



ANNUAL REPORT

Year Ended 31 December 2013

Forward Looking Statements

This document contains “forward looking statements” with respect to certain of the Group’s plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all forward looking statements involve risk and uncertainty because they relate to future events that are often beyond the Group’s control. For example, the potential exposure of the Group to various types of market risks, such as interest rate risk, foreign exchange rate risk and credit risk. Actual future gains and losses could differ materially from those that have been estimated. Other factors that could cause actual results to differ materially from those estimated by the forward looking statements include, but are not limited to, Irish domestic and global economic business conditions, equity and property prices, the impact of competition, inflation and deflation, changes to customers’ saving, spending and borrowing habits and the Group’s success in managing the above factors.

As a result, the actual future financial condition and performance of the Group may differ from the targets and goals set out in the forward looking statements. The Group has no obligation to update any forward looking statement contained in this report.

CONTENTS

Permanent tsb plc

Overview

- Financial Highlights 2

Business Review

- Operating and Financial Review 3
- Risk Management 16

Corporate Governance

- Board of Directors 25
- Directors' Report 29
- Corporate Governance 34
- Directors' Report on Remuneration 44

Consolidated Financial Statements

- Statement of Directors' Responsibilities 48
- Independent Auditor's Report 50
- Consolidated Financial Statements 53
- Notes to the Consolidated Financial Statements 59
- Company Financial Statements 150
- Notes to the Company Financial Statements 154

Financial Highlights

Summary Consolidated Income Statement

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Total operating income (before exceptional items)	252	197
Total operating expenses (before exceptional items and impairment charges)	(300)	(283)
Operating loss before impairment charges and exceptional items	(48)	(86)
Impairment charges on loans and advances to customers	(927)	(883)
Impairment charges on repossessed assets	(2)	(8)
Operating loss before exceptional items	(977)	(977)
Exceptional items (net)	309	58
Loss before taxation	(668)	(919)
Taxation (including an exceptional credit of €414m)	407	(77)
Loss for the year	(261)	(996)
Group Performance Metrics		
Net Interest Margin % (Pre government guarantee fees)	0.82%	0.72%
Impairment charges by portfolio		
ROI residential mortgages	727	508
UK residential mortgages	21	25
Commercial mortgages	160	320
Consumer finance	19	30
Impairment charges on loans and advances to customers	927	883

Key Balance Sheet and Funding Metrics

	31 December 2013	31 December 2012
	€m	€m
Total shareholders' funds	2,387	2,650*
Total assets	37,604	40,911*
Total net loans and advances to customers	29,281	31,758
Impairment provisions	(4,035)	(3,150)
Impairment provisions %	12.1%	9%
Total customer deposits	19,511	16,639
Funding from monetary authorities	6,940	10,715
Wholesale funding	7,894	9,617
Loan to deposit ratio ("LDR")	150%	191%
Regulatory capital		
Available regulatory capital	2,510	3,042
Risk weighted assets	16,368	14,859
Core Tier 1 capital ratio	13.6%	18.0%
Total capital ratio	15.3%	20.5%

*Following the adoption of International Accounting Standard 19 (Revised), the Group has restated the comparative information in accordance with its transitional provisions. Refer to note 1 to the financial statements for further details.

Operating and Financial Review

Summary Consolidated Income Statement

	Year ended		Change
	31 December 2013	31 December 2012	
	€m	€m	%
Net interest income (before ELG fees)	309	300	3.0%
ELG fees	(105)	(165)	-36.4%
Net other income	48	62	-22.6%
Total operating income	252	197	27.9%
Total operating expenses (excl. exceptional items)	(300)	(283)	6.0%
Operating loss before impairment charges and exceptional items	(48)	(86)	-44.2%
Impairment charges on loans and advances to customers	(927)	(883)	5.0%
Impairment charges on repossessed assets	(2)	(8)	-75.0%
Operating loss before exceptional items	(977)	(977)	0.0%
Exceptional items (net)	309	58	432.8%
- Restructuring costs	(20)	(86)	-76.7%
- Impact of the wind-up of the defined benefit pension schemes	329	-	0.0%
- Loss on disposal of held for sale loans and advances	-	(80)	-100.0%
- Gain on subordinated liability management exercise	-	224	-100.0%
Loss before taxation	(668)	(919)	-27.3%
Taxation (including an exceptional credit of €414m)	407	(77)	-628.6%
Loss for the year	(261)	(996)	-73.8%

Financial Performance Headlines

- **Net interest income** (pre-ELG) increased by 3% from 2012 to €309m in 2013. This growth was driven by a 10 basis points increase in net interest margin, more than offsetting a 9.1% decrease in average interest earning assets.
- **Net other income** of €48m is a 23% decrease compared to 2012. The main drivers of the lower net other income higher one-off gains on debt securities transaction in 2012 and a €6m reduction in net fees and commissions income.
- **Total operating expenses** (excluding exceptional items) at €300m for 2013 represents a €17m increase compared to 2012 which is mainly due to provision for liabilities offset by reduction in staff related costs.
- **Impairment charge** on loans and advances to customers of €927m is a 5% increase from 2012. This reflects changes in the Group's impairment provisioning methodology which included the implementation of the May 2013 CBI guidelines and the outcome from the Balance Sheet Assessment ("BSA").
- **Exceptional items** include Impact of the wind-up of the defined benefit pension schemes and restructuring costs.
- **Taxation** includes an exceptional credit for recognition of deferred tax assets on tax carried forward losses of €414m.

Operating and Financial Review

Net Interest Income

	Year ended 31 December 2013	31 December 2012	Change
	€m	€m	%
Net interest income (Pre-ELG fee)	309	300	3.0%
Total average interest earning assets	37,757	41,533	-9.1%
Net interest margin (NIM %)	0.82%	0.72%	10 bps

Net interest income (Pre-ELG) at 31 December 2013 has increased by 3% on the prior year to €309 m. The result was driven by a 10 basis point increase in net interest margin, offset by the effects of a reduction in interest earning assets.

Including ELG, net interest income for the twelve months to 31 December 2013 was €204m (2012: €135m) after €105m of ELG fees (2012: €165m). The liabilities covered under the scheme decreased by €8.4bn to €7.4bn. The ELG fee will decrease further as covered liabilities mature following the ending of the scheme in March 2013.

Average Interest Earning Assets

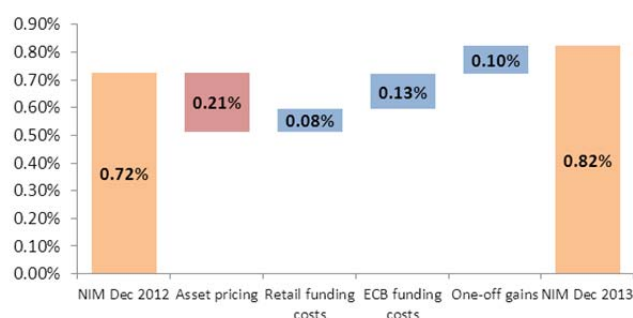
Average interest earning assets have decreased by €3.8bn in 2013 to €37.8bn. This is split €2.7bn and €1.1bn between lending and non-lending assets respectively.

Average ROI and UK residential mortgage balances decreased by €1.3bn compared to the prior year due to higher redemptions and repayments than new lending. Commercial mortgages reduced by €0.1bn from 2012 while the sale of ptsb finance portfolio of €0.4bn decreased the consumer finance portfolio. The remaining decrease in average interest earning lending assets of €0.9bn was due to increased impairment provisions.

Average non-lending interest earning assets have decreased by €1.1bn in the year reductions in the levels of debt securities and liquid assets balances held.

Net Interest Margin

NIM movement since December 2012



The Group's net interest margin (before ELG costs) increased ten basis points from 0.72% at 31 December 2012 to 0.82% at 31 December 2013. The key drivers of the movement were as follows:

Asset pricing: A 21 bps decrease in margin is primarily due to a combination of full year effect from Group's standard variable rate reduction in 2012 by 0.85% and further ECB rate cuts of 0.50% during 2013.

Retail Funding Costs: An 8 bps increase in margin is due to the ongoing reduction in the costs of corporate and retail deposits during 2013.

ECB Funding Costs: A 13 bps increase in margin is due to two 25 basis point cuts in the ECB base rate during 2013.

One-off gains: The decrease in funding costs has been assisted by one-off gains due to disposals of debt securities which has helped to offset the full year impact of asset re-pricing and contributed 10 bps to the increase in NIM%.

Operating and Financial Review

Net Other Income

Net other income comprises retail banking fees including current account fees, debit and credit cards fees, insurance and foreign exchange commission as well as realised gains and losses on debt securities. Net other income to 31 December 2013 was €46m (31 December 2012: €62m) and is summarised as follows:

	Year ended		
	31 December 2013	31 December 2012	Change
	€m	€m	%
Fees and commission income	50	55	-9.1%
Fees and commission expenses	(14)	(13)	7.7%
Net fees and commission income	36	42	-14.3%
Gain on debt buy-back	16	27	-40.7%
Gain on disposal of Government gilts	5	38	-86.8%
Loss on disposal of other debt securities	(5)	(46)	-89.1%
Other	(6)	1	-700.0%
Net other income	46	62	-25.8%

Net fees and commissions of €36m are €6m less than the twelve months to 31 December 2012 largely due to lower activity levels across a range of products with current account activity now focused on the new non-fee generating product.

A gain of €16m was realised in the year on the buy-back of debt securities issued by the Group and mortgage backed securities issued by special purpose entities controlled by the Group. A gain of €27m was realised in the twelve months to 31 December 2012 on the buy-back and cancellation of debt securities issued by the Group.

In the twelve months to 31 December 2013, a €5m gain was realised on disposal of debt securities held by the Group (2012: €38m).

Also during 2013, the Group disposed of other debt securities worth €405m crystallising a loss of €5m. In 2012, the Group disposed of its holding of certain residential mortgage backed securities and as a result incurred a loss of €46m. These transactions, however, improved regulatory capital ratios as the securities received a high risk weighting under regulatory capital rules.

Total Operating Expenses (excluding exceptional items)

	Year ended		
	31 December 2013	31 December 2012	Change
	€m	€m	%
Staff related expenses (excluding pension expenses)	110	117	-6.0%
Staff pension expenses	17	33	-48.5%
Total staff related expenses	127	150	-15.3%
Depreciation and amortisation	17	19	-10.5%
Other administrative expenses	156	114	36.8%
Total operating expenses	300	283	6.0%
Average staff numbers	2,041	2,018	1.1%

Total operating expenses increased by 6% on the prior year to €300m. The result was driven by a 15.3% decrease in staff costs offset by a 36.8% increase in other administrative costs.

Staff related expenses:

The Group has reduced total staff related expenses by 15.3% in 2013. This is despite a 1.1% increase in headcount resulting from the requirement to completely replace the Group's collections management capability. The decrease has been achieved from the savings of voluntary redundancy programme, from changes to the defined benefit pension scheme and reduction in staff benefits in 2013.

Other Administrative Costs:

Other administrative costs have increased by €42m to €156m. This is mainly due to provisions for liabilities and an increase in professional fees associated with credit management, business outsourcing and transformation projects.

Operating and Financial Review

Impairment charges

The charge for impairment provisions on loans and advances to customers for the twelve months to 31 December 2013 was €927m (31 December 2012: €883m) which represents 5% increase compared to 2012. The charge is analysed across the loan portfolios as follows:

	Year ended		
	31 December 2013	31 December 2012	Change
	€m	€m	%
ROI Residential mortgages			
- Home Loans	437	284	53.9%
- Buy-to-lets	290	224	29.5%
	727	508	43.1%
UK Residential mortgages			
- Home Loans	-	1	-100.0%
- Buy-to-let	21	24	-12.5%
	21	25	-16.0%
Commercial mortgages	160	320	-50.0%
Consumer finance	19	30	-36.7%
Total impairment charge	927	883	5.0%

Over 2013 the Group revised its impairment provisioning methodology taking consideration of both the CBI May 2013 impairment guidelines and the outcome of the BSA. The Group's current year impairment charge reflects the incremental provisions required by the CBI in their central assessment of €0.3bn (which amounts to c.7% of the impairment charge for 2013).

The commercial portfolio recorded a 50% decrease in year-on-year impairment charge. This is mainly due to a one-off increase in its impairment charge in 2012 following a detailed review conducted by management.

The UK mortgage and consumer finance portfolios recorded a decrease in year-on-year impairment charge by 16% and 37% respectively.

Reposessed Assets

An impairment provision of €2m (31 December 2012: €8m) was incurred in respect of the write-down of the carrying value of reposessed properties to their estimated recoverable amount.

Operating and Financial Review

Exceptional Items

Exceptional items in the first twelve months of 2013 amounted to a net gain of €309m (December 2012: €58m). These are analysed below:

	Year ended		
	31 December 2013	31 December 2012	Change
	€m	€m	%
Staff voluntary redundancy costs	(7)	(12)	-41.7%
Other restructuring costs	(13)	(74)	-82.4%
Total restructuring costs	(20)	(86)	-76.7%
Impact on wind-up of pension schemes	329	-	100.0%
Loss on disposal of held for sale loans and advances	-	(80)	-100.0%
Gain on liability management exercise	-	224	-100.0%
Exceptional items (net)	309	58	432.8%

Total restructuring costs reduced by 76.7% as the Group completed majority of the restructuring projects in 2013. Restructuring costs included staff voluntary redundancy costs of €7m which is down from €12m due to further uptake in voluntary redundancy in 2013.

Exceptional items also include €329m of a non-cash item reflecting the reversal of the defined benefit liability arising from Group's decision to discontinue contributions to the defined benefit pension schemes. (Refer note 27 to the financial statements for further details).

Taxation

The taxation charge for the twelve months to 31 December 2013 was €407m (2012: €77m debit) which included an exceptional credit of €414m with respect to recognition of carried forward tax losses. This is described in more detail in notes 11 and 20.

Operating and Financial Review

Segmental Performance

As 31 December 2013 is the first year these units report their performance, no comparative information is available for presentation. Operating results of the SBUs reconciled to the Group's loss for the year can be analysed as below:

Year ended 31 December 2013	Full Year
	€m
Operating loss	
Permanent tsb SBU	(153)
AMU SBU	(561)
Non-Core SBU	(283)
Unallocated adjustments*	20
Operating loss before exceptional items for the Group	(977)
Exceptional items (net)	309
Operating loss before taxation	(668)
Taxation (including an exceptional credit of €414m)	407
Loss for the year	(261)

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

The results of the segments are analysed in detail below.

Permanent tsb SBU

Permanent tsb focuses on Irish retail consumer business with a gross loan portfolio of €15bn largely consisting of performing ROI residential mortgages and a debt securities portfolio of €6bn, primarily funded by customer deposits and wholesale market funding. Permanent tsb SBU targets mainstream Irish retail personal and non-personal customers and offers a comprehensive range of retail banking products including deposit accounts, current accounts, mortgages and consumer finance through multiple channels.

Permanent tsb SBU reported a net interest income of €171m and a NIM (pre-ELG fees) of 1.03% and operating loss of €153m for the year to 31 December 2013. The operating loss includes an impairment charge of €148m.

AMU SBU

The AMU SBU manages a gross loan portfolio of €9bn of non-performing home loan, buy-to-let and unsecured loan portfolios in the Republic of Ireland.

AMU SBU reported a loss of €561m for the year to 31 December 2013. The loss is driven by impairment charge of €496m which in turn comprise the impairment charge on new defaults in 2013 and adjustments required to the Group's impairment provisioning methodology.

Non-Core SBU

The Non-Core SBU which has a gross loan portfolio of €10bn comprises of CHL (a UK residential mortgages business), Group's commercial real estate mortgage portfolio, a smaller deposit business in IOM operated through the Group's subsidiary, Permanent Bank International Limited (PBIL) and a few smaller loan portfolios, all closed for new business, except PBIL.

Non-Core SBU reported a loss of €283m for the year to 31 December 2013 of which c.86% relates to the commercial real estate portfolio. This loss for the year is primarily driven by the increased impairment charges arising from the changes made to the impairment provisioning methodology.

Further details on these segments are provided in note 3 to the financial statements.

Operating and Financial Review

Summary Consolidated Statement of Financial Position

	31 December 2013	Restated* 31 December 2012	Change
	€m	€m	%
Assets			
ROI home loans	15,973	17,027	-6.2%
ROI buy-to-let	5,147	5,600	-8.1%
Total ROI residential mortgages	21,120	22,627	-6.7%
UK home loans	388	425	-8.7%
UK buy-to-let	6,318	6,897	-8.4%
Total UK residential mortgages	6,706	7,322	-8.4%
Commercial mortgages	1,195	1,513	-21.0%
Consumer Finance	260	296	-12.2%
Total loans and advances to customers	29,281	31,758	-7.8%
Loans and advances to banks	1,230	1,396	-11.9%
Debt securities	5,816	6,827	-14.8%
Other assets	1,094	930	17.6%
Assets held for sale	180	-	100.0%
Total assets	37,601	40,911	-8.1%
Liabilities and equity			
Retail current accounts	2,174	2,053	5.9%
Retail deposits	11,781	11,453	2.9%
Corporate & institutional deposits	5,556	3,133	77.3%
Total customer accounts	19,511	16,639	17.3%
Deposits by ECB	6,940	10,715	-35.2%
Deposits by banks and other financial institutions	3,748	3,112	20.4%
Deposits by banks	10,688	13,827	-22.7%
Debt Securities in issue	4,146	6,505	-36.3%
Subordinated liabilities	359	337	6.5%
Other liabilities	513	953	-46.2%
Total liabilities	35,217	38,261	-8.0%
Total equity	2,384	2,650	-10.0%
Total equity and liabilities	37,601	40,911	-8.1%

*Following the adoption of IAS19R, the statement of financial position for 2012 has been restated. As a result of this the other liabilities increased and total equity reduced by €184m. Refer note 1 to the financial statements for further details.

The Group has increased its funding from customer deposits from 45% to 56% through continued deposit growth and reduced its reliance from ECB funding from 29% to 20% of total funding in 2013 compared to 2012. The reduction in total asset base of the Group by €3.3bn in 2013 was predominantly driven by the reduction in loans and advances to customers by €2.5bn and debt securities by €1bn.

ROI residential mortgages

ROI residential mortgages represent 72% of the total net loans and advances to customers (2012: 71%). 75% of these loans are home loans (2012: 73%) with 25% consisting of buy-to-let mortgages.

The ROI residential mortgages fell by €1.5bn in the twelve months to 31 December 2013 due to a combination of an increase in impairment provisions by €0.8bn during the year and net repayments of €0.7bn.

UK Residential Mortgages

UK mortgages, which remain closed to new business, reduced from £5.7bn to £5.3bn in 2013. This is due to repayments of £0.25bn and £0.15bn being reclassified as held for sale.

In 2013, £150m of the portfolio was reclassified to assets held for sale reflecting the Group's decision to reduce its exposure to UK mortgages.

Commercial mortgages

The commercial real estate portfolio was closed to new business in 2008. The loan portfolio at 31 December 2013 fell by €0.3bn which is due to increase in impairment provisions of €0.2bn and repayments of €0.1bn.

Consumer finance

The consumer finance portfolio, which mainly includes credit cards and unsecured personal lending, decreased by €35m in 2013. This is mainly due to repayments of film finance lending of €65m and an impairment charges during the year of €19m offset by acquisition of the NCU's loan portfolio of €49m.

Operating and Financial Review

Loans and advances to banks

Loans and advances to banks, which mainly consist of restricted cash held by the securitisation entities of €0.6bn, cash held at central bank of €0.3bn, cash collateral placed with counterparties relating to net derivative positions of €0.1bn with the remainder held with other banks. The movement from prior year of €0.2bn is explained by reduction in restricted cash of €65m and reduction in cash collateral placed of €85m and reduction in balance of €24m in the Group's Isle Of Man subsidiary.

Debt securities

The debt securities are principally attributable to the Group's Treasury operations and include €3.1bn of government bonds, €2.1bn of NAMA bonds and other bank and corporate bonds of €0.6bn.

The portfolio reduced by €1.0bn during the twelve months to 31 December 2013 reflecting scheduled maturities as well as disposals driven by the strategic management of the portfolio.

Customer accounts

Customer accounts, which include both retail and corporate term, notice and demand accounts as well as current accounts, grew to €19.5bn at 31 December 2013, an increase of €2.9bn.

Retail deposits including current accounts increased by €0.5bn in the twelve months to 31 December 2013. This represents a strong performance following Group's 'Back to Basics' marketing campaign and new fee-free current accounts promotion.

The increase in corporate deposits is mainly due to an on-going short-term sale and repurchase agreement with a Government institution of €2.2bn.

Deposits by banks

Deposits by ECB reduced by €3.8bn reflecting the on-going management of the funding mix supported by strong growth in customer accounts, together with a reduction in the total assets base requiring funding.

Deposits by banks and other institutions increased by €0.6bn which is mainly due to better advance rates on collateralised sale and repurchase agreements using the UK residential mortgages.

Debt Securities in Issue

Debt securities in issue fell by €2.4bn in the twelve months to 31 December 2013. This is due to maturities of previously issued securities of €2.8bn offset by new issuance of residential mortgage backed securities of €0.5bn during the year.

Operating and Financial Review

Regulatory capital

The Group's Basel II regulatory capital position is at 31 December 2013 summarised as follows:

	31 December 2013	31 December 2012	Change
	€m	€m	%
Qualifying Tier 1 capital	2,222	2,731	-18.6%
Qualifying Tier 2 capital	288	311	-7.4%
Qualifying Tier 1 and Tier 2 capital/Total own funds	2,510	3,042	-17.5%
Total required capital	1,310	1,189	10.2%
Total risk weighted assets	16,368	14,859	10.2%
Capital ratios:			
Core Tier 1 capital ratio	13.6%	18.0%	-4.4 pts
Total capital ratio	15.3%	20.5%	-5.2 pts

The Group's core tier 1 capital ratio at 31 December 2013 is 13.6% (31 December 2012: 18.0%). This compares to a regulatory capital minimum of 10.5%. The total capital ratio at 31 December 2013 stood at 15.3% (31 December 2012: 20.5%). Movements in these ratios are primarily due to losses recorded during the year and increase in RWAs primarily arising from the outcome from the BSA.

The total available capital fell by €0.5bn which included €0.4bn of Tier 1 capital, and €0.1bn of Tier 2 capital in the twelve months to 31 December 2013. Reduction in Tier 1 capital is mainly due to losses recorded during the year while the reduction in Tier 2 capital is mainly due to continued amortisation of the contingent capital notes that is within five years to maturity.

RWAs increased by €1.5bn in the year to 31 December 2013. This is mainly due to an increase in risk weighted assets on defaulted loans of arising from the outcome from the BSA.

The Group's capital management framework and further analysis of regulatory capital calculations are set out in note 34 to the financial statements.

Operating and Financial Review

Funding

Group funding profile	31 December 2013	31 December 2012	Change
	€m	€m	%
Customer accounts	19,511	16,639	17.3%
Long-term funding	9,575	11,880	-19.4%
ECB funding > 1 year to maturity	5,070	5,038	0.6%
Debt securities in issue	4,146	6,505	-36.3%
Subordinated liabilities	359	337	6.5%
Short-term funding	5,618	8,789	-36.1%
ECB funding < 1 year to maturity	1,870	5,677	-67.1%
Other short-term debt	3,748	3,112	20.4%
Total interest bearing liabilities	34,704	37,308	-7.0%
Funding mix			
Customer accounts	56%	45%	11 pts
Long-term funding	28%	33%	-5 pts
Short-term funding	16%	22%	-6 pts
	100%	100%	

Customer accounts

Growth in deposits has seen the Group satisfy an increasing proportion of its funding requirements from retail, corporate and institutional customer deposits. Customer accounts accounted for 56% of total funding at 31 December 2013, compared to 45% in the prior year.

Long-term funding

In 2013, the Group returned to the capital market with an Irish residential mortgage-backed securities issuance of €0.5bn priced at euribor plus 1.65%, the first since 2006.

Long term funding consists of debt with an original maturity or call date of greater than 12 months. This includes ECB funding drawn under the Long Term Refinancing Operations programme of €5.1bn, bonds and medium-term notes of €2.5bn, non-recourse funding, which consists of €1.6bn collateralised on Irish residential mortgages and subordinated liabilities which included €0.3bn of convertible contingent capital notes. Long term debt accounted for 27% of total funding at 31 December 2013, compared to 32% in the prior year. This reduction is due to repayments of previously issued securities of €2.8bn due to maturities (offset by new issuance of residential mortgage backed securities of €0.5bn).

Short-term funding

Short term funding consists of debt with an original maturity or call date of less than 12 months. This includes €1.4bn of Special Mortgage Backed Promissory Notes ("SMBPN"), other short term ECB funding of €0.5bn and €3.7bn of collateralised sale and repurchase agreements using the UK residential mortgages and other short-term funds of €0.1bn. The Group has reduced its reliance on short-term funding by c.6ppts mainly as a result of reduction in the usage of ECB funding.

Contractual maturities of these liabilities have been provided in the liquidity risk section of note 33 to the financial statements.

Operating and Financial Review

Asset Quality

Asset quality of loans and advances to banks, derivative assets and debt securities are analysed in detail in the credit risk section of note 33 to the financial statements.

Loans and advances to customers

The Group classifies loans and advances to customers as 'neither past due nor impaired', 'past due but not impaired' and 'impaired' in line with the requirements of IFRS 7 and defines them as follows:

Loans which are neither past due nor impaired are analysed as excellent, satisfactory or fair according to their IRB ratings.

Past due but not impaired is defined as loans where repayment of interest and / or principal are overdue by at least one day but which are not impaired.

A loan is considered impaired when there is objective evidence of impairment where the loan is greater than 90 days in arrears and the present value of future cash flows is less than the carrying value of the loan (for residential mortgages this is typically where the indexed LTV is >80%) requiring a specific provision to be recognised in the income statement.

