BANK OF IRELAND MORTGAGE BANK ANNUAL REPORT

31 December 2013

CONTENTS

DIRECTORS AND OTHER INFORMATION

Directors at 28 February 2014

John Clifford
Stephen Mason
Gavin Kelly
Karena O'Sullivan
Sean Crowe
Paul Flynn
Liam McLoughlin
Brian McConnell
Richard Milliken

Registered Office and number

Bank of Ireland Mortgage Bank
New Century House
Mayor Street Lower
I.F.S.C
Dublin 1
Registered Number 386415

Cover-Assets Monitor

Mazars
Harcourt Centre
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Harcourt Road
Dublin 2

Auditors

PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
One Spencer Dock
North Wall Quay
Dublin 1

Secretary

Hill Wilson Secretarial Limited

The Directors hereby present their report, together with the audited financial statements of Bank of Ireland Mortgage Bank (the "Bank"), for the year ended 31 December 2013.

REVIEW OF BUSINESS

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

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

While trading conditions for the Bank remain challenging, there are growing signs of recovery in the Irish economy, with the fastest pace of jobs growth since 2007 being observed in the third quarter of the year. The residential property market continues to recover, particularly in Dublin, as evidenced by the Residential Property Price Index published by the Central Statistics Office ("CSO"). The CSO Index for the year ended 31 December 2013 recorded growth in national residential property prices of 6.4%, the first rate of annual growth recorded since the market peaked in 2007. Notwithstanding these encouraging signs, the overall Republic of Ireland new mortgage lending market in 2013 reduced to €2.5 billion from €2.6 billion in 2012, due partly to the expiry of eligibility for mortgage interest relief on 31 December 2012 which encouraged accelerated mortgage drawdowns in the last quarter of 2012. In addition, the shortage of housing stock for sale in the Dublin market, together with a high proportion of cash purchases, also impacted on the mortgage lending market in the current year. The Bank accounted for over 3 out of every 10 new mortgages extended in the Republic of Ireland in 2013 (in value).

The slowdown in the growth of arrears observed in the prior year has continued into 2013 reflecting the effectiveness of the Bank's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions. Defaulted[1] owner occupied loan volumes of €1.5 billion are broadly unchanged since 31 December 2012. While defaulted Buy to let loan volumes increased during the year, the growth in value of defaulted Buy to let loans during 2013 was lower than 2012 reflecting the factors noted above together with improved rental market conditions, particularly evident in primary urban areas[2]. 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 Bank continues to build upon the significant progress made during 2012 in relation to funding. The issuance of a €1.0 billion asset covered security in November 2012 represented the first benchmark size public issuance based on Irish mortgage collateral since September 2009. Since then, the Bank has successfully issued three asset covered securities, collectively amounting to €2.0 billion and ranging between 3.5 and 7 years in maturity. In addition, the Bank successfully re-entered the private placement market issuing a €10 million asset covered security in 2013.

Asset Quality:

The Bank continues to focus actively on credit quality and the management of arrears. Arrears growth has continued to decline throughout the year. Based on the latest quarterly information available from the Central Bank of Ireland, the Bank's default arrears (greater than 90 days past due) remain significantly below the industry average[3].

Loans and advances to customers (before impairment provisions) amounted to €20.3 billion at 31 December 2013 (31 December 2012: €20.8 billion), of which loans past due but not in default are €0.6 billion (31 December 2012: €0.7 billion) and defaulted loans are €2.7 billion (31 December 2012: €2.5 billion). The decrease in the loans and advances to customers reflects a combination of factors including muted demand for new mortgage lending, accelerated capital repayments and the significant progress made by the Bank in returning 'interest only' mortgage borrowers to a 'principal and interest' repayment basis.

Impairment provisions have increased by €321.6 million from €1,023.5 million at 31 December 2012 to €1,345.1 million at 31 December 2013. Total provisions as a percentage of defaulted loan balances amount to 49.5% (31 December 2012: 40.2%).

The Bank 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 repayment solutions as appropriate. Forbearance occurs when a borrower is granted a temporary or permanent agreed change to the original contractual terms of a mortgage loan ("forbearance measure"), for reasons relating to the actual or apparent financial stress or distress of that borrower. 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 Bank has continued to modify formally a significant number of customer loans which are deemed to be sustainable, with accounts representing 9% (13,312 accounts) of total mortgage accounts, now with a formal forbearance measure in place (31 December 2012: 11,942 accounts).

The forbearance measures adopted by the Bank seek to maximise recoveries arising from non-repayment of debt, while providing suitable and sustainable restructure options that are supportive of customers in challenged financial circumstances.

[1] *Defaulted loans are defined as loans greater than 90 days past due and / or impaired.*
[2] *Source: Daft.ie National Rental Index.*
[3] *Industry source: CBI Mortgage Arrears Statistics Report September 2013.*

REVIEW OF BUSINESS (continued)

Asset Quality (continued)

The nature and type of forbearance measures include:

- full interest: (followed by 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 followed by 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.

The Bank has invested in its Mortgage Arrears Resolution Strategy (MARS) and infrastructure and continues to implement restructuring and resolution options for customers. The increased activity in forbearance measures reflects the ongoing effectiveness of the Bank's MARS strategy in supporting customers encountering mortgage difficulties.

The revised Code of Conduct on Mortgage Arrears (CCMA), as published by the Central Bank of Ireland, became effective on 1 July 2013 with a six month implementation deadline. The Bank has implemented the requirements of the revised Code.

The Personal Insolvency Act 2012 ("the Act"), enacted on 26 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 (I.S.I.) 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 Bank has an operating infrastructure in place to support the management of all applications under the Act and all bankruptcy applications in Ireland.

The Bank has participated in the Central Bank of Ireland 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.

Capital:

During the year, €235 million of share capital was issued at a price per share of €8 to the Bank's parent company, Bank of Ireland (31 December 2012: €240 million at €8 per share). This represented a par value of €29.4 million (31 December 2012: €30 million) and a share premium of €205.6 million (31 December 2012: €210 million).

At 31 December 2013, the Bank's total capital ratio was 9.1% (31 December 2012: 9.5%) including the impact of transitional capital floors. The Bank continues to assess the impact on its capital ratios arising from the phased transition to the Basel III / CRD IV capital framework from 1 January 2014 and to develop the range of potential mitigation strategies available to it.

RESULTS

The loss before tax for the year ended 31 December 2013 amounted to €265.5 million, as set out in the profit and loss account on page 12, compared to a loss before tax of €279.2 million for the year ended 31 December 2012.

Net Interest Income ("NII") increased to €123.3 million for the year ended 31 December 2013, from €40.0 million for the year ended 31 December 2012. The improvement in NII is due largely to lower funding costs, which have decreased by €253.3 million year on year as the Bank continues to improve its funding position. In addition, lower funding costs from Bank of Ireland reflect the full year benefit in the current year from the move to net funding in July 2012. For the year ended 31 December 2013, there was no change to the expected life of the mortgage portfolio's cash flows that determined the basis on which deferred discounts and broker commissions were amortised (31 December 2012: €17.0 million credit). The net impact of these factors (together with the interest income on derivative financial instruments which are reported in net trading income for accounting reasons but are included in the net interest margin calculation) has resulted in an increase in the net interest margin to 0.69% (31 December 2012: 0.20%).

Fees and commissions amounted to €0.2 million of income for the year ended 31 December 2013, compared to €1.5 million for the year ended 31 December 2012.

Operating expenses increased by €5.5 million to €57.7 million for the year ended 31 December 2013 (31 December 2012: €52.2 million). The increase is primarily due to increased activity associated with managing mortgage arrears.

RESULTS (continued)

The impairment charge of €393.9 million for the year ended 31 December 2013 increased from €298.6 million for the year ended 31 December 2012. The current year charge reflects the consideration of the Central Bank of Ireland Asset Quality Review ("AQR") and the implementation of the revised Central Bank of Ireland Impairment Provisioning and Disclosures Guidelines (revised 31 May 2013) ('CBI Guidelines'). Defaulted Owner occupied mortgage balances of €1.5 billion are broadly unchanged since 31 December 2012, reflecting a significant slowdown in the growth in defaulted balances during 2013. Defaulted Buy to let mortgages have increased to €1.3 billion at 31 December 2013 (31 December 2012: €1.1 billion). The slowdown in default formation for both Owner occupied and Buy to let mortgages reflects the effectiveness of the Bank'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 Bank enters into derivative transactions for interest rate hedging purposes only. Net trading income includes fair value movements on derivatives, fair value movements on debt securities in a fair value hedge relationship, interest flows and fair value movements on derivatives which do not qualify for hedge accounting and gains on the repurchase of the Bank's own debt securities. For the year ended 31 December 2013, this amounted to a net trading gain of €62.6 million (31 December 2012: €30.1 million), which includes a gain on fair value movement and interest on derivatives which do not qualify for hedge accounting of €62.8 million (December 2012: €0.2 million loss) and a gain of €0.3 million (31 December 2012: €32.5 million) arising from the repurchase of €20 million (December 2012: €467.4 million) of the Bank's own debt securities. Losses on fair value hedges account for €0.5 million of the trading income during the year ended 31 December 2013 (31 December 2012: €2.2 million loss).

At 31 December 2013, the Bank had a deferred tax asset of €109.9 million (31 December 2012: €71.2 million), an increase of €38.7 million relating to a combination of current year trading losses, timing adjustments and adjustments required under tax legislation.

FUNDING

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

Covered bonds are a key element of the Bank's long term funding strategy. During the year ended 31 December 2013, the Bank successfully issued three public asset covered securities collectively amounting to €2.0 billion and ranging between 3.5 and 7 years in maturity. In addition, the Bank successfully re-entered the private placement market issuing a €10 million asset covered security.

The Bank obtains a rating for the covered bonds from Moody's Investor Services and Dominion Bond Rating Service, Inc. ("DBRS").

	31 December 2013	31 December 2012
Rating Agency		
Moody's Investor Services	Baa2	Baa3
DBRS	A(low)	A(low)

At 31 December 2013, the Bank had a €19.0 billion customer loan portfolio (net of impairment provisions) funded through debt securities in issue €10.8 billion (57%), Capital and subordinated debt €1.0 billion (5%) and net Bank of Ireland Group (the "Group") borrowings €7.2 billion (38%). Of the €10.8 billion debt securities in issue, €3.4 billion is held by Bank of Ireland. The remaining €7.4 billion is issued to external bondholders with a range of maturities out to 2048.

Full details of debt securities in issue are contained in note 17 to the accounts.

As at 31 December 2013, the Bank had €402.6 million in subordinated loan borrowings from its parent company (31 December 2012: €402.5 million).

BOOKS OF ACCOUNT

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

DIRECTORS AND SECRETARY

The names of the persons who were Directors of the Bank at any time during the year ended 31 December 2013 and up to the date of the approval of the financial statements are set out below. Except where indicated, they served as directors for the entire period.

Directors

J Clifford	Non-Executive Chairman	
S Mason	Managing Director	
J Byrne	Executive Director	Resigned 25 April 2013
G Kelly	Executive Director	Appointed 14 August 2013
K O'Sullivan	Executive Director	
S Crowe	Group Non-Executive Director	Appointed 13 August 2013
P Flynn	Group Non-Executive Director	
B Kealy	Group Non-Executive Director	Resigned 7 June 2013
L McLoughlin	Group Non-Executive Director	Appointed 28 February 2013
B McConnell	Independent Non-Executive Director	
R Milliken	Independent Non-Executive Director	

Secretary

Hill Wilson Secretarial Limited

DIRECTORS' AND SECRETARY'S INTERESTS

The interests of the Directors and Secretary, in office at 31 December 2013, and of their spouses and minor children, in the shares of Bank of Ireland and related Group entities, are disclosed in note 24 of the financial statements.

POLITICAL DONATIONS

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

AUDIT COMMITTEE

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

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

CORPORATE GOVERNANCE

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

GOING CONCERN

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 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 Bank's business, profitability projections, funding and capital plans, together with a range of other factors such as the outlook for the Irish economy 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:

During 2013, the Bank accessed funding through both asset covered securities and private placement issuances. In addition, a capital injection of €235 million was received from the Bank's parent company, Bank of Ireland ('the Parent'). The Bank is dependent on its Parent for short term funding and any future capital needs.

The Bank has received a letter of support from its Parent covering any required capital and liquidity for the period of assessment. During 2013, the Bank's Parent accessed wholesale funding markets through both secured and unsecured issuances, with a further

GOING CONCERN (continued)

secured issuance in January 2014. It is expected that the Parent 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 the going concern of the Bank's Parent, 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 Bank's Parent is 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 Bank of Ireland Group during the period of assessment. On the basis of above, the Board of the Bank's Parent has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt about the Bank of Ireland Group's ability to continue as a going concern.

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

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

POST BALANCE SHEET EVENTS

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

AUDITORS

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

John Clifford **Chairman**	**Stephen Mason** **Managing Director**	**Karena O'Sullivan** **Director**	**Hill Wilson Secretarial Limited**

28 February 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with Irish law.

Irish law requires the Directors to prepare financial statements for each financial year giving a true and fair view of the state of affairs at the end of the financial year and of its profit or loss for the financial year. Under that law the Directors have elected to prepare the financial statements in accordance with Generally Accepted Accounting Practices in Ireland (accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland).

In preparing the financial statements the Directors are required to:

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

The Directors are responsible for keeping proper books of account, which disclose with reasonable accuracy at any time the financial position of the Bank and to enable them to ensure that the financial statements are prepared in accordance with the accounting standards generally accepted in Ireland and with Irish statute comprising the Companies Acts 1963 to 2013 and the Asset Covered Securities Act 2001 to 2007 (the "ACS Acts"). They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

On behalf of the board

John Clifford **Chairman**	**Stephen Mason** **Managing Director**	**Karena O'Sullivan** **Director**

28 February 2014

Introduction

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

In 2013 the Bank completed a review of the on-going fitness and probity of persons in 'pre-approval controlled functions' whereby Directors were asked to confirm any changes in circumstances in respect of their compliance with the Fitness and Probity Standards issued by the Central Bank of Ireland (the 'Standards'). In addition, external checks on financial soundness and probity involving a review of various publicly available sources were completed. Based on the findings of the review process conducted, the Board concluded that each of the Directors of the Board has the requisite standard of fitness, probity and financial soundness to perform their functions.

Financial reporting process

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

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

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

Risk assessment

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

Control activities

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

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

Monitoring

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

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

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

We have audited the financial statements of Bank of Ireland Mortgage Bank for the year ended 31 December 2013 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the related notes to the financial statements on pages 16 to 57 and the information described as being an integral part of the audited financial statements as set out in the Basis of Preparation on page 17. The financial reporting framework that has been applied in their preparation is Irish law and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Bank's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Bank's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with Generally Accepted Accounting Practice in Ireland of the state of the Bank's affairs as at 31 December 2013 and of its loss and cash flows for the year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2013.

