than 2012, reflecting the effectiveness of the Group's operating infrastructure and mortgage resolution activity. A significant slowdown in the pace of arrears formation was experienced in the Owner occupied mortgage portfolio, reflecting the factors noted above, the Group's on-going strategy to assist customers in financial difficulty, together with improving economic conditions.

In addition, the pace of arrears formation in the Buy to let mortgage portfolio was slower during 2013 reflecting factors noted above, together with improved rental market conditions, particularly evident in primary urban areas.

Asset quality (continued)

Repossessions

At 31 December 2013, the Group had possession of properties held as security as follows:

TABLE 5a	31 December 2013		31 December 2012	
Repossessions Retail Ireland mortgages	**Number of repossessions at balance sheet date**	**Balance[1] outstanding before impairment provisions €m**	Number of repossessions at balance sheet date	Balance[1] outstanding before impairment provisions €m
Owner occupied	129	37	96	25
Buy to let	85	26	84	30
Total residential repossessions	**214**	**63**	**180**	**55**

Disposals of repossessed properties

TABLE 5b	31 December 2013		31 December 2012	
Disposals of repossessions Retail Ireland mortgages	**Number of disposals during the year**	**Balance[1] outstanding after impairment provisions €m**	Number of disposals during the year	Balance[1] outstanding after impairment provisions €m
Owner occupied	86	10	88	10
Buy to let	63	11	53	4
Total disposals	**149**	**21**	**141**	**14**

[1] *Balance outstanding before value of additional collateral applied.*

During the year ended 31 December 2013, the Group disposed of 149 repossessed properties (31 December 2012: 141 repossessed properties were disposed).

The total contracted disposal proceeds were adequate to cover the balance outstanding after provisions and net of additional collateral held.

For the year ended 31 December 2013, the proceeds from disposals of Owner occupied repossessed properties were €10 million (31 December 2012: €10 million).

For the year ended 31 December 2013, the proceeds from disposals of Buy to let repossessed properties before value of additional collateral applied were €9 million (31 December 2012: €4 million).

In addition, the Group disposed of a further 166 properties through fixed charge receivers during the year (31 December 2012: 7).

Asset quality (continued)

Forbearance measures

Mortgage forbearance
The Group continues to offer a range of forbearance measures for customers in arrears or facing potential arrears on contracted mortgage repayments, in order to arrange, where viable, sustainable short term or longer term repayment solutions as appropriate.

Forbearance occurs when a borrower is granted a temporary or permanent agreed change to the contractual terms of a mortgage loan (‘forbearance measure’), for reasons relating to the actual or apparent financial stress or distress of that borrower. If the agreed change to a mortgage loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. A mortgage loan which has an active ‘forbearance measure’ is a ‘forborne’ mortgage.

The Group has a well-established operating infrastructure in place to assess and, where appropriate, implement sustainable forbearance measures for customers. Forbearance requests are assessed on a case-by-case basis, taking due consideration of the individual circumstances and risk profile of the borrower to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place.

The forbearance strategies adopted by the Group seek to maximise recoveries arising from non-repayment of debt, while providing suitable and sustainable forbearance options that are supportive of customers in challenged financial circumstances.

A forbearance request by the borrower will always be a trigger event for the Group to undertake an assessment of the customer’s financial circumstances, ability to repay and impairment status. This assessment will determine the most appropriate course of action ensuring, where possible, the most suitable and sustainable repayment arrangement is put in place. Impaired forborne loans carry a specific provision. Probability of default factors for non-impaired forborne loans are empirically calculated, resulting in an IBNR provision.

It is the Group’s policy to review the effectiveness or otherwise of forbearance measures over the lifetime of those measures.

A forbearance measure is considered to be effective where the risk profile of the borrower that is subject to the forbearance measure stabilises or improves over the measured time period, resulting in an improved outcome for the Group and the customer.

The effectiveness of forbearance is considered taking account of:
- the strategy that is being followed is with a view to maximising recovery for the Group and providing a suitable option for the customer;
- the intended outcome of the particular measure;
- the nature of the measure being granted; and
- the period over which the measure is granted.

The nature and type of forbearance measures include:
- full interest: (step up to principal and interest) on the principal balance, on a temporary or longer term basis, with the principal balance unchanged;
- reduced payment: (greater than full interest with step up to principal and interest) on the principal balance, on a temporary or longer term basis with the principal balance unchanged;
- term extension: the original term of the mortgage is extended and the instalment is re-calculated to clear the outstanding mortgage debt over the remaining term;
- capitalisation of arrears: the arrears are added to the principal outstanding on the mortgage and the instalment is recalculated to clear the outstanding mortgage debt over the remaining term;
- hybrids: comprising a combination of forbearance measures; and
- other: comprising primarily permanent restructures and an element of temporary payment suspensions.

Asset quality (continued)

Forbearance measures (continued)

The table below sets out Retail Ireland mortgages (before impairment provisions) forborne loan stock[1] subject to active forbearance measures at 31 December 2013.

TABLE 6a

31 December 2013 Formal forbearance measures - Retail Ireland mortgages (before impairment provisions)	Non-defaulted loans Balance €m	Non-defaulted loans Number of accounts[3]	Defaulted loans[2] Balance €m	Defaulted loans[2] Number of accounts[3]	All loans Balance €m	All loans Number of accounts[3]
Owner occupied						
Full interest	**205**	1,452	**116**	785	**321**	2,237
Reduced payment (greater than full interest)	**262**	1,787	**240**	1,326	**502**	3,113
Term extension	**351**	3,923	**96**	835	**447**	4,758
Capitalisation of arrears	**194**	1,384	**33**	160	**227**	1,544
Hybrids[4]	**256**	1,775	**73**	468	**329**	2,243
Other	**23**	126	**20**	114	**43**	240
Total	**1,291**	**10,447**	**578**	**3,688**	**1,869**	**14,135**
Buy to let						
Full interest	**97**	438	**62**	267	**159**	705
Reduced payment (greater than full interest)	**101**	466	**60**	270	**161**	736
Term extension	**132**	917	**29**	180	**161**	1,097
Capitalisation of arrears	**30**	170	**22**	70	**52**	240
Hybrids[4]	**89**	423	**34**	123	**123**	546
Other	**1**	4	**-**	3	**1**	7
Total	**450**	**2,418**	**207**	**913**	**657**	**3,331**
Total						
Full interest	**302**	1,890	**178**	1,052	**480**	2,942
Reduced payment (greater than full interest)	**363**	2,253	**300**	1,596	**663**	3,849
Term extension	**483**	4,840	**125**	1,015	**608**	5,855
Capitalisation of arrears	**224**	1,554	**55**	230	**279**	1,784
Hybrids[4]	**345**	2,198	**107**	591	**452**	2,789
Other	**24**	130	**20**	117	**44**	247
Total	**1,741**	**12,865**	**785**	**4,601**	**2,526**	**17,466**