31 December 2013

	ROI residential mortgages	UK residential mortgages	Commercial	Consumer Finance	Total
	€m	€m	€m	€m	€m
Neither past due nor impaired	16,344	6,613	606	231	23,794
Past due but not impaired	1,471	80	52	34	1,637
Impaired	6,255	89	1,448	93	7,885
Gross loans	24,070	6,782	2,106	358	33,316
Impairment provisions	(2,950)	(76)	(911)	(98)	(4,035)
Net loans	21,120	6,706	1,195	260	29,281
Impaired	6,255	89	1,448	93	7,885
> 90 days past due but not impaired	500	159	-	8	667
NPLs*	6,755	248	1,448	101	8,552
NPLs as % of gross loans	28%	4%	69%	28%	26%
Provisions coverage ratio ("PCR")**	44%	31%	63%	97%	47%

31 December 2012

	ROI	UK	Commercial	Consumer Finance	Total
	€m	€m	€m	€m	€m
Neither past due nor impaired	17,800	6,959	1,020	279	26,058
Past due but not impaired	2,201	308	111	24	2,644
Impaired	4,817	129	1,117	143	6,206
Gross loans	24,818	7,396	2,248	446	34,908
Impairment provisions	(2,191)	(74)	(735)	(150)	(3,150)
Net loans	22,627	7,322	1,513	296	31,758
Impaired	4,817	129	1,117	143	6,206
> 90 days past due but not impaired	684	131	-	6	821
NPLs*	5,501	260	1,117	149	7,027
NPLs as % of gross loans	22%	4%	50%	33%	20%
Provisions coverage ratio ("PCR")**	40%	28%	66%	101%	45%

*Non-performing loans are defined as impaired loans together with loans which are greater than 90 days in arrears but not impaired.

**Provisions coverage ratio is calculated as impairment provisions as a percentage of non-performing loans.

Operating and Financial Review

Loans which are neither past due nor impaired, before provision for impairment losses, amounted to €23.8bn or 71% of the loan book as at 31 December 2013 representing a slight decrease compared to €26.1bn or 74% of the loan book as at 31 December 2012.

As at 31 December 2013, €1.6bn or 5% of the loan portfolios are within past due but not impaired loans category compared to €2.6bn or 8% as at 31 December 2012.

Impaired loan balances as at 31 December 2013 were €7.9bn or 24% of the total loan book (31 December 2012: €6.2bn or 18%). The impaired loans have increased by 27% during 2013 primarily due to new defaults and increases relating to the ROI residential mortgages and commercial mortgages as more loans were classified as impaired reflecting the implementation of the May 2013 CBI guidelines, which imposes stricter classification rules.

Impairment provisions were €4bn at 31 December 2013 compared to €3.2bn at 31 December 2012. This is a year-on-year increase of 28% predominantly reflects the increased level of provisions booked in 2013 the impairment on the flow of new defaults and also effects of implementation of May 2013 CBI guidelines and the subsequent BSA.

While the overall NPLs have increased to 25% from 20% of total gross loans, the overall PCR for the portfolio has increased by 3 ppts to 48% at 31 December 2013.

ROI residential mortgages – Home loans

	31 December 2013	31 December 2012	Change
	€m	€m	%
Neither past due nor impaired	12,285	13,567	-9.4%
Past due but not impaired	1,295	1,750	-26.0%
Impaired	4,054	2,908	39.4%
Gross loans	17,634	18,225	-3.2%
Impairment provisions	(1,661)	(1,198)	38.6%
Net loans	15,973	17,027	-6.2%
Impaired	4,054	2,908	39.4%
> 90 days past due but not impaired	472	594	-20.5%
NPLs	4,526	3,502	29.2%
NPLs as % of gross loans	26%	19%	7 ppts
Provisions coverage ratio ("PCR")	37%	34%	3 ppts
Total cases #	142,156	144,951	-1.9%
Early arrears (0-90 days) #	7,063	7,990	-11.6%
Early arrears (0-90 days) %	5.0%	5.5%	-0.5 ppts
Late arrears (over 90 days) #	22,452	21,131	6.3%
Late arrears (over 90 days) %	15.8%	14.6%	1.2 ppts
Weighted average LTV %	108%	112%	-4 ppts

Home loans represent 73% of the total gross ROI residential mortgage portfolio. During 2013, Home loan NPLs have gone up by 29.2% while impairment provisions were increased by 38.6%. This is due to a combination of the effect from updates to the provisioning and the continued increase in arrears levels particularly in the first half of 2013. As a result, the NPLs as percentage of gross loans and PCR increased by 7 ppts and 3 ppts respectively.

In 2013, home loans early arrears cases, which represented 5.0% of total cases, reduced by 11.6% when compared to 2012. Nevertheless, late arrears cases, which represented 15.8%, increased by 6.3% when compared to 2012. However, late arrears cases have come down when compared with H1 2013 where it stood at 16.6% of total cases, which represents progress made in the book as the AMU has widened its focus from BTL from the second half of 2013.

The weighted average LTV has reduced from 112% in 2012 to 108% in 2013 mainly due to an improvement of 6.4 ppts in the CSO house price index in 2013. Further details are provided in note 33 to the financial statements.

Operating and Financial Review

ROI residential mortgages – Buy-to-let loans

	31 December 2013	31 December 2012	Change
	€m	€m	%
Neither past due nor impaired	4,059	4,233	-4.1%
Past due but not impaired	176	451	-61.0%
Impaired	2,201	1,909	15.3%
Gross loans	6,436	6,593	-2.4%
Impairment provisions	(1,289)	(993)	29.8%
Net loans	5,147	5,600	-8.1%
Impaired	2,201	1,909	15.3%
> 90 days past due but not impaired	28	90	-68.9%
NPLs	2,229	1,999	11.5%
NPLs as % of gross loans	35%	30%	5 ppts
Provisions coverage ratio ("PCR")	58%	50%	8 ppts
Total cases #	23,119	23,455	-1.4%
Early arrears (0-90 days) #	1,013	1,216	-16.7%
Early arrears (0-90 days) %	4.4%	5.2%	-0.8 ppts
Late arrears (over 90 days) #	3,905	5,011	-22.1%
Late arrears (over 90 days) %	16.9%	21.4%	-4.5 ppts
Weighted average LTV %	132%	138%	-6.0 ppts

Buy-to-let loans represent 27% of the total gross ROI residential mortgage portfolio. During 2013, BTL NPLs have gone up by 11.5% while impairment provisions were increased by 29.8%. As for Home Loans, this was due to updates to the provisioning methodology during the year. As a result, NPLs as percentage of gross loans and PCR increased by 5 ppts and 8 ppts respectively.

In 2013, BTL early arrears cases, which represented c.4.4% of total cases, reduced by 0.8 ppt when compared to 2012. Also, late arrears cases, which represented 16.9%, decreased by 4.5 ppt when compared to 2012.

The weighted average LTV has reduced from 138% in 2012 to 132% in 2013 mainly due to an improvement of 6.4 ppt in the CSO house price index in 2013. Further details are provided in note 33 to the financial statements.

Commercial Real Estate Mortgages

These represent 6% of the total loan portfolio. At 31 December 2013, the NPLs in this portfolio have gone up by 29.6% reflecting the continued deterioration in the market while impairment provisions were increased by 23.9% resulting in a slight drop in the PCR increased by 3 ppts.

Consumer Finance

These represent 1% of the total loan portfolio. At 31 December 2013, the NPLs in this portfolio have reduced by 32.2% while impairment provisions were decreased by 34.6%. This was due to the fact that c.€0.2bn of loans and impairment provisions were written off during the year.

Risk Management

Principal Risks and Uncertainties

Set out below are the risk factors that could have a material adverse effect on the Group's business, financial condition, results of operations and prospects in the next 12 months. The risk factors discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties as there may be risks and uncertainties of which the Group is not aware or which the Group does not consider significant but which in the future may become significant.

As a result of the challenging conditions in financial markets in the euro zone and continuing weakness in the Irish and UK economies, the precise nature of all risk and uncertainties that it faces cannot be predicted as many of these risks are outside the Group's control.

Reference is also made to the disclaimer in respect of Forward Looking Statements set out on the inside front cover.

Government Control and Intervention

The Irish Government is the majority owner of the Group as the holder of in excess of 99% of the Group's issued share capital.

The Credit Institutions (Stabilisation) Act 2010 (the "Stabilisation Act"), signed into law in December 2010, provides extensive powers to the Minister for Finance to recapitalise and restructure the Irish banking industry including, but not limited to, the disposal of assets by a relevant institution, assuming the shareholder powers of a relevant institution, and directing the drawing up of restructuring plans by a relevant institution. In exercising these powers, the Minister for Finance can apply to the High Court, following consultation with the Governor of the CBI and a relevant financial institution, including the Group. The introduction of the Stabilisation Act has created a mechanism for State intervention in the banking industry to an unprecedented degree which could have a significant adverse impact on the Group's operations.

The Minister for Finance has the power to seek direction orders, special management orders, subordinated liabilities orders and transfer orders from the Irish High Court ("Orders") under the Stabilisation Act. The Minister for Finance may seek an Order only if the Minister for Finance has consulted with the CBI and is of the opinion that making the Order is necessary in accordance with the provisions of the Stabilisation Act. The Minister for Finance must apply to the Irish High Court ex parte for approval of the relevant Order. The Minister for Finance has obtained three such Orders in relation to the Group. Two of the three Orders are currently the subject of legal proceedings in the Irish Courts, in which the applicants are a number of Group shareholders.

The CBI and Credit Institutions (Resolution) Act 2011 (the "Resolution Act") passed into law on 20 October 2011, establishes a framework to facilitate the orderly management

and resolution of distressed credit institutions. The Resolution Act applies to banks, building societies and credit unions licensed in Ireland other than those entities which are relevant institutions under the Stabilisation Act. The liquidation powers under the Resolution Act also apply to relevant institutions under the Stabilisation Act.

The introduction of new policies or the amendment of existing policies by the Government or the introduction of revised capital or deleveraging targets by the CBI may materially adversely affect the Group's business and financial condition. Policies in respect of the banking sector, including its supervision, regulation, capitalisation and structure, have and will continue to have a major impact on the Group. There can be no guarantee that the current policies will be continued.

In addition, current and future budgetary policy, taxation and other measures adopted by the State to deal with the economic situation in Ireland may have an adverse impact on the Group's customers' ability to repay.

Capital Management

Capital adequacy, and its effective management, is critical to the Group's ability to operate its businesses and to pursue its strategy. The Group's business and financial condition could be affected if the amount of capital is insufficient due to materially worse than expected financial performance (including for example, reductions in earnings as a result of impairment charges, increases in risk weighted assets and timing of disposal of certain assets and/or the minimum regulatory requirements imposed on the Group, the manner in which existing regulatory capital is calculated, the instruments that qualify as regulatory capital and the capital to which those instruments are allocated, could be subject to change in the future).

EU Restructuring Plan

As a result of the investment made by the Irish Government on 27 July 2011 the Group submitted a restructuring plan ("EU Restructuring Plan") to the European Commission on 31 July 2011, for approval under the EU's State aid rules.

The strategic plan for the Group has been endorsed by the Irish Authorities and has been formalised into a Restructuring Plan in line with State Aid rules and this was submitted to the European Commission at the end of June 2012 for their approval. Permanent tsb subsequently received favourable feedback from the Troika and, as part of the approval process, permanent tsb was asked to submit an Updated Financial Forecast to the European Commission's Directorate General for Competition (DG Comp). This updated plan was submitted to DG Comp in August 2013 by the Department of Finance.

Risk Management

The European Commission is required to consider whether the EU Restructuring Plan demonstrates the Group's long-term viability without reliance on State support, that there is adequate burden sharing by the Group (and its equity/debt capital holders) and that measures are taken to limit distortions of competition arising from the State aid.

The Group could be subject to a variety of risks arising from this review, as the European Commission could impose conditions on the Group in connection with the approval of the EU Restructuring Plan that could include (without limitation):

- Rejection of the Group's EU Restructuring Plan on the basis that it does not adequately demonstrate the long term viability of the Group, as a result of which the Group would need to be broken up;
- Compelling the Group to reduce its balance sheet substantially, including through disinvestment of certain businesses, brands or the Group's branches in addition to those already anticipated; and/or
- Imposing certain behavioural restrictions on the Group, which could include:
 - I. prohibiting the Group from doing business on more favourable terms than other market participants;
 - II. prohibiting the Group from providing certain products to certain markets or segments of markets;
 - III. restricting the Group's ability to pay dividends on shares or interest payments on debt securities, including hybrid capital instruments; or
 - IV. prohibiting proposed mergers or acquisitions by the Group in Ireland, the United Kingdom and/or in other markets.

The EU Restructuring Plan, to be agreed with the European Commission, may also give rise to additional costs related to the legal and financial assessment of potential transactions for the Group. Its implementation may also result in increased operating and administrative costs for the Group.

Any of the above factors in the context of the EU Restructuring Plan could have a materially adverse effect on (among other things) the Group's business and financial condition.

Economic Conditions

Ireland and the UK

The Group's businesses are subject to the inherent risks arising from the macroeconomic and other general business conditions in Ireland and the UK where its business operations are located and also in the wider euro zone economies.

Adverse developments, such as the continued relative downturn in economic activity, has resulted in a decline in demand for business products and services, weak consumer confidence, lower personal expenditure and consumption, increases in debt service burden of customers and limitations on the general availability of credit.

Even though there has been sign of improvement, these factors have significantly affected, and may continue to affect, the Group's customers and, as a consequence, the demand for, and supply of, the Group's products and services and in turn the Group's results, financial condition and prospects.

The magnitude of the fiscal adjustment agreed under the EU/IMF Programme, in addition to the low level of consumer and business confidence resulting from the economic downturn, continuing high unemployment, decreases in asset values and declining business activity, is impacting economic activity in Ireland.

The Group has already suffered significant losses due to the increased risk of default and the impact of declining asset values on the value of collateral.

The Group has also experienced reductions in business activity, increased funding costs and funding pressures, decreased asset values, decreased sales, additional write-downs and impairment charges with consequent adverse effects on its results of operations and financial condition.

The precise nature of all the risks and uncertainties the Group faces as a result of the economic outlook is difficult to predict, as many of the items are outside the Group's control.

European Union

In addition to the specific risks associated with Ireland and the UK discussed above, economic, monetary and political conditions and stability remain uncertain in the EU. If economic and financial conditions in the EU or the euro zone component of the EU deteriorate, or if fears persist that one or more EU/euro zone members will default or restructure its or their indebtedness, or if euro zone members are forced or choose to withdraw from the euro, the cost and availability of funding available to European banks, including the Group, may be affected, or such events could otherwise materially adversely affect the Group's business, financial condition and results of operations, including the value of its assets.

Risk Management

Funding and Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its contractual payment obligations, including funding commitments, as they fall due, resulting in an inability to support normal business activity and/or failing to meet liquidity regulatory requirements. The risk is inherent in banking operations and can be heightened by a number of factors, including an over reliance on a particular source of wholesale funding, changes in credit ratings or market dislocation.

Credit markets worldwide have experienced severe reductions in the level of liquidity and term funding during prolonged periods in recent years and the Group has seen the availability of funding in wholesale markets which it has traditionally accessed severely disrupted or not available. The downgrading of the Group, sovereign credit ratings and the EU/IMF Programme of Financial Support for Ireland has caused the withdrawal of funds from Irish banks.

As a result, the Group has been required to rely on shorter term funding with a consequent reduction in overall liquidity and to avail of liquidity schemes provided by Central Banks. The Group's ability to maintain material levels of funding from Central Banks is dependent on the continued eligibility of its collateral. Any reduction in the Group's eligible collateral could restrict its ability to continue to access this funding source.

This could further limit its access to funding and liquidity and could further materially affect the Group's results, financial conditions and prospects.

Minimum liquidity levels

The CBI requires that the Group's level of liquidity be maintained, based on various cash flow stress tests, in order to ensure that the Group's funding profile has an appropriate spread of maturities. The key limits applied are that the Group must have sufficient available liquidity to cover 100 per cent of outflows over the next 8 days and 90 per cent of outflows over the subsequent 9 to 30 days. The Group has been compliant with these key limits over the majority of 2013 and to date.

The Bank for International Settlements finalised proposals for changes to both the regulatory capital and the liquidity management framework for financial institutions, known as Basel III.

The regulatory capital framework changes are being phased-in, commencing with the Liquidity Coverage Ratio (LCR) from 1 January 2014. The enabling legislation was passed at European level in June 2013.

These proposals, amongst other measures, will require an increase in the minimum capital ratio required plus changes in the types of capital that can support that solvency ratio i.e. a focus on common equity. In summary there are 3 key changes which are:

- To raise the quality & quantum of regulatory capital required,
- Underpin this with a leverage ratio to act as a backstop,

- Introduction of a number of macro-prudential elements into the framework to help contain systemic risks arising from pro-cyclicality and the interconnectedness of financial institutions.

The BIS views a strong liquidity base supported by robust supervisory standards as being of equal importance to strong capital requirements.

- The LCR is intended to promote resilience to potential liquidity disruptions over a 30 day time horizon by ensuring that banks have sufficient unencumbered high quality liquid assets to offset net cash outflows under an acute short term stress scenario.
- The Net Stable Funding Ratio (NSFR) requires a minimum amount of stable sources of funding at a bank relative to the liquidity profiles of the assets, as well as the potential for contingent liquidity needs arising from off-balance sheet commitments, over a one-year horizon. The NSFR aims to limit over-reliance on short-term wholesale funding during times of buoyant market liquidity and encourage better assessment of liquidity risk across all on- and off-balance sheet items.

As the key elements of the Basel III requirements did not commence until January 2014 and the rollout is expected to continue on a phased basis until 2018, they have not been reflected in the disclosures in this document.

Loss of customer deposits

The Group relies on customer deposits to fund a considerable portion of its loan portfolio, the on-going availability of which is sensitive to factors outside of its control. Loss of consumer or retail confidence in the Group's banking businesses generally, amongst other things, could result in unexpectedly high levels of corporate or retail deposit withdrawals which could materially adversely affect the Group's business and financial condition.

Government guarantee schemes

The ELG Scheme and the Deposit Guarantee Scheme, pursuant to which the Group's customers benefit from a Government guarantee of their deposits had been important in retaining and growing deposits in the Group's banking business at the height of the banking crisis.

On 26 February 2012, the Minister for Finance announced the withdrawal of the ELG scheme from 29 March 2013, while retaining the Deposit Guarantee Scheme. The ending of the ELG marked a significant step in the normalisation of the banking system and this announcement did not adversely affect the Group.

Risk Management

Credit Risk

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

Risks arising from changes in credit quality and the recoverability of both secured and unsecured loans and amounts due from counterparties are inherent in a wide range of the Group's businesses.

The majority of the Group's customer exposures were originated and are managed in Ireland and the UK. The Group's principal exposure is to residential mortgages secured by a first legal charge on the property. Changes in economic conditions or in the behaviour of the Group's customers may adversely impact or further deteriorate the credit quality of the Group's loan portfolios. This may give rise to increased difficulties in relation to the recoverability of loans or other amounts due from borrowers, resulting in further increases in the Group's impaired loans and impairment provisions.

While there has been recent improvement in reported macroeconomic metrics such as house prices and unemployment, any reverse could put further strain on borrowers' capacity to repay loans. These and other economic factors may cause prices of property or other assets to stall or fall further, thereby reducing the value of collateral on many of the Group's loans and increasing write-downs and impairment losses.

The Group also has exposures to Sovereign and Banking counterparties and or their guarantors. Adverse changes arising from a general deterioration in global economic conditions, Eurozone uncertainty or systemic risks in the financial system could reduce the recoverability and value of these Group assets and lead to further increases in the Group's impaired loans and impairment provisions. The Group operates a protocol whereby maximum counterparty limits are part dependent on the credit ratings of wholesale counterparties so that exposure levels are reduced where counterparty credit standing has diminished.

In addition, changes in the regulatory/ legislative environment e.g. the Personal Insolvency Act, 2012 could lead to further uncertainty in relation to the full recoverability of certain outstanding debts given the newness of the legislation.

Systemic Risk

The credit environment has been adversely affected by significant instances of fraud and default.

Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, because the commercial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships between institutions. The Group has been exposed to increased risk as a result of failures of financial institutions during the global economic crisis. Defaults by, or even reductions in the perceived creditworthiness of, one or more corporate borrowers, or financial institutions, or the financial services industry generally have led to market-wide liquidity problems, losses and defaults.

This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Group interacts on a daily basis and therefore could adversely affect the Group.

Credit Ratings

The Group's credit ratings have been subject to change and may change in the future which could impact its cost, access to and sources of financing and liquidity. In particular, any future reductions in the long-term or short-term credit ratings of the Group's banking business would further increase the Group's borrowing costs, require the Group to replace funding lost due to the downgrade, which may include the loss of customer deposits, and may also limit the Group's access to capital and money markets and trigger additional collateral requirements in derivatives contracts and other secured funding arrangements.

As a result, any further reductions in the Group's long-term or short-term credit ratings could adversely affect the Group's access to liquidity and its competitive position, increase its funding costs and have a material adverse impact on the Group's earnings, cash-flow and financial condition or result in a loss of value in the securities.

The Group's un-guaranteed long-term unsecured senior debt is rated B3 (negative outlook) by Moody's and B+ (negative outlook) by Standard and Poor's; and the long-term bank deposit rating B1 (negative outlook) by Moody's. The Group's short-term debt is rated Not-prime by Moody's and B by Standard and Poor's. Long-term and short-term debt issued by the Group and covered by the Government Guarantee Scheme or by the ELG Scheme carries the sovereign rating and is rated Baa3/P-3 by Moody's and BBB+/A-2 by Standard and Poor's.

Risk Management

Sovereign Risk

As at 31 January 2014, the long-term (outlook) / short-term sovereign credit ratings for Ireland were Baa3 / P-3 from Moody's and BBB+ / A-2 Standard and Poor's. These ratings reflect the improved outlook for the state since exiting the EU/IMF bailout in December 2013. However, any downgrades in these ratings would be likely to impact on sourcing market funding for the State. This in turn would likely to impact on the Groups' ability to access markets.

Market Risk

Market risk is the risk that the Group's earnings or capital, or its ability to meet its business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, equity prices or foreign exchange rates.

Changes in interest rate levels and spreads may affect the interest rate margin realised between lending and borrowing rates, the impact of which may be heightened during periods of liquidity stress, such as those experienced in the past 4 years.

A large portion of the Group's mortgage book consists of tracker mortgages where the loans are priced at fixed margins over the ECB refinancing rate, which does not therefore allow the Group the flexibility to vary the rate where it would otherwise be desirable or appropriate to do so, in response to market movements. It is difficult to hedge the basis risk engendered by income being related to ECB rates, whereas funding is related to the higher money market rates. But such mitigants as are available are utilised.

While the Group has implemented risk management methods to mitigate and control these and other market risks to which it is exposed, it is difficult, particularly in the current environment, to predict with accuracy changes in economic or market conditions and to anticipate the impact that such changes could have on the Group's financial performance and prospects.

The results of the Group's banking operations are affected by the management of interest rate sensitivity. Interest rate sensitivity refers to the relationship between changes in market interest rates and changes in net interest income. The composition of the Group's assets and liabilities and any gap position resulting from this composition can cause income to vary with changes in interest rates. A mismatch of interest-earning assets and interest-bearing liabilities in any given period will, in the event of changes in interest rates, have an effect on the results from the banking business.

Operational Risk

The Group's businesses are dependent on their ability to process and report, accurately and efficiently, a large number of complex transactions across numerous and diverse

products, while complying with a number of different legal and regulatory regimes.

Operational risks are inherently present in the Group's businesses, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error, fraud, or from external events.

Although the Group has implemented risk controls and loss mitigation actions designed to identify and rectify weaknesses in existing procedures, this system of internal controls is designed to provide reasonable, but not absolute, assurance against the risk of material errors, fraud or losses occurring.

Any weakness in the Group's internal control systems or breaches or alleged breaches of such laws or regulations could result in increased regulatory supervision, enforcement actions and other disciplinary action, and have a material adverse impact on the Group's results, financial condition and prospects, as well as reputational damage which could exacerbate such adverse impact.

Pension Fund Risk

Following the introduction of a more onerous Minimum Funding Standard in 2012, the implementation of the changes to IAS 19 to eliminate 'corridor accounting' effective from 1 January 2013, and impending changes in regulatory capital measurement under CRDIV, a detailed review of the defined benefit pension arrangements was carried out in 2012. As a result of this review, the Group formally notified the Trustees of each of the Schemes of its intention to discontinue contributions to the defined benefit staff pension schemes. All scheme trustees agreed to wind-up the scheme during the year. The Group provides a defined contribution staff pension scheme for future accrual of pension benefits effective from 1st June 2013.

Arising from this action, the Group has ensured that it is not exposed to being forced to make additional contributions to the defined benefit schemes. The Group has communicated its decision to all relevant stakeholders and that it may result in a shortfall in the accumulated funds as against the estimated liabilities leading to a consequent reduction in member benefits. While the decision of the Group is currently the subject of threatened litigation from affected members of the Schemes, it is not anticipated that this will require pension fund risk to be continued to be held on the Group's Balance Sheet.

Therefore, whilst pension fund risk could have been a material, capital-consuming risk for the Group, it is fully mitigated through the actions described above.

Risk Management

Reputation Risk

Reputation risk, meaning the risk to earnings and capital from negative public opinion, is inherent in the Group's business. Negative public opinion can result from the actual or perceived manner in which the Group conducts its business activities, from the Group's financial performance, from the level of direct and indirect Government support or from actual or perceived practices in the banking and financial industry. Negative public opinion may adversely affect the Group's ability to keep and attract customers and, in particular, corporate and retail deposits which in turn may adversely affect the Group's financial condition and results of operations. The Group cannot be sure that it will be successful in avoiding damage to its business from reputational risk.

Legal and Regulatory Risk

The Group operates in a legal and regulatory environment that exposes it to potentially significant litigation and regulatory investigation and other risk. Disputes, legal proceedings and regulatory investigations are subject to many uncertainties, and their outcomes are often difficult to predict.

Adverse regulatory action or adverse judgements in litigation could result in restrictions or limitations on the Group's operations or result in a material adverse impact on the Group's reputation, results of operations or financial condition.

Changes in government policy, legislation or regulatory interpretation applying to the financial services industry in the markets in which the Group operates may adversely affect the Group's product range, distribution channels, capital requirements and, consequently, reported results and financing requirements.

The Group may be exposed to potential regulatory action arising from certain transactions between the Group and Anglo Irish Bank Corporation plc (now known as Irish Bank Resolution Corporation and in liquidation ("IBRC")) which were made public in February 2009.