Matters on which we are required to report by the Companies Acts 1963 to 2013

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the Bank.
- The financial statements are in agreement with the books of account.
- In our opinion the information given in the Directors' Report is consistent with the financial statements.
- The net assets of the Bank, as stated in the Balance Sheet, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2013 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Bank.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2013 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Emma Scott
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin

28 February 2014

PROFIT AND LOSS ACCOUNT

	Notes	For the year ended 31 December 2013 €'000	For the year ended 31 December 2012 €'000
Interest income	2	542,082	712,180
Interest expense	3	(418,826)	(672,147)
NET INTEREST INCOME		123,256	40,033
Fee and commission income	4	229	1,533
TOTAL OPERATING INCOME		123,485	41,566
Operating expenses	5	(57,666)	(52,175)
Impairment charges	12	(393,939)	(298,562)
Loss on sale of assets to NAMA	7	-	(51)
Net trading income	8	62,630	30,052
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(265,490)	(279,170)
Taxation credit	9	29,900	40,723
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(235,590)	(238,447)

The notes on pages 16 to 57 form part of the financial statements.

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

John Clifford **Chairman**	**Stephen Mason** **Managing Director**	**Karena O'Sullivan** **Director**	**Hill Wilson Secretarial Limited**

28 February 2014

BANK OF IRELAND MORTGAGE BANK

BALANCE SHEET

	Notes	As at 31 December 2013 €'000	As at 31 December 2012 €'000
ASSETS			
Loans and advances to banks	10	2,623,402	2,967,103
Loans and advances to customers	11	18,978,863	19,762,065
Derivative financial instruments	15	231,701	398,804
Deferred tax asset	14	109,894	71,210
Other assets	13	609	7,643
		21,944,469	23,206,825
LIABILITIES			
Deposits by banks	16	10,089,083	9,494,619
Debt securities in issue	17	10,795,311	12,639,359
Derivative financial instruments	15	23,678	71,585
Other liabilities	18	20,412	5,589
Subordinated liabilities	19	402,557	402,546
		21,331,041	22,613,698
SHAREHOLDERS' FUNDS			
Called up share capital	20	738,375	709,000
Share premium	20	660,625	455,000
Reserves	22	(785,572)	(570,873)
		613,428	593,127
		21,944,469	23,206,825

The notes on pages 16 to 57 form part of the financial statements.

John Clifford	**Stephen Mason**	**Karena O'Sullivan**	**Hill Wilson Secretarial Limited**
Chairman	**Managing Director**	**Director**	

28 February 2014

BANK OF IRELAND MORTGAGE BANK

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	For the year ended 31 December 2013 €'000	For the year ended 31 December 2012 €'000
Loss for the year		(235,590)	(238,447)
Gain/(Loss) on cash flow hedge reserves	22	20,891	(599)
Total loss recognised in year		**(214,699)**	**(239,046)**

John Clifford
Chairman

Stephen Mason
Managing Director

Karena O'Sullivan
Director

Hill Wilson Secretarial Limited

28 February 2014

CASH FLOW STATEMENT

Cash flows from operating activities	Notes	For the year ended 31 December 2013 €'000	For the year ended 31 December 2012 €'000
Loss on ordinary activities before taxation		(265,490)	(279,170)
Amortisation of commissions and mortgage discounts, bond fees and discounts		23,381	7,246
Interest charged on subordinated liabilities		12,709	14,939
Impairment charges		385,694	295,156
Loss on sale of assets to NAMA		-	51
Fair value adjustments		(33,816)	117,602
Other non-cash items		7,503	(4,466)
		129,981	151,358
Net decrease in loans and advances to banks		339,989	16,479,691
Net decrease in loans and advances to customers		380,715	184,874
Net decrease/(increase) in other assets		5,902	(6,176)
Net increase/(decrease) in deposits by banks		596,784	(17,024,831)
Net (decrease)/increase in debt securities in issue		(1,683,068)	2,954
Net increase/(decrease) in other liabilities		6,709	(6,031)
Net cash flow from operating activities		(222,988)	(218,161)
Financing activities			
Interest paid on subordinated liabilities		(12,698)	(15,654)
Issue of ordinary share capital		235,000	240,000
Net cash flow from financing activities		222,302	224,346
Net (decrease)/increase in cash in the period	21	**(686)**	**6,185**

John Clifford	**Stephen Mason**	**Karena O'Sullivan**	**Hill Wilson Secretarial Limited**
Chairman	**Managing Director**	**Director**	

28 February 2014

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1 ACCOUNTING POLICIES

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

1.1 Basis of preparation

The financial statements of the Bank on pages 12 to 15 have been prepared under the historical cost convention, modified by the revaluation of certain financial instruments, in accordance with the Companies Acts, 1963 to 2013, the Asset Covered Securities Acts 2001 to 2007 (the "ACS Acts") and with accounting standards generally accepted in Ireland.

The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2013. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland.

The financial statements comprise the profit and loss account, balance sheet, statement of total recognised gains and losses, cash flow statement and the notes to the financial statements set out on pages 16 to 57. The financial statements also include the information set out in the tables within the supplementary disclosures described as being an integral part of the audited financial statements.

1.2 Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 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 Bank's business, profitability projections, funding and capital plans, together with a range of other factors such as the outlook for the Irish economy 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:

During 2013, the Bank accessed funding through both asset covered securities and private placement issuances. In addition, a capital injection of €235 million was received from the Bank's parent company, Bank of Ireland ('the Parent'). The Bank is dependent on its Parent for short term funding and any future capital needs.

The Bank has received a letter of support from its Parent covering any required capital and liquidity for the period of assessment. During 2013, the Bank's Parent accessed wholesale funding markets through both secured and unsecured issuances, with a further secured issuance in January 2014. It is expected that the Parent 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 the going concern of the Bank's Parent, 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 Bank's Parent is 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 Bank of Ireland Group during the period of assessment. On the basis of above, the Board of the Bank's Parent has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt about the Bank of Ireland Group's ability to continue as a going concern.

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

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

1.3 Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees, broker commissions, transaction costs, points paid or received between parties to the contract and all other premia or discounts that are an integral part of the effective interest rate.

1 ACCOUNTING POLICIES (continued)

1.3 Interest income and expense (continued)

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment loss.

Where the Bank revises its estimates of payments or receipts on a financial instrument measured at amortised cost, the carrying value of the financial instrument (or group of financial instruments) is adjusted to reflect actual and revised estimated cash flows. The Bank recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised in the profit and loss account as income or expense.

1.4 Fee and commission income / expense

Fees and commissions which are not an integral part of the effective interest rate of a financial instrument are generally recognised when the service has been provided.

1.5 Income Taxes

a) Current Income Tax
Income tax payable on profits, based on applicable tax law, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

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

A deferred tax asset is recognised to the extent that it is more likely than not that future taxable profits will be available against which deductible timing differences and unutilised tax losses can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of future taxable profits, and the future reversals of existing taxable temporary differences.

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

The most significant judgement relates to the assessment of the recoverability of the portion of the deferred tax asset relating to trading losses. Under current Irish tax legislation there is no time restriction on the utilisation of these losses. Based on the projection of future taxable income, the Directors have concluded that it is more likely than not that sufficient taxable profits will be generated to recover this deferred tax asset, and it has been recognised in full.

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

1.6 Financial assets

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

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss can either be held for trading, if acquired principally for the purpose of selling in the short term, or designated at fair value through profit or loss at inception. A financial asset may be designated at fair value through profit or loss only when:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch), that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis; or
(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or
(iii) a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

Regular way purchases and sales of financial assets at fair value through profit or loss are recognised on the trade date: the date on which the Bank commits to purchase or sell the asset. Thereafter they are carried on the balance sheet at fair value, with all changes in fair value included in the profit and loss account.

1 ACCOUNTING POLICIES (continued)

1.6 Financial assets (continued)

Financial assets may not be transferred out of this category, except for non-derivative financial assets held for trading, which may be transferred out of this category where:

(i) in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the short term; or
(ii) they are no longer held for trading, they meet the definition of loans and receivables at the date of reclassification and the Bank has the intention and ability to hold the assets for the foreseeable future or until maturity.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans are recorded at fair value plus transaction costs when cash is advanced to the borrowers. They are subsequently accounted for at amortised cost using the effective interest method.

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

1.7 Financial liabilities

The Bank has two categories of financial liabilities:
- those that are carried at amortised cost; and
- those that are carried at fair value through profit or loss.

Financial liabilities are initially recognised at fair value, (normally the issue proceeds i.e. the fair value of consideration received) less, in the case of financial liabilities subsequently carried at amortised cost, transaction costs. For liabilities carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account using the effective interest method.

A liability may be designated as at fair value through profit or loss only when:
(i) it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch), that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis; or
(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or
(iii) a contract contains one or more embedded derivative(s) that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

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

1.8 Impairment of financial assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or “events”) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1 ACCOUNTING POLICIES (continued)

1.8 Impairment of financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less cost for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account. When a loan is deemed uncollectible, it is derecognised and the provision for impairment is utilised. Subsequent recoveries decrease the amount of the charge for loan impairment in the profit and loss account.

Forbearance

Forbearance occurs when a borrower is granted a temporary or permanent agreed change ('forbearance measure') to the contractual terms of a mortgage loan for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance has not occurred 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.

Prior to any decision to grant forbearance, the Bank performs an assessment of a customer's financial circumstances and ability to repay. This assessment includes an individual assessment for impairment of the mortgage loan. If the Bank determines that no objective evidence of impairment exists for an individually assessed forborne asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Where the forborne loan is considered to be impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate before the modification of terms. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a forborne asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract before the modification of terms.

Assets to which forbearance has been applied continue to be reported as forborne until the forbearance measure expires or the asset is repaid.

Where the cash flows from a forborne loan are considered to have expired, the original asset is derecognised and a new asset is recognised, initially measured at fair value. Any difference between the carrying value of the original asset and the fair value of the new asset on initial recognition are recognised in the profit and loss account. Interest accrues on the new asset based on the current market rates in place at the time of the renegotiation.

Where an agreed change to a loan is not directly linked to apparent financial stress or distress, these amendments are not considered forbearance.

1 ACCOUNTING POLICIES (continued)

1.9 Valuation of financial instruments

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

If an active market does not exist, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Bank uses estimates based on the best information available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price in an arm's length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which primarily uses observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Bank recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price.

Where a transaction price in an arm's length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

1.10 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value at each balance sheet date.

All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are separated from the host contract and accounted for as derivatives, when their economic characteristics and risks are not closely related to those of the host contract and the combined contract is not carried at fair value through profit or loss.

Fair value gains or losses on derivatives are normally recognised in the profit and loss account in net trading income. However, where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

The Bank designates certain derivatives as either:
(i) hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge); or
(ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge).

Hedge accounting is applied to these derivatives provided certain criteria are met. The Bank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity of the hedged item using the effective interest method.

(b) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the Statement of Total Recognised Gains and Losses. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Amounts accumulated in reserves are reclassified to the profit and loss account in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in reserves at that time remains in reserves and is recognised in the profit and loss account when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the Statement of Total Recognised Gains and Losses is immediately reclassified to the profit and loss account.

1 ACCOUNTING POLICIES (continued)

1.11 Debt securities in issue

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

If the Bank repurchases its own debt it is removed from the balance sheet and the difference between the carrying value and consideration paid, net of any costs or fees incurred, is included in net trading income.

1.12 Pensions

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

Whilst the scheme is a defined benefit scheme, the company does not identify its share of the underlying assets and liabilities of the scheme as, despite encompassing several employers (all of whom are members of Bank of Ireland Group), the scheme is essentially run as one scheme rather than independent, separately identifiable units. The manner in which the scheme is run assists in the mobility of staff across Bank of Ireland Group and therefore no sub-unitisation of the scheme takes place either in terms of differential contribution levels or sharing of underlying assets and liabilities. Consequently, the scheme has been accounted for as a defined contribution scheme. Contributions are charged to the profit and loss account in the period in which they became payable as shown in note 26.

1.13 Accrued interest

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

1.14 Comparatives

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

1.15 Cash

Cash in hand and deposits repayable on demand with any qualifying financial institution, less overdrafts from any qualifying financial institution repayable on demand.

1.16 Share capital and reserves

(a) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank’s Board of Directors.

(b) Cash flow hedge reserve
The cash flow hedge reserve represents the cumulative changes in fair value, excluding any ineffectiveness, of cash flow hedging derivatives. These are transferred to the profit and loss account when the hedged transactions impact the Bank’s profit or loss.

1.17 Collateral

The Bank enters into master agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis.

In certain circumstances, the Bank pledges collateral in respect of liabilities or borrowings. Collateral pledged in the form of securities or loans and advances continues to be recorded on the balance sheet. Collateral placed in the form of cash is recorded in loans and advances to banks or customers. Any interest receivable arising is recorded as interest income.

1.18 Critical accounting estimates or judgements

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

(a) Impairment charges on financial assets
The Bank reviews its loan portfolios for impairment on an ongoing basis. The Bank first assesses whether objective evidence of impairment exists. This assessment is performed individually for financial assets that are individually significant, and individually or

1 ACCOUNTING POLICIES (continued)

1.18 Critical accounting estimates or judgements (continued)

(a) Impairment charges on financial assets (continued)
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 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 in a given 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.

Residential mortgage loans have 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. A key assumption used in the calculation of the impairment charge is the expected decline in the value of the underlying properties securing the loans. At 31 December 2013, the assumption adopted by the Bank in respect of the expected average decline in the value of Irish residential properties was 55% from their peak in 2007. 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 Bank's year-end financial reporting cycle. A 2% decline in average values beyond this assumed level would give rise to additional impairment provisions of c. €50 million to €55 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 3 months in this assumption would give rise to additional impairment provisions of c. €7 million.

'Loss emergence periods' refer to the period of time between the occurrence and reporting of a loss event. An increase of 1 month in this assumed loss emergence period would give rise to additional impairment provisions of c. €7 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 would give rise to a release of impairment provisions of c.€6 million to €7 million.

The estimation of impairment charges is subject to uncertainty, which is increased in the current economic environment, and is highly sensitive to factors such as the level of economic activity, unemployment rates, bankruptcy trends, residential 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 light of differences between loss estimates and actual loss experience.

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Bank's impairment charge on financial assets are set out in the Credit risk methodologies section in note 27 on Risk Management and Control.

(b) Taxation
At 31 December 2013 the Bank had a deferred tax asset of €109.9 million (31 December 2012: €71.2 million) relating to a combination of current year trading losses, timing adjustments and adjustments required under tax legislation.

A deferred tax asset is recognised to the extent that it is more likely than not that future taxable profits will be available against which deductible timing differences and unutilised tax losses can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of future taxable profits, and the future reversals of existing taxable timing differences.

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

1 ACCOUNTING POLICIES (continued)

1.18 Critical accounting estimates or judgements (continued)

(b) Taxation (continued)
The most significant judgement relates to the Bank's assessment of the recoverability of the portion of the deferred tax asset relating to trading losses. The Finance (No.2) Act 2013 which was published in October 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 Bank's ability to utilise its tax losses carried forward and shorten the recovery period of its deferred tax asset. There is no time limit on the utilisation of these losses. Based on its projection of future taxable income, the Bank has concluded that it is more likely than not sufficient taxable profits will be generated to recover this deferred tax asset and it has been recognised in full.

(c) Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees, broker commissions, transaction costs, and points paid or received between parties to the contract and all other premia or discounts that are an integral part of the effective interest rate.