1 *Comprises the stock position of forbearance measures (agreed since November 2008). Where a mortgage loan was granted a full interest forbearance measure for a defined period of time and this measure has expired prior to or on 31 December 2013, this mortgage loan is not included in the stock of active forbearance measures.*
2 *The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted loans' during the year. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.*
3 *The number of accounts does not equate to either the number of customers or the number of properties.*
4 *Hybrids were reported at 31 December 2012 within 'Other' and for 31 December 2013 are reported as a separate category.*

Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current year.

Asset quality (continued)

Forbearance measures (continued)

31 December 2012 Formal forbearance measures[1] - Retail Ireland mortgages (before impairment provisions)	Non-defaulted loans Balance €m	Non-defaulted loans Number of accounts[3]	Defaulted loans[2] Balance €m	Defaulted loans[2] Number of accounts[3]	All loans Balance €m	All loans Number of accounts[3]
Owner occupied						
Full interest	450	3,062	392	2,628	842	5,690
Reduced payment (greater than full interest)	307	1,589	94	402	401	1,991
Term extension	233	2,657	26	276	259	2,933
Capitalisation of arrears	76	592	6	21	82	613
Hybrids[4]	76	566	11	98	87	664
Other	19	108	17	96	36	204
Total	1,161	8,574	546	3,521	1,707	12,095
Buy to let						
Full interest	182	914	110	584	292	1,498
Reduced payment (greater than full interest)	215	860	56	187	271	1,047
Term extension	81	609	16	73	97	682
Capitalisation of arrears	13	72	10	29	23	101
Hybrids[4]	40	171	7	32	47	203
Other	-	1	1	5	1	6
Total	531	2,627	200	910	731	3,537
Total						
Full interest	632	3,976	502	3,212	1,134	7,188
Reduced payment (greater than full interest)	522	2,449	150	589	672	3,038
Term extension	314	3,266	42	349	356	3,615
Capitalisation of arrears	89	664	16	50	105	714
Hybrids[4]	116	737	18	130	134	867
Other	19	109	18	101	37	210
Total	1,692	11,201	746	4,431	2,438	15,632

[1] Comprises the stock position of forbearance measures (agreed since November 2008). Where a mortgage loan was granted a full interest forbearance measure for a defined period of time and this measure has expired prior to or on 31 December 2012, this mortgage loan is not included in the stock of active forbearance measures.
[2] The 'defaulted loans' classification includes both accounts which were classified as 'defaulted loans' prior to the forbearance measure being put in place and also those loans which have moved from 'non-defaulted loans' during the year. The 'defaulted loans' classification does not indicate that the terms of the forbearance measure are not being met.
[3] The number of accounts does not equate to either the number of customers or the number of properties.
[4] Hybrids were reported at 31 December 2012 within 'Other' and for 31 December 2013 are reported as a separate category. The table above has been restated on this basis.

Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current year.

The total number of accounts in forbearance has increased from 15,632 at 31 December 2012 to 17,466 accounts at 31 December 2013. The balances on accounts in forbearance have increased from €2.4 billion at 31 December 2012 to €2.5 billion at 31 December 2013. This overall increase reflects the Group's progress in implementing end state restructure and resolution strategies.

For Owner occupied mortgages, 14,135 accounts or €1.9 billion are in forbearance at 31 December 2013 (31 December 2012: 12,095 accounts or €1.7 billion). For Buy to let mortgages, 3,331 accounts or €0.7 billion are in forbearance at 31 December 2013 (31 December 2012: 3,537 accounts or €0.7 billion).

At 31 December 2013, there were a further 1,724 existing arrears accounts not classified as forborne, whereby the borrower has met their contractual payment and made an additional payment towards their arrears balance (31 December 2012: 1,988 accounts).

In addition to the forbearance pertaining to Buy to let mortgages, the Group has a strategy to appoint fixed charge receivers. At 31 December 2013, there were 1,385 properties where a fixed charge receiver had been appointed or approved, compared to 1,105 properties at 31 December 2012.

Term extension is the largest forbearance category by number of accounts with 5,855 accounts at 31 December 2013 (31 December 2012: 3,615 accounts), followed by reduced payment (greater than full interest) with 3,849 accounts at 31 December 2013 (31 December 2012: 3,038 accounts).

Asset quality (continued)

Forbearance measures (continued)

A total of 1,548 accounts or €0.2 billion new term extensions were extended during the year. A further 1,125 accounts or €0.1 billion changed to term extension from another forbearance measure, while 293 accounts or €34 million changed forbearance measure. A reduction of 140 accounts relates to redeemed accounts; a reduction of €25 million was due to those redeemed accounts and principal repayments made during the year.

Reduced payment (greater than full interest with step up to full capital and interest) increased to 3,849 accounts or €0.7 billion at 31 December 2013, compared to 3,038 accounts or €0.7 billion at 31 December 2012. A total of 2,140 accounts or €0.3 billion of new reduced payment (greater than full interest with step up to full capital and interest) forbearance measures were extended during the year. A further 887 accounts or €0.2 billion changed their forbearance measure to reduced payment (greater than full interest), while 746 accounts or €148 million changed to another forbearance measure. A total of 1,413 accounts or €0.3 billion exited during the year. A reduction of 57 accounts relates to redeemed accounts; a reduction of €35 million was due to those redeemed accounts and principal repayments made during the year.

At 31 December 2013, 2,942 accounts or €0.5 billion were subject to full interest forbearance compared to 7,188 accounts or €1.1 billion at 31 December 2012. A total of 1,629 accounts or €0.3 billion of new full interest forbearance measures were extended during the year, 139 accounts or €27 million changed to full interest, while 2,206 accounts or €0.3 billion changed from full interest to another forbearance measure. A total of 3,622 accounts or €0.6 billion exited forbearance during the year. A reduction of 186 accounts relates to redeemed accounts; a reduction of €25 million was due to those redeemed accounts and principal repayments made during the year.