The Group has no reason to believe that any such litigation and/or regulatory action will have a material effect on its results of operation, profit or loss and financial condition.

Group Risk Management Framework

In the context of Group risk management, risk is defined as unexpected future events leading to variability in performance and damage to earnings capacity, capital positioning, business reputation or cash flows; or any unexpected future event damaging the Group's ability to achieve its strategic, financial, or overall business objectives.

Risk taking is fundamental to a financial institution's business profile and hence prudent risk management, limitation and mitigation forms an integral part of the Group's governance structure.

The Group operates a proactive Enterprise Risk Management ("ERM") approach in the identification, assessment and management of risk.

This framework underpins profitable and prudent risk taking throughout the Group.

The Group ERM is designed to ensure that all material risks are identified and managed and that business strategy across the Group is implemented in full recognition of these risks.

The Board Risk and Compliance Committee ("BRCC") provides oversight and advice to the ptsb Board on risk governance, and supports the ptsb Board in carrying out its responsibilities for ensuring that risks are properly identified, reported, assessed and controlled, and that the Group's strategy is consistent with the Group's risk appetite.

Risk Appetite and Strategy

The ptsb Board sets overall policy in relation to the type and level of risk that the Group is permitted to assume. To achieve this, the ptsb Board has established a formal risk appetite statement. The risk parameters identified in the risk appetite statement are applied in practice throughout the business. These risk parameters are closely aligned with the Group's strategic and business objectives.

Risk parameters established in the risk appetite statement address core group values, such as solvency stability, prudent liquidity management, earnings stability, prudent credit risk management and operational risk management. Risk parameters have been established based on relevant internal and external data.

The Group risk appetite statement has been developed through an iterative process involving all the key functions of the Group. The ptsb Board holds the final responsibility for approval of the risk appetite statement.

Risk Management

Risk Governance

The ptsb Board is ultimately responsible for the governance of risk throughout the Group and establishing mechanisms and structures to control and manage risk. In addition, the ptsb Board approves overall policy in relation to the types and level of risk that the Group is permitted to assume in the implementation of strategic and business plans. The Group's risk governance framework was established by:

- Reviewing the risks applicable to the Group and selecting the methodology and reporting structures best placed to identify, capture and monitor these risks;
- Developing relevant risk policies with appropriate terms of reference, mandates and committee composition; and
- Benchmarking the Group's structures against industry guidelines for risk governance.

The risk governance structure, which is subject to on-going review and amendment by the ptsb Board of Directors, is set out below.

The risk governance structure facilitates reporting and escalation of risk issues from the bottom up, and communication and guidance of Group risk policy and risk decisions from the top down.

Risk Identification and Assessment

The risk identification and assessment process is overseen by the Chief Risk Officer, supported by the ERM function. Significant input is also provided by relevant Senior Management and the specific management committees.

The risk identification and assessment process operates within a clearly defined structure following four distinct steps.

- (1) *Risk investigation* – Through a consultative process involving relevant members of Senior Management, risks facing the Group are monitored on an on-going basis and formally reviewed on an annual basis. The risk identification process utilises a top down approach to identifying significant risks for the Group supported by a bottom up risk identification exercise carried out at business unit level.
- (2) *Determination of materiality* – The Group has a clearly defined definition of materiality in relation to risk assessment. This definition, which is approved by the ptsb Board, is applied to all identified risks to determine which risks are material for the Group. The materiality assessment is ratified with Group Senior Management. The determination of a risk's materiality follows an iterative approach.
- (3) *Risk treatment* – For each identified risk the Group's approach to management of the risk is established. Risk management techniques include (but are not limited to) limitation, monitoring, mitigation and capitalisation.

- (4) *Documentation and recording* – The risk assessment and treatment of all material risks are documented in full. Documentation is ratified by the relevant committees.

Board Risk and Compliance Committee ("BRCC")

The BRCC has responsibility for oversight and providing advice to the ptsb Board on risk governance, the current risk exposures of the Group and future risk strategy, including strategy for capital and liquidity management, the setting of compliance policies and principles and the embedding and maintenance throughout the Group of a supportive culture in relation to the management of risk and compliance. The BRCC supports the ptsb Board in carrying out its responsibilities for ensuring that risks are properly identified, reported, assessed and controlled, and that the Group's strategy is consistent with the Group's risk appetite.

The BRCC is responsible for monitoring adherence to the Group risk appetite statement. Where exposures exceed levels established in the appetite statement, the BRCC is responsible for developing appropriate responses. This is facilitated by the periodic review of a key risk indicators report calibrated to the risk appetite statement.

The BRCC, in turn, delegates responsibility for the monitoring and management of specific risks to committees accountable to it. These committees are the Enterprise Risk Management Committee, the Credit Committee and the Assets & Liabilities Committee. The terms of reference for each committee, whose members include members of Group Senior Management, are reviewed regularly by the BRCC.

Group Internal Audit

Group Internal Audit is ("GIA") is responsible for the independent assessment of the Group's corporate governance, risk management and internal control processes.

Responsibilities and Scope

GIA's primary responsibility is to the ptsb Board through the ptsb Board Audit Committee ("BAC"). All activities undertaken within, and on behalf of, the Group are within the scope of GIA. This includes the activities of subsidiaries and the work of risk and control functions established by the Group.

Independence

The Head of Group Internal Audit reports directly to the ptsb Board of Directors through the ptsb BAC.

Risk Management

Chief Risk Officer

The Chief Risk Officer has independent oversight of the Group's enterprise-wide risk management activities across all risk types. The Chief Risk Officer is responsible for identifying, assessing, measuring, mitigating and reporting all material risks to which the Group is or may become exposed. The Chief Risk Officer is a member of the Executive Committee ("ExCo") and reports independently to the Group Chief Executive Officer and to the Chairman of the BRCC. The Chief Risk Officer is tasked with:

- Providing second line assurance to the ptsb Board across all risk types;
- Developing and maintaining the Group's Enterprise Risk Management ("ERM") structure;
- Developing and maintaining the Group's Internal Capital Adequacy Assessment Process ("ICAAP");
- Providing independent risk advice to the ptsb Board on all risk issues, including the risk appetite and risk profile of the Group;
- Identifying material risks for the Group and developing appropriate responses to such risks; and
- Policing Group-wide adherence to risk policies and the Group's risk appetite statement.

In connection with these responsibilities the Chief Risk Officer is assigned the right of veto over planned management action, were he to consider such to be inconsistent with adherence to Board approved risk appetite.

The Chief Risk Officer is a member of the executive management team and of all risk committees within the Group and directly manages the risk teams and compliance teams throughout the Group.

Enterprise Risk Management Committee

The Enterprise Risk Management Committee ("ERMCO") is chaired by the Chief Risk Officer and includes the Group Chief Executive Officer, the Group Chief Financial Officer and other members of Group Senior Management.

- It is the primary second line of defence management committee of the Group, responsible for the measurement of risk and acting as guardian of the risks taken by the Group.
- It monitors and enforces the Group's Risk Appetite framework, risk policies and risk limits.
- It is responsible for developing the Group's risk measurement framework, and is responsible for monitoring the total risk position of the Group.

- It monitors the capital and solvency position of the Group, and is responsible for ensuring the accurate calculation of capital requirements as a Second Line of Defence.
- It maintains policies for managing conduct of business and other compliance risks.
- It maintains the Risk Register of the Group.
- It is responsible for validation of all Risk Models.

Group Credit Committee

The Group Credit Committee is chaired by the Customer Credit Director and includes the Group Chief Executive Officer, the Chief Risk Officer and other members of Group Senior Management.

It is responsible for developing and implementing credit policy within the Group. The policy addresses all material aspects of the full credit lifecycle, including credit risk assessment & mitigation processes, collateral requirements, collections & forbearance approaches and the risk grading of individual credit exposures. The credit risk management systems operate under this policy and through a hierarchy of lending authorities which are related to internal loan ratings, which are in turn linked to the probability of credit default. All credit approvals are subject to a system of tiered individual authorities. Above a certain level, approvals require sign off by the Group Credit Committee. The Group Credit Committee also monitors credit and credit risk exposure and its evolution against the risk appetite set by the ptsb Board, and oversees the development, implementation and performance of credit risk measurement tools.

It is the accountable body for execution and delivery of all systems of credit risk management to identify risks, measure risks, aggregate risks and report risks. It ensures that the appropriate operating frameworks exist within which credit risk management activities of the Group are undertaken. It operates as the forum for Group-wide credit risk management issues.

Risk Management

Assets and Liabilities Committee

The Assets and Liabilities Committee (“ALCO”) is chaired by the Group Chief Financial Officer and includes the Group Chief Executive Officer, the Chief Risk Officer and other members of Group Senior Management.

It is tasked with optimising Asset Liabilities Management risks, within the risk appetite limits set by the ptsb Board, and in line with the Group’s medium term plan and strategic direction. The ALCO reviews and is responsible for all activities relating to funding and liquidity management and strategy, structural asset and liability management, interest rate and market risk and for Treasury counterparty risk.

It is the accountable body for evaluation of other potential drivers of earnings volatility, such as competitive pressures and other non-interest rate related changes to market conditions, and for agreeing on optimisation and hedging strategies against those risks.

Board of Directors

Alan Cook

(Director join date: 13 April 2011)

Group Chairman

Alan (60) is a Fellow of the Chartered Insurance Institute (UK) and has extensive experience in financial services and public service in the UK and elsewhere. He is an experienced Chairman, Non-Executive Director and successful financial services general manager with strong people skills and experience of leading large scale change in both the private and public sectors. He is a former Managing Director of the UK Post Office, where he transformed the loss making organisation back into profit through cost reduction and growth in personal financial services. He is a former Chief Operating Officer of Prudential (UK and Europe) and a former Chief Executive of National Savings and Investments (the Government agency responsible for raising finance for the UK Government through the retail savings market). He is also a former Non-Executive Director of the Office of Fair Trading and the Financial Ombudsman Service. Alan is the current Deputy Chairman of Sainsbury Bank plc and the Chairman of the Highways Agency in England and a Non-Executive Director of the UK Department of Transport and of Metlife Europe Ltd. Alan also volunteers his time as Chairman of the University of Bedfordshire and Chairman of Action for ME, the leading UK Charity supporting those suffering from ME/CFS.

Jeremy Masding

(Director join date: 28 February 2012)

Group Chief Executive Officer

Jeremy (48) is an experienced career banker having worked with Barclays Bank in a variety of different roles between 1984 and 2007. These roles included branch banking, international banking and in head office as a Director of Strategy Development. In later years, he was a Board Director of Barclaycard, responsible for UK consumer finance. For a year (1998/1999) he worked on secondment from Barclays with the Cabinet Office in the UK. More recently, Jeremy has been Chairman of the Richmond Group (2010-2012), an independent loan broker and lender, and Group Chief Executive of Central Trust plc (2007-2009), a specialist loan broker and lender. Jeremy is an Associate and Fellow of the Chartered Institute of Bankers and holds an MBA from Manchester Business School.

Glen Lucken

(Director join date: 2 January 2013)

Group Chief Financial Officer

Glen (55) is a Fellow of the Institute of Chartered Accountants in England and Wales (FCA) and an Associate Member of the Association of Corporate Treasurers (AMCT). He also has a degree in chemistry from Imperial College. Glen is an experienced CFO with knowledge and expertise in a wide range of sectors including retail and consumer financial services, credit and store cards, banks and building societies. He has previously held senior finance and operations positions in Abbey National, Lloyds Banking Group, Barclaycard and OneSavings Bank. Glen's experience has been particularly valuable in his role as Chairman of the Group Assets and Liabilities Committee. Before his appointment as Group Chief Financial Officer in January 2013, Glen acted as interim Chief Financial Officer in permanent tsb since July 2012.

Dominic Dodd

(Director join date: 1 October 2012)

Independent Non-Executive

Dominic (46) is an experienced Non-Executive Director and Board Chairman. He is currently Chairman of the Royal Free London NHS Foundation Trust, a UK University teaching hospital. He was formerly an Executive Director of the Children's Investment Fund Foundation, one of Europe's largest philanthropic foundations. Prior to this he was a Managing Partner of Marakon Associates, an international strategy consulting firm, where he advised Chief Executives and top management on growing long-term value. In his capacity as Chairman of the Royal Free London, he is also a Director of UCL Partners, Europe's largest academic health science system. Dominic's unique experience is of particular benefit to the Board in terms of strategy formulation.

Board of Directors

Emer Daly

(Director join date: 20 September 2011)

Independent Non-Executive

Emer (50) is a Fellow of the Institute of Chartered Accountants and has worked in senior roles with PricewaterhouseCoopers and AXA Insurance. She is currently a Non-Executive Director of Friends Provident International Ltd ("FPI") based in the Isle of Man and Lombard S.A., based in Luxembourg and also chairs the Audit Risk and Compliance Committee of both companies. FPI and Lombard represent the international division of the UK life assurance Group, Friends Life Group plc. Emer is also Chairman of the Board of the Dublin Dental University Hospital, a member of the Department of Foreign Affairs Audit Committee and lectures in Risk Management in the UCD Graduate Business School. She was previously a Non-Executive Director of Eirgrid plc where she chaired the Audit Committee and Pensions Committee and was a member of the Remuneration Committee. She was also a Non-Executive Director of Payzone plc and chair of its Audit Committee. She was a member of the Property Registration Authority and of the Audit Committee of the Department of Justice and Equality. Emer brings her extensive skills and expertise in accounting and risk management to the Board and her past experience is of particular benefit as chair of the Audit Committee.

Ken Slattery

(Director join date: 30 August 2013)

Independent Non-Executive

Ken (65) is a Fellow of the Institute of Bankers and a member of the Institute of Directors. He has wide-ranging experience of the Irish Financial Services landscape having worked with the Bank of Ireland Group for over 40 years. During his time with BOI he held a number of senior management positions including Director of Operations at BOI Corporate Banking and more recently as Head of Payment and Electronic Services. During this latter role, Ken was responsible for the development, delivery and management of Internet Business Banking and Electronic payments across the BOI Group. Following retirement from BOI in 2006, Ken has broadened his knowledge and experience through Non-Executive Director positions with a number Irish and Northern Ireland Government departments, including Chair positions on Audit and Risk Committees. During this time he has also maintained his exposure to financial services through his directorship with Realex Financial Services where he was chair of the Company's Audit and Risk Committees until August 2013. Ken's general banking experience compliments the existing skillset of the Board and his prior experience as Chair of Audit and Risk Committees in both the public and private sector has been of particular benefit to the deliberations of the Audit Committee.

Julie O'Neill

(Director join date: 28 January 2014)

Independent Non-Executive

Julie (58) served as Secretary General of the Irish Department of Transport from 2002 until 2009 and in a public service career spanning 37 years, worked in strategic policy development and implementation with eight Government Departments. She is now an independent strategic management consultant and a Non-Executive Director at Ryanair plc. She is also a board member of the Sustainable Energy Authority of Ireland and the Irish Museum of Modern Art. She chairs the Audit Committees of Trinity College Dublin and the China Research Group at the Institute of International and European Affairs. She is also a member of the Institute of Directors. Julie brings a wide range of economic and social policy experience, as well as extensive administrative and managerial experience to the deliberations of the Board.

Richard Pike

(Director join date: 28 January 2014)

Independent Non-Executive

Richard (47) has extensive experience of working with financial institutions throughout the world, assisting companies in managing enterprise risk more efficiently while addressing local regulatory guidelines and standards. He is currently Senior Market Manager, EMEA at Wolters Kluwer Financial Services and has previously worked in various senior banking, insurance, credit and market risk roles at ABN AMRO, Bain, COMIT Gruppe and Quay Financial Software. He has analysed, designed and managed the development of core treasury and enterprise risk management systems for large financial institutions, including UBS, Citibank, Schroders and Unicredito. In 2009, Richard was recognised as a "Top 50" Face of Operational Risk by Op Risk & Compliance magazine and was a contributing author to two books on risk management. He is also a board member of the Enterprise Ireland /IDA funded Governance, Risk and Compliance Competence Centre which focuses on research in the area of Financial Services Governance, Risk & Compliance. Richard brings a different dimension to the Board, related to his in depth knowledge of Enterprise Risk Management systems together with access to his extensive network of banking and regulatory contacts in both the Irish and international marketplaces.

Board of Directors

Pat Ryan

(Director join date: 15 December 2009)

Independent Non-Executive

Pat (67) is a Fellow of the Society of Actuaries in Ireland and of the Institute and Faculty of Actuaries in the UK. He holds an M.Sc in Economics and a Bachelor of Commerce degree from University College Dublin, and is a Fellow of the Institute of Bankers in Ireland. He has an extensive background in risk, banking and treasury and worked for AIB Bank from 1972 until his retirement in 2002. During the period 1995 to 2002, Pat was Group Treasurer and Chief Risk Officer with AIB Group and chaired the Group's Credit Committee and Assets and Liabilities Committee. Pat is currently a Director of AXA Life Europe Limited and J&E Davy. Pat's mix of skills and experience in treasury and risk are of significant benefit to the Board and in discharging his role as Chairman of the Risk & Compliance Committee.

David Stewart

(Director join date: 1 April 2014)

Independent Non-Executive

David (48) has over 20 years board level experience in Financial Services. Until March 2014, he was the Chief Executive of the Coventry Building Society, having previously held the positions of Finance Director and Operations Director. Before joining Coventry Building Society in 2002, he worked for 10 years at DBS Management plc, holding a variety of positions including Group Chief Executive. David was the Chief Executive of Coventry Building Society throughout the entire period of the financial crisis, having been appointed in 2006. During this period, the Society performed strongly, more than doubling in size and retaining its "A" grade credit ratings. Key to this performance was the consistent implementation of a prudent and focused business model focusing on traditional savings and mortgages. A graduate of Warwick University and a qualified Chartered Accountant, David brings retail banking and leadership experience to the board.

Ciarán Long

Company Secretary

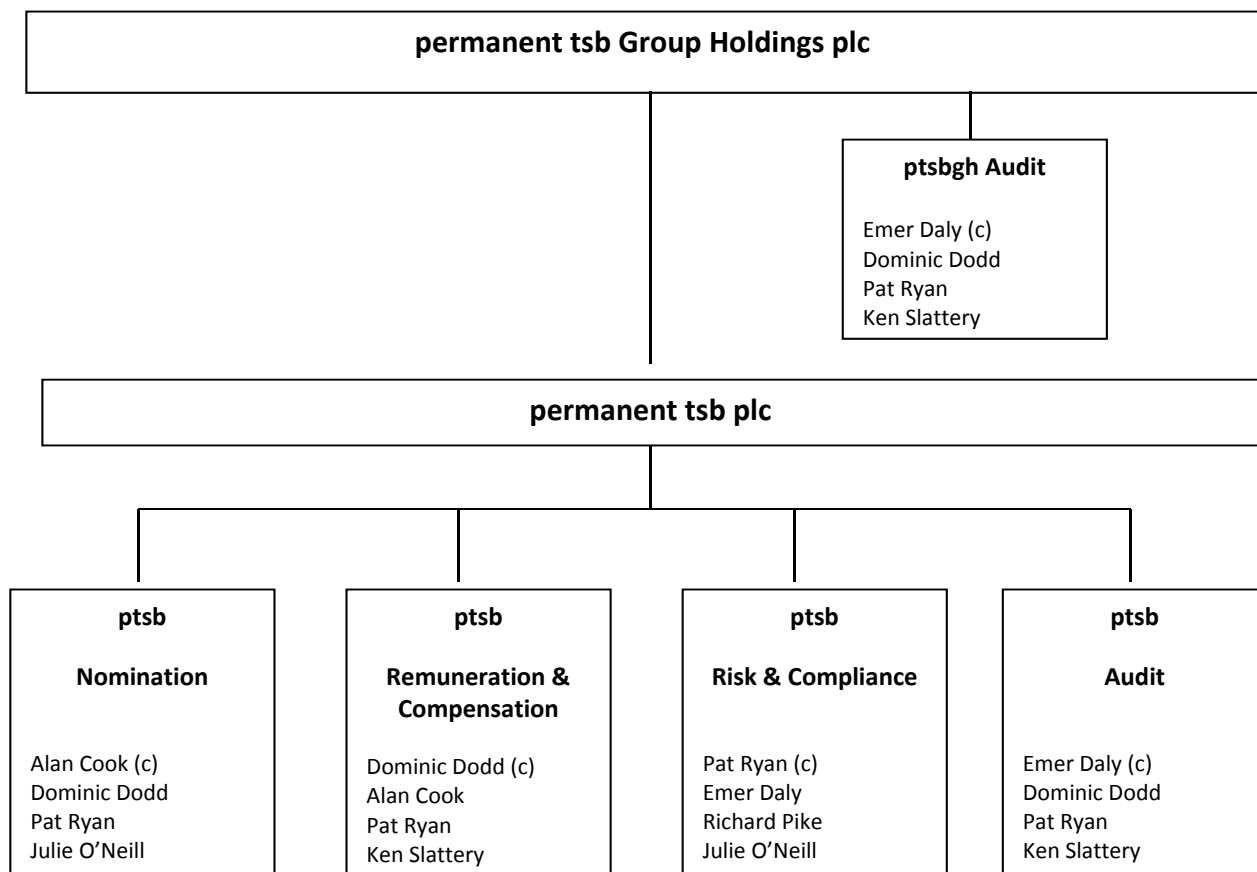
Ciarán (61) was appointed Company Secretary in May 2004. He acts as secretary to each of the Board Committees. An actuary and a former employee of Irish Life since 1969, he has held Senior Executive positions in both the life and pensions businesses in Irish Life Assurance and is a former general manager and Director of the Irish Life Corporate Business division. Ciarán is a Fellow of the Society of Actuaries in Ireland and of the Institute and Faculty of Actuaries in the UK. He holds an MSc in Business Administration from Trinity College Dublin and a Diploma in Company Direction from the Institute of Directors. He is a former Director of the Retirement Planning Council and is a former Board member of the Pensions Board.

Board of Directors

Board Committees

permanent tsb Group Holdings plc (“ptsbgh”) is the holding company of permanent tsb plc (“ptsb” or the “Company”) which in turn is the parent company of a number of other subsidiaries (together the “Group”). The current Board committee structure is set out below:

Board Committee Structure



(c) – Denotes committee chair.

Committee Membership: Appointment/Ceased Dates

Name	Nomination	Remuneration	Risk and Compliance	Audit
Alan Cook	02/06/11	05/05/11	-	-
Pat Ryan	10/11/11	23/03/10	02/02/2010	02/02/10
Ken Slattery	-	28/01/14	-	31/08/13
Emer Daly	23/10/11 – 28/01/14	-	24/10/2011	26/10/11
Dominic Dodd	28/01/14	29/01/13	22/01/13 – 28/01/14	28/01/14
Julie O'Neill	28/01/14	-	28/01/2014	-
Richard Pike	-	-	28/01/2014	-
Sandy Kinney	-	-	11/02/11 – 31/08/13	-
Ray MacSharry	02/06/11 – 22/05/13	24/03/09 – 22/05/13	-	-
Margaret Hayes	-	-	-	25/02/09 – 22/05/13

Directors' Report

The Directors present their annual report and audited Group and Company financial statements to the shareholders for the year ended 31 December 2013.

Results

The Group loss after tax and non-controlling interests for the year was €261m (2012: €996m) and was arrived at as presented in the consolidated income statement.

Dividends

No dividends were paid or proposed for 2013 or 2012.

Review of the Business and likely Future Developments

A detailed review of the Group's performance for the year and an indication of likely future developments are set out in the Group Chairman's Statement, Group Chief Executive's Review and the Operating and Financial Review. Information on the key performance indicators and principal risks and uncertainties of the business is provided as required by European Accounts Modernisation Directive (2003/51/EEC). The Group's key performance indicators are included in the Business Review section. The principal risks and uncertainties are outlined under risk factors in the Risk Management section and under going concern within the Corporate Governance section.

Accounting Policies

As required by European Union ("EU") law from 1 January 2005, the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") adopted by the EU as set out in Group accounting policies in note 1 to the financial statements.

Corporate Governance

The report on Corporate Governance, as outlined in the Corporate Governance section, forms part of the Directors' Report.

Principal Risks and Uncertainties

Information concerning the principle risks and uncertainties of the Group is set out in the risk management section of the business review on page 16 of the Annual Report.

Going Concern

The going concern of the Group has been considered in note 1 of the financial statements.

Directors

The names of the Directors, together with a detailed description of the skills, expertise and experience of each Director appear in the Board of Directors section. Glen Lucken was co-opted onto the Board as an Executive Director with effect from 2 January 2013. Ken Slattery was co-opted onto the Board as a Non-Executive Director on the 31 August 2013. Julie O'Neill and Richard Pike were co-opted onto the Board as Non-Executive Directors on the 28 January 2014. David Stewart was co-opted onto the Board as a Non-Executive Director on the 25 March 2014 effective from 1 April 2014. Margaret Hayes and Ray MacSharry retired as Directors on the 22 May 2013. Sandy Kinney retired as a Director on the 31 August 2013. Pat Ryan has advised the Board that he will retire from the Board on the 21 May 2014. Details of Directors' remuneration is detailed in the Remuneration Report on pages 46 to 47 of the annual report and Directors interests in shares is outlined in note 1 to the financial statements.

Share Capital and Shareholders

Credit Institutions (Stabilisation) Act 2010

Under the terms of the Credit Institutions (Stabilisation) Act 2010 (the "Act") the Minister for Finance may, in certain circumstances, direct the Company to undertake actions which may impact on the pre-existing legal and contractual rights of shareholders. Directions that could impact on the rights attaching to the ordinary and preference shares set out below include the dis-application of shareholder pre-emption rights, an increase in the Company's authorised share capital, the issue of shares to the Minister for Finance or to another person nominated by the Minister for Finance, or amendments to the Company's memorandum and articles of association.

Authorised Share Capital

The authorised share capital of the company is €428,000,000 divided into 400,000,000 Ordinary Shares of €0.32 each and 300,000,000 Non-Cumulative Preference Shares of €1 each ("Euro Preference Shares"), STG€100,000,000 divided into 100,000,000 Non-Cumulative Preference Shares of STG€1 each ("Sterling Preference Shares") and US\$200,000,000 divided into 200,000,000 Non-Cumulative Preference Shares of US\$1 each ("Dollar Preference Shares").