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

For the year ended 31 December 2012, a change to the expected life of the mortgage portfolio's cash flows that determined the basis on which deferred discounts and broker commissions were amortised resulted in a credit to the profit and loss account of €17.0 million. There has been no change for the year ended 31 December 2013.

2 INTEREST INCOME

	For the year ended 31 December 2013 €'000	**For the year ended 31 December 2012 €'000**
Loans and advances to banks	16,928	151,249
Loans and advances to customers	525,154	560,931
	542,082	712,180
Of which receivable from Bank of Ireland	16,928	151,249

Included within interest income recognised on loans and advances to customers for the year ended 31 December 2013 is:

- €24.8 million (year ended 31 December 2012: €28.4 million) of interest arising on impaired loans and advances to customers on which a specific impairment provision has been recognised at the year end. €10.7 million of this amount (year ended 31 December 2012: €6.0 million) relates to loans on which specific provisions have been individually assessed and €14.1 million (year ended 31 December 2012: €22.4 million) relates to loans on which specific provisions have been collectively assessed;
- €17.7 million of interest arising 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
- €33.4 million of interest arising on loans and advances to customers classified as forborne and which are neither classified as greater than 90 days past due nor have a specific impairment provision at the year end.
- Interest arising on total forborne loans and advances to customers was €44.8 million.

Interest income received on loans and advances to customers for the year ended 31 December 2013 includes:

- €23.9 million (year ended 31 December 2012: €22.9 million) of interest income received arising on impaired loans and advances to customers on which a specific impairment provision has been recognised at the year end;
- €14.6 million of interest income received arising 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 period end; and
- €32.9 million of interest income received arising on loans and advances to customers classified as forborne and which are neither classified as greater than 90 days past due nor have a specific impairment provision at the period end.
- Interest income received on total forborne loans and advances to customers was €44.6 million.

3 INTEREST EXPENSE

	For the year ended 31 December 2013 €'000	For the year ended 31 December 2012 €'000
Debt securities in issue	175,420	215,683
Other interest payable	230,697	441,525
Interest on subordinated liabilities	12,709	14,939
	418,826	672,147
Of which payable to Bank of Ireland	176,828	422,143

4 FEE AND COMMISSION INCOME

	For the year ended 31 December 2013 €'000	For the year ended 31 December 2012 €'000
Other income	229	1,533
	229	1,533

5 OPERATING EXPENSES

	For the year ended 31 December 2013 €'000	For the year ended 31 December 2012 €'000
Staff costs:		
- wages and salaries	170	201
- social security costs	18	22
- pension costs	39	38
	227	261
Other operating expenses	57,439	51,914
Total operating expenses	57,666	52,175

Operating expenses include recharges from Bank of Ireland for support service costs. In addition, the Bank has continued to invest in the management of mortgage arrears, resulting in incremental operating expenses in the current year.

Employee Information

For the year ended 31 December 2013, the average number of employees was 3 (31 December 2012: 3 employees).

6 AUDITORS' REMUNERATION

	For the year ended 31 December 2013 €'000	For the year ended 31 December 2012 €'000
Auditors' remuneration (excluding VAT)		
Statutory audit	65	50
Other assurance services	79	40
Taxation services	-	-
Other non-audit services	-	-
Total	144	90

7 LOSS ON SALE OF ASSETS TO NAMA

	For the year ended 31 December 2013 €'000	For the year ended 31 December 2012 €'000
Loss on sale of assets to NAMA	-	(51)

During the year ended 31 December 2012, the Bank recognised a net loss of €51,000, which relates primarily to an adjustment to the consideration in respect of assets previously transferred to NAMA. Bank of Ireland Group, of which the Bank is a wholly owned subsidiary, did not transfer any assets to NAMA during the years ended 31 December 2013 and 31 December 2012.

8 NET TRADING INCOME

	For the year ended 31 December 2013 €'000	For the year ended 31 December 2012 €'000
Gains arising on the repurchase of the Bank's own debt securities	313	32,534
Interest rate contracts	62,805	(250)
	63,118	32,284
Fair value hedges		
Fair value (loss) on derivative contracts in fair value hedge relationships	(98,062)	(22,969)
Fair value gain on liabilities in fair value hedge relationships	97,574	20,737
	(488)	(2,232)
	62,630	30,052

The €0.5 million loss (31 December 2012: €2.2 million loss) on fair value hedges represents the net hedge ineffectiveness in relation to fair value hedges. During the years ended 31 December 2013 and 31 December 2012, there was no hedge ineffectiveness in relation to cash flow hedges. See note 15 for details of interest rate contracts and hedge accounting arrangements. Interest rate contracts includes interest and fair value movements on derivative contracts that do not qualify for hedge accounting, including those that were originally in a fair value hedge relationship which no longer qualify for hedge accounting.

9 TAXATION

	For the year ended 31 December 2013 €'000	For the year ended 31 December 2012 €'000
Current Tax		
Reallocation (from) / to deferred tax	(12,154)	6,396
Amounts receivable in respect of Group relief	386	2,519
Prior year adjustment	-	159
	(11,768)	9,074
Deferred Tax		
Trading losses	34,933	38,377
Reallocation to / (from) current tax	12,154	(6,396)
Prior year adjustment	(5,419)	(332)
	41,668	31,649
	29,900	40,723

The Bank has surrendered the benefit of tax losses to another Bank of Ireland Group company for a consideration of €0.4 million (31 December 2012: €2.5 million), which has been received in the financial period.

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

9 TAXATION (continued)

	For the year ended 31 December 2013 €'000	For the year ended 31 December 2012 €'000
Loss on ordinary activities before tax	265,490	279,170
Loss @12.5%	33,186	34,896
Effects of:		
Trading losses carried forward	(34,933)	(38,377)
Reallocation to current tax	(12,154)	6,396
Transfer pricing adjustment	2,133	6,000
Prior year adjustment	-	159
Current tax (charge) / credit for the year	(11,768)	9,074

10 LOANS AND ADVANCES TO BANKS

	As at 31 December 2013 €'000	As at 31 December 2012 €'000
Funds placed with Bank of Ireland	2,623,352	2,967,053
Funds placed with Central Bank of Ireland	50	50
Total loans and advances to banks	2,623,402	2,967,103
Loans and advances to banks by remaining maturity		
Repayable on demand	26,306	26,992
3 months or less	2,102,755	2,495,711
1 year or less but over 3 months	171,050	42,050
5 years or less but over 1 year	233,291	276,000
Over 5 years	90,000	126,350
	2,623,402	2,967,103

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

11 LOANS AND ADVANCES TO CUSTOMERS

	As at 31 December 2013 €'000	As at 31 December 2012 €'000
Loan and advances to customers	20,306,415	20,767,772
Accrued interest receivable	17,591	17,787
Less impairment provisions (note 12)	(1,345,143)	(1,023,494)
Total loan and advances to customers	18,978,863	19,762,065
Loans and advances to customers by remaining maturity		
Repayable on demand	-	-
3 months or less	526,875	430,479
1 year or less but over 3 months	668,532	624,870
5 years or less but over 1 year	3,620,526	3,423,305
Over 5 years	15,508,073	16,306,905
Less impairment provisions (note 12)	(1,345,143)	(1,023,494)
	18,978,863	19,762,065

The Bank's exposure to credit risk on loans and advances to customers is from its mortgage lending activities on residential property in Ireland.

12 IMPAIRMENT PROVISIONS

The movement on impairment provisions is shown below:

	As at 31 December 2013 €'000	As at 31 December 2012 €'000
Opening balance	1,023,494	715,321
Charge to profit and loss account	393,939	298,562
Provisions utilised	(85,132)	(2,953)
Other movements	12,842	12,564
Closing balance	1,345,143	1,023,494

Provisions utilised reflect impairment provisions which have been utilised against the related loan balance; the utilisation of a provision does not alter a borrower's obligations nor does it impact on the Bank's rights to take relevant enforcement action.

13 OTHER ASSETS

	As at 31 December 2013 €'000	As at 31 December 2012 €'000
Amounts receivable from Bank of Ireland Group companies	38	7,592
Other	571	51
	609	7,643

14 DEFERRED TAX ASSET

	As at 31 December 2013 €'000	As at 31 December 2012 €'000
Opening balance	71,210	39,475
Cash flow hedge	(2,984)	86
Profit and loss credit	41,668	31,649
Closing balance	109,894	71,210

The deferred tax asset of €109.9 million (31 December 2012: €71.2 million) includes an amount of €112.8 million (31 December 2012: €71.1 million) in respect of tax losses which are available to relieve future profits from tax. This deferred tax asset has been recognised on the basis that it will be recovered, as the Directors are satisfied that it is more likely than not that there will be sufficient future taxable profits against which the deferred tax can be utilised to the extent it has not already been reversed. Under current Irish tax legislation there is no time restriction on the utilisation of these losses.

15 DERIVATIVE FINANCIAL INSTRUMENTS

The notional amounts of certain types of financial instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit risk. Derivatives are valued using valuation techniques commonly used by market participants. These consist of discounted cash flow models which typically incorporate observable market data, principally interest rates. The derivative instruments become assets or liabilities as a result of fluctuations in market rates or prices relating to their terms. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivatives held for trading are derivatives entered into with economic hedging intent but do not meet the requirement for hedge accounting. Further information on the hedging policy of the Bank is outlined in note 27.

15 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

As at 31 December 2013	Contract/ notional amount €'000	Fair Values Assets €'000	Liabilities €'000
Derivatives held for trading			
Interest rate swaps	33,672,124	32,983	(23,577)
Derivatives held as fair value hedges			
Interest rate swaps	3,446,100	168,539	-
Derivatives held as cash flow hedges			
Interest rate swaps	3,010,000	30,179	(101)
Total derivative assets / liabilities		**231,701**	**(23,678)**

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

16 DEPOSITS BY BANKS

	As at 31 December 2013 €'000	As at 31 December 2012 €'000
Deposits by banks	10,089,083	9,494,619
Deposits by remaining maturity		
3 months or less	8,239,387	7,302,754
1 year or less but over 3 months	406,030	825,806
5 years or less but over 1 year	1,353,676	1,212,752
Greater than 5 years	89,990	153,307
Due to Bank of Ireland	10,089,083	9,494,619

17 DEBT SECURITIES IN ISSUE

	As at 31 December 2013 €'000	As at 31 December 2012 €'000
Debt securities in issue	10,795,311	12,639,359
Bonds and medium term notes by remaining maturity		
3 months or less	212,563	775,096
1 year or less but over 3 months	1,551,543	3,034,053
5 years or less but over 1 year	8,398,561	8,492,836
Greater than 5 years	632,644	337,374
	10,795,311	12,639,359
Of which is due to Bank of Ireland	3,397,844	4,718,884

In accordance with the ACS Acts, see the required disclosures set out in note 17(a) – 17(f) below.

During the year ended 31 December 2013, the Bank issued €2.0 billion of securities in public transactions (31 December 2012: €1 billion).

During the year ended 31 December 2013, €20 million of debt securities were repurchased (31 December 2012: €467.4 million), generating net trading gains of €0.3 million (31 December 2012: €32.5 million), and €3.7 billion of debt securities matured (31 December 2012: €1.7 billion). This brought the total nominal value of mortgage covered securities in issue as at 31 December 2013 to €10.0 billion.

During the year ended 31 December 2012, the Bank issued €0.6 billion of securities in transactions with its parent, Bank of Ireland.

The Bank participated in the ECB three year long term re-financing operation entering into a framework agreement on 28 February 2012 with the Central Bank of Ireland under which the Bank may issue mortgage backed promissory notes to the Central Bank. These obligations are secured by way of a first floating charge over all the Bank's right, title, interest and benefit, present and future in and to certain mortgages and related loans forming part of a mortgage pool and the benefit of all related security. The deed of floating charge ("Deed of Charge") contains a provision whereby during the subsistence of the security constituted by the Deed of Charge, otherwise than with the prior written consent of the Central Bank, the Bank shall:

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

(b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property charged under the Deed of Charge or any part thereof or redeem, agree to redeem or accept repayment in whole or in part of any loan or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

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

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

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

(b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property charged under the Deed of Charge 2004 or any part thereof or redeem, agree to redeem or accept repayment in whole or in part of any loan or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

For the years ended 31 December 2013 and 31 December 2012, the Bank has not utilised this short-term facility.

17 DEBT SECURITIES IN ISSUE (continued)

17(a) Mortgage accounts & principal outstanding in the mortgage covered pool

		31 December 2013		31 December 2012	
From Range €'000	To Range €'000	Number of Accounts	Total Balances of Accounts €'000	Number of Accounts	Total Balances of Accounts €'000
0	100	48,660	2,129,924	50,521	2,235,176
100	200	31,409	4,617,324	32,275	4,756,456
200	500	19,803	5,442,693	21,661	5,998,700
Over 500		1,407	1,096,974	1,633	1,273,358
		101,279	13,286,915	106,090	14,263,690

The total balance of accounts represents the cumulative amount outstanding on all the mortgage accounts in the Pool as at 31 December 2013 and 31 December 2012 respectively.

17(b) Geographic location and details for the pool

	31 December 2013		31 December 2012	
	Dublin	Outside Dublin	Dublin	Outside Dublin
% of overall properties	22%	78%	22%	78%
Number of accounts	22,600	78,679	23,581	82,509
Number of properties	19,227	67,717	19,817	70,353

The number of accounts represents the cumulative number of mortgage accounts held in the Pool at 31 December 2013 and 31 December 2012 respectively. There could be one or more accounts per mortgaged property giving rise to different figures for the number of accounts and the number of properties in the Pool at 31 December 2013 and 31 December 2012.

17(c) Pool accounts in default at year end

	As at 31 December 2013	As at 31 December 2012
Number of accounts in default	42	143
	€'000	**€'000**
Cumulative current balance on above accounts	8,291	29,405
of which arrears represent	204	501

Default is defined as mortgage accounts that are 3 months or more in arrears, in line with ACS legislation.

17(d) Pool accounts in default with arrears of more than €1,000

	For the year ended 31 December 2013	For the year ended 31 December 2012
Pool accounts in default with arrears greater than €1,000 at any point during the year		
Number of accounts in default with arrears of more than €1,000	1,722	3,086
	€'000	**€'000**
Cumulative current balance on above accounts	400,889	687,177
of which arrears represent	7,745	13,240
Pool accounts in default with arrears greater than €1,000 at any point during the year, which remained in the pool at the end of the year	**As at 31 December 2013**	**As at 31 December 2012**
Number of accounts in default with arrears in excess of €1,000	309	481
	€'000	**€'000**
Cumulative current balance on above accounts	75,499	109,622
of which arrears represent	1,243	1,808

17 DEBT SECURITIES IN ISSUE (continued)

17(e) Replacement of non performing assets in the pool

For the purpose of this disclosure the term ‘non performing assets’ is as defined in the ACS acts as ‘relating to mortgage accounts that are in arrears for a period of 3 months or more’. During the year ended 31 December 2013, 1,741 accounts (31 December 2012: 3,072 accounts) were non-performing and were replaced with other mortgage credit assets. The total amount in arrears for 3 months or more in respect of mortgage assets at 31 December 2013 was €203,769 (31 December 2012: €500,709).