Hybrids increased to 2,789 accounts or €0.5 billion at 31 December 2013 from 867 accounts or €0.1 billion at 31 December 2012. A total of 1,145 accounts or €0.2 billion new hybrid measures were put in place during the year, 1,147 accounts or €0.2 billion changed from another forbearance measure to hybrid, while 343 accounts or €51 million changed to another forbearance measure. A reduction of 27 accounts relates to redeemed accounts; a reduction of €9 million was due to those redeemed accounts and principal repayments made during the year.

Capitalisations of arrears increased to 1,784 accounts or €0.3 billion at 31 December 2013 from 714 accounts or €0.1 billion at 31 December 2012. A total of 786 accounts or €0.1 billion had capitalisation of arrears applied during the year. A further 389 accounts or €67 million changed to capitalisation of arrears from another forbearance measure, while 93 accounts or €10 million changed to another forbearance measure. A reduction of 12 accounts relates to redeemed accounts; a reduction of €5 million was due to those redeemed accounts and principal repayments made during the year.

'Other' forbearance measures, increased to 247 accounts or €44 million at 31 December 2013 from 210 accounts or €37 million at 31 December 2012.

Asset quality (continued)

Forbearance measures (continued)

The following table shows the movement in the stock of active forborne Retail Ireland mortgages (before impairment provisions) during the year ended 31 December 2013.

TABLE 6b

Reconciliation of forborne loan stock by non-default / default status - Retail Ireland mortgages (before impairment provisions)	Owner occupied		Buy to let		All loans	
	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]	Balance €m	Number of accounts[1]
All						
Opening balance at 1 January 2013	**1,707**	**12,095**	**731**	**3,537**	**2,438**	**15,632**
New forbearance extended	841	6,039	278	1,375	1,119	7,414
Exited forbearance						
- Improved to or remained in non-default	(333)	(2,126)	(157)	(774)	(490)	(2,900)
- Improved / stabilised and remained in default	(118)	(742)	(59)	(281)	(177)	(1,023)
- Disimproved to or within default	(161)	(819)	(104)	(406)	(265)	(1,225)
- Redemptions, principal repayments and other	(67)	(312)	(32)	(120)	(99)	(432)
Transfers within forbearance between non-defaulted and defaulted loans	-	-	-	-	-	-
Closing balance at 31 December 2013	**1,869**	**14,135**	**657**	**3,331**	**2,526**	**17,466**
Non-defaulted loans						
Opening balance at 1 January 2013	**1,161**	**8,574**	**531**	**2,627**	**1,692**	**11,201**
New forbearance extended	530	4,045	169	898	699	4,943
Exited forbearance						
- Remained in non-default	(303)	(1,900)	(150)	(732)	(453)	(2,632)
- Disimproved to default	(62)	(319)	(61)	(244)	(123)	(563)
- Redemptions, principal repayments and other	(60)	(255)	(24)	(89)	(84)	(344)
Transfers within forbearance between non-defaulted and defaulted loans	25	302	(15)	(42)	10	260
Closing balance at 31 December 2013	**1,291**	**10,447**	**450**	**2,418**	**1,741**	**12,865**
Defaulted loans						
Opening balance at 1 January 2013	**546**	**3,521**	**200**	**910**	**746**	**4,431**
New forbearance extended	311	1,994	109	477	420	2,471
Exited forbearance						
- Improved to non-default	(30)	(226)	(7)	(42)	(37)	(268)
- Improved / stabilised and remained in default	(118)	(742)	(59)	(281)	(177)	(1,023)
- Disimproved and remained in default	(99)	(500)	(43)	(162)	(142)	(662)
- Redemptions, principal repayments and other	(7)	(57)	(8)	(31)	(15)	(88)
Transfers within forbearance between non-defaulted and defaulted loans	(25)	(302)	15	42	(10)	(260)
Closing balance at 31 December 2013	**578**	**3,688**	**207**	**913**	**785**	**4,601**

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

Asset quality (continued)

Forbearance measures (continued)

The table above illustrates the movement in forborne accounts and balances between 1 January 2013 and 31 December 2013 and illustrates the following:

- Those accounts for which new forbearance measures were put in place during the year;
- Those accounts which exited forbearance measures during the year, either:
  - Improved to or remained in non-default
  - Improved / stabilised and remained in default
  - Disimproved to or within default
  - Redeemed (i.e. whereby the outstanding balance has been repaid in full) or balances reduced due to principal repayments (i.e. payments made to reduce the outstanding loan balance on accounts which were in the forbearance stock at 1 January 2013 and remained in forbearance stock at 31 December 2013); and
- Those accounts and balances which transferred between non-defaulted loans and defaulted loans but remained in forbearance.

The defaulted loan classification does not indicate that the terms of the forbearance measure have not been met. The 'non-default / default' status of accounts which exited forbearance during the year is determined at the date of exit.

Asset quality (continued)

Forbearance measures (continued)

A total of 17,466 accounts or €2.5 billion of account balances were in forbearance at 31 December 2013, compared to 15,632 accounts or €2.4 billion at 31 December 2012. Of these, 7,414 accounts or €1.1 billion new forbearance measures were put in place during the year, of which 4,943 accounts or €0.7 billion were classified as 'non-defaulted loans' while 2,471 accounts or €0.4 billion were classified as 'defaulted loans'. Of those that exited forbearance during the year 2,900 accounts or €0.5 billion improved to or remained in non-default, 1,023 accounts or €0.2 billion remained in default with improved or stabilised arrears and 1,225 accounts or €0.3 billion disimproved arrears to or within default. A reduction in the forbearance stock of 432 accounts relates to redeemed accounts during the year; a reduction of €0.1 billion was due to those redeemed accounts and principal repayments made during the year.

For Owner occupied mortgages, 14,135 accounts or €1.9 billion of account balances were in forbearance at 31 December 2013 compared to 12,095 accounts or €1.7 billion at 31 December 2012. Of these, 6,039 accounts or €0.8 billion new forbearance were measures put in place during the year of which 4,045 accounts or €0.5 billion were classified as 'non-defaulted loans', while 1,994 accounts or €0.3 billion were classified as 'defaulted loans'. Of those that exited forbearance during the year 2,126 accounts or €0.3 billion improved to or remained in non-default, 742 accounts or €0.1 billion remained in default with improved or stabilised arrears and 819 accounts or €0.2 billion disimproved arrears to or within default. A reduction of 312 accounts relates to redeemed accounts during the year; a reduction of €67 million was due to those redeemed accounts and principal repayments made during the year.