Directors' Report

Ordinary Shares

The company has only one class of issued shares and as at 31 December 2013, it had 276,782,351 Ordinary Shares in issue in that class. Each Ordinary Share carries one vote and as at 31 December 2013, ptsbgh was the beneficial owner of 100% of the issued shares of the Company.

Preference Shares

The general rights attaching to Sterling Preference Shares, Euro Preference Shares and Dollar Preference Shares ("Preference Shares") shall rank *pari-passu* as regards the right to receive dividends and the rights on a winding up of, or other return of capital by the Company.

Notwithstanding, such Preference Shares may be issued with such rights and privileges, and subject to such restrictions and limitations, as the Directors shall determine in the resolution approving the issue of Preference Shares. Whenever the Directors have power to determine any of the rights, privileges, limitations or restrictions attached to any of the Preference Shares, the rights, privileges, limitations or restrictions so determined need not be the same as those attached to the Preference Shares which have then been allotted or issued. Preference Shares which have then been allotted or issued shall constitute a separate class of shares. Preference Shares shall entitle the holders thereof to receive a non-cumulative preferential dividend ("Preference Dividend") which shall be calculated at such annual rate (whether fixed or variable) and shall be payable on such dates and on such other terms and conditions as may be determined by the Directors prior to allotment thereof.

(A) Provisions applying to Preference Shares

The following provisions shall apply in relation to any particular Preference Shares if so determined by the Directors prior to the allotment thereof:

- a. the Preference Shares shall rank, as regards the right to receive dividends, in priority to any Ordinary Shares in the capital of the Company;
- b. a Preference Dividend may only be paid from distributable profits and distributable reserves of the Company;
- c. a Preference Dividend may only be paid if it would not breach or cause a breach of the CBI's capital adequacy requirements applicable to the Company;
- d. Preference Shares shall carry no further right to participate in the profits and reserves of the Company other than the Preference Dividend and if on any occasion an instalment of the Preference Dividend is not paid in cash for the reasons described in sub-paragraph

(b) or sub-paragraph (c) above, the preference shareholders' shall have no claim in respect of such instalment;

- e. each holder of Preference Shares shall, on the date for payment of a Preference Dividend instalment, if such instalment had not been paid in cash, be allotted such additional nominal amount of Preference Shares of the class in question, credited as fully paid, as is equal to an amount which would have been paid to the holder had such relevant instalment been paid in cash plus an amount equal to the associated tax credit to which the holder would have been entitled had the relevant instalment been paid in cash.

(B) Capital

On a winding up of, or other return of capital (other than on a redemption of shares of any class in the capital of the Company) by the Company, the preference shareholders' shall, in respect of the Preference Shares held by them, be entitled to receive, out of the surplus assets available for distribution to the Company's members, an amount equal to the amount paid up or credited as paid up on the Preference Shares (including any premium paid to the Company in respect thereof) together with any Preference Dividend which is due for payment after the date of commencement of the winding up or other return of capital but which is payable in respect of a period ending on or before such date and any Preference Dividend accrued prior to the date of return of capital.

The amounts payable or repayable in the event of a winding up of, or other return of capital (other than on a redemption of shares of any class in the capital of the Company) by, the Company, shall be so paid *pari-passu* with any amounts payable or repayable in that event upon or in respect of any further Preference Shares of the Company ranking *pari-passu* with the Preference Shares as regards repayment of capital, and shall be so paid in priority to any repayment of capital on any other class of shares of the Company. The preference shareholders shall not be entitled, in respect of the Preference Shares held by them, to any further or other right of participation in the assets of the Company.

(C) Redemption

Unless otherwise determined by the Directors either generally or in relation to any particular Preference Shares prior to allotment thereof, the Preference Shares shall, subject to the provisions of the Acts, be redeemable at the option of the Company where the Company shall give to the holders of the Preference Shares to be redeemed not less than 30 days and not more than 60 days' notice in writing of the date on which such redemption is to be effected.

Directors' Report

(D) Voting

The preference shareholders shall be entitled to receive notice of any General Meeting of the Company and a copy of every circular or other like document sent out by the Company to the holders of Ordinary Shares and to attend any General Meeting of the Company but shall not, in respect of the Preference Shares, be entitled to speak or vote upon any resolution other than a resolution for winding up the Company or a resolution varying, altering or abrogating any of the rights, privileges, limitations or restrictions attached to the relevant Preference Shares unless at the date of such meeting the most recent instalment of the Preference Dividend due to be paid prior to such meeting shall not have been paid in cash in which event the preference shareholders shall be entitled to speak and vote on all resolutions proposed at such meeting.

At a separate General Meeting of any class of preference shareholders, where a preference shareholder is entitled to vote, on a show of hands or on a poll, each preference shareholder present in person or by proxy shall have one vote in respect of each Preference Share held by him as the Directors may determine prior to the allotment of such shares. Whenever preference shareholders are entitled to vote at a General Meeting of the Company then, on a show of hands or on a poll, each preference shareholder present in person or by proxy shall have one vote in respect of each Preference Share held by him as the Directors may determine prior to the allotment of such shares.

If the most recent instalment of the Preference Dividend has not been paid a majority of any class of Preference Shares in issue may requisition, and the Directors shall procure, that an Extraordinary General Meeting of the Company shall be convened forthwith.

(E) Restriction on Capitalisation

Save with the written consent of the holders of not less than 66.66% in nominal value of each class of Preference Shares, or with the sanction of a resolution passed at a separate General Meeting of the holders of each class of Preference Shares where the holders of not less than 66.66% in nominal value of the relevant class of Preference Shares have voted in favour of such a resolution, the Directors shall not capitalise any part of the amounts available for distribution if, after such capitalisation, the aggregate of such amounts would be less than a multiple, determined by the Directors prior to the allotment of each class of Preference Shares, of the aggregate amount of the annual dividends (exclusive of any associated tax credit) payable on Preference Shares then in issue ranking as regards the right to receive dividends or the rights on winding up of, or other return of capital by the Company, *pari-passu* with or in priority to the Preference Shares, or authorise or create, or increase the amount of, any shares of any class or any security convertible into the shares of any class ranking as

regards the right to receive dividends or the rights on winding up of, or other return of capital by the Company, in priority to the Preference Shares.

(F) Further Preference Shares

The Company may from time to time create and issue further Preference Shares ranking as regards participation in the profits and assets of the Company *pari-passu* with the Preference Shares and so that any such further Preference Shares may be denominated in any currency and may carry as regards participation in the profits and assets of the Company rights identical in all respects to those attaching to the Preference Shares or rights differing there from.

The creation or issue of, or the variation, alteration or abrogation of or addition to the rights, privileges, limitations or restrictions attaching to, any shares of the Company ranking after the Preference Shares as regards participation in the profits and assets of the Company and, provided that, on the date of such creation or issue, the most recent instalment of the dividend due to be paid on each class of Preference Share in the capital of the Company prior to such date shall have been paid in cash, the creation or issue of further Preference Shares ranking *pari-passu* with the Preference Shares as provided for above, shall be deemed not to be a variation, alteration or abrogation of the rights, privileges, limitations or restrictions attached to the Preference Shares. If any further Preference Shares of the Company shall have been issued, then any subsequent variation, alteration or abrogation of or addition to the rights, privileges, limitations or restrictions attaching to any of such further Preference Shares shall be deemed not to be a variation, alteration or abrogation of the rights, privileges, limitations or restrictions attaching to the Preference Shares, provided that the rights attaching to such further Preference Shares thereafter shall be such that the creation and issue by the Company of further Preference Shares carrying those rights would have been permitted.

Variation of Rights

Whenever the share capital is divided into different classes of shares, the rights attached to any class may be varied or abrogated with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate General Meeting of the holders of the shares of the class, and may be so varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding-up.

Directors' Report

Allotment of Shares

Subject to the provisions of the Articles of Association relating to new shares, the shares shall be at the disposal of the Directors and (subject to the provisions of the Articles and the Acts) they may allot, grant options over or otherwise dispose of them to such persons on such terms and conditions and at such times as they may consider to be in the best interests of the Company and its shareholders', but so that no share shall be issued at a discount and so that, in the case of shares offered to the public for subscription, the amount payable on application on each share shall not be less than one-quarter of the nominal amount of the share and the whole of any premium thereon.

Holders Resident in the USA

The Board may at its discretion give notice to certain holder's resident in the USA calling for a disposal of their shares within 21 days or such longer period as the Board considers reasonable. The Board may extend the period within which any such notice is required to be complied with and may withdraw any such notice in any circumstances the Board sees fit. If the Board is not satisfied that a disposal has been made by the expiry of the 21 day period (as may be extended), no transfer of any of the shares to which the notice relates may be made or registered other than a transfer made pursuant to a procured disposal of the said shares by the Board, or unless such notice is withdrawn.

Refusal to Transfer

The Directors in their absolute discretion and without assigning any reason therefore may decline to register:

- I. any transfer of a share which is not fully paid save however, that in the case of such a share which is admitted to listing on the Stock Exchange, such restriction shall not operate so as to prevent dealings in such shares of the Company from taking place on an open and proper basis;
- II. any transfer to or by a minor or person of unsound mind; or
- III. The Directors may decline to recognise any instrument of transfer unless:
 - a. the instrument of transfer is accompanied by the certificate of the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer (save where the transferor is a Stock Exchange Nominee);
 - b. the instrument of transfer is in respect of one class of share only;
 - c. the instrument of transfer is in favour of not more than four transferees; and

- d. it is lodged at the office or at such other place as the Directors may appoint.

Director Appointments

The Company has no rules governing the appointment and replacement of Directors or the amendment of the Company's Articles of Association outside of the provisions thereto in the said articles. Under Statutory Instrument 411 of 2008 (Credit Institutions (Financial Support) Scheme 2008) the Minister for Finance may nominate two Public Interest Directors for appointment to the Board of the Company. Under a relationship framework entered into between the Company and the Minister for Finance, the Minister's consent is required for the appointment or re-appointment of the Group Chief Executive Officer or Group Chairman. In addition the Credit Institutions (Stabilisation) Act 2010 provides broad powers to the Minister for Finance to take a range of actions in relation to banks covered by this act including the composition of their Boards.

Shareholder Rights

The rights attaching to shares as set out in this Directors report are subject to the provisions of the Credit Institutions (Stabilisation) Act 2010.

Post Balance Sheet Events

Events after the reporting period are described in note 44 to the financial statements.

Accounting Records

The Directors believe that they have complied with Section 202 of the Companies Act, 1990 with regard to books of account by employing financial personnel with appropriate expertise and by providing adequate resources to the financial function. The books of account of the Company are maintained at the Company's registered office, 56-59 St Stephen's Green, Dublin 2 and the principal offices of the Group and its subsidiaries, as highlighted in note 42 to the financial statements.

Political Donations

The Directors have satisfied themselves that there were no political contributions during the year, which require disclosure under the Electoral Act, 1997.

Directors' Report

Subsidiaries undertakings

The principal subsidiaries undertakings and the Company's interests therein are shown in note 42 to the financial statements.

Branches outside the State

The Company has an established branch, within the meaning of Regulation 25 of the European Communities (Accounts) Regulations, 1993 (which gave effect to EU Council Directive 89/666/EEC), in the United Kingdom.

Independent Auditor

In accordance with Section 160(2) of the companies Act, 1963 the Auditor, PricewaterhouseCoopers ("PwC") Chartered Accountants and Statutory Audit Firm, will continue in office.

PwC were appointed as auditors at the AGM in 2013.

On behalf of the Board

Alan Cook

Group Chairman

Jeremy Masding

Group Chief Executive Officer

Glen Lucken

Group Chief
Financial Officer

Ciarán Long

Company Secretary

Corporate Governance

CBI Corporate Governance Code

In November 2010, the CBI issued a Corporate Governance Code for Credit Institutions and Insurance Undertakings ("the CBI Code"). The CBI Code imposes statutory minimum core standards upon all credit institutions and insurance undertakings with additional requirements upon entities which are designated as major institutions. The Company has been designated as a major institution under the CBI Code. Each of the Directors in office at the end of the reporting period has confirmed that to the best of their knowledge, the Company has materially complied with all of its obligations and requirements under the CBI Code during the reporting period.

Role of the Board

There is an effective Board to lead and control the Group. The Board has reserved to itself for decision a formal schedule of matters pertaining to the Group and its future direction, such as the Group's commercial strategy, major acquisitions and disposals, Board membership, appointment and removal of the Group Chief Executive Officer, executive remuneration, trading and capital budgets, and risk management policies. On an annual basis, the Board will approve the risk appetite statement together with its strategic and operating plans. The Group consists of three Strategic Business Units (SBUs) and a Group Centre. Each of the Group's SBUs is managed by its own Executive Committee. The Executive Committees are led by the Group Chief Executive Officer who is responsible for bringing the strategy proposition and risk appetite definition to the Board for review and approval. The Board delegates day-to-day management of the Group to the Group Chief Executive as Chair of the Executive Committees. The Board relies on its risk appetite and the delivery of operating plans to be implemented by the Executive Committees and their management sub-committees.

All strategic decisions are referred to the Board. Documented rules on management authority levels and on matters to be notified to the Board are in place, supported by an organisational structure with clearly defined authority levels and reporting responsibilities.

Decisions on Board membership are taken by the Board. The Nomination Committee brings recommendations on Board membership to the Board. The balance and mix of appropriate skills and experience of Non-Executive Directors are taken into account when considering a proposed appointment. The behaviours likely to be demonstrated by potential Non-Executive Directors are also considered when interviewing for new appointments to ensure that an environment in which challenge is expected and achieved is maintained in the Boardroom. In reviewing Board composition, the Nomination Committee considers the benefits of diversity, including gender, and looks to ensure a geographical mix of Directors, together with representatives from different industry sectors.

The Board's objective is that approximately 50% of Non-Executive Directors, including the Board Chairman together with the Chairs of the Audit and Risk Committees should have banking and/or financial services experience and this will also be taken into account when recommending appointments. All candidates for appointment need to demonstrate the financial literacy required for a proper understanding of the Group's activities and associated risks. The Nomination Committee seeks to ensure that a proportion of the Board have a deeper understanding of financial products.

During 2013 and early 2014, the Board recruited Ken Slattery, Julie O'Neill, Richard Pike and David Stewart as Independent Non-Executive Directors. The Nomination Committee utilises the services of an external search agency and in addition, a list of potential candidates from a wide range of backgrounds was generated through contacts provided by the Group's professional advisors and other external sources. The Chairman and Company Secretary met with over thirty potential candidates for these positions. The Nomination Committee has written guidelines to ensure that candidates are selected solely on merit based on their skills, competencies, qualifications and ability to commit sufficient time to the role. Each of the Directors has received approval from the CBI to act as Directors of the Company in accordance with the CBI's Fitness and Probity regulations.

Biographies of each of the Directors are set out in the Board of Directors section. The wide range of qualifications, skills and experience that is encapsulated in the biographies is harnessed to the maximum possible effect in the deliberations of the Board. Having Directors with diverse backgrounds in areas such as credit risk, financial services, public service, strategy formulation, enterprise risk management, consumer sales and a general business acumen has been of particular benefit to the Group as it continues to operate in a particularly challenging environment.

Corporate Governance

The roles of the Group Chairman and the Group Chief Executive Officer are separated and are clearly defined, set out in writing and agreed by the Board. The Group Chairman continues to meet the independence criteria set out in the CBI Code. The Board has nominated Pat Ryan as the Senior Independent Non-Executive Director.

The Board held 18 Board meetings during 2013. Full Board papers are issued electronically to Directors via a secure 'app' based tool in sufficient time before Board meetings and any further papers or information are readily available to all Directors on request. The Board papers include the minutes of all relevant committee meetings which have been held since the previous Board meeting and the Chairman of each committee reports on the committee's proceedings at Board meetings, if appropriate. Attendance at Board and committee meetings is outlined later in this section. The Board receives formal reports on Group risk and compliance matters at each of its meetings.

The ptsb Board has a formal performance review process to assess how the ptsb Board and its committees are performing. The review of performance for 2013 was facilitated by an independent HR consultant who works with a range of public and private sector companies. This consultant has no other commercial connection or arrangement with the Group. The performance of each individual Director is also assessed on an annual basis by the Group Chairman and is discussed with the Director concerned. The Non-Executive Directors, led by the Senior Independent Director, evaluate the performance of the Group Chairman, taking into account the views of Executive Directors.

The Group Chairman meets at least once a year with the Non-Executive Directors without the Executives present. Procedures are in place for Directors, in furtherance of their duties, to take independent professional advice and training, if necessary, at the Group's expense. The Group has arranged Directors' and officers' liability insurance cover in respect of legal action against its Directors.

The Company Secretary is responsible for advising the Board through the Group Chairman on all governance matters. All Directors have direct access to the Company Secretary.

Board Committees

All Board committees are composed of Non-Executive Directors, all of whom are considered by the Board to be independent. Membership, the Chairmanship and the terms of reference of each committee are reviewed annually. Detailed terms of reference for each of the committees are available on request and on the Group's website www.permanentsbgroup.ie

Audit Committee

Composition and Operation

The Audit Committee is composed of Independent Non-Executive Directors. Neither the Chairman nor the CEO is a member of the Audit Committee. The Board requires that the Chairman of the Audit Committee has recent and relevant financial experience. The Chairman of the Audit Committee is responsible for leadership of the Committee and for ensuring its effectiveness. The members of the Audit Committee meet on their own at the start of each meeting and subsequent attendance by the CEO, Board Chairman and others is by invitation only and managed to ensure the on-going independence of the committee. The Board requires that a minimum of two members are common to the Audit Committee and the Risk and Compliance Committee. On an annual basis the Committee reviews its own terms of reference and its own effectiveness and recommends changes considered necessary to the Board.

Role and Responsibilities

The Audit Committee monitors the effectiveness and adequacy of internal control, internal audit and IT systems and reviews the effectiveness of risk management procedures, in addition to reviewing the integrity of the Company's internal financial controls. The Audit Committee reviews the arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

The Audit Committee monitors the integrity of the financial statements of the Company, reviewing significant financial reporting judgements contained therein, to ensure that they give a "true and fair view" of the financial status of the Company and to recommend to the Board whether to approve the annual and half-year reports.

Corporate Governance

In considering the fairness, balance and clarity of the annual report, the Committee had regard to the significant issues relating to the financial statements that are set out below. Each of these significant issues was addressed in the report received by the Committee from the external auditors and was discussed in the Committee's meeting with the external auditors.

Going Concern

In considering management's assessment of the Group's ability to continue as a going concern, the Committee considered Group's need for approval of the Restructuring Plan and the Group's continued access to funding provided by the European Central Bank. The Committee agreed with the management that these matters indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. However, the Committee discussed the Group's plans with the Central Bank of Ireland and the Department of Finance and therefore is satisfied on the basis of these discussions that it would be appropriate to consider that the necessary liquidity would be available to support the going concern assumption. These discussions also included consideration of the Group's restructuring plan, the approval of which remains outstanding. On the basis of these discussions, and various discussions held with management, the Committee was satisfied that it was appropriate that the financial statements should continue to be prepared on a going concern basis.

Loan Impairment Provisions

The Committee considered the Group's methodology for loan impairment provisioning, and in particular the Impairment Provisioning and Disclosure Guidelines issued by the Central Bank in May 2013. The Committee discussed with management in detail the changes and revisions made to Group's provisioning models as a result of implementing these guidelines and the resulting level of impairment provisions recognised in the financial year, and the total impairment allowance at the year end. The Committee focused specifically on the Irish residential mortgage portfolio where the economic environment remained weak. Reduced disposable income, the condition of the housing market, and continued high levels of unemployment have resulted in a higher level of impaired loans at the December 2013 year end. Management also provided the Committee with sensitivities of various parameters and assumptions used in the impairment provision methodology.

The Committee also reviewed Management's papers which considered arrears levels, forbearance measures and their impact on provision levels and key assumptions and was satisfied that the level of loans classified as impaired at year end was consistent with the Group's methodology, and that the calculation and resulting provision recognised were appropriate based on the requirements of IAS 39.

Recognition and Recoverability of Deferred Tax Assets

The Committee considered the extent of deferred tax assets recognised by the Group in respect of unutilised tax losses, and in particular the future legal entity and trading structure of the Group which ultimately will be influenced by the Group's strategy, economic environment and pending approvals of the Group's Restructuring Plan by the relevant Authorities, and the projections for future profits against which those losses may be utilised in the future. The Group's strategic outlook has continued to improve, both from the perspective of the macroeconomic environment and the Group's performance. Arising from this progress, it has become achievable for the Core Bank, ptsb SBU and AMU, to be maintained within a single viable entity, rather than solely ptsb SBU which was the basis on which the deferred tax asset was recognised at 31 December 2012 and 30 June 2013. The Directors judge that a Core Bank of ptsb SBU and AMU is both the probable outcome, and a desirable outcome from the perspective of key stakeholders. Accordingly, in line with the requirements of IAS 12 "Deferred Tax Assets", Management have formed the view that it became probable during the second half of 2013 that the carried forward tax losses within the Core Bank, which are predominantly associated with assets in the AMU, could be utilised against future profits, which will predominantly be generated by ptsb SBU. This has resulted in the recognition of €414m of additional Deferred Tax Assets during the year. Having considered the above, the Committee agreed with Management's assessment that it was probable that the level of deferred tax assets recognised in the financial statements at 31 December 2013 would be recovered. The Committee noted that IFRS does not allow for the deferred tax asset recognised to be discounted notwithstanding that it is likely to take a number of years to recover it.

Corporate Governance

Provisions for Liabilities

The Committee considered the provisions made in the financial statements in order to make an assessment of the appropriateness of the underlying liabilities. Management presented a paper outlining the requirements of IAS 37 and the basis of the provisions proposed including legal advice as appropriate. This was considered and assessed by the Committee and where the situation involved potential litigation,

Exceptional Items

The Committee confirmed its approval of the Group's policy to highlight, as exceptional items, those items of income and expense that the management considers should be separately disclosed due to their nature or size, to enable a better understanding of the operating results including and excluding such items. The Committee challenged and agreed with management's view that the impact of wind up of the defined benefit pension scheme was part of the restructuring of the Group which was one-off and significant.

Relationship with External Auditors

The Audit Committee provides a link between the Board and the external auditors, independent of the Company's management. The external auditors regularly attend Audit Committee meetings and the Committee meet with the external auditors at least once a year without management present to discuss their remit and any issues arising from the audit.

The Audit Committee reviewed the external audit plan prior to the commencement of the 2013 Audit. Following the audit, the Audit Committee met with the external auditor to review the findings from the audit of the Group financial statements.

The Audit Committee has a process in place to ensure that the independence of the external audit process is not compromised, which includes monitoring the nature and extent of the services provided by the external auditor through its annual review of fees paid to the external auditor for audit and non-audit work, seeking confirmation from the external auditor that they are in compliance with relevant ethical and professional guidance and that, in their professional judgement, they are independent of the Group.

The Audit Committee review of the non-audit services is based on the policy approved by the Board. Fees paid in respect of audit, other assurance services, tax advisory services and non-audit services are outlined in note 9 to the financial statements.

Other assurance services are services carried out by the auditors by virtue of their role as auditors and include assurance related work, regulatory returns and accounting advice. In line with best practice, the auditors do not provide services such as financial information system design and valuation work which could be considered to be inconsistent with the audit role.

The amount of fees payable to external auditors for their audit services was €0.5 million (excluding VAT) payable to PwC Ireland. €0.1 million (excluding VAT) was paid in respect of non-audit services to PwC Ireland.

During 2012, the Audit Committee undertook a competitive tendering process for the appointment of the Auditors. This development followed a Board decision that the position of auditors should be subject to regular, competitive tendering. Following the outcome of this process, the Board had proposed that PwC be appointed as Auditors (to replace KPMG) and this was ratified by Shareholders at the Company's AGM held on the 22 May 2013.

Review of Group Internal Audit

The Audit Committee approves the annual work programme for the Group Internal Audit function, ensures that it is adequately resourced and has appropriate standing within the Group. The Head of Internal Audit has a direct reporting line to the Chairman of the Audit Committee and the Audit Committee meets with the Head of Internal Audit on a regular basis without the presence of management. The Audit Committee receives regular reports from Group Internal Audit, which include summaries of the key findings of each audit in the period. The Audit Committee ensures co-ordination between Group Internal Audit and the external auditor.

Risk and Compliance Committee

The Committee is responsible for monitoring adherence to the Group risk appetite statement. Where exposures exceed levels established in the appetite statement, the Committee is responsible for developing appropriate responses. This is facilitated by the periodic review of a key risk indicators report calibrated to the risk appetite statement.

The Committee, in turn, delegates responsibility for the monitoring and management of specific risks to committees accountable to it. These committees are the Enterprise Risk Management Committee, the Credit Committee and the Assets & Liabilities Committee. The terms of reference for each committee, whose members include members of Group senior management, are reviewed regularly by the Committee.

Corporate Governance

The Committee supports the Board in carrying out its responsibilities for ensuring that risks are properly identified, reported, assessed and controlled, and that the Group's strategy is consistent with the Group's risk appetite.

Remuneration and Compensation Committee

The Remuneration Committee considers all aspects of the performance and remuneration of Executive Directors and Senior Executives and sets the remuneration of these Executives, having consulted with the Group Chairman, the Group Chief Executive Officer and the other Non-Executive Directors. The Committee also has responsibility for setting the remuneration of the Group Chairman (without the Group Chairman being present) and the Group Chief Executive Officer. In addition the Committee has responsibility for general oversight of reward policy to ensure its efficacy and compliance with legal and regulatory requirements. During 2013 the Committee used the Executive Compensation Practice of Towers Watson for advice on Executive Director and Senior Management remuneration. Services provided to the Group by other Towers Watson practices include the valuation of the TSB Staff Pension Scheme by its actuarial practice.

Nomination Committee

The Nomination Committee is charged with responsibility for bringing recommendations to the Board regarding the appointment of new Directors and of a new Group Chairman. The Group Chairman does not attend the Committee when it is dealing with the appointment of a successor to the Group Chairman. Decisions on Board appointments are taken by the full Board. All Directors are subject to re-appointment by election by the shareholders' at the first opportunity after their appointment.