17(f) Total mortgage principal and interest repayments on pooled accounts by customers

	For the year ended 31 December 2013 €'000	For the year ended 31 December 2012 €'000
Interest paid in respect of mortgage credit assets	365,349	402,860
Capital repaid in respect of mortgage credit assets	882,466	843,101

18 OTHER LIABILITIES

	As at 31 December 2013 €'000	As at 31 December 2012 €'000
Amounts due to Bank of Ireland	20,150	5,023
Other sundry liabilities	262	566
	20,412	5,589

19 SUBORDINATED LIABILITIES

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

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

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

On 23 December 2011, the Bank availed of a further €90 million interest bearing subordinated loan from its parent, Bank of Ireland. The loan is subordinated in right of payment to the claims of depositors and all other senior creditors of the Bank. The interest rate on the loan is based on the three-month EURIBOR rate plus a margin of 11.5%. The loan matures on 30 December 2021.

As at 31 December 2013, total subordinated loans and accrued interest is €402.6 million (31 December 2012: €402.5 million).

20 SHARE CAPITAL AND PREMIUM

	As at 31 December 2013 '000 Units	As at 31 December 2012 '000 Units
Authorised		
Units of €1.00 of Ordinary Shares	1,000,000	1,000,000

	As at 31 December 2013 €'000	As at 31 December 2012 €'000
Allotted and fully paid		
Equity		
Units of €1.00 of Ordinary Shares	738,375	709,000

20 SHARE CAPITAL AND PREMIUM (continued)

Share premium	For the year ended 31 December 2013 €'000	For the year ended 31 December 2012 €'000
Balance at the beginning of the year	455,000	245,000
Premium in issue of ordinary shares	205,625	210,000
Balance at the end of the year	**660,625**	**455,000**

Share capital issued during the year ended 31 December 2013 is as follows:

Date of issuance	Issue price per share	Number of issued ordinary shares in 000's	Ordinary share value €'000	Premium €'000	Total €'000
24 December 2013	€8.00	23,125	23,125	161,875	185,000
28 August 2013	€8.00	6,250	6,250	43,750	50,000
Total		**29,375**	**29,375**	**205,625**	**235,000**

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

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

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

21 NOTE TO THE CASH FLOW STATEMENT

	Cash	Loans and advances to / from Banks on demand	Total
31 December 2013			
	€'000	**€'000**	**€'000**
Net change in cash and cash equivalents	-	(686)	(686)
Opening cash and cash equivalents	-	27,042	27,042
Closing cash and cash equivalents	-	**26,356**	**26,356**
31 December 2012			
	€'000	**€'000**	**€'000**
Net change in cash and cash equivalents	-	6,185	6,185
Opening cash and cash equivalents	-	20,857	20,857
Closing cash and cash equivalents	-	**27,042**	**27,042**

22 MOVEMENT IN RESERVES AND SHAREHOLDERS' FUNDS

	For the year ended 31 December 2013 €'000	For the year ended 31 December 2012 €'000
Reconciliation of retained earnings		
Opening balance	(570,274)	(331,827)
Loss for the year	(235,590)	(238,447)
Closing balance	**(805,864)**	**(570,274)**
Reconciliation of cash flow hedge reserve		
Opening balance	(599)	-
Gain / (Loss) movement on cash flow hedge reserves	23,875	(685)
Deferred tax on reserve movement	(2,984)	86
Closing balance	**20,292**	**(599)**
Total reserves	**(785,572)**	**(570,873)**
Share Capital	738,375	709,000
Share Premium	660,625	455,000
Closing reserves and shareholders' funds	**613,428**	**593,127**

23 DIVIDEND

No dividends were paid during the year ended 31 December 2013 (31 December 2012: no dividends paid).

24 DIRECTORS' & SECRETARY'S INTERESTS

The interests of the Directors and Secretary, in office as at 31 December 2013, in the shares of Bank of Ireland or Bank of Ireland Group undertakings are, as disclosed to the Company under Section 53 and extended by Section 64 of the Companies Act 1990, set out in the tables below:

Shares in Bank of Ireland

Directors	As at 31 December 2013 Shares	As at 31 December 2012 or at date of appointment if applicable Shares
J Clifford	344,820	344,820
S Mason	39,164	39,164
G Kelly	17,500	17,500
K O'Sullivan	794	794
S Crowe	34,572	34,572
P Flynn	110,473	110,473
L McLoughlin	82,933	82,933
B McConnell	7,829	7,829
R Milliken	-	-
Secretary		
Hill Wilson Secretarial Limited	-	-

Stock options held by Directors and Secretary in Bank of Ireland

Directors	Date of Grant	Earliest Exercise Date	Expiry Date	Exercise Price €	As at 31 December 2013 Number of shares	As at 31 December 2012 or at date of appointment if applicable Number of shares
S Mason	18 Jun 2003	18 Jun 2006	18 Jun 2013	Lapsed	-	10,000
	26 Jul 2004	26 Jul 2007	26 Jul 2014	10.76	11,500	11,500
	21 Jun 2005	21 Jun 2008	21 Jun 2015	12.85	9,000	9,000

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

24 DIRECTORS' & SECRETARY'S INTERESTS (continued)

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

Under the LTIP, conditional awards had previously been made to the Executive Directors. The plan has now lapsed. There are no outstanding grants to Executive Directors awaiting vesting under this scheme.

For further details on the above schemes please refer to note 44 Capital Stock in the annual report of the Bank's parent company, Bank of Ireland.

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

Directors	As at 31 December 2013 or at date of appointment if applicable €'000	As at 31 December 2012 or at date of appointment if applicable €'000
J Clifford	104	103
S Mason	1	1
G Kelly	1	-
K O'Sullivan	1	1

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

B McConnell, L McLoughlin, R Milliken, S Crowe, P Flynn.

25 SEGMENTAL INFORMATION

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

26 PENSION COSTS

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

An independent actuary, on the basis of triennial actuarial reviews, determines the Bank's contributions to the ICS scheme. The most recent full actuarial valuation was performed at 1 January 2013. In line with this valuation, the Bank is contributing to the ICS Plan at a rate of 24.8% of pensionable salaries with a reduction for member contributions of 2.5%. In addition, €1.5m is paid by the participating employers each year in order to amortise the Funding Standard deficit over an agreed period. The net deficit on the scheme as at 31 December 2013 amounted to €17.4 million (31 December 2012: €20.7 million).

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

Employers contributions in respect of the Bank's employees amounted to €22,463 for the year ended 31 December 2013 (31 December 2012: €28,731). As at 31 December 2013, the Bank had no outstanding amounts to be paid to the scheme (31 December 2012: Nil).

27 RISK MANAGEMENT AND CONTROL

Financial risk management

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

Credit risk management

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

27 RISK MANAGEMENT AND CONTROL (continued)

Structure and organisation of the credit risk management function

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

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

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

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

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

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

Credit reporting / monitoring

It is the Bank's policy to ensure that adequate up to date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio. Credit risk information is reported on a monthly basis to senior management. This monthly reporting includes information and detailed commentary on loan book growth, quality of the loan book, and loan impairment provisions. The Bank allocates significant resources to ensure ongoing monitoring and compliance with approved risk limits.

Management of credit risk

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

Measurement of credit risk

All credit transactions are assessed at origination for credit quality and the borrower is assigned a credit grade based on a predefined credit rating scale. The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes within the Bank.

In measuring the credit risk of loans and advances to customers, the Bank considers three components:

- the "probability of default" ("PD") by the client;
- current exposure and its likely future development, from which the "exposure at default" ("EaD") is derived; and
- the likely loss ratio on the defaulted obligations – the "loss given default" ("LGD").

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

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

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

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

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

27 RISK MANAGEMENT AND CONTROL (continued)

Measurement of credit risk (continued)

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

Credit risk mitigation and collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most important of these is the initial assessment of the borrower's capacity to repay the facility over the agreed timescale and the taking of security for funds advanced. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. In relation to loans and advances to customers, the principal type of security taken is residential property. The Bank's mortgage loan book property values are determined by reference to the original or latest property valuations held, indexed to the Residential Property Price index published by the CSO. This index provides the relevant index to be applied to original market values in the period after January 2005. For mortgages originated prior to January 2005, the Permanent TSB / ESRI House price index is utilised. Equity / negative equity values are determined using the Residential property price index published by the CSO for the year ended 31 December 2013. The weighted average indexed LTV for the total loan book was 97% at 31 December 2013 (31 December 2012: 105%).

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

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

Credit risk methodologies

The use of internal credit rating models, which measure the degree of risk inherent in lending to customers, is central to the credit risk assessment and ongoing management processes within the Bank.

An independent unit annually validates internal credit risk models from a performance and compliance perspective.

Impairment provisions are recognised only with respect to losses that have been incurred at the balance sheet date, based on objective evidence of impairment, details of which are provided in the tables to this note.

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

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

- loan asset has fallen 90 days past due;
- a forbearance measure has been requested by a borrower and formally assessed;
- 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.

Where objective evidence of impairment exists as a result of one or more past events, the Bank 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 profit and loss account.

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

The Bank's impairment provisioning methodologies are compliant with Generally Accepted Accounting Practice in Ireland. Financial Reporting Standard (FRS) 26 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.

27 RISK MANAGEMENT AND CONTROL (continued)

Credit risk methodologies (continued)

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. A total customer exposure level threshold of €1 million applies for the mandatory completion of a discounted cashflow 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.

Methodology for collectively assessing impairment

Where exposures fall below the threshold of €1 million for individual assessment of impairment by way of discounted cash flow analysis, such exposures are automatically included for collective impairment provisioning. Exposures with similar credit risk characteristics are pooled together and the provision is calculated by estimating the future cash flows of a group of exposures. These exposures are pooled based on similar credit risk characteristics such as: asset type; geographical location; origination channel and forbearance status. The provision estimation considers the expected cash flows of the exposures in the collective portfolio and the historical loss experience for exposures with credit risk characteristics similar to those in the portfolio being assessed. Assumptions and parameters used to create the portfolio provision, which are based on historical experience (e.g. amount and timing of cash flows / loss given default), are regularly compared against current experience in the loan book and current market conditions.

The collective specific provisioning model has been revised, in the current year, for implementation of the revised 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 Bank has taken a decision to foreclose.

Some of the key factors used in the calculation of the specific provision for the mortgage loans 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 is the expected decline in the value of underlying residential properties securing the loans. At 31 December 2013, the assumption adopted by the Bank in respect of the expected average decline in the value of Irish residential properties was 55% from their peak in 2007. 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 Bank'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 Bank’s critical accounting estimates and judgements on page 23, include sensitivity analysis disclosure on some of the key judgemental areas, 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 Bank’s impairment provisions and impairment charge by nature of impairment provision is set out on page 40.

27 RISK MANAGEMENT AND CONTROL (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 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 group of exposures with similar credit risk characteristics. These models estimate latent losses taking into account the following observed and / or estimated factors:

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

A key assumption used in the calculation of the IBNR impairment provisions for defaulted (but not impaired) mortgages is the expected decline in the value of underlying residential properties securing the loans. At 31 December 2013, the assumption adopted by the Bank 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 collective specific provisioning methodology. The factors and assumptions underpinning the IBNR provisioning model have also been updated for the Bank'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 a 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.

Emergence period refers to the period of time between the occurrence and reporting of a loss event. Emergence periods are in the following ranges: forborne 9-10 months and non-forborne 7-9 months. Emergence periods are estimated based on historic loan loss experience supported by back testing and, as appropriate, individual case sampling. 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 mortgages between forborne and non-forborne (previously 9 months for forborne and non-forborne).

The loss given default (LGD) is calculated using historical loan loss experience and is adjusted where appropriate to apply management's credit expertise to reflect current observable data.

While loss emergence rates have been assessed in light of the Bank'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.

The Bank's critical accounting estimates and judgements on page 23 includes sensitivity analysis disclosure on some of the key judgemental areas in the estimation of IBNR provisions.

Methodology for loan loss provisioning & 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 & 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

27 RISK MANAGEMENT AND CONTROL (continued)

Credit risk methodologies (continued)

Methodology for loan loss provisioning & forbearance (continued)

Collectively assessing impairment & forbearance (continued)
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 & forbearance
Mortgages which are subject to forbearance and have a specific provision are reported as both ‘forborne’ and ‘impaired’. The total provision cover (total provisions expressed as a percentage of total loans) on mortgages that are subject to forbearance is higher than that of mortgages which are not subject to forbearance. 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.

Further detail on the loans and advances that are subject to forbearance measures, including associated impairment provisions, at 31 December 2013 is set out on pages 65 and 67 to 74 in the Supplementary Disclosures. Forbearance related disclosures are subject to evolving industry practice and regulatory guidance.

Impaired loans review

It is Bank policy to review impaired loans above agreed thresholds quarterly, with the review including a reassessment of the recovery strategy and the adequacy of the impairment provision.

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 Bank 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 Bank as part of a sustainable forbearance arrangement.

Impairment charges on loans and advances to customers

Impairment charge by nature of impairment provision	For the year ended 31 December 2013 €’000	For the year ended 31 December 2012 €’000
Specific provisions - individually assessed	171,968	183,816
Specific provisions - collectively assessed	59,938	200,077
Incurred but not reported	162,033	(85,331)
	393,939	**298,562**

Impairment provision by nature of impairment provision	As at 31 December 2013 €’000	As at 31 December 2012 €’000
Specific provisions - individually assessed	489,552	360,527
Specific provisions - collectively assessed	485,272	454,682
Incurred but not reported	370,319	208,285
	1,345,143	**1,023,494**

27 RISK MANAGEMENT AND CONTROL (continued)

Impairment charges on loans and advances to customers (continued)

The impairment charge for the year ended 31 December 2013 includes €80 million on forborne loans and the impairment provision at 31 December 2013 includes €255 million as set out in the table below. These reflect the increase in the stock of 'impaired' forborne mortgage loans:

Impairment charge on forborne loans and advances Composition	For the year ended 31 December 2013 €'000	For the year ended 31 December 2012 €'000
Specific charge individually and collectively assessed	24,476	n/a
Incurred but not reported	56,019	n/a
	80,495	**n/a**

Impairment provision on forborne loans and advances Composition	As at 31 December 2013 €'000	As at 31 December 2012 €'000
Advances	1,828,433	1,784,585
Defaulted loans	569,318	533,080
Specific provision individually and collectively assessed	132,338	105,271
Incurred but not reported	123,156	67,137
Total impairment provision on forborne loans	255,494	172,408
Impairment provisions as a % of defaulted loans	45%	32%

Asset quality

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

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

The Bank 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 seven point credit grade rating scale is used for mortgages. This credit scale has a defined relationship with the Bank's Probability of Default (PD) scale.

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

- high quality ratings apply to loans to customers with whom the Bank has excellent repayment experience, and which are not in active forbearance. High quality ratings are derived from grades 1 and 2 on the seven point grade scale;
- satisfactory quality ratings apply to good quality loans that are performing as expected. For both forborne and non-forborne loans, satisfactory quality ratings are derived from grade 3 on the seven point grade scale. 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 grade 4 on the seven point grade scale. 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 Bank is required to work closely with the borrower regarding restructure and / or resolution. For both forborne and non-forborne loans, lower quality ratings are derived from grade 5 on the seven point grade scale. In addition, the lower quality but neither past due nor impaired rating 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 arrangement.

'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. Forborne mortgage loans with a specific provision attaching to them are reported as both forborne and impaired.