For Buy to let mortgages, 3,331 accounts or €0.7 billion of account balances were in forbearance at 31 December 2013 compared to 3,537 accounts or €0.7 billion at 31 December 2012. Of these, 1,375 accounts or €0.3 billion were new forbearance measures put in place during the year of which 898 accounts or €0.2 billion were classified as 'non-defaulted loans' while 477 accounts or €0.1 billion were classified as 'defaulted loans'. Of those that exited forbearance during the year 774 accounts or €0.2 billion improved to or remained in non-default, 281 accounts or €59 million remained in default with improved or stabilised arrears and 406 accounts or €0.1 billion disimproved arrears to or within default. A reduction of 120 accounts relates to redeemed accounts during the year; a reduction of €32 million was due to those redeemed accounts and principal repayments made during the year.

Mortgage Arrears
The Group has invested in its Mortgage Arrears Resolution Strategy (MARS), its infrastructure and continues to implement restructuring and resolution options for customers. The increased activity in forbearance measures reflects the on-going effectiveness of the Group's MARS strategy in supporting customers encountering mortgage difficulties.

The revised Code of Conduct on Mortgage Arrears as published by the Central Bank of Ireland, became effective 1 July 2013, with a six month implementation deadline. The Group has implemented the requirements of the revised Code.

The Group's defined Mortgage Arrears Resolution Strategy relating to both Owner occupied and Buy to let mortgages, seeks to maximise recoveries arising from non repayment of customer mortgages while ensuring that customers are treated with respect through the arrears management and resolution process.

The Group has participated in the Central Bank led pilot scheme for consumer Multi-Debt restructuring. This pilot provided a framework that sought to agree where possible, sustainable restructure arrangements on both unsecured and mortgage debt between participating lenders, without requiring the customer to engage separately with each lender.

Personal Insolvency Act 2012
The Personal Insolvency Act 2012 ('the Act'), enacted on the 26th of December 2012, provides for three debt resolution options for consumers deemed to have unsustainable indebtedness levels. These options are alternatives to bankruptcy and the Act also amends the existing bankruptcy regime. The Insolvency Service of Ireland (ISI) began accepting submissions from authorised Personal Insolvency Practitioners and Approved Intermediaries for these resolution options in September 2013, following the establishment of the necessary infrastructure and the enactment of the required statutory instruments under the Act. The revised bankruptcy regime came into effect in December 2013. The Group has an operating infrastructure in place to support the management of all relevant applications under the Act.

Asset quality (continued)

Loan to value profiles - forborne loans

TABLE 7a

31 December 2013

Loan to value (LTV) ratio of forborne Retail Ireland mortgages	**Owner occupied**		**Buy to let**		**Total**	
	€m	**%**	**€m**	**%**	**€m**	**%**
Less than 50%	199	11%	37	6%	236	9%
51% to 70%	199	11%	44	7%	243	10%
71% to 80%	130	7%	30	4%	160	6%
81% to 90%	145	7%	71	11%	216	9%
91% to 100%	152	8%	59	9%	211	8%
Subtotal	**825**	**44%**	**241**	**37%**	**1,066**	**42%**
101% to 120%	346	19%	129	20%	475	19%
121% to 150%	427	23%	192	29%	619	25%
151% to 180%	230	12%	54	8%	284	11%
Greater than 181%	41	2%	41	6%	82	3%
Subtotal	**1,044**	**56%**	**416**	**63%**	**1,460**	**58%**
Total	**1,869**	**100%**	**657**	**100%**	**2,526**	**100%**

31 December 2012

Loan to value (LTV) ratio of forborne Retail Ireland mortgages	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Less than 50%	153	9%	31	4%	184	8%
51% to 70%	150	9%	52	7%	202	8%
71% to 80%	101	6%	28	4%	129	5%
81% to 90%	119	7%	56	8%	175	7%
91% to 100%	137	8%	50	7%	187	8%
Subtotal	660	39%	217	30%	877	36%
101% to 120%	274	16%	139	19%	413	17%
121% to 150%	388	23%	192	26%	580	24%
151% to 180%	249	14%	104	14%	353	14%
Greater than 181%	136	8%	79	11%	215	9%
Subtotal	1,047	61%	514	70%	1,561	64%
Total	1,707	100%	731	100%	2,438	100%

The tables above illustrate the indexed loan to value ratios for total Retail Ireland forborne mortgages. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio, capital reductions, out of course customer payments and movements in forbearance stock.

Of the total Retail Ireland mortgages with active forbearance measures in place €1.1 billion or 42% are in positive equity (31 December 2012: €0.9 billion or 36%) while €1.5 billion or 58% are in negative equity at 31 December 2013 (31 December 2012: €1.6 billion or 64%). 44% of forborne Owner occupied mortgages (31 December 2012: 39%) and 37% of forborne Buy to let mortgages (31 December 2012: 30%) are in positive equity at 31 December 2013.

Asset quality (continued)

Loan to value profiles - defaulted forborne loans

TABLE 7b

31 December 2013

Loan to value (LTV) ratio of forborne Retail Ireland mortgages - defaulted loans	**Owner occupied**		**Buy to let**		**Total**	
	€m	**%**	**€m**	**%**	**€m**	**%**
Less than 50%	39	7%	8	4%	47	6%
51% to 70%	46	8%	9	4%	55	7%
71% to 80%	34	6%	7	3%	41	5%
81% to 90%	33	5%	13	6%	46	6%
91% to 100%	46	8%	18	9%	64	8%
Subtotal	**198**	**34%**	**55**	**26%**	**253**	**32%**
101% to 120%	103	18%	38	18%	141	18%
121% to 150%	151	26%	79	38%	230	29%
151% to 180%	108	19%	23	12%	131	17%
Greater than 181%	18	3%	12	6%	30	4%
Subtotal	**380**	**66%**	**152**	**74%**	**532**	**68%**
Total	**578**	**100%**	**207**	**100%**	**785**	**100%**

31 December 2012

Loan to value (LTV) ratio of forborne Retail Ireland mortgages - defaulted loans	Owner occupied		Buy to let		Total	
	€m	%	€m	%	€m	%
Less than 50%	36	7%	6	3%	42	6%
51% to 70%	40	7%	10	5%	50	7%
71% to 80%	28	5%	4	2%	32	4%
81% to 90%	32	6%	15	7%	47	6%
91% to 100%	37	7%	11	6%	48	6%
Subtotal	173	32%	46	23%	219	29%
101% to 120%	80	15%	37	19%	117	16%
121% to 150%	137	25%	57	28%	194	26%
151% to 180%	99	18%	33	16%	132	18%
Greater than 181%	57	10%	27	14%	84	11%
Subtotal	373	68%	154	77%	527	71%
Total	546	100%	200	100%	746	100%

The tables above illustrate the indexed loan to value ratios for defaulted Retail Ireland forborne mortgages. The ratios reflect the application of the CSO index at the applicable reporting date to the portfolio, capital reductions, out of course customer payments and movements in forbearance stock.