The Committee keeps under review the leadership needs of the Group, both Executive and Non-Executive, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace. This Committee is also responsible for reviewing the effectiveness of the Board's operations, including the Chairmanship and composition of Board committees.

Subject to satisfactory performance and re-appointment by shareholders, Non-Executive Directors are typically expected to serve two three-year terms, although the Board, following rigorous review, may extend an invitation to serve a further three-year term. The form of appointment letter for Non-Executive Directors is available for inspection and is also included on the Group's website www.permanenttsbgroup.ie. The remuneration of the Non-Executive Directors is determined by the Board within the parameters decided by the shareholders' and on the advice of the Group Chairman and the Group Chief Executive Officer. The term of office of the Group Chairman is six years regardless of any previous term as a Director.

Corporate Governance

Attendance at Board/Committee Meetings during the year ended 31 December 2013

	Board		Audit		Risk and Compliance		Remuneration & Compensation		Nomination	
	A	B	A	B	A	B	A	B	A	B
Non-Executive Directors										
Alan Cook	18	18	-	-	-	-	8	8	5	5
Emer Daly	18	17	8	8	10	10	-	-	-	-
Dominic Dodd	18	17	1	1	10	7	8	8	5	4
Margaret Hayes	7	6	4	4	-	-	-	-	-	-
Sandy Kinney	11	10	-	-	6	5	3	3	-	-
Ray MacSharry	7	7	-	-	-	-	8	8	1	1
Pat Ryan	18	18	8	8	10	10	-	-	6	6
Ken Slattery	7	6	2	2	-	-	-	-	-	-
Executive Directors										
Jeremy Masding	18	18	-	-	-	-	-	-	-	-
Glen Lucken	18	17	-	-	-	-	-	-	-	-

Column A: number of scheduled meetings held during the period the Director was a member of the Board and/or Committee.

Column B: number of scheduled meetings attended during the period the Director was a member of the Board and/or Committee.

Corporate Governance

Internal Control

The Board has overall responsibility for the Group's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The CBI Code has a requirement for the Directors to review annually the effectiveness of the Group's system of internal controls.

This requires a review of the system of internal controls to cover all controls including:

- Financial;
- Operational;
- Compliance; and
- Risk Management.

The Directors have responsibility for maintaining a system of internal controls which provides reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

The Audit Committee has reviewed the effectiveness of this system of internal controls and reported thereon to the Board.

The Board has delegated to Executive management the planning and implementation of the system of internal controls within an established framework which applies throughout the Group.

Risk Management

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group for the year under review and up to the date of approval of the financial statements. This risk management process is regularly reviewed by the Board in accordance with the guidance provided by Turnbull. The Board confirms that no significant control weaknesses were identified in the review process despite the significant challenges posed by the current environment. The Group's approach to risk management is further detailed in the risk management section. The Audit Committee reviews the internal audit programme. The Head of Group Internal Audit reports regularly to the Audit Committee. The Audit Committee also reviews the half-year and annual financial statements and the nature and extent of the external audit. There are formal procedures in place for the external auditors to report findings and recommendations to the Audit Committee. Any significant findings or identified risks are examined so that appropriate action can be taken.

The BRCC reviews the compliance and risk management programmes and monitors total risk levels across the Group, in line with the overall policy approved by the Board. The BRCC supports the Board in carrying out its responsibilities for ensuring that risks are properly identified, reported, assessed and controlled, and that the Group's strategy is consistent with the Group's risk appetite. The Chief Risk Officer reports regularly to the Risk and Compliance Committee.

The Group has in place a speaking up (or "whistle-blowing") policy, which allows all staff and other people, who work with or for the Group, to raise any concerns they may have about suspected wrongdoing within the Group, and ensures that anyone raising a concern in good faith can feel safe and confident that the Group will treat the concern seriously, provide adequate protection and ensure fair treatment for the person raising the concern. In addition, the Group has in place a code of ethics, which lays down the standards of responsibility and ethical behaviour to be observed by all employees of the Group.

The Group's business involves the acceptance and management of a range of risks. The Group's system of internal controls is designed to provide reasonable, but not absolute, assurance against the risk of material errors, fraud or losses occurring. It is possible that internal controls can be circumvented or overridden. Further, because of changes in conditions, the effectiveness of an internal control system may vary over time.

Corporate Governance

Internal Control Procedures

The Group's internal control procedures are designed to safeguard the Group's net assets, support effective management of the Group's resources, and provide reliable and timely financial reporting both internally to management and those charged with governance and externally to other stakeholders. They include the following:

- An organisational structure with formally defined lines of responsibility and delegation of authority;
- Established systems and procedures to identify control and report on key risks. Exposure to these risks will be monitored mainly by the Risk and Compliance Committee through the operations of the committees accountable to it. These committees include the Enterprise Risk Management Committee, the Credit Committee and the Assets & Liabilities Committee. Their activities are described in the Risk Management section. The terms of reference of these committees, whose members include Executive Directors and Senior Management, are reviewed regularly by the Board;
- The preparation and issue of financial reports, including the consolidated annual report is managed by the Group Finance department with oversight from the Audit Committee. The Group's financial reporting process is controlled using documented accounting policies and reporting formats issued by the Group Finance department to all reporting entities (including subsidiaries) within the Group in advance of each reporting period end. The Group Finance department supports all reporting entities with guidance in the preparation of financial information. The process is supported by a network of finance managers throughout the Group, who have responsibility and accountability to provide information in keeping with agreed policies, including the completion of reconciliations of financial information to processing systems. Its quality is underpinned by arrangements for segregation of duties to facilitate independent checks on the integrity of financial data. The financial information for each entity is subject to a review at reporting entity and Group level by senior management. The half year and annual report are also reviewed by the Audit Committee in advance of being presented to the Board for their review and approval;
- Comprehensive budgeting systems are in place with annual financial budgets prepared and approved by the Board. Actual results are monitored and there is regular consideration by the Board of progress compared with budgets and forecasts;
- There are clearly defined capital investment control guidelines and procedures set by the Board;
- Responsibilities for the management of credit, investment and treasury activities are delegated within limits to line management. In addition, Group and divisional management have been given responsibility to set operational procedures and standards in the areas of finance, tax, legal and regulatory compliance, , human resources and information technology systems and operations;
- Group Internal Audit (GIA) is responsible for the independent assessment of the Group's corporate governance, risk management and internal control processes. The Head of Group Internal Audit reports directly to the Board of Directors through the Audit Committee
- The Audit Committee reviews the scope and nature of the work of Group Internal Audit on an on-going basis to confirm its independence.
- Compliance in the Group is controlled centrally under the Chief Risk Officer. The Chief Risk Officer reports independently to the Group Chief Executive Officer and to the Chairman of the BRCC and has direct access to the BRCC; and
- There is a risk management framework in place in each business throughout the Group whereby Executive management reviews and monitors, on an on-going basis, the controls in place, both financial and non-financial, to manage the risks facing that business.

Corporate Governance

Going Concern

Assessment Basis

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the consolidated financial statements for the 12 months ended 31 December 2013 is a period of 12 months from the date of approval of these financial statements ("the period of assessment").

In making this assessment, the Directors have considered the Group's 2014-2017 medium term plan, profitability forecasts, funding and capital resource projections under base and stress scenarios, together with a number of factors such as the outlook for the Irish economy, Government's fiscal policies and the availability of collateral to access funding through the euro system.

The Directors have also included in their considerations the Group's current statement of financial position structure and the associated on-going requirement to continue to access central bank funding. This position has affected the Group's liquidity metrics such as the Loan to Deposit Ratio and the Net Stable Funding Ratio. The Restructuring Plan submitted in 2012 and a Restructuring Plan Update, which was submitted in August 2013 at the request of the authorities, is intended to deal with this. As required under state aid rules, this plan has been submitted to the European Commission for approval. Whilst the Directors believe that approval of the plan will be received in due course, at this point such approval remains outstanding.

The Directors have also taken into consideration the following matters in making their assessment of applicability of going concern for the Group:

Economic Environment

The Group continues to be materially reliant on Government and European Union policy in relation to the Irish economy and the financial services sector. In this context it is important to note Ireland's exit from the Programme for External Support and the recent rating upgrade of the Irish sovereign to investment grade. Capital markets have shown signs of normalisation in that Irish sovereign bond yields have narrowed significantly since 2012 and the National Treasury Management Agency ("NTMA") and certain Irish banks returned to both the short and long term funding markets. At a macroeconomic level, property prices and unemployment growth have shown signs of stabilisation in 2013. Notwithstanding these developments, the Group has continued to incur losses, mainly due to loan impairment provisions.

Capital Adequacy

The PCAR assessment carried out by the CBI in March 2011 identified a €4bn capital requirement for the Group. With the State invested capital of €2.7bn, the sale of the Irish Life Group and a liability management exercise in 2011, the Group completed its recapitalisation of €4bn in 2012. Further, in the second half of 2013 the CBI conducted a Balance Sheet Assessment, incorporating a review of impairment provisioning, credit risk models used for capital measurement and the changes arising from new capital requirements, under the Capital Requirements Directive IV. Having taken into account the outcome of this assessment, capital ratios, both Core Tier 1 ratio under Basel II regulations and the incoming Common Equity Tier 1 ratio under the Basel III regulations remained significantly in excess of regulatory requirements.

In addition, the Directors have also considered the sufficiency of this capital base to withstand additional stress scenarios.

Directors believe that this level of excess regulatory capital should allow for potential impairment losses on the Group's mortgage portfolio in the event of the economic environment in Ireland worsening further, hence addressing the capital risk.

Strategic Planning Review

In the Memorandum of Understanding update of March 2012, issued under the EU/IMF Programme of Financial Support for Ireland, the Minister for Finance confirmed that by the end of April 2012 a decision on the proposed way ahead for the Group would be made. Following this by the end of June 2012, a Restructuring Plan that will detail the actions needed to ensure the Group's long-term viability would be prepared.

On 29 June 2012, the Department of Finance, on behalf of the Group, submitted a Restructuring Plan to the Directorate General for Competition of the European Commission. The broad theme of this plan was that ptsb would reorganise itself into a number of different business units and on an integrated basis it would meet all material capital targets with the medium term intention to separate out the non-core assets so that a viable entity can be returned to the private sector. The Group completed this internal reorganisation during 2013, including the development of a significantly improved loan collections capability. In August 2013, Department of Finance, on behalf of the Group, at the request of the European Commission, also provided an update to the original Plan submitted in 2012. The Directors believe that the plan will be formally approved within the period of assessment.

Corporate Governance

Further, the Group's strategic outlook has continued to improve, both from the perspective of the macroeconomic environment and the Group's performance. Arising from this progress, it has become achievable for the Core Bank consisting of ptsb SBU and AMU, to be maintained within a single viable entity. The Directors judge that this is both the probable outcome and a desirable outcome from the perspective of key stakeholders.

Liquidity

During 2013 there has been a €2.9bn increase in Customer Deposits, mainly due to new business. In 2013, the Group has successfully rolled over £2.2bn (€2.6bn) of secured funding utilising its UK buy-to-let mortgage portfolio as collateral over a longer term and also successfully issued residential mortgage backed securities of €500m to external investors. These factors have resulted in borrowings from the ECB reducing from €10.7bn at 31 December 2012 to €6.9bn at 31 December 2013. The Group continues to undertake a number of initiatives to further improve its liquidity position in the areas of deposits, collateral optimisation, wholesale markets activity and deleveraging. The Directors have also considered forecasts of the liquidity position over the going concern period, under a range of scenarios.

Notwithstanding the above, the Group continues to be dependent on the ECB for liquidity and funding during the period of assessment and the Directors are aware that the Group's ability to continue to access system liquidity and funding will be dependent on the Group having sufficient eligible collateral.

However, the Directors are satisfied, based on the on-going communications with the relevant authorities that the required liquidity and funding will be available to the Group during the period of assessment, hence addressing the liquidity risk.

Commercial Risks

The potential impact of the significant economic, political and market risks and uncertainties are inherent in the Group's businesses and continue to impact the Group. These include risk of house price falls and risk of deterioration of unemployment together with lower income levels. The risks have a direct impact on the Group's loan arrears levels, impairment provisions and as a consequence, profitability and regulatory capital levels. The Directors have considered these factors, and in particular, further house price falls and potential increase in the level of arrears under a stress case and the impact that these may have on the Group's performance and are satisfied that the Group is adequately capitalised in any such events.

Regulatory Risk

In December 2012, European finance ministers reached an agreement that will create a single European system of bank supervision, with the ECB in charge of directly overseeing some of Europe's largest banks. When the ECB assumes the supervisory role from November 2014, the regulatory environment of the Group may be significantly altered. In addition, the CBI may alter the implementation of existing regulatory requirements. Given current conditions, if the Group is required to further increase its capital position, there is a risk that it may be unable to raise additional capital from the financial markets or from internal resources.

Conclusion

In addition to the above factors, during the preparation of its 2013 annual report in March, in the specific context of its assessment of going concern, the Group discussed its plans with the CBI and Department of Finance. These discussions included consideration of the Group's latest strategic plans and its on-going requirement for liquidity from the Euro system. The Directors are satisfied on the basis of these discussions that it would be appropriate to consider that the necessary liquidity would be available to support the going concern assumption.

As required by IAS 1 "Presentation of Financial Statements", the Directors have considered the two material uncertainties facing the Group namely the need for approval of the Restructuring Plan and the continued reliance on System funding which may cast significant doubt on the entity's ability to continue as a going concern. The Directors have considered these uncertainties, the latest and projected financial performance and position and the options available to the Group, and consider it appropriate to prepare the financial statements on a going concern basis.

Directors' Report on Remuneration

Remuneration Report

This report sets out the remuneration policy for the Group's Senior Executives and Directors. It has been prepared by the Remuneration and Compensation Committee and approved by the Board.

Remuneration and Compensation Committee

During 2013 the members of the Remuneration and Compensation Committee were Dominic Dodd, Alan Cook and Pat Ryan, all of whom are experienced in terms of the management and oversight of large consumer-focussed organisations where the remuneration and motivation of staff and executives was of crucial importance. The committee had 8 meetings during 2013 and in addition individual members met with Senior Management and external reward advisers to discuss emerging issues and regulatory requirements relating to remuneration issues

Remuneration Policy

Over the past two years the Remuneration Policy of the Group has been reviewed and overhauled to ensure that it met with the changing requirements being introduced in Ireland and the EU. Building on the changes previously made to the Remuneration Policy, the Committee has again this year reviewed its reward policy, principles and practice to ensure they are fully aligned with regulatory requirements, particularly CRD III and relevant market practice. The Group has continued to operate its Remuneration Policy in line with the remuneration requirements of the framework agreement between the Minister for Finance and the Group.

As a result of all these changes the Company has ceased most of its former reward practices and the reward arrangements within the Group could be summarised as follows:

- There are no outstanding Long Term Incentive Plan ("LTIP") share awards and the LTIP scheme has been withdrawn;
- There has been no grant of share options since 2008 and no further grants can be made under the remaining scheme which has now expired;
- There were no bonuses paid to Executive Directors in 2012 or 2013;
- Aggregate Executive compensation has fallen from €1.0 million to €0.9million (2012-2013)

- A significant change in one of the major benefit elements of remuneration saw the wind up of the Groups' Defined Benefit Pension Schemes which were replaced with market based Defined Contribution Scheme. This initiative was part of the Boards remit to further reduce payroll related costs. The private health insurance benefit was also removed for all employees in 2013.
- Aggregate Fees paid to Non-Executive has fallen from €588,000 to €510,000 (2012-2013)
- The Group utilises a policy of median pay versus market peer groups; and
- Remuneration Policy is fully compliant with Regulator requirements

Suitable changes have been made to our reward practice in relation to the risk dimensions of reward to ensure compliance with best practice. Plans are in place to strengthen the control of reward in the event of a return to any form of variable payments. The committee was advised throughout this period by reward experts Towers Watson.

At an overall level, the committee ensures that the risk appetite statement and business plan informs the remuneration policy. The committee had the remuneration practice for 2013 reviewed by the Chief Risk Officer and was satisfied that it was "fit for purpose" and fully in line with the risk appetite statement.

In framing the Group's remuneration policy the Board confirms that it has complied with the CBI Code. The Group's policy on Senior Executive remuneration (including Executive Directors) is to reward Executives competitively in order to ensure that the Group continues to attract and retain high calibre Executives and that they are properly motivated to perform in line with business strategy, objectives, values and long-term interests of the shareholders mindful of the range of regulatory changes that have taken place and capital requirements and ability to pay. The policy is also designed to ensure that there are adequate succession plans in place and no major issues arose in 2013. The control function within the Group now makes direct input into compensation issues within the business units. The Chief Risk Officer meets separately with the committee to discuss remuneration related risk and compliance issues. The committee will continue to have the reward strategy reviewed on an annual basis to ensure it complies with emerging regulatory developments and relevant market practices.

Directors' Report on Remuneration

Non-Executive Directors

Non-Executive Directors are remunerated solely by way of fees in respect of their Board membership, full details of which are on page 47.

Executive Directors

The remuneration of the Executive Directors in 2013 comprises a basic salary, certain benefits and defined contribution pension entitlements.

Basic salary

The basic salary is reviewed annually having regard to competitive market practice and Government guidelines. No increases in basic salary were granted to Executive Directors in 2013.

Benefits

Executive Directors may avail of subsidised house purchase loans. Loans to Executive Directors are on the same terms and conditions as loans to other eligible ptsb management. At the end of 2013 no house purchase loans had issued to serving Executive Directors.

Bonus and long-term incentive plans

No bonus payments were made to Executive Directors during 2012 or 2013. Neither were there any long term incentive arrangements in place for Executive directors in 2013.

Pensions

Jeremy Masding and Glen Lucken are members of the ptsb Defined Contribution Pension Scheme. The Group contributes to this pension scheme and contributions are determined solely in relation to basic salary. The Group contributions were reduced by 3% in 2013 as another part of the Group's salary cost control agenda.

Directors' Fees from another Company

Where an Executive Director of the Group is remunerated for service as a Non-Executive Director of another company and retains such remuneration, the amount of this remuneration is disclosed.

Directors' Report on Remuneration

The information on pages 46 and 47 are audited and form part of the financial statements.

Share Option Schemes

No share options were granted in 2012 or 2013. The Group has one share option scheme in place and this scheme conforms to the guidelines of the Irish Association of Investment Managers and was approved by the shareholders' in 2000. The option scheme was designed to encourage staff and in particular Senior Executives to identify with shareholder interests.

The 2000 scheme is now also closed for new option grants. However existing option grants with a price range of €10.38 to €13.21 continue in force. Share options are held by the wider management group: no Executive Director holds share options.

Executive Directors' Remuneration and Pension Benefits

The remuneration payable (excluding pension contributions by the Group) to Executive Directors who held office for any part of the financial year is as follows:

	Salary		Other remuneration*		Total	
	2013	2012	2013	2012	2013	2012
	€000	€000	€000	€000	€000	€000
Jeremy Masding	400	353	57	107	457	460
Glen Lucken	375	-	70	-	445	-
Kevin Murphy**	-	250	-	31	-	281
David McCarthy**	-	250	-	17	-	267
	775	853	126	155	901	1,008

*Other remuneration mainly includes employer pensions contributions, taxable expenses.

**Both Kevin Murphy and David McCarthy ceased to be Executive Directors of the Group in June 2012.

Aggregate remuneration for Executive Directors amounted to €0.9 million (2012: €1.0 million). This figure includes normal pension contributions of €0.1 million (2012: €0.1 million).

The Directors' pension benefits under the various defined-benefit pension schemes in which they are members are as follows:

	Increase in accrued pension during the year ¹		Transfer value of the increase in accrued pension ²		Total accrued pension ³	
	2013	2012	2013	2012	2013	2012
	€000	€000	€000	€000	€000	€000
Kevin Murphy	-	-	-	-	-	-
David McCarthy	-	3	-	44	-	241
	-	3	-	44	-	241

- Increases are after adjustment for inflation and reflect additional pensionable service and earnings.
- The transfer value of the increase in accrued benefits represents the amounts that the pension scheme would transfer to another pension scheme, in relation to the benefits accrued during the year in the event of the member leaving service.
- Total accumulated amounts of accrued benefits payable at normal retirement ages
- Both Kevin Murphy and David McCarthy ceased to be Executive Directors of the Group in June 2012.

Directors' Report on Remuneration

Executive Directors' Share Options

Jeremy Masding and Glen Lucken hold no Share Options in the Company. The Executive and Non-Executive Directors' shareholdings in the Company are detailed in note 39. Related parties, of the financial statements.

Non-Executive Directors' Remuneration

Fees paid to Non-Executive Directors are reviewed annually. On 1 June 2013 all fees paid to Non-Executive Directors were reduced by 10% as part of the challenge to reduce payroll costs in the region of 6% to 10%. Non-Executive Directors who perform additional services outside the normal duties of a Director may receive additional fees. Directors who received additional fees included Emer Daly as Chairman of the Audit Committee and Margaret Hayes as a member of the Audit Committee and Pat Ryan as Chairman of the Risk and Compliance Committee and as a member of the Audit Committee.

The remuneration payable in respect of each Non-Executive Director is as follows:

		2013	2012
	Note	€000	€000
Alan Cook		188	200
Emer Daly		80	84
Margaret Hayes	1	25	64
Sandy Kinney	2	36	56
Ray MacSharry	3	22	56
Dominic Dodd		53	14
Pat Ryan		87	92
Ken Slattery	4	19	-
Bernard Collins	5	-	22
	6	510	588

Note 1: Margaret Hayes retired from the Board in May 2013.

Note 2: Sandy Kinney retired from the Board in August 2013

Note 3: Ray MacSharry retired from the Board in May 2013

Note 4: Ken Slattery joined the Board in August 2013.

Note 5: Bernard Collins retired from the Board in May 2012.

Note 6: The 2013 fees reflect the 10% reduction from 1 June 2013.

Directors' Service Contracts

In accordance with the CBI Code there are no Directors' service contracts with notice periods exceeding twelve months or with provisions for pre-determined compensation on termination which exceeds one year's salary and benefits.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the consolidated and Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare consolidated and Company financial statements for each financial year. Under company law the Directors are required to prepare the consolidated financial statements in accordance with IFRSs, as adopted by the European Union ("EU"), and have elected to prepare the Company financial statements in accordance with IFRSs as adopted by the EU and in relation to the Company as applied in accordance with the provisions of the Companies Acts, 1963 to 2013.

The consolidated and Company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group and Company. The Companies Acts, 1963 to 2013 provide in relation to such financial statements, that references in the relevant part of these Acts to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the consolidated and Company 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;
- state that the financial statements comply with IFRSs as adopted by the EU and in the case of the Company as applied in accordance with the Companies Act, 1963 to 2013; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Acts, 1963 to 2013.

Under applicable law and the requirements of the ESM rules, the Directors are also responsible for preparing a Directors' Report and reports relating to Directors' remuneration that comply with that law and those rules. In accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 (the "Transparency Regulations"), the Directors are required to include in their report a fair review of the business and a description of the principal risks and uncertainties facing the Group and the Company and a responsibility statement relating to these and other matters, as included below. The Directors have also elected to prepare a corporate governance statement.

The Directors are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website www.permanenttsbgroup.ie. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Directors' Responsibilities

Responsibility Statement, in accordance with the Transparency Regulations

Each of the Directors, whose names and functions are listed in the Board of Directors section, confirms that to the best of each person's knowledge and belief:

- the consolidated financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group at 31 December 2013, and its loss for the year then ended ;
- the Company financial statements, prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts 1963 to 2013, give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2013; and
- The Directors' Report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Alan Cook
Group Chairman

Jeremy Masding
Group Chief Executive Officer

Glen Lucken
Group Chief Financial Officer

Ciarán Long
Company Secretary

25 March 2014

Independent Auditor's Report to the Members of permanent tsb plc

We have audited the financial statements of permanent tsb plc for the year ended 31 December 2013 which comprise the Consolidated and Parent Company Statements of Financial Position, the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Cash Flows, the Consolidated and Parent Company Statements of Changes in Equity, the section of the Directors' Report on Remuneration described as audited on pages 46 and 47, and the related notes on pages 59 to 182. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Acts 1963 to 2013.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 48 and 49, 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 company'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 group's and the parent company'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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2013 and of its loss and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2013, of the state of the parent company's affairs as at 31 December 2013 and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2013.

Emphasis of Matter – Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1.3 to the financial statements concerning the group's and parent company's ability to continue as a going concern. This note sets out certain factors, risks and uncertainties which have been considered in the directors' assessment of the ability of the group and parent company to continue as a going concern. These disclosures set out the group's and parent company's need for approval of the Restructuring Plan and the group's and parent company's continued reliance on System funding, together with the directors' assessment of these matters. These matters, together with the other matters set out in Note 1.3 indicate the existence of material uncertainties which may cast significant doubt about the group's and parent company's ability to continue as a going concern. The financial statements do not include adjustments that would result if the group and parent company were unable to continue as a going concern.

Independent Auditor's Report to the Members of permanent tsb plc

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 parent company.
- The Parent Company Statement of Financial Position is 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 parent company, as stated in the Parent Company Statement of Financial Position, 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 parent company.

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.

Ivan McLoughlin
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
25 March 2014

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Consolidated Financial Statements

Consolidated Income Statement

For the year ended 31 December 2013

	Notes	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Continuing operations			
Interest receivable	5	973	1,200
Interest payable	5	(769)	(1,065)
Net interest income		204	135
Fees and commission income	6	50	55
Fees and commission expense	6	(14)	(13)
Net trading expense	7	(2)	(4)
Other operating income	8	23	70
Other operating expense	8	(9)	(46)
Gain on liability management exercise	24,28	-	224
Total operating income		252	421
Administrative, staff and other expenses (excluding exceptional items)	9	(284)	(258)
Depreciation of property and equipment	18	(12)	(14)
Impairment of property and equipment	18	-	(5)
Gain on revaluation of property		1	-
Amortisation of intangible assets	19	(5)	(5)
Impairment of assets and liabilities classified as held for sale		-	(1)
Exceptional items			
Impact of the wind-up of the defined benefit pension scheme	27	329	-
Restructuring costs	10	(20)	(86)
Loss on disposal of held for sale loans and receivables to customers	40(b)	-	(80)
Total operating expenses		9	(449)
Operating profit/(loss) before provisions for impairment		261	(28)
Provisions for impairment			
Loans and advances to customers	17(a)	(927)	(883)
Reposessed assets	17(c)	(2)	(8)
Total provisions for impairment		(929)	(891)
Operating loss before taxation		(668)	(919)
Taxation (including an exceptional credit of €414m)	11	407	(77)
Loss for the year from continuing operations		(261)	(996)
Discontinued operations			
Loss from discontinued operations	4	-	-
Loss for the year		(261)	(996)
Attributable to:			
Owners of the parent			
Continuing operations		(261)	(996)
Discontinued operations		-	-
		(261)	(996)

*Refer to note 1 (1.4) for further details.