27 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

'Defaulted' loans are defined as follows:

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

Loans and advances

Loans and advances to banks (note 10) and loans and advances to customers (note 11) are the main classes of financial assets to which the Bank is exposed from a credit risk perspective. The tables below provide further details in relation to these loans and advances.

Risk profile of loans and advances to customers (before impairment provisions)

	As at 31 December 2013 €'000	As at 31 December 2012 €'000
Total loans and advances		
High quality	15,913,603	16,439,476
Satisfactory quality	441,135	238,397
Acceptable quality	475,709	715,217
Lower quality but not past due or impaired	166,510	99,195
Neither past due nor impaired	**16,996,957**	**17,492,285**
Past due up to 30 days	295,089	365,751
Past due 31 - 60 days	178,035	216,281
Past due 61- 90 days	117,483	148,817
1 - 90 days past due but not impaired	**590,607**	**730,849**
Past due more than 90 days but not impaired	731,203	748,408
Impaired	1,987,648	1,796,230
Defaulted	**2,718,851**	**2,544,638**
Total loans and advances to customers	**20,306,415**	**20,767,772**

	As at 31 December 2013 €'000	As at 31 December 2012 €'000
Non-forborne loans and advances		
High quality	15,913,603	16,439,476
Satisfactory quality	-	-
Acceptable quality	-	-
Lower quality but not past due or impaired	-	-
Neither past due nor impaired	**15,913,603**	**16,439,476**
Past due up to 30 days	213,171	279,438
Past due 31 - 60 days	125,994	151,004
Past due 61- 90 days	75,681	101,710
1 - 90 days past due but not impaired	**414,846**	**532,152**
Past due more than 90 days but not impaired	483,954	481,393
Impaired	1,665,579	1,530,166
Defaulted	**2,149,533**	**2,011,559**
Total non-forborne loans and advances to customers	**18,477,982**	**18,983,187**

27 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

Risk profile of loans and advances to customers (before impairment provisions) (continued)

	As at 31 December 2013 €'000	As at 31 December 2012 €'000
Forborne loans and advances		
High quality	-	-
Satisfactory quality	441,135	238,397
Acceptable quality	475,709	715,217
Lower quality but not past due or impaired	166,510	99,195
Neither past due nor impaired	**1,083,354**	**1,052,809**
Past due up to 30 days	81,918	86,313
Past due 31 - 60 days	52,041	65,277
Past due 61- 90 days	41,802	47,107
1 - 90 days past due but not impaired	**175,761**	**198,697**
Past due more than 90 days but not impaired	247,249	267,015
Impaired	322,069	266,064
Defaulted	**569,318**	**533,079**
Total forborne loans and advances to customers	**1,828,433**	**1,784,585**

Loans and advances to customers (before impairment provisions) reduced from €20.8 billion at 31 December 2012 to €20.3 billion at 31 December 2013. The decrease of €0.5 billion or 2% reflects a combination of factors including muted demand for new mortgage lending, accelerated capital repayments, and the significant progress made by the Bank in returning interest only mortgage borrowers to a principal and interest repayment basis.

Loans and advances to customers classified as 'neither past due nor impaired' amounted to €17.0 billion or 84% of the Bank's loan book at 31 December 2013 compared to €17.5 billion or 84% at 31 December 2012. Low demand for credit and accelerated capital repayments have contributed significantly to the reduction in loans and advances to customers classified as 'neither past due nor impaired'.

Non-forborne loans and advances to customers classified as 'neither past due nor impaired' amounted to €15.9 billion or 86% of the Bank's non-forborne loan book at 31 December 2013 compared to €16.4 billion or 87% at 31 December 2012, which is consistent with the reduction in total loans and advances classified as 'neither past due nor impaired'.

Forborne loans and advances to customers classified as 'neither past due nor impaired' amounted to €1.1 billion or 59% of the Bank's forborne loan book at 31 December 2013 compared to €1.1 billion or 59% at 31 December 2012.

Non-forborne loans and advances to customers classified as '1 – 90 days past due but not impaired' amounted to €0.4 billion or 2% of the Bank's non-forborne loan book at 31 December 2013 compared to €0.5 billion or 3% at 31 December 2012, which is consistent with the reduction in total loans and advances classified as '1 – 90 days past due but not impaired'.

Forborne loans and advances to customers classified as '1 – 90 days past due but not impaired' amounted to €0.2 billion or 10% of the Bank's forborne loan book at 31 December 2013 compared to €0.2 billion or 11% at 31 December 2012.

Non-forborne loans and advances to customers classified as 'defaulted' amounted to €2.1 billion or 12% of the Bank's non-forborne loan book at 31 December 2012 compared to €2.0 billion or 11% at 31 December 2012. Non-forborne loans and advances to customers classified as 'impaired' amounted to €1.7 billion or 9% of the Bank's non-forborne loan book at 31 December 2013 compared to €1.5 billion or 8% at 31 December 2012.

Forborne loans and advances to customers classified as 'defaulted' amounted to €0.6 billion or 31% of the Bank's forborne loan book at 31 December 2013 compared to €0.5 billion or 30% at 31 December 2012. Forborne loans and advances to customers classified as 'impaired' amounted to €0.3 billion or 18% of the Bank's forborne loan book at 31 December 2013 compared to €0.3 billion or 15% at 31 December 2012.

27 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

Risk profile of loans and advances to customers (before impairment provisions) (continued)

The tables below summarise the Bank's loans and advances to customers according to the Bank's interpretation of regulatory guidance with regard to 'performing' and 'non-performing' reflecting the observations of the Central Bank of Ireland's Asset Quality Review. 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.

	As at 31 December 2013		
	Performing	**Non-performing**	**Total**
	€000's	**€000's**	**€000's**
Total loans and advances to customers			
High quality	15,913,603	-	15,913,603
Satisfactory quality	441,135	-	441,135
Acceptable quality	475,709	-	475,709
Lower quality but not past due or impaired	1,868	164,642 *	166,510
Neither past due nor impaired	**16,832,315**	**164,642**	**16,996,957**
Past due but not impaired			
- Past due 0 - 90 days	535,817	54,790 *	590,607
- Past due more than 90 days but not impaired	-	731,203	731,203
Total past due but not impaired	**535,817**	**785,993**	**1,321,810**
Impaired	**-**	**1,987,648**	**1,987,648**
Total loans and advances to customers	**17,368,132**	**2,938,283**	**20,306,415**

The Bank's total loans and advances to customers of €20.3 billion at 31 December 2013 are analysed below over the following categories: 'non-forborne' and 'forborne'. Exposures are before provisions for impairment.

	As at 31 December 2013		
	Performing	**Non-performing**	**Total**
	€000's	**€000's**	**€000's**
Non-forborne loans and advances to customers			
High quality	15,913,603	-	15,913,603
Satisfactory quality	-	-	-
Acceptable quality	-	-	-
Lower quality but not past due or impaired	-	-	-
Neither past due nor impaired	**15,913,603**	**-**	**15,913,603**
Past due but not impaired			
- Past due 0 - 90 days	414,846	-	414,846
- Past due more than 90 days but not impaired	-	483,954	483,954
Total past due but not impaired	**414,846**	**483,954**	**898,800**
Impaired	**-**	**1,665,579**	**1,665,579**
Total non-forborne loans and advances to customers	**16,328,449**	**2,149,533**	**18,477,982**

27 RISK MANAGEMENT AND CONTROL (continued)

Asset quality (continued)

Risk profile of loans and advances to customers (continued)

	As at 31 December 2013 Performing €000's	Non-performing €000's	Total €000's
Forborne loans and advances to customers			
High quality	-	-	-
Satisfactory quality	441,135	-	441,135
Acceptable quality	475,709	-	475,709
Lower quality but not past due or impaired	1,868	164,642 *	166,510
Neither past due nor impaired	**918,712**	**164,642**	**1,083,354**
Past due but not impaired			
- Past due 0 - 90 days	120,971	54,790 *	175,761
- Past due more than 90 days but not impaired	-	247,249	247,249
Total past due but not impaired	**120,971**	**302,039**	**423,010**
Impaired	**-**	**322,069**	**322,069**
Total forborne loans and advances to customers	**1,039,683**	**788,750**	**1,828,433**

Loans and advances to banks

For both the year ended 31 December 2013 and year ended 31 December 2012, all loans and advances to banks were performing fully in line with their terms with no amounts past due. These balances relate to receivables from Bank of Ireland.

Derivative financial instruments

Derivative contracts are only entered into with counterparties who are considered reputable and have been approved by the Board of Directors in conjunction with recommendations by Bank of Ireland Group Risk Policy Committee. There are no amounts past due or impaired as at 31 December 2013 (31 December 2012: Nil).

Composition and impairment

31 December 2013	**Advances (pre-impairment) €'m**	**Defaulted loans €'m**	**Defaulted loans as a % of advances %**	**Impairment provisions €'m**	**Impairment provisions as a % of defaulted loans %**
Owner occupied mortgages	15,770	1,452	9.2%	611	42%
Buy to let mortgages	4,536	1,267	27.9%	734	58%
Total residential mortgages	**20,306**	**2,719**	**13.4%**	**1,345**	**49%**

31 December 2012	**Advances (pre-impairment) €'m**	**Defaulted loans €'m**	**Defaulted loans as a % of advances %**	**Impairment provisions €'m**	**Impairment provisions as a % of defaulted loans %**
Owner occupied mortgages	15,938	1,443	9.1%	494	34%
Buy to let mortgages	4,830	1,102	22.8%	529	48%
Total residential mortgages	**20,768**	**2,545**	**12.3%**	**1,023**	**40%**

27 RISK MANAGEMENT AND CONTROL (continued)

Repossessed collateral

As at 31 December 2013, the Bank had 157 properties in possession (31 December 2012: 119 properties). Repossessed property is sold as soon as practicable, with the proceeds used to reduce indebtedness. The value of these properties is as follows:

	As at 31 December 2013 €'000	As at 31 December 2012 €'000
Residential mortgages	17,997	10,018

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

	Maximum Exposure	
	As at 31 December 2013 €'000	As at 31 December 2012 €'000
Loans and advances to banks	2,623,402	2,967,103
Loans and advances to customers	18,869,964	19,640,608
Derivative financial instruments	231,701	398,804
Commitments	862,233	752,369
Total	**22,587,300**	**23,758,834**

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

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

Concentration of risks of financial assets with credit risk exposure

(i) Geographical sectors

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

	As at 31 December 2013 €'000	As at 31 December 2012 €'000
Loans and advances to customers		
- Dublin	6,701,117	6,753,360
- Rest of Ireland	13,605,298	14,014,412
Total	**20,306,415**	**20,767,772**

(ii) Industry Sectors

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

Market risk

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

The current interest rate risk strategy aims to provide the Bank with protection against material adverse changes in interest and related funding rates by undertaking controlled management of the interest rate structure in the Bank's mortgage and funding products. The strategy operates within limits set by the Board of Directors. The Bank's interest rate risk strategy incorporates the

27 RISK MANAGEMENT AND CONTROL (continued)

Market risk (continued)

policies of Bank of Ireland Group. The Bank has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures.

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

Loans and Advances to Customers

At 31 December 2013, the Bank had €18.1 billion (31 December 2012: €18.0 billion) of floating-rate loans and advances to customers, where the interest rate is either linked to the ECB Base rate or the Bank's standard variable rate.

At 31 December 2013, the Bank had €2.2 billion (31 December 2012: €2.7 billion) of loans and advances to customers, where the rate is typically fixed for periods of 1, 2, 3 and 5 years. The interest rate exposure of the Bank relating to its Irish residential loans is managed through maturity matched borrowing from BoIGM resulting in no material sensitivity to changes in interest rates.

Asset Covered Securities

At 31 December 2013, the Bank had €10.0 billion (nominal) in issued asset covered securities. €6.5 billion of the issued asset covered securities are at fixed rates (31 December 2012: €6.8 billion (nominal)) and the remaining €3.5 billion have an interest rate that resets based on short-dated EURIBOR (31 December 2012: €4.9 billion (nominal)).

The Bank enters into interest rate swaps to hedge the interest rate exposure on its fixed rate asset covered securities in issue. The majority of these swaps and related fixed rate issued asset covered securities qualify for hedge accounting. At 31 December 2013, the nominal value of swaps qualifying for hedge accounting is €3.4 billion (31 December 2012: €3.6 billion). Please refer to note 15 for a detailed breakdown. Additionally, market risk arises where the rate charged on variable rate mortgage lending re-sets with changes in ECB rates, but the related funding is at short-dated EURIBOR. The Bank enters into interest rate swaps to manage this risk, although these interest rate swaps do not qualify for hedge accounting.

The Bank measures its interest rate risk in terms of the sensitivity of its fixed assets and fixed liabilities, in Net Present Value ("NPV") terms, to a 1% parallel shift in the yield curve. The Bank is required to ensure that this sensitivity remains within a low operational hedging limit of €800 thousand at 31 December 2013. At 31 December 2013, the Bank's exposure to a parallel 1% upward shift in the euro yield curve was €45 thousand (31 December 2012: €80 thousand), with an average of €31 thousand for the year ended 31 December 2013 (31 December 2012: €23 thousand).

Additionally under the Asset Covered Securities Acts, 2001 to 2007 (the "ACS Acts"), the Bank is required to manage and report its interest rate sensitivity to within 10% of own funds. This is monitored by the Covered Asset Monitor on behalf of the Central Bank of Ireland.

Currency risk

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

Liquidity risk

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

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

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

The Bank has outsourced the responsibility for the day to day monitoring and management of liquidity risk to Bank of Ireland Group Treasury. Bank of Ireland Group Treasury consolidates the Bank's cash flows into the Bank of Ireland liquidity centre, where a cash flow liquidity reporting tool provides daily liquidity risk information by designated cash flow buckets, which is used to manage liquidity risk. This system captures the cash flows from both balance sheet and off-balance sheet transactions. In the case of specific products such as mortgage repayments and off-balance sheet commitments, behavioural adjustments are applied to reflect the Bank's experience of these cash flows based on historical trends.

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

27 RISK MANAGEMENT AND CONTROL (continued)

Liquidity risk (continued)

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

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

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

As at 31 December 2013 **Liabilities**	**Demand** **€'000**	**Within 3 months** **€'000**	**After 3 months but within 1 year** **€'000**	**After 1 year but within 5 years** **€'000**	**After 5 years** **€'000**	**Total** **€'000**
Deposits by banks	-	8,233,244	438,365	1,447,284	47,676	10,166,569
Debt securities in issue	-	220,699	1,680,630	8,680,131	706,545	11,288,005
Subordinated debt	-	3,193	171,523	201,158	129,216	505,090
Commitments	862,233	-	-	-	-	862,233
Total liabilities	**862,233**	**8,457,136**	**2,290,518**	**10,328,573**	**883,437**	**22,821,897**

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

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

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

As at 31 December 2013	**Within 3 months** **€'000**	**After 3 months but within 1 year** **€'000**	**After 1 year but within 5 years** **€'000**	**After 5 years** **€'000**	**Total** **€'000**
Net cash outflows on derivative financial instruments	3,453	8,638	10,330	1,170	23,591

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

27 RISK MANAGEMENT AND CONTROL (continued)

Operational risk

The Bank faces operational risk in the normal pursuit of its business objectives. Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Bank operates systems of risk identification, assessment and monitoring designed to ensure that operational risk management is consistent with the approach, aims and strategic goals of the Bank and Bank of Ireland Group. Operational risk is managed in compliance with Bank of Ireland Group Operational Risk policy which has been adopted by the Board of the Bank. The Bank manages operational risk through accountable executives overseen by the Bank's Audit Committee. In addition, there is oversight by Bank of Ireland Group Regulatory, Compliance and Operational Risk Committee, supported by the Group Operational Risk function. Potential risk exposures are assessed on a regular basis and appropriate controls are put in place or adapted as considered necessary. Recognising that operational risk cannot be entirely eliminated, the Bank implements risk mitigation controls including fraud prevention, contingency planning and incident management. This strategy is further supported by risk transfer mechanisms such as insurance, where appropriate.