Of the defaulted Retail Ireland mortgages with active forbearance measures in place, €0.3 billion or 32% are in positive equity (31 December 2012: €0.2 billion or 29%), while €0.5 billion or 68% are in negative equity at 31 December 2013 (31 December 2012: €0.5 billion or 71%). 34% of the Owner occupied Retail Ireland mortgages (31 December 2012: 32%) and 26% of the Buy to let Retail Ireland mortgages (31 December 2012: 23%) are in positive equity at 31 December 2013.

Loans and advances to customers (excluding Residential mortgages)

The following disclosures refer to the forbearance of the loans and advances to customers (excluding Residential mortgages). These provide additional detail and analysis on the quality of the stock of forborne loans.

Asset quality

Forbearance measures

The Group continues to extend significant support to customers who are experiencing current difficulties in meeting their debt servicing commitments by restructuring loans on a sustainable basis using a range of short term and longer term forbearance solutions.

The range of forbearance solutions employed by the Group varies depending on the individual circumstances of the customer, and may result in an amendment to the timing of the contractual cash flows and / or an amendment to the other terms of a loan. Typically, a breach or expected breach of covenants is the first early indication of a borrower's actual or potential difficulty with servicing debt commitments. Therefore adjustment, non-enforcement or waiver of covenant(s) is frequently an important constituent part of a resolution strategy agreed with a customer, particularly in loan portfolios where covenants are a standard feature of facility agreements. These 'covenant forbearance' arrangements (for example, a waiver of a loan-to-value covenant breach) are unlikely, of themselves, to result in an impact to the timing of contractual cash flows. Other forbearance arrangements are more likely to have a direct impact on the timing of cash flows.

Forbearance alone is not necessarily an indicator of impairment but will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay. This assessment to determine if impairment has occurred and if a specific provision is required will always take place prior to a decision to grant forbearance to the customer. Where a loan is subject to forbearance and no specific provision is required, the loan is reported as forborne. However, where a specific provision is required, the loan is reported as impaired and is no longer reported as forborne.

Forbearance Effectiveness
It is the Group's policy to measure the effectiveness or otherwise of forbearance measures over the lifetime of those measures.

A forbearance measure is considered to be effective where the risk profile of the borrower that is subject to the forbearance measure stabilises or improves over the measured time period, resulting in an improved outcome for the Group and for the customer.

The performance of forbearance measures is measured taking account of:

- the strategy that is being followed with the customer with a view to maximising recovery for the Group and providing a suitable option for the customer;
- the intended outcome of the particular measure;
- the nature of the measure being granted; and
- the period over which the measure is granted.

Each business unit within the Group has an operating infrastructure in place to assess and, where appropriate, implement suitable forbearance arrangements. Such arrangements are implemented on either a temporary or a permanent basis. Temporary forbearance occurs where the measure has a specific term and will expire at some point in the future in advance of maturity of the loan. Permanent forbearance occurs where the measure is intended to remain in place for the remainder of the loan term.

The choice of forbearance measure is considered on a case by case basis bearing in mind the individual circumstance and risk profile of each borrower.

An exposure is restored to 'non-forborne' status for reporting purposes on the expiration date of the forbearance measure.

Asset quality (continued)

Forbearance measures (continued)

The nature and type of forbearance measures include:

- **Term extension:** an arrangement where the original term of the loan is extended, all interest is fully serviced and a revised repayment arrangement is agreed for the principal balance;
- **Adjustment or non-enforcement of covenants:** an arrangement whereby the Group agrees to either waive an actual or expected covenant breach for an agreed period, or adjusts the covenant(s) to reflect the changed circumstances of the borrower;
- **Facilities in breach of terms placed on demand:** an arrangement whereby the Group places a facility in breach of its contractual terms on a demand basis as permitted under the facility agreement rather than enforcing, and pending a more long term resolution;
- **Reduced payments (full interest):** an arrangement where the borrower pays the full interest on the principal balance, on a temporary or longer term basis, with the principal balance unchanged, rather than repaying some of the principal as required under the original facility agreement;
- **Reduced payments (greater than full interest) incorporating some principal repayments:** a temporary or medium term arrangement where the borrower pays the full interest due plus an element of principal due on the basis that principal payments will increase in the future;
- **Capitalisation of arrears:** an arrangement whereby arrears are added to the principal balance, effectively clearing the arrears, with either the repayments or the original term of the loan adjusted accordingly to accommodate the increased principal balance; and
- **Other:** Additional, less frequently applied, forbearance arrangements include short term / temporary payment suspensions.

Asset quality (continued)

Forbearance measures (continued)

At 31 December 2013, the stock of forborne loans and advances to customers[1] (excluding Residential mortgages), analysed by forbearance type is as follows:

Table 1	2013			2012		
Formal forbearance measures - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	**Non-defaulted loans[1] balance €m**	**Defaulted loans[2] balance €m**	**Total loans balance €m**	Non-defaulted loans[1] balance €m	Defaulted loans[2] balance €m	Total loans balance €m
Republic of Ireland SME						
Term extension	615	64	679	494	100	594
Adjustment or non-enforcement of covenants	106	10	116	47	17	64
Facilities in breach of terms placed on demand	17	47	64	7	15	22
Reduced payment (full interest)	228	50	278	215	116	331
Reduced payment (greater than full interest)	225	52	277	169	73	242
Capitalisation of arrears	27	9	36	7	2	9
Other	23	14	37	104	36	140
Total	**1,241**	**246**	**1,487**	**1,043**	**359**	**1,402**
UK SME						
Term extension	65	14	79	156	26	182
Adjustment or non-enforcement of covenants	64	-	64	49	3	52
Facilities in breach of terms placed on demand	5	14	19	26	23	49
Reduced payment (full interest)	22	13	35	31	23	54
Reduced payment (greater than full interest)	39	-	39	59	5	64
Capitalisation of arrears	-	1	1	1	1	2
Other	54	2	56	46	-	46
Total	**249**	**44**	**293**	**368**	**81**	**449**
Corporate						
Term extension	441	-	441	538	-	538
Adjustment or non-enforcement of covenants	648	-	648	704	-	704
Facilities in breach of terms placed on demand	-	-	-	-	-	-
Reduced payment (full interest)	9	-	9	9	-	9
Reduced payment (greater than full interest)	9	-	9	1	-	1
Capitalisation of arrears	13	-	13	17	-	17
Other	246	-	246	79	-	79
Total	**1,366**	**-**	**1,366**	**1,348**	**-**	**1,348**
Investment property						
Term extension	2,532	305	2,837	1,866	187	2,053
Adjustment or non-enforcement of covenants	683	4	687	1,153	45	1,198
Facilities in breach of terms placed on demand	173	22	195	390	519	909
Reduced payment (full interest)	156	46	202	129	87	216
Reduced payment (greater than full interest)	309	38	347	205	63	268
Capitalisation of arrears	17	61	78	28	50	78
Other	247	18	265	55	24	79
Total	**4,117**	**494**	**4,611**	**3,826**	**975**	**4,801**

[1] *Non-defaulted loans include loans that are neither past due nor impaired and loans that are up to and including 90 days past due. Defaulted loans include only those loans that are greater than 90 days past due but do not require a specific provision. Loans that have a specific provision are classified as impaired and are not included in the non-mortgage forbearance population.*

[2] *Defaulted loans include both accounts which were classified as defaulted loans prior to the forbearance measure being put in place and those loans which have moved from non-defaulted loans during the year. The defaulted loans classification does not indicate that the terms of the forbearance measure are not being met.*

Asset quality (continued)

Forbearance measures (continued)

Formal forbearance measures - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	2013 Non-defaulted loans[1] balance €m	2013 Defaulted loans[2] balance €m	2013 Total loans balance €m	2012 Non-defaulted loans[1] balance €m	2012 Defaulted loans[2] balance €m	2012 Total loans balance €m
Land and development						
Term extension	163	49	212	103	69	172
Adjustment or non-enforcement of covenants	-	-	-	13	-	13
Facilities in breach of terms placed on demand	2	31	33	41	12	53
Reduced payment (full interest)	16	4	20	13	26	39
Reduced payment (greater than full interest)	5	2	7	6	8	14
Capitalisation of arrears	-	-	-	-	1	1
Other	4	3	7	10	9	19
Total	**190**	**89**	**279**	**186**	**125**	**311**
Consumer						
Term extension	165	-	165	212	-	212
Adjustment or non-enforcement of covenants	-	-	-	-	-	-
Facilities in breach of terms placed on demand	-	-	-	-	-	-
Reduced payment (full interest)	-	-	-	-	-	-
Reduced payment (greater than full interest)	-	-	-	1	-	1
Capitalisation of arrears	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	**165**	**-**	**165**	**213**	**-**	**213**
Total						
Term extension	3,981	432	4,413	3,369	382	3,751
Adjustment or non-enforcement of covenants	1,501	14	1,515	1,966	65	2,031
Facilities in breach of terms placed on demand	197	114	311	464	569	1,033
Reduced payment (full interest)	431	113	544	397	252	649
Reduced payment (greater than full interest)	587	92	679	441	149	590
Capitalisation of arrears	57	71	128	53	54	107
Other	574	37	611	294	69	363
Total	**7,328**	**873**	**8,201**	**6,984**	**1,540**	**8,524**

[1] *Non-defaulted loans include loans that are neither past due nor impaired and loans that are up to and including 90 days past due. Defaulted loans include only those loans that are greater than 90 days past due but do not require a specific provision. Loans that have a specific provision are classified as impaired and are not included in the non-mortgage forbearance population.*

[2] *Defaulted loans include both accounts which were classified as defaulted loans prior to the forbearance measure being put in place and those loans which have moved from non-defaulted loans during the year. The defaulted loans classification does not indicate that the terms of the forbearance measure are not being met.*

Asset quality (continued)

Forbearance measures (continued)

The Group's loans and advances to customers (excluding Residential mortgages) at 31 December 2013 were €41.1 billion before impairment provisions (31 December 2012: €45.1 billion), of which €8.2 billion or 20% was classified and reported as forborne (31 December 2012: €8.5 billion or 19%). Property and construction exposures represent 60% of all forborne loans (excluding Residential mortgages) at 31 December 2013, 38% relate to non-property SME and Corporate lending, with Consumer Lending representing just 2% of forborne loans at 31 December 2013. The percentage of loans classified and reported as forborne and the percentage split of such forborne loans by portfolio have remained broadly consistent with the position at 31 December 2012.

The total volume of forborne loans reduced by €0.3 billion during the year. Within the total stock of forborne loans, there was an increase in the volume of loans where term extension was the principal forbearance measure granted and a reduction in the volume of loans where the waiver of covenants or placing a facility on demand was the principal forbearance measure granted. This trend is consistent with an increasing proportion of customers that are experiencing financial difficulties moving from temporary to longer term forbearance measures during the year, in line with the Group's overall strategy in this area.

The increase in other forbearance measures during the year reflected the impact of new forbearance measures granted in the restructuring of a small number of large syndicated corporate transactions.

Further information on the movements in forborne loans during the year is set out later in this section.

Total loans and advances to customers in the **non-property SME and Corporate** portfolio at 31 December 2013 were €21.5 billion before impairment provisions, of which €3.1 billion or 15% was classified and reported as forborne (31 December 2012: €3.2 billion or 14%). Customers in the non-property SME and Corporate sector have a number of options typically available to deal with adverse trading conditions, particularly in times of depressed economic conditions in their primary markets, such as reducing operating overheads, sourcing new markets, asset sales and renegotiating terms with suppliers, before their ability to continue to meet their debt servicing commitments is at risk.