On behalf of the Board:

Alan Cook
Group Chairman

Jeremy Masding
Group Chief Executive

Glen Lucken
Group Chief Financial Officer

Ciarán Long
Company Secretary

Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	Notes	Year ended 31 December 2013 €m	Restated* Year ended 31 December 2012 €m
Loss for the year		(261)	(996)
Other comprehensive income			
Continuing operations			
Items that will not be reclassified to the income statement			
Revaluation of property	18	1	(1)
Remeasurement of net defined benefit liability	1	(35)	(85)
Tax relating to items that will not be reclassified to income statement		-	-
Items that may be reclassified to income statement			
Currency translation adjustment reserve			
Gains on hedged investments in foreign operations	14	(1)	2
(Losses) on hedging of investments in foreign operations	14	1	(2)
Available-for-sale ("AFS") reserve			
Change in fair value of AFS financial assets	13	84	294
Transfer to income statement on asset disposals	13	6	66
Amortisation of AFS financial assets reclassified to loans and receivables	13	7	4
Cash flow hedge reserve			
Change in fair value recognised in equity	14	(64)	-
Net change in fair value transferred to income statement	14	-	2
Tax relating to items that may be reclassified to income statement	11	(4)	(46)
Other comprehensive income, net of tax, from continuing operations		(5)	234
Discontinued operations			
Items that will not be reclassified to income statement			
Revaluation of property	18	-	(1)
Items that will be reclassified to income statement			
Currency translation adjustment reserve	14	-	1
Other comprehensive income, net of tax, from discontinued operations		-	-
Total comprehensive income for the year		(266)	(762)
Loss per share		€ Cent	€ Cent
Basic			
From continuing operations	12	(0.7)	(2.7)
From discontinued operations	12	-	-
Diluted			
From continuing operations	12	(0.7)	(2.7)
From discontinued operations	12	-	-

*Refer to note 1 (1.4) for further details.

On behalf of the Board:

Alan Cook
Group Chairman

Jeremy Masding
Group Chief Executive

Glen Lucken
Group Chief Financial Officer

Ciarán Long
Company Secretary

Consolidated Financial Statements

Consolidated Statement of Financial Position

As at 31 December 2013

			Consolidated Restated*	Restated*
	Notes	31 December 2013	31 December 2012	01 January 2012
		€m	€m	
Assets				
Cash and balances with central banks	12	88	71	88
Items in course of collection	12	37	76	109
Assets classified as held for sale	40	180	-	28,900
Debt securities	13	5,816	6,827	6,657
Derivative assets	14	191	334	247
Loans and advances to banks	15	1,230	1,396	1,623
Loans and advances to customers	16,17	29,281	31,758	33,677
Prepayments and accrued income		43	57	190
Property and equipment	18	82	87	95
Intangible assets	19	93	120	116
Deferred tax assets	20	446	50	184
Other assets	21	117	137	141
Current tax assets		-	1	-
Total assets		37,604	40,914	72,027
Liabilities				
Deposits by banks (including central banks)**	22	10,688	13,827	16,966
Liabilities classified as held for sale		-	-	27,828
Customer accounts	23	19,511	16,639	14,373
Debt securities in issue	24	4,146	6,505	8,356
Derivative liabilities	14	347	415	300
Accruals		37	62	99
Current tax liability		1	-	-
Other liabilities	25	66	120	137
Provisions	26	62	45	14
Retirement benefit obligations	27	-	311	222
Subordinated liabilities	28	359	337	317
Total liabilities		35,217	38,261	68,612
Equity				
Share capital	29,30	89	89	89
Share premium	29	2,833	2,833	135
Other reserves	29	2,451	2,422	2,126
Retained earnings	29	(2,986)	(2,691)	1,065
Total equity attributable to owners		2,387	2,653	3,415
Total liabilities and equity		37,604	40,914	72,027

*Refer to note 1 (1.4) for further details.

**Deposits by banks (including central banks) includes €7bn (31 December 2012: €11bn) of ECB funding.

On behalf of the Board:

Alan Cook
Group Chairman

Jeremy Masding
Group Chief Executive

Glen Lucken
Group Chief Financial Officer

Ciarán Long
Company
Secretary

Consolidated Financial Statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Attributable to owners of the parent									
	Share capital	Share premium	Capital contribution reserve	Revaluation reserve	AFS reserve	Cash flow hedge reserve	Currency translation adjustment reserve	Other capital reserve	Retained earnings	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
As at 01 January 2012 as previously reported	89	135	2,378	26	(281)	(2)	(2)	7	1,167	3,517
Effect of application of IAS 19R (note 1)	-	-	-	-	-	-	-	-	(102)	(102)
	89	135	2,378	26	(281)	(2)	(2)	7	1,065	3,415
Loss for the year ended 31 December 2012	-	-	-	-	-	-	-	-	(996)	(996)
Other comprehensive income, net of tax (note 11,31)	-	-	-	(2)	318	2	1	-	(85)	234
Total comprehensive income for the year	-	-	-	(2)	318	2	1	-	(1,081)	(762)
Transactions with owners, recorded directly in equity:										
<i>Contributions by and distributions to owners</i>										
Sale of discontinued operation	-	2,698	-	(19)	-	-	-	-	(2,679)	-
Issue costs associated with share issuance to the Minister for Finance	-	-	-	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	(4)	-	-	-	-	-	4	-
Total contributions by and distributions to owners	-	2,698	(4)	(19)	-	-	-	-	(2,675)	-
Balance as at 31 December 2012	89	2,833	2,374	5	37	-	(1)	7	(2,691)	2,653
Loss for the year ended 31 December 2013	-	-	-	-	-	-	-	-	(261)	(261)
Other comprehensive income, net of tax (note 11,31)	-	-	-	1	85	(56)	-	-	(35)	(5)
Total comprehensive income for the year	-	-	-	1	85	(56)	-	-	(296)	(266)
Transactions with owners, recorded directly in equity:										
<i>Contributions by and distributions to owners</i>										
Negative reserves take on as part of NCU acquisition (note 41)	-	-	-	-	-	-	-	-	(23)	(23)
Capital contribution as part of NCU acquisition (note 41)	-	-	-	-	-	-	-	-	23	23
Transfer to retained earnings	-	-	(1)	-	-	-	-	-	1	-
Total contributions by and distributions to owners	-	-	(1)	-	-	-	-	-	1	-
Balance as at 31 December 2013	89	2,833	2,373	6	122	(56)	(1)	7	(2,986)	2,387

Consolidated Financial Statements

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Notes	Consolidated 31 December 2013	Restated* 31 December 2012
		€m	€m
Cash flows from operating activities			
Loss before taxation for the year		(668)	(772)
Adjusted for:			
Depreciation, amortisation and impairment of property, equipment and intangibles		48	55
Impairment losses on:			
- Loans and advances to customers	17(a)	927	883
- Repossessed assets	17(c)	2	8
- Assets classified as held for sale		-	9
Gain on revaluation of property		(1)	-
Unrealised losses/(profits) on financial assets		2	(858)
Retirement benefit charge	27	12	26
Losses on fair value hedges on financial instruments	5	-	2
Interest on subordinated liabilities	5	63	59
Gain on debt securities buyback programmes	8, 24	(16)	(27)
Amortisation of bond discounts		(15)	(45)
Other mortgage related adjustments		28	28
Impact of defined benefit pension scheme windup	27	(329)	-
Other provisions		24	71
Other non-cash items		21	(2)
Gain on liability management exercise	24	-	(224)
Loss on disposal of consumer finance portfolio	40(b)	-	80
Fair value losses on investment properties		-	25
Share of results of associated undertaking	4	-	(12)
		98	(694)
(Increase)/decrease in operating assets			
Loans and advances to banks		(10)	(53)
Loans and advances to customers		1,193	1,421
Debt securities		830	945
Derivative assets		144	(143)
Other assets		(3)	6
Prepayments and accrued income		137	(7)
Investment properties		-	36
Reinsurance assets		-	(88)
Shareholder value of in-force business		-	(3)
Increase/(decrease) in operating liabilities			
Deposits by banks (including central banks)		(3,175)	(3,204)
Customer accounts		2,892	958
Debt securities in issue		212	(1,109)
Derivative liabilities		(149)	(226)
Other liabilities and accruals		(156)	151
Provisions used		(7)	(74)
Retirement benefit obligations		(9)	(18)
Insurance contract liabilities		-	208
Investment contract liabilities		-	704
Payables related to direct insurance contracts		-	10
Deferred front end fees		-	(7)
		1,899	(493)
			-
Net cash inflow / (outflow) from operating activities before tax		1,997	(1,187)
Tax received		8	5
Net cash inflow / (outflow) from operating activities		2,005	(1,182)

Consolidated Financial Statements

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2013

	Notes	Consolidated	
		31 December 2013	31 December 2012
		€m	€m
Cash flows from investing activities			
Purchase of property and equipment	18	(8)	(19)
Proceeds from sale of property and equipment		3	3
Purchase of intangible assets	19	(9)	(10)
Investment in restricted cash		65	12
Cash acquired as part of NCU acquisition	41	9	-
Dividends received from associated undertaking	42	-	3
Net proceeds from sale of discontinued operations (the Life Group)	40(a)	-	1,269
Proceeds from disposal of consumer finance portfolio	40(b)	-	177
Net consideration received/(paid) on acquisition of deposit book of business/subsidiary	41	-	446
Net cash flows from investing activities		60	1,881
Cash flows from financing activities			
Interest paid on subordinated liabilities		(40)	(42)
Redemption of debt securities in issue	24	(2,671)	(994)
Issuance of debt securities in issue		500	-
Capital contribution received in respect of NCU acquisition	41	23	-
Net cash flows from financing activities		(2,188)	(1,036)
(Decrease) in cash and cash equivalents		(123)	(337)
Analysis of changes in cash and cash equivalents			
Cash and cash equivalents as at 1 January		846	1,182
(Decrease) in cash and cash equivalents		(123)	(337)
Effect of exchange translation adjustments		(2)	1
Cash and cash equivalents as at 31 December	12	721	846

*Following the update of IAS19R the prior year figures have been restated. See note 1 for further details.

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies	60
2. Critical accounting estimates and judgements	75
3. Operating segments	78
4. Discontinued operations	82
5. Net interest income	83
6. Fees and Commission income / (expense)	83
7. Net trading (expense) / income	83
8. Other Operating income / (expense)	84
9. Administrative, Staff Costs and other expenses	85
10. Restructuring costs	86
11. Taxation	87
12. Cash and cash equivalents	88
13. Debt securities	88
14. Derivative assets / liabilities	90
15. Loans and advances to banks	91
16. Loans and advances to customers	92
17. Provision for impairment	94
18. Property and equipment	97
19. Intangible assets	98
20. Deferred taxation	99
21. Other assets	100
22. Deposits by banks (including central banks)	100
23. Customer accounts	100
24. Debt securities in issue	101
25. Other liabilities	101
26. Provisions	102
27. Retirement benefit obligations	103
28. Subordinated liabilities	106
29. Shareholders' equity	107
30. Authorised and issued share capital	108
31. Analysis of other comprehensive income	108
32. Measurement basis and fair values of financial instruments	109
33. Financial risk management	112
34. Capital management	135
35. Current / non-current assets and liabilities	137
36. Transfer of financial assets	138
37. Offsetting financial assets and financial liabilities	139
38. Commitments and contingencies	140
39. Related parties	141
40. Assets and liabilities classified as held for sale	144
41. Business combinations and goodwill	145
42. Principal subsidiary undertakings and interest in subsidiaries	146
43. Reporting currency and exchange rates	147
44. Events after the reporting period	147

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies

1.1 Corporate information

Permanent tsb plc, previously known as Irish Life & Permanent plc, is a parent company domiciled in Ireland. Its registered office is situated at 56 - 59, St. Stephen's Green, Dublin 2, Ireland. The consolidated financial statements include the financial statements of permanent tsb plc (the "Company" or "ptsb") and its subsidiary undertakings, (together referred to as "the Group") where appropriate, and are prepared up to the end of the financial year, 31 December 2013. The Group is and has been primarily involved in retail banking. Prior to the sale of the Life Group on 29 June 2012, the Group was also involved in life assurance, fund management, general insurance and brokerage, third party administration and other.

ptsb is a 100% owned subsidiary of permanent tsb Group Holdings plc (the "Parent Company" or "ptsbgh") and its subsidiaries and is the main trading entity of the Group which is primarily involved in retail banking under the permanent tsb brand. The shares of the Parent Company, ptsbgh, are listed on the Enterprise Securities Market of the Irish Stock Exchange.

These consolidated financial statements were authorised for issue by the Directors on 25 March 2014.

The accounting policies applied in the preparation of the financial statements for the year ended 31 December 2013 are set out below.

1.2 Basis of preparation

Statement of compliance

These consolidated financial statements which comprise the consolidated income statement, the consolidated statement of comprehensive income ("OCI"), the consolidated and the Company statements of financial position, the consolidated and the Company statement of changes in equity, the consolidated and the Company statements of cash flows and the notes to these consolidated and the Company financial statements, have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and IFRS interpretations ("IFRICs") as issued by the International Accounting Standards Board ("IASB"), as adopted by the European Union ("EU") and with those parts of the Companies Acts 1963 to 2013 applicable to companies reporting under IFRS and applicable for the year ended 31 December 2013. The accounting policies have been consistently applied by the Group entities and are consistent with the previous year, except as indicated in section 1.4 below.

The individual financial statements of the parent company have also been prepared in accordance with IFRSs as adopted by the EU and comply with those parts of the Companies Acts 1963 to 2013. In accordance with section 148(8) of the Companies Act, 1963, the Company is availing of the exemption of presenting its individual income statement to the Annual General Meeting and from filing it with the Registrar of Companies. The Company's loss for the financial year determined in accordance with IFRS was €223m (2012: €1,215m).

Basis of measurement

The consolidated and Company financial statements have been prepared on the historical cost basis except for derivative financial instruments, trading financial instruments and other financial instruments designated at fair value through profit or loss, certain risks in hedged financial instruments, financial assets classified as available for sale, property and equipment.

Functional and presentation currency

These financial statements are presented in euro, which is the Company's functional currency. Except where otherwise indicated, financial information presented in euro has been rounded to the nearest million ("m").

Use of estimates and judgements

The preparation of financial statements, in conformity with IFRSs, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and are reflected in the judgements made about the carrying amounts of assets and liabilities.

Actual results may differ from the estimates made. The estimates and assumptions are reviewed on an on-going basis and where necessary are revised to reflect current conditions. The principal estimates and assumptions made by management relate to impairment of loans and advances to customers, deferred tax assets, retirement benefit obligations, assets classified as held for sale, financial instruments. Judgements made by management that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

1.3 Going Concern

Assessment Basis

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the consolidated financial statements for the 12 months ended 31 December 2013 is a period of 12 months from the date of approval of these financial statements ("the period of assessment").

In making this assessment, the Directors have considered the Group's 2014-2017 medium term plan, profitability forecasts, funding and capital resource projections under base and stress scenarios, together with a number of factors such as the outlook for the Irish economy, Government's fiscal policies and the availability of collateral to access funding through the euro system.

The Directors have also included in their considerations the Group's current statement of financial position structure and the associated on-going requirement to continue to access central bank funding. This position has affected the Group's liquidity metrics such as the Loan to Deposit Ratio and the Net Stable Funding Ratio. The Restructuring Plan submitted in 2012 and a Restructuring Plan Update, which was submitted in August 2013 at the request of the authorities, is intended to deal with this. As required under state aid rules, this plan has been submitted to the European Commission for approval. Whilst the Directors believe that approval of the plan will be received in due course, at this point such approval remains outstanding.

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (continued)

The Directors have also taken into consideration the following matters in making their assessment of applicability of going concern for the Group:

Economic Environment

The Group continues to be materially reliant on Government and European Union policy in relation to the Irish economy and the financial services sector. In this context it is important to note Ireland's exit from the Programme for External Support and the recent rating upgrade of the Irish sovereign to investment grade. Capital markets have shown signs of normalisation in that Irish sovereign bond yields have narrowed significantly since 2012 and the National Treasury Management Agency ("NTMA") and certain Irish banks returned to both the short and long term funding markets. At a macroeconomic level, property prices and unemployment growth have shown signs of stabilisation in 2013. Notwithstanding these developments, the Group has continued to incur losses, mainly due to loan impairment provisions.

Capital Adequacy

The PCAR assessment carried out by the CBI in March 2011 identified a €4bn capital requirement for the Group. With the State invested capital of €2.7bn, the sale of the Irish Life Group and a liability management exercise in 2011, the Group completed its recapitalisation of €4bn in 2012. Further, in the second half of 2013 the CBI conducted a Balance Sheet Assessment, incorporating a review of impairment provisioning, credit risk models used for capital measurement and the changes arising from new capital requirements, under the Capital Requirements Directive IV. Having taken into account the outcome of this assessment, capital ratios, both Core Tier 1 ratio under Basel II regulations and the incoming Common Equity Tier 1 ratio under the Basel III regulations remained significantly in excess of regulatory requirements.

In addition, the Directors have also considered the sufficiency of this capital base to withstand additional stress scenarios.

Directors believe that this level of excess regulatory capital should allow for potential impairment losses on the Group's mortgage portfolio in the event of the economic environment in Ireland worsening further, hence addressing the capital risk.

Strategic Planning Review

In the Memorandum of Understanding update of March 2012, issued under the EU/IMF Programme of Financial Support for Ireland, the Minister for Finance confirmed that by the end of April 2012 a decision on the proposed way ahead for the Group would be made. Following this by the end of June 2012, a Restructuring Plan that will detail the actions needed to ensure the Group's long-term viability would be prepared.

On 29 June 2012, the Department of Finance, on behalf of the Group, submitted a Restructuring Plan to the Directorate General for Competition of the European Commission. The broad theme of this plan was that ptsb would reorganise itself into a number of different business units and on an integrated basis it would meet all material capital targets with the medium term intention to separate out the non-core assets so that a viable entity can be returned to the private sector. The Group completed this internal reorganisation during 2013, including the development of a significantly improved loan collections capability. In August 2013, Department of Finance, on behalf of the Group, at the request of the European Commission, also provided an update to the original Plan submitted in 2012. The Directors believe that the plan will be formally approved within the period of assessment.

Further, the Group's strategic outlook has continued to improve, both from the perspective of the macroeconomic environment and the Group's performance. Arising from this progress, it has become achievable for the Core Bank consisting of ptsb SBU and AMU, to be maintained within a single viable entity. The Directors judge that this is both the probable outcome and a desirable outcome from the perspective of key stakeholders.

Liquidity

During 2013 there has been a €2.9bn increase in Customer Deposits, mainly due to new business. In 2013, the Group has successfully rolled over £2.2bn (£2.6bn) of secured funding utilising its UK buy-to-let mortgage portfolio as collateral over a longer term and also successfully issued residential mortgage backed securities of €500m to external investors. These factors have resulted in borrowings from the ECB reducing from €10.7bn at 31 December 2012 to €6.9bn at 31 December 2013. The Group continues to undertake a number of initiatives to further improve its liquidity position in the areas of deposits, collateral optimisation, wholesale markets activity and deleveraging. The Directors have also considered forecasts of the liquidity position over the going concern period, under a range of scenarios.

Notwithstanding the above, the Group continues to be dependent on the ECB for liquidity and funding during the period of assessment and the Directors are aware that the Group's ability to continue to access system liquidity and funding will be dependent on the Group having sufficient eligible collateral.

However, the Directors are satisfied, based on the on-going communications with the relevant authorities that the required liquidity and funding will be available to the Group during the period of assessment, hence addressing the liquidity risk.

Commercial Risks

The potential impact of the significant economic, political and market risks and uncertainties are inherent in the Group's businesses and continue to impact the Group. These include risk of house price falls and risk of deterioration of unemployment together with lower income levels. The risks have a direct impact on the Group's loan arrears levels, impairment provisions and as a consequence, profitability and regulatory capital levels. The Directors have considered these factors, and in particular, further house price falls and potential increase in the level of arrears under a stress case and the impact that these may have on the Group's performance and are satisfied that the Group is adequately capitalised in any such events.

Regulatory Risk

In December 2012, European finance ministers reached an agreement that will create a single European system of bank supervision, with the ECB in charge of directly overseeing some of Europe's largest banks. When the ECB assumes the supervisory role from November 2014, the regulatory environment of the Group may be significantly altered. In addition, the CBI may alter the implementation of existing regulatory requirements. Given current conditions, if the Group is required to further increase its capital position, there is a risk that it may be unable to raise additional capital from the financial markets or from internal resources.

Conclusion

In addition to the above factors, during the preparation of its 2013 annual report in March, in the specific context of its assessment of going concern, the Group discussed its plans with the CBI and Department of Finance. These discussions included consideration of the Group's latest strategic plans and its on-going requirement for liquidity from the Euro system. The Directors are satisfied on the basis of these discussions that it would be appropriate to consider that the necessary liquidity would be available to support the going concern assumption.

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (continued)

As required by IAS 1 "Presentation of Financial Statements", the Directors have considered the two material uncertainties facing the Group namely the need for approval of the Restructuring Plan and the continued reliance on System funding which may cast significant doubt on the entity's ability to continue as a going concern. The Directors have considered these uncertainties, the latest and projected financial performance and position and the options available to the Group, and consider it appropriate to prepare the financial statements on a going concern basis.

1.4 Comparative information

The comparative information for 2012 has been prepared on a consistent basis, other than for some reclassifications which have been made to the financial statements and notes to the financial statements to more appropriately reflect and enhance comparability, in respect of retirement benefit obligations and Core / Non-core definition as described below.

Retirement benefit obligations

During 2013, the Group adopted IAS19R which resulted in the restatement of prior year amounts and disclosures. Further details are provided in section 1.6 of this note.

Core and Non-Core definition

During the first half of 2013, following the reorganisation of the Group into three Strategic Business Units, the definition for Core / Non-core loans and advances to customers was updated. This resulted in some ROI residential mortgages, which are connected to commercial mortgages and ROI residential mortgages originated through subsidiaries being moved from Core to Non-core. The Core loans and advances now relates to loans and advances to customers in respect of ROI residential mortgages and consumer finance (excluding film finance) originated by ptsb, while the Non-core loans and advances to customers relate to commercial mortgages (including c. €0.6bn of residential mortgages as at 31 December 2013, which are connected to these commercial mortgages), UK residential mortgages, film finance and other ROI residential mortgages originated through subsidiaries. The prior period amounts, which were restated for this change, are shown in notes 16, 17 and 33. This restatement had an impact only on the presentation of these notes.

1.5 Summary of significant accounting policies

(i) Basis of consolidation

Subsidiaries

Subsidiaries are those entities (including special purpose entities and unit trusts) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the operating and financial policies of an entity in order to gain economic benefits. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Financial statements of subsidiaries are prepared up to the financial position date.

Investments in subsidiaries are shown at cost in the Company financial statements unless they are impaired or held for sale, in which case they are recorded at their recoverable amounts. In general, investments in subsidiaries are assessed for impairment when the subsidiary is loss making or where there are other indicators of impairment.

Business combinations and goodwill

(a) Business combinations

Business combinations, other than those under common control are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners and equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The results of subsidiaries acquired, other than the combination of ptsb and the Life Group, are included in the consolidated income statement from the date of acquisition. Profits or losses of subsidiary undertakings acquired or sold during the year are included in the consolidated results from the date of gaining control or up to the date of disposal.

For each business combination, the Group elects on a transaction-by-transaction basis whether to measure a non-controlling interest at its fair value or at its proportionate share of the recognised amount of identifiable net assets. The assets and liabilities arising on a business combination are measured at their fair value at the acquisition date.

Business combinations under common control are accounted for prospectively from the date the Group obtains the ownership interest in the acquired entity. Assets and liabilities are initially recognised upon consolidation based on their carrying amount in the financial statements of the acquired entity (or parent entity if applicable). Any difference between the fair value of the consideration paid and the amounts at which the assets and liabilities are initially recorded is recognised directly in equity in retained earnings.

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (continued)

(b) Goodwill

For acquisitions on or before 1 January 2010, the excess of the cost of a business combination over the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition, of subsidiary undertakings, associated undertakings and other businesses, arising is capitalised as goodwill.

For acquisitions on or after 1 January 2010, the Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

Acquisition costs are expensed to the income statement as incurred. Any contingent consideration to be transferred to the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognised in accordance with IAS 39, Financial Instruments: Recognition and Measurement in the income statement.

Goodwill arising on associates is shown as part of the investment in the associate.

Goodwill is subject to an impairment review at least annually and if events or changes in circumstances indicate that the carrying amount may not be recoverable, it is written down through the income statement by the amount of any impairment loss identified in the year.

Associates

Associates are entities over which the Group has significant influence but which it does not control. Consistent with IAS 28 Investment in Associates, it is presumed that the Group has significant influence where it has between 20% and 50% of the voting rights in the entity.

Interests in associates are accounted for on consolidation under the equity method. It is initially recorded at cost and increased or decreased each year by the Group's share of the post-acquisition profit or loss of the associate and other movements recognised directly in OCI or the equity of the associated undertaking. Goodwill arising on the acquisition of an associate is included in the carrying amount of the investment (net of any accumulated impairments).

Joint ventures

A joint venture is an entity in which the Group has joint control. Interests in joint ventures are accounted for on consolidation under the equity method. The investment in the joint venture is initially recorded at cost and increased or decreased each year by the Group's share of the post-acquisition profit or loss of the joint venture and other movements recognised directly in OCI and equity of the joint venture. Goodwill arising on the acquisition of a joint venture is included in the carrying amount of the investment (net of any accumulated impairments).

(ii) Foreign currencies

Foreign currency transactions are translated into the functional currency of the entity at the exchange rate prevailing at the date of the transaction or valuation where items are remeasured. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rates prevailing at the reporting date. Exchange movements are recognised in the income statement.