Regulatory risk

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

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

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

Capital management

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

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

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

28 FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

		As at 31 December 2013		As at 31 December 2012	
		Carrying amount €'000	Fair values €'000	Carrying amount €'000	Fair values €'000
Assets					
Loans and advances to banks	(1)	2,623,402	2,605,345	2,967,053	2,978,736
Loans and advances to customers	(2)	18,978,863	15,354,557	19,762,065	15,798,708
Derivative financial instruments	(5)	231,701	231,701	398,804	398,804
Liabilities					
Deposits by banks	(3)	10,089,083	10,154,243	9,494,619	9,603,249
Debt securities in issue	(4)	10,795,311	10,841,031	12,639,359	12,038,064
Derivative financial instruments	(5)	23,678	23,678	71,585	71,585
Subordinated Liabilities	(4)	402,557	402,790	402,546	383,769

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

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

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

(2) Loans and advances to customers
Loans and advances are carried net of provisions for impairment. The fair value of both fixed and variable rate loans and advances to customers is estimated using valuation techniques which include:

- the discounting of estimated future cash flows at current market rates, incorporating the impact of current credit spreads and margins. The fair value reflects both loan impairments at the balance sheet date and estimates of credit losses over the life of the loans; and
- recent arm's length transactions in similar assets.

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

(4) Debt securities in issue and subordinated debt
The fair values of these instruments are calculated based on quoted market prices where available. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate to Bank of Ireland for the remaining term to maturity. The yield curve used incorporates the effect of changes in Bank of Ireland's own credit spread.

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

Fair value hierarchy

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

Fair value hierarchy Level 2	**As at 31 December 2013**	**As at 31 December 2012**
	€'000	**€'000**
Financial assets held at fair value		
Derivative financial instruments	231,701	398,804
Total financial assets held at fair value	**231,701**	**398,804**
Financial liabilities held at fair value		
Derivative financial instruments	23,678	71,585
Total financial liabilities held at fair value	**23,678**	**71,585**

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

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

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

29 COMMITMENTS

At 31 December 2013, the Bank has €862 million of approved mortgage loan applications that as at 31 December 2013 had not been drawn down. Undrawn mortgage loan applications at 31 December 2012 calculated on the same basis were €752 million.

30 RELATED PARTY TRANSACTIONS

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

(a) Irish Government

The Irish Government, through both the Bank's participation in the Government Guarantee scheme and the investment by the National Pension Reserve Fund commission ("NPRFC") in the 2009 Preference Stock of the Bank of Ireland, is a related party of the Bank. On 4 December 2013, the Bank of Ireland Group announced the results of the capital package in relation to the sale or redemption of the 2009 Preference Stock, which had been agreed with the State and the Central Bank of Ireland. This included redemption of €537 million of the 2009 Preference Stock which was financed through a placing of new equity and the sale by NPRFC of €1.3 billion of the 2009 Preference Stock to private investors.

As a result, at 31 December 2013 the State held 14% of the ordinary stock of Bank of Ireland (31 December 2012: 15%).

For further details on the above please refer to note 52 Summary of relations with the State in the annual report of the Bank's parent company, Bank of Ireland.

(b) Transactions with Directors and Key Management Personnel

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

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

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

(i) Loans to Directors - Companies Acts Disclosures

	Balance as at 1 January 2013 [1] €'000	Balance as at 31 December 2013 [1] €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2013 €'000
Directors at 31 December 2013			
P Flynn			
Mortgages total	604	516	604
S Mason			
Mortgages total	1,357	1,310	1,357
K O'Sullivan			
Mortgages total **	436	428	436
L McLoughlin			
Mortgages total	100	69	100
Directors no longer in office at 31 December 2013			
B Kealy			
Mortgages total*	578	580	596
J Byrne			
Mortgages total	471	448	471

J Clifford, S Crowe, G Kelly, B McConnell and R Milliken had no loans with the Bank during the year ended 31 December 2013.

**a portion of the mortgage total is on a preferential staff rate.*
***on preferential staff rate.*
[1] Balances include principal and interest.
[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.

30 RELATED PARTY TRANSACTIONS (continued)

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

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

	Balance as at 1 January 2012 [1] €'000	Balance as at 31 December 2012 [1] €'000	Aggregate maximum amount outstanding during the year ended 31 December 2012 [2] €'000
Directors at 31 December 2012			
J Byrne			
Mortgages total	495	471	495
P Flynn			
Mortgages total	634	604	634
B Kealy			
Mortgages total*	499	578	591
S Mason			
Mortgages total	1,399	1,357	1,399
K O'Sullivan			
Mortgages total	445	436	445

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

(ii) Loans to Directors of parent company

	Balance as at [1] 1 January 2013 €'000	Balance as at [1] 31 December 2013 €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2013 €'000
Directors of parent company at 31 December 2013			
R Boucher	145	113	145
Mortgages Total			
P Kennedy	3,958	2,823	3,958
Mortgages Total			

K Atkinson, P Butler, T Considine, A Kane, A Keating, P Haren, D Marston, B Martin, P Mullvhill, P O'Sullivan, W Ross, J Walsh and P Watsa had no loans with the Bank during the year ended 31 December 2013.

**a portion of the mortgage total is on a preferential staff rate.*
[1] Balances include principal and interest.
[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.

30 RELATED PARTY TRANSACTIONS (continued)

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

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

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

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

There are no specific provisions or expenses in respect of any failure or anticipated failure to repay any of the above loans or interest thereon. There is no interest which having fallen due on the above loans has not been paid.

Other than as indicated, all loans to Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons unconnected with the Bank and of similar financial standing and do not involve more than the normal risk of collectability.

Loans relate to mortgages secured on residential property.

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

30 RELATED PARTY TRANSACTIONS (continued)

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

(iii) Loans to connected persons on favourable terms

2013 Connected persons [3] of the following Director	Balance as at [1] 31 December 2013 €'000	Maximum amount outstanding during the year ended [2] 31 December 2013 €'000	Number of persons as at 31 December 2013	Maximum number of persons during the year ended 31 December 2013
Persons connected to P Flynn	18	20	1	1

While the above arrangements are on favourable terms the terms are similar to those available to staff generally.

2012 Connected persons [3] of the following Director	Balance as at [1] 31 December 2012 €'000	Maximum amount outstanding during the year ended [2] 31 December 2012 €'000	Number of persons as at 31 December 2012	Maximum number of persons during the year ended 31 December 2012
Persons connected to P Flynn *	20	22	1	1

(iv) Loans to connected persons[3] - Central Bank licence condition disclosures

All loans to Connected Persons are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons and do not involve more than the normal risk of collectability.

Under its banking licence, the Bank is required to disclose in its annual audited financial statements details of:

(a) the aggregate amount of lending to all connected persons, as defined in Section 26 of the Companies Act 1990; and
(b) the aggregate maximum amount outstanding during the period for which those financial statements are being prepared.

Disclosure is subject to certain *de minimis* exemptions and to exemptions for loans relating to principal private residences where the total of such loans to an individual connected person does not exceed €1 million.

[1] Balances include principal and interest.
[2] While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.
[3] Connected persons of Directors are defined by Section 26 of the Companies Act 1990 as the Director's spouse, civil partner, parent, brother, sister, child, a trustee where the beneficiaries of the trust are the Director, his spouse, children or a company which the Director controls, or a company controlled by the Director or a person in partnership within the meaning of the Partnership Act 1890.
** The comparative restatement arises as a result of improvements to the Bank's procedures for identification of balances relating to persons or entities connected to KMP's.*

30 RELATED PARTY TRANSACTIONS (continued)

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

(iv) Loans to connected persons[+] - Central Bank licence condition disclosures (continued)

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

2013 Connected person of the following Director	Balance as at [1] 31 December 2013 €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2013 €'000	Number of persons as at 31 December 2013	Maximum number of persons during the year ended 31 December 2013 €'000
Persons connected to				
K O'Sullivan	141	144	1	1
J Clifford	278	289	1	1

2012 Connected person of the following Director	Balance as at [1] 31 December 2012 €'000	Aggregate maximum amount outstanding during the year ended [2] 31 December 2012 €'000	Number of persons as at 31 December 2012	Maximum number of persons during the year ended 31 December 2012 €'000
Persons connected to				
K O'Sullivan	144	147	1	1
J Clifford [3]	289	299	1	1

[1] Balances include principal and interest.
[2] The maximum amount outstanding was calculated using the highest balance on each account. While the maximum amounts do not include interest accrued, interest accrued and interest paid is included in the closing balances.
[3] Loans reclassified from principal private residence to non-principal private residence during 2012 were omitted from the disclosure as at 31 December 2012.
+ Connected persons of Directors are defined by Section 26 of the Companies Act 1990 as the Director's spouse, civil partner, parent, brother, sister, child, a trustee where the beneficiaries of the trust are the director, his spouse, children or a company which the Director controls, or a company controlled by the director or a person in partnership within the meaning of the Partnership Act 1890.

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

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

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

Key management personnel including Directors hold mortgages with the Bank in the ordinary course of business. All loans to Non-Executive Directors are made in the ordinary course of business on normal commercial terms. Loans to key management personnel other than Non-Executive Directors are made on terms similar to those available to staff generally and / or in the ordinary course of business on normal commercial terms.

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

30 RELATED PARTY TRANSACTIONS (continued)

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

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

FRS 8 Disclosures 2013	Balance as at 1 January [1] 2013 €'000	Balance as at 31 December [1] 2013 €'000	Aggregate maximum amounts outstanding during the year ended [2] 31 December 2013 €'000	Number of KMP as at 1 January 2013	Number of KMP as at 31 December 2013
Key Management Personnel					
Loans [3]	9,862	7,909	9,394	14	13

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

[1] Balances include principal and interest.
[2] The maximum amount outstanding during the year is calculated using the highest balance on each account. The highest maximum outstanding liability in respect of a loan or mortgage during the year ended 31 December 2013 for any member of key management personnel and their close family did not exceed €4.0 million (31 December 2012: €4.2 million). While the maximum amounts do not include interest accrued, interest accrued is included in the closing balance.
[3] The opening balance includes balances and transactions with KMP who have retired during 2012 and are not related parties during the current year. Therefore these KMP's are not included in the maximum amounts outstanding.

Loans relate to mortgages secured on residential property.

Included in the above FRS 8 loan disclosure are loans to key management personnel on preferential staff rates amounting to €488,151 (31 December 2012: €23,000).

There are no specific provisions in respect of any failure or anticipated failure to repay any of the above loans or interest thereon. There is no interest which having fallen due on the above loans has not been paid.

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

(vi) Directors' remuneration

	For the year ended 31 December 2013 €'000	For the year ended 31 December 2012 €'000
Fees	105	105
Other emoluments*	188	229
Total remuneration	**293**	**334**

** No other fees or bonuses were paid to directors during the year ended 31 December 2013 or the year ended 31 December 2012.*

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

31 GOVERNMENT GUARANTEE SCHEME

Credit Institutions (Eligible Liabilities Guarantee) Scheme

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

The Bank had no eligible liabilities under the scheme during the years ended 31 December 2013 or 31 December 2012 and therefore has no charge in the financial statements.

32 SIGNIFICANT EVENTS

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

33 POST BALANCE SHEET EVENTS

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

34 APPROVAL OF THE FINANCIAL STATEMENTS

The Directors approved these financial statements on 28 February 2014.

SUPPLEMENTARY DISCLOSURES

All tables below (except where denoted unaudited) in the Supplementary Asset Quality Disclosures form an integral part of the audited financial statements as described in the Basis of preparation on page 17. All other information is additional information and does not form part of the audited financial statements.

The following disclosures refer to the mortgage loan book in the Bank and provide additional detail and analysis on the composition and quality of this loan book.

The Bank, as part of the Bank of Ireland Group, has a long established infrastructure for the origination, underwriting and management of its mortgage portfolio. The 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.

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 Bank's mortgage portfolio include:
- repayment capacity of borrower;
- loan to value ("LTV") limits;
- mortgage term duration; and
- loan specific terms and conditions.

Book composition

Table 1

Mortgage loan book - volumes (before impairment provisions)	**31 December 2013**	**31 December 2012**
	€'m	**€'m**
Owner occupied mortgages	15,770	15,938
Buy to let mortgages	4,536	4,830
Total	**20,306**	**20,768**

Total mortgages were €20.3 billion at 31 December 2013 compared to €20.8 billion at 31 December 2012. The decrease of €0.5 billion or 2% reflects a combination of factors including muted demand for new mortgage lending, accelerated capital repayments, and the significant progress made by the Bank in returning interest only mortgage borrowers to a 'principal and interest'[1] repayment basis.

The proportion of the portfolio on a 'principal and interest' repayment basis at 31 December 2013 was 88% (31 December 2012: 84%) with the balance of 12% on an 'interest only'[2] repayment basis (31 December 2012: 16%). Of the Owner occupied mortgages of €15.8 billion, 94% were on a 'principal and interest' repayment basis (31 December 2012: 92%), while 69% of the Buy to let mortgages of €4.5 billion were on a 'principal and interest' repayment basis (31 December 2012: 58%).

The tables on the following page illustrate that at 31 December 2013, €6.2 billion or 31% of the mortgage loan book originated before 2006, €9.4 billion or 46% between 2006 and 2008 and €4.7 billion or 23% in the years since.

At 31 December 2013, total defaulted loans were €2.7 billion (December 2012: €2.5 billion) or 13% of the mortgage loan book, of which €1.8 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 Bank'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 €1.3 billion equating to 49% of defaulted balances on the mortgage book.

[1] 'Principal and interest' repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages ranged from 20 to 30 years.
[2] 'Interest Only' mortgages 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 interest only mortgages typically range between 3 and 5 years.

Book composition (continued)

Origination profile

Table 2

Origination of mortgage loan book (before impairment provisions)

31 December 2013	Total mortgage loan book		Defaulted loans	
	Balance €'m	Number of accounts[1]	Balance €'m	Number of accounts[1]
1996 and before	43	3,350	4	158
1997	29	1,416	3	80
1998	53	1,967	4	116
1999	104	3,220	9	183
2000	200	4,513	19	272
2001	304	5,168	24	327
2002	525	7,125	51	469
2003	905	9,980	109	816
2004	1,571	13,832	204	1,223
2005	2,514	18,051	378	1,901
2006	3,685	21,936	719	2,931
2007	3,359	18,494	711	2,575
2008	2,343	13,765	383	1,480
2009	1,266	9,022	81	454
2010	981	6,479	17	92
2011	865	5,701	2	16
2012	812	5,326	1	7
2013	747	4,798	-	1
Total	**20,306**	**154,143**	**2,719**	**13,101**

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

The tables above report the year of the initial drawdown as the year of origination.