Within the non-property SME and Corporate portfolio, the total **Republic of Ireland SME** loans and advances to customers before impairment provisions at 31 December 2013 were €10.3 billion, of which €1.5 billion or 14% was classified and reported as forborne (31 December 2012: €1.4 billion or 13%). Term extension is the primary forbearance measure within the Republic of Ireland SME portfolio, accounting for 46% of forborne loans at 31 December 2013 (31 December 2012: 42%) with reduced payment (full interest) accounting for 19% (31 December 2012: 24%) and a further 19% accounted for by reduced repayment (greater than full interest) (31 December 2012: 17%).

Forbearance resolution strategies for the Group's Republic of Ireland SME lending are assessed on a case-by-case basis taking account of the individual customer's circumstances and risk profile. Short term resolution arrangements are typically implemented in cases where a customer's cash flow difficulties are considered to be only short term in nature and are expected to improve in the near term due to a change in the customer's operating circumstances. Where cash flow difficulties are considered more long term, and where all other available options of dealing with adverse trading conditions have been considered, longer term forbearance solutions, such as term extensions, are implemented. The longer term strategies look to potential cash flows over a longer time horizon.

The total **UK SME** loans and advances to customers before impairment provisions at 31 December 2013 were €3.3 billion, of which €0.3 billion or 9% was classified and reported as forborne (31 December 2012: €0.4 billion or 13%). Within the UK SME portfolio, term extension and loan covenant amendments / waivers are the two primary forbearance measures, accounting for a combined 49% of forborne loans at 31 December 2013 (31 December 2012: 52%).

The total **Corporate** loans and advances to customers before impairment provisions at 31 December 2013 were €7.9 billion, of which €1.4 billion or 17% was classified and reported as forborne (31 December 2012: €1.3 billion or 16%). Loan covenant amendments / waivers account for 47% of forborne loans with term extensions accounting for a further 32% at 31 December 2013 (31 December 2012: 52% and 40% respectively).

Asset quality (continued)

Forbearance measures (continued)

Covenants are a standard feature of most facilities originated within the corporate lending portfolio given the larger, structured nature of the facilities. Typically, breach of covenant is the first early indication of actual or potential financial difficulties of a borrower and, as such, a waiver or resetting of covenant levels is frequently an important element of any resolution strategy agreed with a borrower to address its new operating circumstances. Where a waiver or resetting of covenants of itself is not sufficient to address a borrower's financial difficulties, and given the relatively shorter term maturity profile of the portfolio, extension of the loan term represents the main alternative solution to assist customers that are experiencing financial difficulties.

In the **Investment property** portfolio, total loans and advances to customers at 31 December 2013 were €13.6 billion before impairment provisions, of which €4.6 billion or 34% was classified and reported as forborne (31 December 2012: €4.8 billion or 31%). Defaulted forborne loans were €0.5 billion (or 11% of total forborne loans) as at 31 December 2013 (31 December 2012: €1.0 billion or 20%). The reduction in defaulted loans of €0.5 billion primarily reflected facilities placed on demand transferring to other longer term forbearance measures or being specifically provisioned during the year.
Term extension is the primary forbearance measure within both the RoI and UK Investment property portfolios, accounting for 62% of total forborne loans at 31 December 2013 (31 December 2012: 43%), with covenant amendments / waivers accounting for 15% (31 December 2012: 25%), and facilities placed on demand accounting for 4% (31 December 2012: 19%). Given the maturity profile and structuring of the facilities in this portfolio, extending the term of a facility and / or amending or adjusting the covenants are the most common longer term arrangements utilised, in particular, in times of reduced market liquidity where refinancing options are limited and short term forced collateral sales unattractive.

The level of the Group's **Land and development** portfolio classified and reported as forborne, €0.3 billion or 9% at 31 December 2013 (31 December 2012: €0.3 billion or 9%), is reflective of the challenged nature of this sector which has seen significant declines in land values resulting in the majority of the portfolio being already specifically provisioned.

Total loans and advances to customers in the **Consumer** portfolio at 31 December 2013 were €2.8 billion before impairment provisions, of which €0.2 billion or 6% was classified and reported as forborne (31 December 2012: €0.2 billion or 6%). The €0.2 billion of forborne balances at 31 December 2013 relate to personal loans that have had their term extended as part of a consolidated debt restructure.

Asset quality (continued)

Forbearance measures (continued)

Table 2

31 December 2013

Reconciliation of forborne loan stock by non-default / default status - Loans and advances to customers (excluding Residential mortgages) (before impairment provisions)	Non-property SME and Corporate			Property and Construction			
	Republic of Ireland SME €m	UK SME €m	Corporate €m	Investment property €m	Land and development €m	Consumer €m	All loans €m
All loans							
Opening balance at 1 January 2013	**1,402**	**449**	**1,348**	**4,801**	**311**	**213**	**8,524**
New forbearance extended	612	71	508	1,119	98	40	2,448
Exited forbearance							
- Improved to or remained in non-default	(125)	(38)	(115)	(186)	(2)	-	(466)
- Remained in / disimproved to default without specific provision	(12)	(26)	-	(105)	(7)	-	(150)
- Disimproved to default with specific provision	(160)	(27)	(190)	(529)	(62)	(16)	(984)
- Redemptions, principal repayments and other	(195)	(138)	(349)	(334)	(83)	(72)	(1,171)
Transfers within forbearance between non-defaulted and defaulted loans	-	-	-	-	-	-	-
Transfers between sub product class	(35)	2	164	(155)	24	-	-
Closing balance at 31 December 2013	**1,487**	**293**	**1,366**	**4,611**	**279**	**165**	**8,201**
Non-defaulted loans							
Opening balance at 1 January 2013	**1,043**	**368**	**1,348**	**3,826**	**186**	**213**	**6,984**
New forbearance extended	481	63	508	982	57	40	2,131
Exited forbearance							
- Remained in non-default	(122)	(34)	(115)	(161)	(2)	-	(434)
- Disimproved to default without specific provision	(4)	(24)	-	(31)	(6)	-	(65)
- Disimproved to default with specific provision	(65)	(16)	(190)	(169)	(12)	(16)	(468)
- Redemptions, principal repayments and other	(139)	(126)	(349)	(195)	(55)	(72)	(936)
Transfers within forbearance between non-defaulted and defaulted loans	79	18	-	21	(2)	-	116
Transfers between sub product class	(32)	-	164	(156)	24	-	-
Closing balance at 31 December 2013	**1,241**	**249**	**1,366**	**4,117**	**190**	**165**	**7,328**
Defaulted loans							
Opening balance at 1 January 2013	**359**	**81**	**-**	**975**	**125**	**-**	**1,540**
New forbearance extended	131	8	-	137	41	-	317
Exited forbearance							
- Improved to non-default	(3)	(4)	-	(25)	-	-	(32)
- Remained in default without specific provision	(8)	(2)	-	(74)	(1)	-	(85)
- Disimproved to default with specific provision	(95)	(11)	-	(360)	(50)	-	(516)
- Redemptions, principal repayments and other	(56)	(12)	-	(139)	(28)	-	(235)
Transfers within forbearance between non-defaulted and defaulted loans	(79)	(18)	-	(21)	2	-	(116)
Transfers between sub product class	(3)	2	-	1	-	-	-
Closing balance at 31 December 2013	**246**	**44**	**-**	**494**	**89**	**-**	**873**