The results and financial position of Group entities which have a functional currency different from euro are translated into euro as follows:

- Assets and liabilities, including goodwill and fair value adjustments, are translated at the rates of exchange ruling at the reporting date;
- Income and expenses are translated at the average exchange rates for the year; and
- All resulting exchange differences are recognised in OCI and as a separate component of equity (currency translation adjustment reserve).

On consolidation, exchange differences arising from the translation of borrowings and currency instruments designated as hedges of the net investment in overseas subsidiaries are also recognised in OCI to the extent to which the hedge is deemed to be effective. The ineffective portion of any net investment hedge is recognised in the income statement immediately. On disposal or partial disposal of an overseas subsidiary, the appropriate portion of the currency translation adjustment reserve is included in the gain or loss on disposal.

(iii) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale. Profit or loss from discontinued operations for the year is presented in the income statement (including comparatives) as a separate line item together with any post tax gain or loss recognised on the measurement at fair value less costs to sell or on disposal of the assets / disposal groups constituting discontinued operations.

(iv) Recognition of income and expenses

Interest and similar income and expenses

For all interest bearing financial instruments, interest income or expense is recorded using the effective interest rate method.

The effective interest rate is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability, or a shorter period where appropriate, to the carrying amount of the financial asset or liability on initial recognition.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate and all premiums and discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (continued)

Fees and commission income and expense

As outlined above, fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Net trading income

Net trading income comprises gains less losses relating to trading assets and trading liabilities and includes all realised and unrealised fair value changes and foreign exchange differences.

Exceptional items

Exceptional items are a material component of the Group's profit and loss which would not ordinarily occur while carrying out normal business activities. Consequently due to their materiality, they are presented separately in the income statement to provide ease of analysis for the user of these financial statements.

(v) Employee Benefits (Revised following adoption of IAS 19R)

The Group operates a number of defined contribution pension schemes, under which the Group pays fixed contributions to a separate entity. The Group also operated three Irish defined benefit schemes, one until March 2013 and the other two until May 2013 and one small UK defined benefit scheme until 31 December 2013. As a result of the Group's decision to discontinue contribution into these schemes, the trustees resolved to wind-up the schemes.

Defined benefit pension plan

The Group's net obligation in respect of the defined benefit schemes was calculated separately for each scheme. The net obligation represents the present value of the obligation to employees in respect of service in the current or prior period less the fair value of the plan assets. The present value of the obligation is calculated annually by independent external actuaries using the projected credit unit method. The present value of the obligation is determined by discounting the estimated future cash flows. This discount rate is based on the market yield of high quality corporate bonds that have maturity dates approximating to the terms of the pension liability.

Re-measurements, comprising of actuarial gains and losses, from experience adjustments and changes in actuarial assumptions are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to income statement in subsequent periods.

Net interest is calculated by applying the discount rate to the opening net defined benefit obligation. The Group recognises the service costs comprising current service costs, past-service costs, gains and losses on curtailments and net interest expense or income changes in the net defined benefit obligation under administration, staff and other expenses (excluding exceptional items) in the income statement.

Past service costs are recognised in the income statement in the period in which they are incurred. A settlement occurs when the Group enters a transaction which eliminates all legal or constructive obligation for all or part of the benefits provided under a defined benefit plan. The gain/loss on settlement is the difference between the present value of the defined benefit obligation being settled, as determined on the date of settlement and the plan assets at the same date.

Defined contribution pension plan

The contribution payable to a defined contribution plan is recorded as an expense under administration, staff and other expenses (excluding exceptional items). Unpaid contributions are recorded as a liability.

Termination payments

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees where the offer is irrevocable. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(vi) Current and deferred taxation

Taxation comprises both current and deferred tax. Taxation is recognised in the income statement except where it relates to an item in equity which is recognised directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years (ROI: 12.5%, UK: 23% from 1 April 2013).

Deferred tax is provided using the liability method on all temporary differences except those arising on goodwill not deductible for tax purposes, or on initial recognition of an asset or liability in a transaction that is not a business combination and which at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred tax is measured at the tax rates enacted or substantively enacted by the reporting date that are expected to be applied to the temporary differences when they reverse.

Deferred tax liabilities and assets are offset only where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (continued)

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are recognised only to the extent that it is probable that the related tax benefit will be realised.

(vii) Financial instruments

(a) Financial assets

Financial assets are recorded at fair value and are classified, on initial recognition, as held for trading ("HFT"), designated at fair value through profit and loss ("FVTPL"), available-for-sale ("AFS"), held to maturity ("HTM") or loans and advances. All derivative assets are classified as HFT unless they have been designated as hedges. Purchases and sales of financial assets are recognised on the trade date, being the date on which the Group commits to purchase or sell the asset.

With the exception of assets classified as HFT or FVTPL, the initial fair value of a financial asset includes direct and incremental transaction costs. The fair value of assets traded on an active market will be the transaction price. In the absence of an active market, the Group establishes a fair value using various valuation techniques that uses observable inputs. These include recent transactions in similar items, discounted cash flow projections, option pricing models and other valuation techniques used by market participants.

Financial assets are de-recognised when the right to receive cash flows from the financial assets has expired or the Group has transferred substantially all the risks and rewards of ownership.

The Group enters into certain transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all the risks and rewards are retained, then the transferred assets are not de-recognised. Transfers of assets with retention of all or substantially all risks and rewards include sale and repurchase agreements and securitisations.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

Debt securities

The Group classifies debt securities as one of HTM, AFS or loans and advances.

Debt securities classified as HTM, subsequent to initial recognition, are measured at amortised cost less any allowance for impairment. Income on these investments is recorded on an effective interest basis as interest receivable in the income statement. Impairment losses, where they arise, and foreign exchange movements are reflected in the income statement.

Debt securities classified as AFS, subsequent to initial recognition, are measured at fair value with unrealised gains and losses, other than currency translation differences, recognised within OCI and in a separate reserve. Realised gains and losses, impairment losses and foreign exchange movements are reflected in the income statement. Income on debt securities classified as AFS is recognised on an effective interest basis and included as interest receivable in the income statement.

In 2008, in compliance with the amendments to IAS 39 Financial Statements: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (October 2008), the Group reclassified debt securities from the AFS category to a loans and advances category. The securities reclassified meet the qualifying criteria in the amendment to the standard and the Group has the intention and the ability to hold these financial assets for the foreseeable future or until maturity. The impact of this reclassification is detailed in note 13.

Debt securities classified as loans and advances are measured at amortised cost, based on an effective interest rate which is determined at the date of initial recognition.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and that the Group has no intention of trading. Loans and advances, subsequent to initial recognition, are held at amortised cost less allowance for incurred impairment losses unless they are part of a fair value hedge relationship. Income is recognised on an effective interest basis as interest receivable in the income statement.

Where loans and advances are part of a fair value hedging relationship, the accumulated change in the fair value resulting from the hedged risk is recognised together with the movements in the fair value of the related hedging instrument, in the income statement.

Cash and cash equivalents

Cash and cash equivalents include liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. It also comprises of balances with a maturity of less than three months.

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (continued)

(b) Impairment of financial assets

A financial asset is considered to be impaired, and therefore its carrying amount is adjusted to reflect the effect of impairment, when there is objective evidence that events have occurred which give rise to an adverse impact on the estimated future cash flows of the asset. Impairment provisions are calculated either individually on loans where significant, or on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment provision accounts. Losses expected from future events are not recognised.

Payments relating to impaired loans and advances are used to reduce the accrued interest and the remainder, if any, to reduce the principal amount outstanding.

Impairment of loans and advances to customers

Specific impairment

Loans are assessed for objective evidence based on current information and events at the date of assessment. The Group assesses the key portfolios (ROI and UK residential mortgage loans) for evidence of individual impairment monthly while the commercial portfolio is assessed quarterly. Residential mortgage loan portfolios are assessed, in the first instance due to their homogenous nature, by use of a statistical model primarily driven by the current delinquency status, being the number of days in arrears.

Objective evidence of impairment may include the following:

- Delinquency in contractual interest or principal repayments;
- Significant financial difficulty of the borrower;
- Deterioration in value of the collateral;
- For reasons relating to the borrower's financial difficulty a concession is granted that would not otherwise be considered;
- It is probable that the borrower will enter bankruptcy or other financial re-organisation;
- A forbearance request by the customer accompanied by submission of standard financial statements ("SFS");
- Absence of active markets (commercial mortgages);
- Borrower's ability to refinance the existing loan (commercial mortgages); and
- Any significant exceptional events.

Certain macro-economic factors such as a decrease in property prices and an increase in unemployment rates are also considered as objective evidence requiring an impairment assessment to be performed.

In general, the Group employs statistical models to assess and calculate the appropriate provision charge for all loans greater than 90 days in arrears or when there is objective evidence of impairment. Those statistical models mainly incorporate historical trends of probability of defaults, rates by which defaulted or delinquent accounts are assumed to return to performing status (known as cure rates), the timing of recoveries of collateral and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates (Probability of Default), loss rates (Loss Given Default), cure rates and the expected timing of recoveries of collateral are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

However, in certain circumstances an individual assessment will be carried out and an impairment charge will be calculated. Loans are individually assessed when certain criteria have been met. The criteria for the individual portfolios are as follows:

ROI residential mortgages: exposures in excess of €5m and/or greater than 90 days in arrears. For exposures over €1m and less than €5m, a risk based approach is adopted where collateral values are benchmarked to sample market comparatives;

UK residential mortgages: in litigation and/or greater than 90 days in arrears;

Commercial mortgages: exposures in excess of €0.75m and greater than 90 days in arrears.

The impairment provisions on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require.

When a loan is impaired, interest income continues to be recognised at the original effective interest rate (in the case of a portfolio assessment, the weighted average interest rate of the portfolio) on the carrying amount, representing the unwind of the discount of the expected cash flows.

Incurred But Not yet Reported ("IBNR") impairment

Loans for which no evidence of loss has been specifically identified are grouped together according to their credit risk characteristics (such as owner occupier or buy-to-let, geographical location, type of collateral, loan-to-value ratio, past due status, forbearance treatment status) for the purpose of calculating an estimated collective provision. This reflects impairment losses that the Group has incurred as a result of events occurring before the statement of financial position date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually reported in the future when more evidence of impairment becomes available at which stage the relevant loans are moved from IBNR to specific impairments.

IBNR impairment provision is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics adjusted for current observable data to reflect the effects of current conditions that did not affect the period in which the historical loss experience is based and to remove the effects of the condition in the historical period that do not exist currently;
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of a specific provision against the loan (known as the emergence period); and
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the statement of financial position date is likely to be greater or less than that suggested by historical experience.

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (continued)

To effect this, when appropriate empirical information is available, the Group utilises a roll rate methodology. This methodology employs statistical analyses of historical data and experience of delinquency and losses as a result of the events occurring before the statement of financial position date which the Group is not able to report on an individual loan basis, and that can be reliably estimated. Under this methodology, loans are grouped into ranges according to the number of days past due and a statistical model is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove to be specifically impaired. The estimated loss is calculated as the product of the probability of the customer defaulting, Group's exposure to the customer and the historical loss rate adjusted for current market conditions.

Write-off of loans and advances

Loans (and the related impairment provisions) are written off, either partially or in full, when it is viewed that it is unlikely that the loan will be collectible. In the case of secured debt where the collateral has been realised and where there are insufficient funds from the realisation of the collateral, the Group must determine whether there is a reasonable expectation of further recovery. Recoveries of amounts previously written off are offset against the loan impairment provision charge in the income statement.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment provision account accordingly. The write-back is recognised in the income statement.

Forbearance strategies – residential mortgage loans

Forbearance strategies are employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid foreclosure or repossession. Such arrangements can include extended payment terms, a temporary reduction in interest or principal repayments, payment moratorium and other modifications.

All loans that are considered for a forbearance solution are assessed for impairment under IAS 39 and where a loan is deemed impaired, an appropriate provision is created to cover the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Where, having assessed the loan for impairment and the loan is not deemed to be impaired, it is included within the IBNR assessment.

Forbearance loans classified as impaired, may be reclassified as not impaired, following a satisfactory assessment of the customer's continuing ability and willingness to repay, displayed by 12 consecutive payments of instalments as required under the newly restructured terms. Loans that are reclassified as not impaired are included in the Group's IBNR assessment.

Impairment of AFS financial assets

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that the asset is impaired.

Impairment losses on AFS financial assets are recognised by reclassifying the losses accumulated in the AFS reserve to income statement. The amount reclassified as impairment is the difference between the amortised cost and the current fair value, less any impairment loss previously recognised in the income statement. If the fair value of a debt instrument classified as an AFS financial asset increases subsequently and the increase can be objectively related to a credit event occurring after the impairment loss was recognised, then the impairment loss is reversed through the income statement. Impairment losses recognised as AFS equity instruments are not reversed through the income statement.

(c) Financial liabilities

Financial liabilities include deposits by banks including central banks, customer accounts, debt securities, subordinated debt and contingent capital notes issued by the Group. Derivative liabilities are dealt with under separate accounting policies.

Debt securities and subordinated debt issued are initially recognised on the date that they originated, while all other financial liabilities are recognised initially on the trade date, which is the date the Group becomes a party to the contractual provisions of the instrument.

All financial liabilities are recognised initially at fair value, less any directly attributable transaction costs and are subsequently measured at amortised cost and the related interest expense is recognised in the income statement using the effective interest method.

A financial liability is de-recognised when its contractual obligations are discharged, cancelled or expired. This may happen when payment is made to the lender; the borrower legally is released from primary responsibility for the financial liability; or if there is an exchange of debt instruments with substantially different terms or a substantial modification of the terms of an existing debt instrument. De-recognition conditions are also satisfied when an entity repurchases its own debt instruments issued previously. When a financial liability is extinguished, any difference between the carrying amount of the financial liability and the consideration paid is recognised in the income statement.

A financial liability that is classified as a compound financial instrument, containing both debt and equity features, is separated into its equity and debt components on initial recognition. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the debt component. The instrument is fair valued at the date of issue using an appropriate valuation technique if there is an absence of quoted market prices. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method, with related interest recognised in the income statement. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised in the income statement.

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (continued)

(d) Determination of fair value of financial instruments (Revised following adoption of IFRS 13)

The Group measures financial instruments, such as, derivative financial instruments, trading financial instruments and other financial instruments designated at fair value through profit or loss, certain risks in hedged financial instruments, financial assets classified as available for sale, investment properties and share-based payments at fair value on initial recognition.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability which is accessible to the Group.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole described as follows:

- Level 1 — Quoted market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques such as discounted cash flow method, comparison with similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

An analysis of the fair values of financial instruments and further details as to how they are measured are provided in note 32.

(viii) Derivative instruments and hedging

Derivative instruments used by the Group primarily comprise currency forward rate contracts, currency and interest rate swaps, cross-currency interest rate swaps, futures contracts and forward rate agreements. All derivatives are classified as HFT unless they have been designated as hedges.

All derivatives are held on the statement of financial position at fair value.

Gains and losses arising from derivatives held for trading are recognised in trading income.

IAS 39 permits the Group to designate certain derivatives as either:

- 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
- hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).
- hedges of a net investment in a foreign operation (net investment hedge)

Where derivatives are used as hedges, formal documentation is drawn up at inception of the hedge specifying the risk management objectives, the hedging strategy, the component transactions and the methodology that will be used to measure effectiveness. Assessment of hedge effectiveness is carried out at inception and on an on-going basis over the life of the hedge relationship to determine whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within the required effectiveness range of 80%-125%.

Fair value hedge: Movements in the fair value of derivative hedge positions together with the fair value movement in the hedged risk of the underlying instrument are reflected in the income statement under net interest income and trading income.

Cash flow hedge: The effective portion of changes in the fair value of the derivatives that are designated and qualify as cash flow hedges are recognised in OCI and included in the cash flow hedge reserve in the statement of changes in equity. The gains or losses relating to the ineffective portion are recognised immediately in the income statement in trading income. The amount accumulated in equity is reclassified to the income statement in the same period that the hedged risk is realised. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to the income statement.

Net investment hedge: This type of hedge is accounted for similar to the cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in OCI and separately identified as currency translation reserve within shareholders' equity. The gain or loss relating to the ineffective portion is recognised immediately in income statement and the effective portion that is held within the reserves is reclassified to the income statement on the disposal of the foreign operation.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (continued)

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not itself carried at fair value through profit or loss;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in income statement unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

(ix) Leases

Lessee

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Assets held as finance leases are capitalised and included in property and equipment initially at fair value and subsequently at depreciated cost.

Lessor

Assets leased to customers that transfer substantially all the risks and rewards incidental to ownership to the customer are classified as finance leases. They are recorded at an amount equal to the net investment in the lease, less any provisions for impaired rentals, within loans and advances to customers. Leasing income is credited to interest income on an actuarial before-tax net investment basis to give a constant periodic rate of return.

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership. The leased assets are included as investment properties. Lease income is recognised on a straight-line basis over the term of the lease.

(x) Securitised assets

The Group has entered into funding arrangements to finance specific loans and advances to customers where a substantial proportion of the risk and rewards of the assets are retained. All such financial assets are held on the Group's statement of financial position and a liability is recognised for the proceeds of the funding transactions.

(xi) Property and equipment

Leasehold premises with initial lease terms of less than 50 years and all other equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated to write off the costs of such assets to their residual value over their estimated useful lives, which are assessed annually.

Freehold premises and leasehold premises with initial lease terms in excess of fifty years are revalued at least annually by external professional valuers. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Any resulting increase in value is credited to OCI and shown as revaluation reserves in shareholders' equity. Any decreases in value that offset previous increases of the same asset are charged in OCI and debited against the revaluation reserves directly in equity while all other decreases are charged to the income statement. The revalued premises, excluding the land element, are depreciated to their residual values over their estimated useful lives, which are assessed annually.

Subsequent costs are included in the asset's carrying amount, only when it is probable that increased future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Property and equipment is assessed for impairment where there is an indication of impairment. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognised against the revaluation reserve to the extent it is available and any remainder is recognised in the income statement. The depreciation charge for the asset is then adjusted to reflect the asset's revised carrying amount.

The estimated useful lives are as follows:

Freehold Buildings	50 years
Leasehold Buildings	50 years or term of lease if less than 50 years
Office Equipment	5 – 15 years
Computer Hardware	3 – 10 years
Motor Vehicles	5 years

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (continued)

(xii) Intangible assets

(a) Software

Computer software is stated at cost, less amortisation and provision for impairment, if any. The external costs and identifiable internal costs of acquiring and developing software are capitalised where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year.

Capitalised computer software is amortised over three to seven years.

Software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or value in use.

(b) Core deposit intangible assets

Core deposit intangibles arise from the acquisition of deposit portfolios and are stated at cost (being its fair value on initial recognition) less amortisation and provision for impairment, if any, and are amortised over five years. They are subject to impairment review at least annually and if events or changes in circumstances indicate that the carrying amount may not be recoverable, they are written down through the income statement by the amount of any impairment loss identified in the year.

(xiii) Repossessed assets

In certain circumstances, property is repossessed following foreclosure on loans that are in default. On initial recognition the repossessed properties are valued based on valuations obtained from an independent valuer at the date of repossession. Subsequent to initial recognition, where the most recent valuation is greater than six months at a reporting date, the property is revalued based on movements in the Group's index based valuation model. Where the carrying value of the repossessed assets are less/greater than their fair value, an impairment write-back/charge is recognised in the income statement. Repossessed assets are reported within other assets in note 21.

(xiv) Assets and liabilities classified as held for sale

An asset or a disposal group is classified as held for sale if the following criteria are met:

- its carrying value will be recovered principally through sale rather than continuing use;
- it is available for immediate sale; and
- the sale is highly probable within the next 12 months.

When an asset (or disposal group), other than a financial asset or rights under an insurance contract, is initially classified as held for sale, it is measured at the lower of the carrying amount or fair value less costs to sell at the date of reclassification. Impairment losses subsequent to classification of such assets are recognised in the income statement. Increases in fair value less costs to sell of such assets that have been classified as held for sale are recognised in the income statement to the extent that the increase is not in excess of any cumulative loss previously recognised in respect of the asset.

Where the above conditions cease to be met, the assets (or disposal group) are reclassified out of held for sale and included under the appropriate statement of financial position classifications.

Financial assets within the scope of IAS 39, Financial Instruments: Recognition and Measurement, and rights under an insurance contract within the scope of IFRS 4, Insurance Contracts continue to be measured in accordance with these standards. Retirement benefit assets and liabilities and investment properties continue to be measured in accordance with IAS 19, Employee Benefits and IAS 40 Investment Property respectively.

(xv) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A restructuring provision is recognised when there is an approved detailed and formal restructuring plan, and the restructuring either has commenced or has been publicly announced. Future operating losses are not permitted to be recognised.

Present obligations arising under onerous contracts are recognised and measured as provisions at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. An onerous contract is a contract in which the unavoidable cost of meeting the obligation under the contract exceeds the economic benefits expected to be received under it.

(xvi) Dividends

Final dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders. Interim dividends are recognised in equity in the period in which they are paid.

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (continued)

(xvii) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Executive Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Transactions between the operating segments are on normal commercial terms and conditions unless stated otherwise. Internal charges and transfer pricing adjustments have been reflected in the performance of each segment. Revenue from external parties is measured in a manner consistent with the income recognition policy of the Group.

(xviii) Sales and repurchase agreements

Financial assets may be lent for a fee or sold subject to a commitment to repurchase them. Such assets are retained on the statement of financial position when substantially all the risks and rewards of ownership remain with the Group. The liability to the counterparty is included separately on the statement of financial position as appropriate.

Similarly, where financial assets are purchased with a commitment to resell, or where the Group borrows financial assets but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the financial assets are not included in the statement of financial position.

The difference between the sale and repurchase price is recognised in the income statement over the life of the agreements using the effective interest rate. Fees earned on stock lending are recognised in the income statement over the term of the lending agreement. Securities lent to counterparties are also retained on the statement of financial position.

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (continued)

1.6 Application of new and revised IFRSs

New and revised IFRSs affecting amounts reported and/or disclosures in these financial statements

In the current year, the Group has applied the following new and revised IFRSs issued by the IASB and adopted by the EU that are mandatorily effective for accounting periods that began on or after 1 January 2013.

(a) Amendment to IFRS 7 – Offsetting Financial Assets and Liabilities

The Group has applied this amendment for the first time in the current year retrospectively. This amendment requires entities to disclose information about rights to offset and related arrangements for financial instruments under an enforceable master netting or similar agreement. This amendment does not have any impact on the Group's statement of financial position and income statement. Refer to note 39 for further details.

(b) Amendment to IAS 1 – Presentation of Other Comprehensive Income

As a result of this amendment to IAS 1, the Group has modified the presentation of items in its statement of other comprehensive income to separately identify items that would be reclassified to profit or loss from those that would not be so reclassified. Comparative information has been re-presented accordingly.

(c) Amendments to IAS 1 – as part of the Annual Improvements to IFRSs 2009 – 2011 Cycle (issued in May 2012)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes.

In the current year the Group has applied the revised IAS 19 (as in (e) below), which has resulted in material effects on the information in consolidated statement of financial position as at 1 January 2012. In accordance with this amendment, the Group has presented a third balance sheet as at 1 January 2012 without the related notes. This amendment affects the presentation only and had no impact on the Group's financial position or performance.

(d) IFRS 13 – Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current year which establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market at the measurement date under the current market conditions. IFRS 13 replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 and as a result the additional disclosures are included in the measurement basis and fair value of financial instruments and property, plant and equipment notes to the financial statements.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. The application of this standard has no material impact on Group's measurement of assets and liabilities

IAS 19 (Revised) – Employee Benefits

This revision to IAS 19 removes the option to defer the recognition of actuarial gains and losses, i.e. the corridor approach. All changes in the value of defined benefit plans will be recognised in the income statement or other comprehensive income. The adoption of these revisions requires the Group to recognise:

- 1) A service cost and a net interest income or expense in the income statement. The net interest amount previously included the expected return on plan assets. The expected return on plan assets was estimated based on the composition of the plan assets. The revised standard now requires that the expected rate of return matches the discount rate used to estimate the changes in the retirement benefit obligation;
- 2) The full amount of the retirement benefit obligation is recognised on the statement of financial position;
- 3) Administration expenses relating to the pension scheme are charged to the income statement in the year they are incurred; and
- 4) Enhanced disclosures, including more information about the characteristics of defined benefit plans and related risks.

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (continued)

IAS 19R has been applied retrospectively in accordance with its transitional provisions. Consequently, the Group has restated its reported income statement, the OCI and the statement of financial position throughout the comparative period and reported the cumulative effect as at 1 January 2012 as an adjustment to opening equity. The effect of adoption of IAS 19R is explained below.

The effect of the revised IAS 19 on the statement of financial position is:

	Retirement benefit obligation	Deferred tax assets*	Shareholders' equity
	€m	€m	€m
Balance reported as at 1 January 2012	(120)	15	3,517
Effect of IAS 19R	(102)	-	(102)
Restated balance as at 1 January 2012	(222)	15	3,415
Balance as reported as at 31 December 2012	(127)	16	2,834
Effect of IAS 19R			
- brought forward	(102)	-	(102)
- total comprehensive income for the year	(82)	-	(82)
Total effect of IAS 19R recognised in 2012	(184)	-	(184)
Restated balance as at 31 December 2012	(311)	16	2,650

*Due to the fact that there were unrecognised deferred tax assets at 01 January 2012 no further deferred tax asset was recognised on the retirement benefit liability following IAS 19R. Refer to note 27 for further information.

The effect of the revised IAS 19 on the statement of comprehensive income for the current and prior years:

	Year ended	
	31 December 2013	31 December 2012
	€m	€m
Income statement		
Decrease in pension costs included in operating expenses	5	3
Increase/(decrease) in tax expense	-	-
Decrease in loss for the year	5	3
Other comprehensive income		
Increase in loss on remeasurement of net defined benefit obligation	(35)	(85)
Increase in deferred tax asset	-	-
Decrease in other comprehensive income	(35)	(85)
Decrease in total comprehensive income	(30)	(82)

The revised IAS 19 did not have a material impact on the statement of cash flows or on the loss per share for the year ended 31 December 2013 and 31 December 2012.