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

Book composition (continued)

Table 3a

Risk profile of mortgage loan book (before impairment provisions)

31 December 2013	Owner occupied		Buy to let		Total	
	€'m	%	€'m	%	€'m	%
Neither past due nor impaired	13,898	88%	3,099	68%	16,997	84%
1 - 90 days past due but not impaired	420	3%	170	4%	590	3%
Defaulted loans	1,452	9%	1,267	28%	2,719	13%
Total	**15,770**	**100%**	**4,536**	**100%**	**20,306**	**100%**

31 December 2012	Owner occupied		Buy to let		Total	
	€'m	%	€'m	%	€'m	%
Neither past due nor impaired	13,979	88%	3,513	73%	17,492	84%
1 - 90 days past due but not impaired	516	3%	215	4%	731	4%
Defaulted loans	1,443	9%	1,102	23%	2,545	12%
Total	**15,938**	**100%**	**4,830**	**100%**	**20,768**	**100%**

The tables above illustrate that €17.0 billion or 84% of the total mortgage loan book at 31 December 2013 was classified as 'neither past due nor impaired' compared to €17.5 billion or 84% at 31 December 2012.

The '1 – 90 days past due but not impaired' category amounted to €0.6 billion or 3% of the total mortgage loan book at 31 December 2013 compared to €0.7 billion or 4% at 31 December 2012.

The defaulted category amounted to €2.7 billion or 13% of the total mortgage loan book at 31 December 2013 compared to €2.5 billion or 12% at 31 December 2012.

Defaulted Owner occupied mortgages of €1.5 billion are broadly unchanged since 31 December 2012 reflecting a significant slowdown in the growth in defaulted balances during 2013.

Defaulted Buy to let mortgages increased to €1.3 billion at 31 December 2013 from €1.1 billion at 31 December 2012.

The slowdown in default formation for both Owner occupied and Buy to let mortgages reflects the effectiveness of the Bank'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 Buy to let mortgage loan portfolio reduced by €294 million or 6% in 2013 and the percentage of the Buy to let portfolio on a 'principal and interest' repayment basis increased from 58% at 31 December 2012 to 69% at 31 December 2013.

Book composition (continued)

Arrears profile

Table 3b – Unaudited

Mortgage Arrears - defaulted loans (number of accounts)	31 December 2013	30 June 2013	31 December 2012
Owner occupied mortgages	6.74%	7.22%	6.89%
Industry[1] Owner occupied (number of accounts)	Not available	13.87%[2]	12.91%[2]
Buy to let mortgages	17.11%	16.35%	14.54%
Industry[1] Buy to let (number of accounts)	Not available	21.64%[2]	20.19%[2]

Mortgage Arrears - defaulted loans (value)	31 December 2013	30 June 2013	31 December 2012
Owner occupied mortgages	9.27%	9.67%	9.12%
Industry[1] Owner occupied (value)	Not available	18.30%[2]	16.94%[2]
Buy to let mortgages	28.07%	25.97%	22.95%
Industry[1] Buy to let (value)	Not available	29.44%[2]	28.08%[2]

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 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, 7.3% and 17.3% of the Bank's Owner occupied and Buy to let mortgages respectively (by number of accounts) were greater than '90 days past due and / or impaired' compared to 14.1% and 22.4% for the industry (respectively).

[1] *Industry statistics do not include impaired loans less than or equal to 90 days past due (all quoted Bank 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 the Bank.*

Book composition (continued)

Table 3c

Loan to value profiles – total loans

31 December 2013

	Owner occupied		Buy to let		Total	
	€'m	%	€'m	%	€'m	%
Loan to value (LTV) ratio of total mortgage loan book						
Less than 50%	2,411	15%	322	7%	2,733	14%
51% to 70%	2,337	15%	361	8%	2,698	13%
71% to 80%	1,562	10%	235	5%	1,797	9%
81% to 90%	1,687	11%	425	10%	2,112	10%
91% to 100%	1,365	8%	321	7%	1,686	8%
Subtotal	**9,362**	**59%**	**1,664**	**37%**	**11,026**	**54%**
101% to 120%	2,506	16%	771	17%	3,277	16%
121% to 150%	2,555	16%	1,241	27%	3,796	19%
151% to 180%	1,110	7%	548	12%	1,658	8%
Greater than 181%	237	2%	312	7%	549	3%
Subtotal	**6,408**	**41%**	**2,872**	**63%**	**9,280**	**46%**
Total	**15,770**	**100%**	**4,536**	**100%**	**20,306**	**100%**
Weighted average LTV[1]:						
Stock of mortgages at year end		**92%**		**116%**		**97%**
New mortgages during the year		**70%**		**54%**		**70%**

31 December 2012

	Owner occupied		Buy to let		Total	
	€'m	%	€'m	%	€'m	%
Loan to value (LTV) ratio of total mortgage loan book						
Less than 50%	2,211	14%	284	6%	2,495	12%
51% to 70%	2,041	13%	353	7%	2,394	12%
71% to 80%	1,222	7%	223	5%	1,445	7%
81% to 90%	1,410	9%	376	8%	1,786	8%
91% to 100%	1,419	9%	317	6%	1,736	8%
Subtotal	**8,303**	**52%**	**1,553**	**32%**	**9,856**	**47%**
101% to 120%	2,637	17%	762	16%	3,399	16%
121% to 150%	2,782	17%	1,244	26%	4,026	20%
151% to 180%	1,537	10%	721	15%	2,258	11%
Greater than 181%	679	4%	550	11%	1,229	6%
Subtotal	**7,635**	**48%**	**3,277**	**68%**	**10,912**	**53%**
Total	**15,938**	**100%**	**4,830**	**100%**	**20,768**	**100%**
Weighted average LTV[1]:						
Stock of mortgages at year end		**99%**		**123%**		**105%**
New mortgages during the year		**73%**		**58%**		**73%**

The tables above set out the weighted average indexed LTV for the total mortgage loan book which was 97% at 31 December 2013, 92% for Owner occupied mortgages and 116% for Buy to let mortgages. The weighted average indexed LTV for new mortgages written during 2013 was 70%, 70% for Owner occupied mortgages and 54% 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 mortgage loan book contained in Table 3c is based on the CSO Residential Property Price Index at the applicable reporting date.

[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 CSO index for December 2013 reported that average national residential property prices were 46% below peak (December 2012: 50% below peak), with Dublin residential prices and outside of Dublin residential prices 49% and 47% below peak respectively (December 2012: 56% and 47% below peak respectively). The annual rate of increase in residential property prices was 6.4% at 31 December 2013, compared to an annual rate of decline of 4.5% 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, €11.0 billion or 54% of Bank mortgages are in positive equity, 59% for Owner occupied mortgages and 37% for Buy to let mortgages.

At 31 December 2013, the total calculated negative equity in the mortgage loan book was €2.1 billion (31 December 2012: €2.8 billion). The majority of mortgage borrowers in negative equity continue to meet their mortgage repayments with €1.4 billion negative equity related to loans that were 'neither past due nor impaired' at 31 December 2013. Of the remaining €0.7 billion of calculated negative equity, €0.1 billion related to loans that were '1 – 90 days past due but not impaired' and €0.6 billion related to loans that were defaulted.

Table 3d

Loan to value profiles – defaulted loans

31 December 2013

	Owner occupied		Buy to let		Total	
	€'m	%	€'m	%	€'m	%
Loan to value (LTV) ratio of total mortgage loan book - defaulted loans						
Less than 50%	86	6%	23	2%	109	4%
51% to 70%	109	8%	33	3%	142	5%
71% to 80%	76	5%	22	2%	98	4%
81% to 90%	88	6%	77	6%	165	6%
91% to 100%	107	7%	58	4%	165	6%
Subtotal	**466**	**32%**	**213**	**17%**	**679**	**25%**
101% to 120%	233	16%	175	14%	408	15%
121% to 150%	378	26%	443	35%	821	30%
151% to 180%	288	20%	277	22%	565	21%
Greater than 181%	87	6%	159	12%	246	9%
Subtotal	**986**	**68%**	**1,054**	**83%**	**2,040**	**75%**
Total	**1,452**	**100%**	**1,267**	**100%**	**2,719**	**100%**

31 December 2012

	Owner occupied		Buy to let		Total	
	€'m	%	€'m	%	€'m	%
Loan to value (LTV) ratio of total mortgage loan book - defaulted loans						
Less than 50%	85	6%	18	2%	103	4%
51% to 70%	100	7%	28	3%	128	5%
71% to 80%	72	5%	26	2%	98	4%
81% to 90%	79	5%	59	5%	138	5%
91% to 100%	101	7%	44	4%	145	6%
Subtotal	**437**	**30%**	**175**	**16%**	**612**	**24%**
101% to 120%	206	14%	148	13%	354	14%
121% to 150%	360	25%	328	30%	688	27%
151% to 180%	286	20%	237	22%	523	21%
Greater than 181%	154	11%	214	19%	368	14%
Subtotal	**1,006**	**70%**	**927**	**84%**	**1,933**	**76%**
Total	**1,443**	**100%**	**1,102**	**100%**	**2,545**	**100%**

Book composition (continued)

Loan to value profiles – defaulted loans (continued)

The tables on the previous page illustrate the indexed loan to value ratios at the applicable reporting dates for defaulted 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 mortgages €0.7 billion or 25% are in positive equity (31 December 2012: €0.6 billion or 24%) while €2.0 billion or 75% are in negative equity at 31 December 2013 (31 December 2012: €1.9 billion or 76%).

For the defaulted category, 32% of Owner occupied mortgages (31 December 2012: 30%) and 17% of Buy to let mortgages (31 December 2012: 16%) are in positive equity at 31 December 2013.

Asset quality

Table 4

Composition and impairment

	Total					Of which			
31 December 2013	**Advances €'m**	**Defaulted loans €'m**	**Defaulted loans as a % of advances %**	**Impairment provisions €'m**	**Impairment provisions as a % of defaulted loans %**	**Forborne mortgages €'m**	**Defaulted[1] forborne mortgages €'m**	**Impairment provisions forborne mortgages €'m**	**Impairment provisions as a % of defaulted forborne mortgages %**
Owner occupied mortgages	15,770	1,452	9.2%	611	42%	1,384	428	175	41%
Buy to let mortgages	4,536	1,267	27.9%	734	58%	444	141	80	56%
Total mortgages	**20,306**	**2,719**	**13.4%**	**1,345**	**49%**	**1,828**	**569**	**255**	**45%**

	Total					Of which			
31 December 2012	**Advances €'m**	**Defaulted loans €'m**	**Defaulted loans as a % of advances %**	**Impairment provisions €'m**	**Impairment provisions as a % of defaulted loans %**	**Forborne mortgages €'m**	**Defaulted[1] forborne mortgages €'m**	**Impairment provisions forborne mortgages €'m**	**Impairment provisions as a % of defaulted forborne mortgages %**
Owner occupied mortgages	15,938	1,443	9.1%	494	34%	1,242	388	115	30%
Buy to let mortgages	4,830	1,102	22.8%	529	48%	543	145	57	39%
Total mortgages	**20,768**	**2,545**	**12.3%**	**1,023**	**40%**	**1,785**	**533**	**172**	**32%**

Defaulted mortgages at 31 December 2013 were €2.7 billion or 13.4% of advances compared to €2.5 billion or 12.3% 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 Bank'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 Bank'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 the factors noted above together with improved rental market conditions, particularly evident in primary urban areas.

[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.

Asset quality (continued)

Repossessions

At 31 December 2013, the Bank had possession of properties held as security as follows:

Table 5a

	31 December 2013		31 December 2012	
	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 mortgages	92	26	64	16
Buy to let mortgages	65	20	55	15
Total residential repossessions	**157**	**46**	**119**	**31**

Table 5b

Disposals of repossessions

31 December 2013	Number of disposals during the year	Balance[1] outstanding after impairment provisions €'m
Disposals of repossessions		
Owner occupied mortgages	50	5
Buy to let mortgages	39	4
Total disposals	**89**	**9**

31 December 2012	Number of disposals during the year	Balance[1] outstanding after impairment provisions €'m
Disposals of repossessions		
Owner occupied mortgages	66	8
Buy to let mortgages	37	2
Total disposals	**103**	**10**

During the year ended 31 December 2013 the Bank disposed of 89 repossessed properties (31 December 2012: 103 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 €5 million (31 December 2012: €8 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 €4 million (31 December 2012: €2 million).

In addition, the Bank disposed of a further 116 properties through fixed charge receivers during the year (31 December 2012: 3).

[1] *Balance outstanding before value of additional collateral applied.*

Asset quality (continued)

Forbearance measures

The Bank 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 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 Bank, as part of the Bank of Ireland 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 Bank 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 Bank 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 Bank’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 Bank 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 Bank 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: (followed by 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 followed by 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 mortgages (before impairment provisions) forborne loan stock[1] subject to active forbearance measures at 31 December 2013.

Table 6a

Formal forbearance measures - mortgage loan book (before impairment provisions)

	Non-defaulted loans		Defaulted loans[2]		All loans	
31 December 2013	**Balance €'m**	**Number of accounts[3]**	**Balance €'m**	**Number of accounts[3]**	**Balance €'m**	**Number of accounts[3]**
Owner occupied						
Full interest	154	1,142	85	582	239	1,724
Reduced payment (greater than full interest)	200	1,425	179	981	379	2,406
Term extension	263	3,090	69	608	332	3,698
Capitalisation of arrears	141	1,032	25	128	166	1,160
Hybrids[4]	181	1,367	56	364	237	1,731
Other	17	102	14	81	31	183
Total	**956**	**8,158**	**428**	**2,744**	**1,384**	**10,902**
Buy to let						
Full interest	57	296	43	178	100	474
Reduced payment (greater than full interest)	70	370	42	192	112	562
Term extension	88	668	17	119	105	787
Capitalisation of arrears	22	128	16	56	38	184
Hybrids[4]	65	312	23	85	88	397
Other	1	3	-	3	1	6
Total	**303**	**1,777**	**141**	**633**	**444**	**2,410**
Total						
Full interest	211	1,438	128	760	339	2,198
Reduced payment (greater than full interest)	270	1,795	221	1,173	491	2,968
Term extension	351	3,758	86	727	437	4,485
Capitalisation of arrears	163	1,160	41	184	204	1,344
Hybrids[4]	246	1,679	79	449	325	2,128
Other	18	105	14	84	32	189
Total	**1,259**	**9,935**	**569**	**3,377**	**1,828**	**13,312**

[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 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.