Non-defaulted loans include loans that are neither past due nor impaired and loans that are up to and including 90 days past due. Defaulted loans include only those loans that are greater than 90 days past due but do not require a specific provision. Loans that have a specific provision are classified as impaired and are not included in the non-mortgage forbearance population.

Asset quality (continued)

Forbearance measures (continued)

At 31 December 2013, €8.2 billion of the Group's loans and advances to customers (excluding Residential mortgages) were classified and reported as forborne. This represented a reduction of €0.3 billion from the level classified and reported as forborne at 31 December 2012.

The reduction in forborne loans during the year reflected the fact that €2.8 billion of forborne loans exited forbearance during the year while €2.5 billion of loans were granted new forbearance during the year.

Term extensions and loan covenant amendments / waivers were the most common principal forbearance measure utilised for new forborne loans during the year. This is consistent with experience in previous years and the nature of the underlying portfolios, which include a large proportion of loans that have shorter term maturities and financial covenants, as part of the facility terms, to facilitate improved credit management of these portfolios.

Of the new forborne loans during the year, €1.1 billion or 46% was from the Group's Investment property portfolio, €0.6 billion or 25% was from the Republic of Ireland SME loan portfolio and €0.5 billion or 21% was from the Corporate portfolio.

Of the loans that exited forbearance during the year, €0.5 billion improved to or remained in non-default. €434 million, or 93% of these loans, had been categorised as non-default at 31 December 2012, and, €32 million categorised as default at 31 December 2012 improved to non-default. €150 million in forborne loans remained in or dis-improved to default without a specific provision. €105 million or 70% of these loans were in the Investment portfolio.

€0.98 billion in forborne loans dis-improved to default with a specific provision, of these €0.51 billion or 52% had been classified as default at 31 December 2012. The Investment property portfolio accounted for 54% of the total, with 19% from Corporate and 16% from ROI SME portfolios.

When a specific provision is raised on a forborne loan, the loan ceases to be classified as forborne. It is expected that most loans that ultimately require a specific provision will previously have experienced a breach of loan terms and, in a large proportion of these cases, some element of forbearance will have been granted in order to provide flexibility to both the Group and the borrower to explore the optimum solution for both parties.

The volume of loans that exited forbearance during the year due to repayment, redemptions or sales reflected the impact of an improvement in market conditions and liquidity in the Group's principal markets during the year. €0.7 billion or 58% of these movements were in the Investment property and Corporate portfolios.

At 31 December 2013 €0.9 billion or 11% of total forborne loans were classified as default (31 December 2012: €1.5 billion or 18%). The reduction in forborne loans classified as default of €0.7 billion reflected the fact that a larger proportion of these forborne loans required a specific provision during the year and the fact that a higher proportion of forborne facilities transferred to longer term or permanent forbearance solutions during the year.

Consolidated average balance sheet and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for the year ended 31 December 2013 and the year ended 31 December 2012. The calculations of average balances are based on daily, weekly or monthly averages, depending on the reporting unit. The average balances used are considered to be representative of the operations of the Group. The Group's operating divisions are managed on a product margin basis, with funding and interest exposure managed centrally. The explanation of the underlying business trends in the Group's net interest margin, after adjusting for the impact of IFRS income classifications, is outlined on page 20.

Average Balance Sheet

	Year ended 31 December 2013			Restated* Year ended 31 December 2012		
	Average Balance €m	**Interest[1] €m**	**Rate %**	Average Balance €m	Interest[1] €m	Rate %
Assets						
Loans and advances to banks	10,866	51	0.47	17,510	104	0.59
Loans and advances to customers	87,832	3,229	3.68	98,629	3,436	3.48
Available for sale financial assets and NAMA senior bonds	16,049	389	2.42	16,123	466	2.89
Other financial assets at fair value through profit or loss	12	-	-	29	-	-
Total interest earning assets	**114,759**	**3,669**	**3.20**	**132,291**	**4,006**	**3.03**
Non interest earning assets	21,821	-	-	20,285	-	-
Total Assets	**136,580**	**3,669**	**2.69**	**152,576**	**4,006**	**2.6**
Liabilities and stockholders' equity						
Deposits from banks	15,307	137[1]	0.90	29,458	365[1]	1.24
Customer accounts	57,569	974[1]	1.69	59,121	1,381[1]	2.34
Debt securities in issue	14,910	247[1]	1.66	17,134	346[1]	2.02
Subordinated liabilities	1,628	178	10.9	1,388	159[2]	11.46
Total interest bearing liabilities	**89,414**	**1,536**	**1.72**	**107,101**	**2,251**	**2.10**
Current accounts	15,703	-	-	13,585	-	-
Non interest bearing liabilities	23,403	-	-	22,727	-	-
Stockholders' Equity	8,060	-	-	9,163	-	-
Total liabilities and Stockholders' Equity	**136,580**	**1,536**	**1.12**	**152,576**	**2,251**	**1.48**

* *As outlined in the Group accounting policies on page 108, comparative periods have been restated to reflect the impact of the adoption of 'IAS 19 Employee Benefits (Revised 2011) (IAS 19R)' and 'IFRS 10 Consolidated Financial Statements'. See note 34 for additional information.*

[1] *Excludes the cost of the ELG scheme of €129 million (31 December 2012: €388 million) which is included within interest expense.*

[2] *Excludes the gain on remeasurement of the Contingent Capital Note of €79 million.*

The yield on average interest bearing liabilities (including current accounts) for the year ended 31 December 2013 was 1.46% (year ended 31 December 2012: €1.87%)