Asset quality (continued)

Formal forbearance measures[1] - mortgage loan book (before impairment provisions) (continued)

	Non-defaulted loans		Defaulted loans[2]		All loans	
31 December 2012	**Balance €'m**	**Number of accounts[3]**	**Balance €'m**	**Number of accounts[3]**	**Balance €'m**	**Number of accounts[3]**
Owner occupied						
Full interest	336	2,381	277	1,945	613	4,326
Reduced payment (greater than full interest)	220	1,205	68	300	288	1,505
Term extension	173	2,067	18	210	191	2,277
Capitalisation of arrears	53	444	5	14	58	458
Hybrids[4]	56	437	7	69	63	506
Other	16	92	13	75	29	167
Total	**854**	**6,626**	**388**	**2,613**	**1,242**	**9,239**
Buy to let						
Full interest	136	721	78	424	214	1,145
Reduced payment (greater than full interest)	169	689	45	142	214	831
Term extension	55	434	8	42	63	476
Capitalisation of arrears	10	57	7	23	17	80
Hybrids[4]	28	141	6	25	34	166
Other	-	1	1	4	1	5
Total	**398**	**2,043**	**145**	**660**	**543**	**2,703**
Total						
Full interest	472	3,102	355	2,369	827	5,471
Reduced payment (greater than full interest)	389	1,894	113	442	502	2,336
Term extension	228	2,501	26	252	254	2,753
Capitalisation of arrears	63	501	12	37	75	538
Hybrids[4]	84	578	13	94	97	672
Other	16	93	14	79	30	172
Total	**1,252**	**8,669**	**533**	**3,273**	**1,785**	**11,942**

The total number of accounts in forbearance has increased from 11,942 at 31 December 2012 to 13,312 accounts at 31 December 2013 reflecting the Bank's progress in implementing end state restructure and resolution strategies. The balances on accounts in forbearance increased marginally by €43 million between 31 December 2012 and 31 December 2013. For Owner occupied mortgages, 10,902 accounts or €1.4 billion are in forbearance at 31 December 2013 (December 2012: 9,239 accounts or €1.2 billion). For Buy to let mortgages, 2,410 accounts or €0.4 billion are in forbearance at 31 December 2013 (December 2012: 2,703 accounts or €0.5 billion).

Furthermore, in the month of December 2013, there were a further 1,229 existing arrears accounts not classified as forborne, whereby the borrower has met their contractual payment and made an additional payment towards their arrears balance (December 2012: 1,400 accounts).

In addition to the forbearance pertaining to Buy to let mortgages, the Bank has a strategy to appoint fixed charge receivers. At 31 December 2013, there were 1,058 properties where a fixed charge receiver had been appointed or approved, compared to 826 properties at 31 December 2012.

[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 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.

Asset quality (continued)

Formal forbearance measures - mortgage loan book (before impairment provisions) (continued)

Term extension is the largest forbearance category by number of accounts with 4,485 accounts at 31 December 2013 (December 2012: 2,753 accounts), followed by reduced payment (greater than full interest) with 2,968 accounts at 31 December 2013 (December 2012: 2,336 accounts).

A total of 1,191 accounts or €128 million new term extensions were extended during the year. A further 870 accounts or €100 million changed to term extension from another forbearance measure, while 238 accounts or €26 million changed forbearance measure. A reduction of 91 accounts relates to redeemed accounts; a reduction of €18 million was due to those redeemed accounts and principal repayments made during the year.

Reduced payment (greater than full interest followed by step up to full capital and interest) increased to 2,968 accounts or €0.5 billion at 31 December 2013, compared to 2,336 accounts or €0.5 billion at 31 December 2012. A total of 1,638 accounts or €250 million of new reduced payment (greater than full interest followed by step up to full capital and interest) forbearance measures were extended during the year. A further 682 accounts or €115 million changed their forbearance measure to reduced payment (greater than full interest), while 562 accounts or €105 million changed to another forbearance measure. A total of 1,080 accounts or €240 million exited during the year. A reduction of 46 accounts relates to redeemed accounts; a reduction of €30 million was due to those redeemed accounts and principal repayments made during the year.

At 31 December 2013, 2,198 accounts or €0.3 billion were subject to full interest forbearance compared to 5,471 accounts or €0.8 billion at 31 December 2012. A total of 1,238 accounts or €184 million of new full interest forbearance measures were extended during the year, 97 accounts or €20 million changed to full interest, while 1,701 accounts or €241 million changed from full interest to another forbearance measure. A total of 2,756 accounts or €431 million exited forbearance during the year. A reduction of 151 accounts relates to redeemed accounts; a reduction of €20 million was due to those redeemed accounts and principal repayments made during the year.

Hybrids increased to 2,128 accounts or €0.3 billion at 31 December 2013 from 672 accounts or €0.1 billion at 31 December 2012. A total of 848 accounts or €140 million new hybrid measures were put in place during the year. 883 accounts or €129 million changed from another forbearance measure to hybrid, while 255 accounts or €34 million changed to another forbearance measure. A reduction of 20 accounts relates to redeemed accounts; a reduction of €7 million was due to those redeemed accounts and principal repayments made during the year.

Capitalisations of arrears increased to 1,344 accounts or €0.2 billion at 31 December 2013 from 538 accounts or €0.1 billion at 31 December 2012. A total of 580 accounts or €88 million had capitalisation of arrears applied during the year. A further 302 accounts or €51 million changed to capitalisation of arrears from another forbearance measure, while 68 accounts or €7 million changed to another forbearance measure. A reduction of 8 accounts relates to redeemed accounts; a reduction of €4 million was due to those redeemed accounts and principal repayments made during the year.

‘Other’ forbearance measures, increased to 189 accounts or €32 million at 31 December 2013 from 172 accounts or €30 million at 31 December 2012.

Asset quality (continued)

The following table shows the movement in the stock of active forborne mortgages (before impairment provisions) during the year ended 31 December 2013.

Table 6b

Reconciliation of forborne loan stock by non-default / default status - mortgage loan book (before impairment provisions)	Owner Occupied Balance €m	Owner Occupied Number of accounts[1]	Buy to Let Balance €m	Buy to Let Number of accounts[1]	All loans Balance €m	All loans Number of accounts[1]
All loans						
Opening balance at 1 January 2013	1,242	9,239	543	2,703	1,785	11,942
New forbearance extended	629	4,671	183	952	812	5,623
Exited forbearance						
- Improved to or remained in non-default	(243)	(1,631)	(123)	(610)	(366)	(2,241)
- Improved / stabilised and remained in default	(84)	(559)	(44)	(197)	(128)	(756)
- Disimproved to or within default	(105)	(586)	(90)	(346)	(195)	(932)
- Redemptions, principal repayments and other	(55)	(232)	(25)	(92)	(80)	(324)
Transfers within forbearance between non-defaulted and defaulted loans	-	-	-	-	-	-
Closing balance at 31 December 2013	**1,384**	**10,902**	**444**	**2,410**	**1,828**	**13,312**
Non-defaulted loans						
Opening balance at 1 January 2013	854	6,626	398	2,043	1,252	8,669
New forbearance extended	399	3,180	110	637	509	3,817
Exited forbearance						
- Remained in non-default	(220)	(1,458)	(118)	(579)	(338)	(2,037)
- Disimproved to default	(43)	(244)	(53)	(213)	(96)	(457)
- Redemptions, principal repayments and other	(49)	(196)	(20)	(71)	(69)	(267)
Transfers within forbearance between non-defaulted and defaulted loans	15	250	(14)	(40)	1	210
Closing balance at 31 December 2013	**956**	**8,158**	**303**	**1,777**	**1,259**	**9,935**
Defaulted loans						
Opening balance at 1 January 2013	388	2,613	145	660	533	3,273
New forbearance extended	230	1,491	73	315	303	1,806
Exited forbearance						
- Improved to non-default	(23)	(173)	(5)	(31)	(28)	(204)
- Improved / stabilised and remained in default	(84)	(559)	(44)	(197)	(128)	(756)
- Disimproved and remained in default	(62)	(342)	(37)	(133)	(99)	(475)
- Redemptions, principal repayments and other	(6)	(36)	(5)	(21)	(11)	(57)
Transfers within forbearance between non-defaulted and defaulted loans	(15)	(250)	14	40	(1)	(210)
Closing balance at 31 December 2013	**428**	**2,744**	**141**	**633**	**569**	**3,377**

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.

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

Asset quality (continued)

A total 13,312 accounts or €1.8 billion of account balances were in forbearance at 31 December 2013, compared to 11,942 accounts or €1.8 billion at 31 December 2012. Of these, 5,623 accounts or €0.8 billion new forbearance measures were put in place during the year, of which 3,817 accounts or €0.5 billion were classified as 'non-defaulted loans' while 1,806 accounts or €0.3 billion were classified as 'defaulted loans'. Of those that exited forbearance during the year 2,241 accounts or €0.4 billion improved to or remained in non-default, 756 accounts or €0.1 billion remained in default with improved or stabilised arrears and 932 accounts or €0.2 billion disimproved arrears to or within default. A reduction in the forbearance stock of 324 accounts relates to redeemed accounts during the year; a reduction of €80 million was due to those redeemed accounts and principal repayments made during the year.

For Owner occupied mortgages, 10,902 accounts or €1.4 billion of account balances were in forbearance at 31 December 2013 compared to 9,239 accounts or €1.2 billion at 31 December 2012. Of these, 4,671 accounts or €0.6 billion were new forbearance measures put in place during the year of which 3,180 accounts or €0.4 billion were classified as 'non-defaulted loans', while 1,491 accounts or €0.2 billion were classified as 'defaulted loans'. Of those that exited forbearance during the year 1,631 accounts or €0.2 billion improved to or remained in non-default, 559 accounts or €0.1 billion remained in default with improved or stabilised arrears and 586 accounts or €0.1 billion disimproved arrears to or within default. A reduction of 232 accounts relates to redeemed accounts during the year; a reduction of €55 million was due to those redeemed accounts and principal repayments made during the year.

For Buy to let mortgages, 2,410 accounts or €0.4 billion of account balances were in forbearance at 31 December 2013 compared to 2,703 accounts or €0.5 billion at 31 December 2012. Of these, 952 accounts or €0.2 billion were new forbearance measures put in place during the year of which 637 accounts or €0.1 billion were classified as 'non-defaulted loans' while 315 accounts or €0.1 billion were classified as 'defaulted loans'. Of those that exited forbearance during the year 610 accounts or €0.1 billion improved to or remained in non-default, 197 accounts or €44 million remained in default with improved or stabilised arrears and 346 accounts or €0.1 billion disimproved arrears to or within default. A reduction of 92 accounts relates to redeemed accounts during the year; a reduction of €25 million was due to those redeemed accounts and principal repayments made during the year.

Mortgage Arrears

The Bank 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 ongoing effectiveness of the Bank'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 Bank has implemented the requirements of the revised Code.

The Bank'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 Bank 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 26 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 Bank has an operating infrastructure in place to support the management of all relevant applications under the Act.

Asset quality (continued)

Table 7a

Loan to value profiles – forborne loans

31 December 2013

	Owner occupied		Buy to let		Total	
	€'m	**%**	**€'m**	**%**	**€'m**	**%**
Loan to value (LTV) ratio of forborne mortgage loan book						
Less than 50%	159	12%	19	4%	178	10%
51% to 70%	156	11%	28	6%	184	10%
71% to 80%	99	7%	21	5%	120	6%
81% to 90%	114	8%	46	10%	160	9%
91% to 100%	115	8%	43	10%	158	9%
Subtotal	**643**	**46%**	**157**	**35%**	**800**	**44%**
101% to 120%	247	18%	90	20%	337	18%
121% to 150%	307	22%	129	29%	436	24%
151% to 180%	165	12%	46	11%	211	12%
Greater than 181%	22	2%	22	5%	44	2%
Subtotal	**741**	**54%**	**287**	**65%**	**1,028**	**56%**
Total	**1,384**	**100%**	**444**	**100%**	**1,828**	**100%**

31 December 2012

	Owner occupied		Buy to let		Total	
	€'m	**%**	**€'m**	**%**	**€'m**	**%**
Loan to value (LTV) ratio of forborne mortgage loan book						
Less than 50%	123	10%	18	3%	141	8%
51% to 70%	122	10%	32	6%	154	9%
71% to 80%	76	6%	22	4%	98	5%
81% to 90%	88	7%	43	8%	131	7%
91% to 100%	106	8%	39	7%	145	8%
Subtotal	**515**	**41%**	**154**	**28%**	**669**	**37%**
101% to 120%	199	16%	103	19%	302	17%
121% to 150%	282	23%	149	28%	431	24%
151% to 180%	169	14%	80	15%	249	14%
Greater than 181%	77	6%	57	10%	134	8%
Subtotal	**727**	**59%**	**389**	**72%**	**1,116**	**63%**
Total	**1,242**	**100%**	**543**	**100%**	**1,785**	**100%**

The tables above illustrate the indexed loan to value ratios for total 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 Bank mortgages with active forbearance measures in place €0.8 billion or 44% are in positive equity (31 December 2012: €0.7 billion or 37%) while €1.0 billion or 56% are in negative equity at 31 December 2013 (31 December 2012: €1.1 billion or 63%). 46% of forborne Owner occupied mortgages (31 December 2012: 41%) and 35% of forborne Buy to let mortgages (31 December 2012: 28%) are in positive equity at 31 December 2013.

Asset quality (continued)

Table 7b

31 December 2013

	Owner occupied		Buy to let		Total	
	€'m	%	€'m	%	€'m	%
Loan to value (LTV) ratio of forborne mortgage loan book - defaulted loans						
Less than 50%	30	7%	3	2%	33	6%
51% to 70%	36	9%	5	4%	41	7%
71% to 80%	25	6%	5	3%	30	5%
81% to 90%	26	6%	10	7%	36	6%
91% to 100%	32	7%	12	9%	44	8%
Subtotal	**149**	**35%**	**35**	**25%**	**184**	**32%**
101% to 120%	76	18%	28	19%	104	18%
121% to 150%	110	26%	49	34%	159	28%
151% to 180%	79	18%	20	15%	99	18%
Greater than 181%	14	3%	9	7%	23	4%
Subtotal	**279**	**65%**	**106**	**75%**	**385**	**68%**
Total	**428**	**100%**	**141**	**100%**	**569**	**100%**

31 December 2012

	Owner occupied		Buy to let		Total	
	€'m	%	€'m	%	€'m	%
Loan to value (LTV) ratio of forborne mortgage loan book - defaulted loans						
Less than 50%	28	7%	3	2%	31	6%
51% to 70%	31	8%	6	4%	37	7%
71% to 80%	22	6%	4	3%	26	5%
81% to 90%	23	6%	12	8%	35	6%
91% to 100%	28	7%	8	5%	36	7%
Subtotal	**132**	**34%**	**33**	**22%**	**165**	**31%**
101% to 120%	56	14%	31	21%	87	16%
121% to 150%	99	26%	40	28%	139	26%
151% to 180%	65	17%	21	15%	86	16%
Greater than 181%	36	9%	20	14%	56	11%
Subtotal	**256**	**66%**	**112**	**78%**	**368**	**69%**
Total	**388**	**100%**	**145**	**100%**	**533**	**100%**

The tables above illustrate the indexed loan to value ratios for defaulted 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 mortgages with active forbearance measures in place, €0.2 billion or 32% are in positive equity (31 December 2012: €0.2 billion or 31%), while €0.4 billion or 68% are in negative equity at 31 December 2013 (31 December 2012: €0.4 billion or 69%). For the active forbearance measures defaulted category, 35% of Owner occupied mortgages (31 December 2012: 34%) and 25% of Buy to let mortgages (31 December 2012: 22%) are in positive equity at 31 December 2013.