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (continued)

New and revised IFRSs in issue but not yet effective

The Group has not yet applied the following new and revised IFRSs that have been issued by the IASB but are not yet effective at 31 December 2013.

Standard	Description of change	Effective date	Impact
IFRS 10 – Consolidated Financial Statements	IFRS 10 becomes effective for annual periods beginning on or after 1 January 2014 as endorsed by the EU. It replaces the requirements of IAS 27 Consolidated and Separate Financial Statements that address the accounting for consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. The revised IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. IFRS 10 replaces the definition of control under which an entity uses to determine whether to consolidate an investee. The definition of control is revised to include the need for the investor to have both power and exposure or rights to variable returns from the investee. Previously, control was defined as the power to govern financial and operating policies of an entity so as to obtain benefits from its activities.	Annual periods beginning on or after 1 January 2014 as adopted by the EU.	The application of the new standard is not expected to have a material effect on the financial position and the performance of the Group.
IFRS 11 – Joint Arrangements	This standard becomes effective for annual periods beginning on or after 1 January 2014 as endorsed by the EU. It replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. Because IFRS 11 uses the principle of control in IFRS 10 to define control, the determination of whether joint control exists may change.	Annual periods beginning on or after 1 January 2014 as adopted by the EU.	The application of the new standard is not expected to have a material effect on the financial position and the performance of the Group.
IFRS 12 – Disclosures of interests in other entities	This standard becomes effective for annual periods beginning on or after 1 January 2014 as endorsed by the EU. It includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity.	Annual periods beginning on or after 1 January 2014 as adopted by the EU.	The Group will need to disclose more information about the consolidated subsidiaries and special purpose entities with which it is involved or has sponsored. However, the standard will not have any impact on the financial position or performance of the Group.
IAS 27 Separate Financial Statements (revised)	As a consequence of the new IFRS 10 and IFRS 12, IAS 27 has been revised to only deal with the requirements on separate financial statements.	Annual periods beginning on or after 1 January 2014 as adopted by the EU.	This revision will not have a material effect in the financial statements of the Parent Company.
IAS 28 Investments in Associates and Joint ventures (revised)	As a consequence of the new IFRS 11 and IFRS 12, IAS 28 is revised to set out the requirement for the equity method when accounting for investments in associates and joint ventures. The standard defines significant influence, provides guidance on how the equity method of accounting is to be applied and how investments in associates and joint ventures should be tested for impairment.	Annual periods beginning on or after 1 January 2014 as adopted by the EU.	This revision will not have a material effect in the consolidated financial statements of the Group.
Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities	An amendment to IFRS 10, IFRS 12 and IAS 27 was issued in October 2012. This introduced an exception to the principle that all subsidiaries shall be consolidated. The amendment defines investment entities and requires a parent that is an investment entity to measure its investment in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 instead of consolidating those subsidiaries in its consolidated and separate financial statements.	Annual periods beginning on or after 1 January 2014 as adopted by the EU.	This revision will not have a material effect in the consolidated financial statements of the Group.

Notes to the Consolidated Financial Statements

1. Corporate information, basis of preparation and significant accounting policies (continued)

Standard	Description of change	Effective date	Impact
IFRS 9 – Financial Instruments	<p>IFRS 9, issued in November 2009, introduced new requirements for the classification, measurement and recognition of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification, measurement and recognition of financial liabilities and for de-recognition.</p> <p><u>Key requirements of IFRS 9</u></p> <p>Financial Assets – The multiple classification model for financial assets from IAS 39 is replaced with only two classification categories; amortised cost and fair value. IFRS 9 introduces a two-step classification approach which involves the entity considering its business model and the contractual cash flow characteristics of the financial assets. The requirement to separate embedded derivatives from financial asset hosts and cost exemption for unquoted entities no longer applies.</p> <p>Financial Liabilities – IFRS 9 does not change the accounting for financial liabilities from IAS 39. The requirement to separate embedded derivatives from financial liabilities hosts remains. If an entity chooses to measure a liability at fair value through profit or loss, the portion of the change in fair value related to changes in the entity's own credit risk is presented in the statement of other comprehensive income rather than within the income statement.</p> <p>The IASB is also currently working on phase 2 and 3 of the IFRS 9 project which deals with impairments and hedge accounting. However, as of now, there are no official dates as to when work from these phases will be incorporated into IFRS 9.</p>	Expected to be annual periods beginning on or after 1 January 2018	Application of IFRS 9 is expected to have significant impact on Group's financial position and performance. However, the Group is unable to quantify the full potential impact as the standard is not fully finalised by the IASB. The EU has advised that the standard will be endorsed only when it is fully complete.

2. Critical accounting estimates and judgements

The preparation of the Group's consolidated financial statements requires management to make assumptions, estimates and judgements that affect the reported amounts of income, expenses, assets and liabilities and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that may require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

Critical accounting estimates and judgements made by management in applying the Group's accounting policies are set out below.

a) Impairment losses on loans and advances to customers

Management reviews the Group's loan portfolios to assess for impairment monthly. This review involves exercising judgement in determining the key assumptions and estimations when calculating impairment provisions on both individually and collectively assessed loans and advances to customers. Details of the Group's impairment provisioning methodologies are provided within the credit risk section of note 33.

Specific impairment provisions

In general, the Group employs statistical models to assess and estimate an impairment provision. These are subject to estimation uncertainty due to the use of various parameters and assumptions in the calculations such as, historic loss experience, rates by which defaulted or delinquent accounts are assumed to return to performing status – known as cure rate – foreclosure costs and current economic assumptions such as house price falls as well as the expected level of application of forbearance treatments which may differ from the actuals.

These parameters and assumptions require significant management judgement to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than that suggested by historical experience. Historical experience provides the most objective and relevant information to assess inherent loss within each portfolio, though sometimes it may not be as representative of the inherent incurred loss in a given portfolio at the statement of financial position date. For example, when there have been changes in economic, regulatory or behavioural conditions which result in the most recent trends in portfolio risk factors not being fully reflected in the calculations. In these circumstances, management uses judgement by appropriately adjusting the relevant parameters and assumptions derived from historical loss experience to ensure such parameters and assumptions are reflective of current economic conditions.

The parameters and the assumptions used in the calculation of impairment provisions are reviewed regularly in light of differences between loss estimates and actual loss experience. For example, cure rates, loss rates and expected timing of future recoveries are regularly re-calibrated against actual outcomes to ensure they remain up to date and appropriate.

Given the relative sizes of the portfolios, the key judgemental area for the Group is in relation to the level of impairment provision applied for the ROI residential mortgage portfolio and the key variables within this judgement include account behavioural trends such as cure rate, collateral valuations linked to movement in market house prices and foreclosure costs and application of forbearance treatments. Sensitivity analysis of cure rates, movement in house prices and foreclosure costs assumptions are provided below:

- **Collateral valuations:** The value of collateral is estimated by applying changes in house price indices to the originally assessed value of the property. If the assumption for the peak-to-trough house prices decline was increased from 55% to 60% at 31 December 2013, the impairment provision would increase by c.€260m and if the house prices decline was decreased from 55% to 50% at 31 December 2013, the impairment provision would decrease by c.€250m. Actual house price drop at 31 December 2013 shows a decline of 46% from its peak in 2007 according to the Residential Property Price Index published by the CSO.
- **Cure Rate:** The cure rate is, as explained above, the rate by which defaulted or delinquent loans are assumed to return to performing status. A 5% favourable change in the cure rate will reduce the impairment provision by c.€44m at 31 December 2013 and a 5% unfavourable change in the cure rate will increase the impairment provision by c.€44m at 31 December 2013.

Notes to the Consolidated Financial Statements

2. Critical accounting estimates and judgements (continued)

- **Foreclosure costs:** Foreclosure costs assumption also influence the impairment provision. A 5% increase in foreclosure costs will result in increasing the impairment provision by €153m at 31 December 2013 and a 5% decrease in foreclosure costs will result in decreasing the impairment provision by €144m at 31 December 2013.

IBNR impairment provisions

IBNR impairment provisions for residential mortgage portfolios are also subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan if objective evidence does not exist. Where no objective evidence is available these loans are grouped together with financial assets which have similar credit characteristics and are collectively assessed for impairment.

IBNR impairment provisions are made for loans which are believed to be impaired at the balance sheet date and while not individually assessed, are expected to have incurred losses. This provision is sensitive to changes in the time between the loss event and the date the impairment is specifically identified known as the loss emergence period. Management changed the emergence period from six months to twelve months during 2013 and believes this to be appropriate. In the ROI residential mortgage portfolio, a further increase of one month in the loss emergence period would result in an increase to the impairment charge of c.€12m while a decrease of one month in the loss emergence period would result in a decrease to the impairment charge of €14m.

b) Retirement benefit obligations

The Group operates a number of defined contribution pension schemes. The Group also operated three Irish defined benefit schemes, one until 04 March 2013 and the other two until 31 May 2013 and one small UK defined benefit schemes until 31 December 2013. As a result of the Group's decision to discontinue contribution into these schemes, the trustees resolved to wind up the schemes. For defined contribution schemes, the pension cost recognised in the income statement represents the contributions payable to the scheme.

For defined benefit schemes, actuarial valuation of each of the scheme's obligations using the projected unit method and the fair valuation of each of the scheme's assets was performed annually in accordance with the requirements of IAS 19 by external actuaries. The actuarial valuation is dependent upon a series of assumptions, the key assumptions being discount rates, salary increases, pension increases, rate of price inflation and mortality rates. Management obtains external advice from professional actuaries in determining the appropriate discount rate and considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. For the three Irish schemes this valuation was carried out at the date of wind up in accordance with IAS19R. For further details refer to note 27.

The price inflation assumption reflects long-term expectations of both earnings and retail price inflation. Mortality estimates are based on standard industry and national mortality tables, adjusted where appropriate to reflect the Group's own experience.

The difference between the fair value of the plan assets and the present value of the defined benefit obligation at the financial position date is recognised as a liability or an asset in the statement of financial position. At the wind up date of the three Irish defined benefit schemes, the difference between the plan assets and the defined benefit obligation was calculated to arrive at the pre wind-up obligation which was then treated as a settlement gain in accordance with IAS 19R.

c) Deferred taxation

At 31 December 2013, the Group had net deferred tax asset of €446 m. See note 20 for further details. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and adequacy of future taxable profits and the reversals of existing taxable temporary differences.

The most important judgement relates to management's assessment of the recoverability of the deferred tax asset relating to carried forward trading losses. This entails the consideration of the future legal entity and trading structure of the Group, which ultimately will be influenced by the Group's strategy, economic environment and pending approvals of the Group's Restructuring Plan by the relevant authorities and the ability to use past trading losses to offset future trading profits.

The Group's strategic outlook has continued to improve, both from the perspective of the macroeconomic environment and the Group's performance. Arising from this progress, it has become achievable for the Core Bank - ptsb SBU and AMU - to be maintained within a single viable entity, rather than solely ptsb SBU which was basis on which a deferred tax asset was recognised at 31 December 2013 and 30 June 2013. The Directors judge that a Core Bank of ptsb SBU and AMU is both the probable outcome, and a desirable outcome from the perspective of key stakeholders. Accordingly, in line with the requirements of IAS 12 "Deferred Tax Assets", Management and Directors have formed the view that it became probable during the second half of 2013 that the carried forward tax losses within the Core Bank, which are predominantly associated with assets in the AMU, could be utilised against future profits, which will predominantly be generated by ptsb SBU. This requires significant judgements to be made about the projection of long-term profitability because of the period over which recovery extends.

In making the assessment, the Board considered the following factors:

- The improving macroeconomic environment, including the exit by the Irish State from the Programme for External Support, the upgrade of the Irish State by Moody's to Investment Grade (Baa3 with positive outlook), the reduction in Irish Sovereign Bond yields, Growth in GDP, reduction in unemployment and stabilisation of house prices.
- Improvements in the Group's financial projections showing improvements in the Group's commercial position, including its projected return to profitability and in particular the projected viability of the Core Bank.
- The likelihood and viability of a strategic outcome being the retention of the Core Bank, incorporating both ptsb SBU and AMU.
- Discussions with the Department of Finance and Central Bank of Ireland on the Group's strategic plans and projections.
- Current performance against targets set by the Group in its Annual Planning Process.
- The submission by the Department of Finance of the Group's Restructuring Plan in June 2012 and Restructuring Plan Update in August 2013.

Notes to the Consolidated Financial Statements

2. Critical accounting estimates and judgements (continued)

- The financial support provided to the Group by the Irish Government and Eurosystem during the financial crisis.
- The Group's projected liquidity position over the planning period.
- The Group's projected capital position, incorporating recent changes to capital rules arising from the implementation of Basel 3 by the Capital Requirements Directive IV.
- Ability to significantly deleverage the Non-Core portfolios.
- Considerations of forecasting risks, including sensitivity analysis on the financial projections, including the effect of higher than expected impairments, cost of funds or operating expenditure, and lower than expected asset yields, new lending or ECB rates.

Taking the above factors into account, and in the absence of any expiry date for tax losses in Ireland, the directors have concluded that it is more likely than not that there will be sufficient taxable profits against which the losses can be utilised and on the basis of the assessment above, have recognised €414m of additional Deferred Tax Assets during the year.

In this regard the Group has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset. Based on the Group's latest forecast plans to 2017 and assuming a level of profitability growth consistent with GDP growth of approximately 2%, it will take over 25 years for the deferred tax asset of €464m to be utilised. IFRS does not allow for the deferred tax asset recognised to be discounted notwithstanding that it is likely to take a number of years to recover it.

d) Financial instruments

The Group's accounting policy for the determination of fair value of financial instruments is set out in note 1, (vii)(d). The best evidence of fair value is quoted prices in an active market. The absence of quoted prices increases reliance on valuation techniques and requires the use of judgement in the estimation of fair value. This judgement includes evaluating available market data, determining the expected cash flows for the instruments, as well as identifying and applying an appropriate discount rate and credit spread.

Valuation techniques that rely on non-observable data require a higher level of management judgement in estimating the fair value compared to those based on observable data.

The quality of market data, valuation techniques and other inputs into the valuation models used are subject to internal review and approval.

The Group carries certain financial assets at fair value. In estimating the fair value of these assets and derivatives, the Group seeks to use quoted market prices (level 1). Where quoted market prices are not available, the Group uses internally developed valuation models and valuation from external experts. Inputs to these models are taken from observable market data where possible (level 2) but where this is not possible, a degree of judgement is used (level 3). Such judgement considerations typically include items such as interest rate yield curves, equity prices, option volatilities and currency rates. The Group does not currently carry any financial asset or liability at fair value where the fair values of those are determined using unobservable market inputs.

Further details of the fair value of financial assets and liabilities are set out in note 32.

e) Assets and disposal groups classified as held for sale

Management has followed the accounting requirements of IFRS 5 in classifying certain CHL loans and advances to customers as held for sale. Management has exercised judgement in determining that it is committed to completing the sale within 12 months of classification as held for sale, that the sale is highly probable and that it is unlikely that the plan to sell will be significantly changed or withdrawn. In making this judgement, management considered various factors including industry and sector performance along with recent comparable market transactions and also the Group's ability to sell the assets in the current market conditions.

f) Business combinations under common control

Following the Transfer Order requested by the Central Bank and issued by the High Court dated 10 November 2013, the Group acquired certain assets, liabilities, books and records and all employees of Newbridge Credit Union ("NCU") transferred with immediate effect. The Group deemed this transaction as a common control business combination in accordance with IFRS 3, Business Combinations and has applied predecessor accounting rather than fair value accounting.

In arriving at this conclusion, management has exercised judgement in determining the existence of control the Minister for Finance has over the NCU particularly before the acquisition where the Minister for Finance and the Central Bank acted together to control NCU to minimise the costs of the Credit Institution Resolution Fund, via the appointment of a Special Manager until the transfer to the Group. Therefore, the cash incentive of €23m received from the Credit Institutions Resolution Fund, which is not repayable to the Fund, has been treated as capital contribution. Refer to note 41 for further details.

In addition to the €23m cash incentive, the Financial Incentive Arrangement also includes a risk sharing arrangement in respect of the NCU loan books transferred to the Group. Details of the risk sharing arrangement are disclosed in note 41. In contrast to the €23m cash incentive, the risk sharing arrangement has conditionality attaching to its terms and so is not considered to be a form of capital contribution/distribution and is accounted for through the income statement.

Notes to the Consolidated Financial Statements

3. Operating segments

During 2013, the Group completed a reorganisation of its operating structure. The reorganised segments now consist of three SBUs which comprise of the following elements:

ptsb	The ptsb SBU is the core commercial part of the Group. The ptsb SBU targets mainstream Irish retail personal customers and offers a comprehensive range of retail banking products including deposit accounts, current accounts, mortgages and consumer finance (personal loans, credit cards and overdrafts) through multiple channels (national branch network, telephone, online, mobile).
AMU	The Asset Management Unit ("AMU") SBU manages the non-performing home loan, buy-to-let and unsecured mortgage loan portfolios in the Republic of Ireland.
Non-Core Assets	The Non-Core SBU comprises of CHL (a UK residential mortgages business), a smaller deposit business in IOM operated through the Group's subsidiary, Permanent Bank International Limited (PBIL) and a number of smaller loan portfolios. All are closed for new business (except PBIL). PBIL is currently included in the non-core segment as it currently funds the UK mortgage business. However, the Group views PBIL as potentially core in the future, as it could be utilised as a funding platform for ptsb and the AMU when non-core operations are deleveraged.

The Executive Committee ("ExCo") as the Chief Operating Decision Maker ("CODM"), is responsible for implementing the strategic management of the Group as guided by the Board. The ExCo reviews key performance indicators and internal management reports on a monthly and quarterly basis.

The accounting policies of the segments are in line with those of the Group. Transactions between the reportable segments are on normal commercial terms and conditions. The primary performance measure utilised by the ExCo for the reportable segments is net interest income, impairments and profit before tax.

The Group operates a funding mechanism which allocates the funding and related costs across the three SBUs. For the purposes of the segmental analysis the income / (expense) in respect of this intergroup funding is reported in the unallocated adjustments in net interest income, while on the balance sheet this funding is reported on the intergroup funding line and eliminated in the unallocated adjustments.

The Group is not reliant on revenue from transactions with a single external customer in the current or comparative reporting years.

Prior to the reorganisation, the Group was organised into three reportable segments as described below:

Banking Ireland	This segment included the Group's retail banking services via branch, telephone and online operations in the Republic of Ireland. Banking Ireland offered a wide range of financial products and services such as deposit accounts, mortgage lending and current accounts and includes corporate and head office costs of the Group.
Banking UK	This segment comprised of retail banking services principally residential mortgages and lending services to the UK market.
Life Group	The Life Group, included life assurance, fund management, general insurance and brokerage, third party and other businesses prior to being sold.

According to IFRS8.29, if an entity changes the structure of its internal organisation that causes the composition of its reportable segment to change, the corresponding information for comparative year shall be restated.

Management carried out an assessment to determine whether the corresponding information for the comparative period is available and concluded that as the reorganisation only completed in 2013 and the Group was not managed in the new structure throughout the period, the required management information is not available for the comparative periods and also the cost to develop such information would be excessive.

Therefore, the Group has opted to apply IFRS8.30 which requires the entity to disclose in the year in which the change occurs being 31 December 2013, the segment information for the current year on both the old basis and the new basis of segmentation where the comparative information is not restated.

Notes to the Consolidated Financial Statements

3. Operating segments (continued)

Financial performance of the segments for the period ended 31 December 2013 based on the new structure of the segments following reorganisation are presented below.

Year ended 31 December 2013

	ptsb	AMU	Non-core assets	Unallocated adjustments*	Total
	€m	€m	€m	€m	€m
Net interest income					
From external customers	171	181	214	(362)	204
From internal customers	-	(188)	(194)	382	-
Total Net interest income / expenses	171	(7)	20	20	204
Other banking income	34	-	-	-	34
Net other operating income	14	-	-	-	14
Total operating income	219	(7)	20	20	252
Total operating expenses excluding exceptional items, depreciation and amortisation	(211)	(55)	(18)	-	(284)
Depreciation property and equipment	(10)	(2)	-	-	(12)
Gain on revaluation of property	1	-	-	-	1
Amortisation of intangible assets	(4)	(1)	-	-	(5)
Total operating expenses excluding exceptional items	(224)	(58)	(18)	-	(300)
Operating profit / (loss) before provisions for impairments and exceptional items	(5)	(65)	2	20	(48)
Impairments of loans and advances and repossessed assets	(148)	(496)	(285)	-	(929)
Operating (loss) / profit before exceptional items	(153)	(561)	(283)	20	(977)
Exceptional items (net)					309
Operating loss before taxation					(668)
Taxation					407
Loss after taxation for the year					(261)

*The unallocated adjustments relates to intragroup fund transfer pricing recharges to the AMU and the Non-Core segments.

Financial performance of the segments for the 31 December 2013 and 31 December 2012 based on the old structure prior to the reorganisation are presented below.

Year ended 31 December 2013

	Banking Ireland	Banking UK	Unallocated adjustments	Total
	€m	€m	€m	€m
Net interest income				
From external customers	75	129	-	204
From internal customers	142	(142)	-	-
Total Net interest income	217	(13)	-	204
Other banking income	34	-	-	34
Net other operating income	14	-	-	14
Total operating income / (expenses)	265	(13)	-	252
Total operating expenses excluding exceptional items, depreciation and amortisation	(276)	(8)	-	(284)
Depreciation property and equipment	(12)	-	-	(12)
Gain on revaluation of property	1	-	-	1
Amortisation of intangible assets	(5)	-	-	(5)
Total operating expenses excluding exceptional items	(292)	(8)	-	(300)
Operating profit / (loss) before exceptional items and provisions for impairments	(27)	(21)	-	(48)
Impairments of loans and advances and repossessed assets	(908)	(21)	-	(929)
Operating (loss) / profit before exceptional items	(935)	(42)	-	(977)
Exceptional items (net)				309
Operating loss before taxation				(668)
Taxation				407
Loss after taxation for the year				(261)

Notes to the Consolidated Financial Statements

3. Operating segments (continued)

Year ended 31 December 2012 (Restated**)

	Banking Ireland	Banking UK	Life Group (discontinued)	Consolidation adjustments	Total	Analysed as to:	
						Continuing operations	Discontinued operations
	€m	€m	€m	€m	€m	€m	€m
Net interest income							
- From external customers	(5)	136	(7)	-	124	135	(16)
- From internal customers	212	(208)	(9)	5	-	-	-
Total net interest income / expenses	207	(72)	(16)	5	124	135	(16)
Other banking income / (expenses)	37	1	(30)	-	8	38	(30)
Premiums on insurance contracts, net of reinsurance	-	-	257	-	257	-	257
Other operating income	70	-	-	-	70	70	-
Other operating expense	(46)	-	-	-	(46)	(46)	-
Investment return							
- external	-	-	1,231	-	1,231	-	1,236
- inter-segment	7	-	(17)	17	-	-	-
Fees from investment contracts and fund management	-	-	95	-	95	-	95
Change in shareholder value of in-force business	-	-	3	-	3	-	3
Gain on liability management exercise	224	-	-	-	224	224	-
Total operating income / expenses	492	(71)	1,523	22	1,966	421	1,545
Operating expenses including exceptional items, excluding depreciation and amortisation	(422)	(8)	(1,456)	-	(1,886)	(430)	(1,456)
Depreciation of property and equipment	(14)	-	-	-	(14)	(14)	-
Amortisation of intangible assets	(5)	-	-	-	(5)	(5)	-
Total operating expenses	(441)	(8)	(1,456)	-	(1,905)	(449)	(1,456)
Operating profit / (loss) before provisions and settlement gain on retirement benefit obligation	51	(79)	67	22	61	(28)	89
Impairments of loans and advances and repossessed assets	(866)	(25)	-	-	(891)	(891)	-
Settlement gain on retirement benefit obligation	-	-	46	-	46	-	46
Operating (loss) / profit after provisions and settlement gain on retirement benefit obligation	(815)	(104)	113	22	(784)	(919)	135
Share of profits of associated undertaking	-	-	12	-	12	-	12
Taxation	(78)	1	(12)	-	(89)	(77)	(12)
(Loss) / profit after taxation	(893)	(103)	113	22	(861)	(996)	135
Loss from disposal of discontinued operations after taxation	-	-	-	(135)	(135)	-	(135)
(Loss) / profit for the year	(893)	(103)	113	(113)	(996)	(996)	-

* Banking UK segment is funded by the Banking Ireland segment. Therefore, the cost of funding Banking UK significantly reduces the external net interest income in the Banking Ireland segment. This is compensated through inter-segment income. The adverse year-on-year movement on external net interest income in the Banking Ireland segment was mainly due to the increased level of impaired loans on which interest income not received, is not recognised in 2012.

** Refer to note 1 for further details.

Notes to the Consolidated Financial Statements

3. Operating segments (continued)

Segment assets and liabilities of the Group's operating segments as at 31 December 2013 and capital expenditure for the year ended 31 December 2012 based on the new structure of the segments following reorganisation are presented below.

31 December 2013	ptsb	AMU	Non-core assets	Unallocated adjustments	Total
	€m	€m	€m	€m	€m
Assets					
Held for sale	-	-	180	-	180
Other assets	21,836	6,412	9,074	102	37,424
Total segment assets	21,836	6,412	9,254	102	37,604
Total segment liabilities	20,510	5,919	8,734	54	35,217
Total segment liabilities of which are intergroup funding	-	(5,919)	(8,354)	14,273	-
Capital expenditure	16	1	-	-	17

The unallocated adjustments relate to balances associated with the intragroup funds transfer pricing recharges to the AMU and the Non-Core segments.

Segment assets and liabilities and capital expenditure of the Group's operating segments as at 31 December 2013 and 31 December 2012 and capital expenditure based on the old structure of the segments prior to the reorganisation are presented below.

31 December 2013	Banking Ireland	Banking UK	Consolidation adjustments	Total	
	€m	€m	€m	€m	
Assets					
Held for sale	-	180	-	180	
Other assets	36,971	7,067	(6,614)	37,424	
Total segment assets	36,971	7,247	(6,614)	37,604	
Total segment liabilities	34,375	7,456	(6,614)	35,217	
Capital expenditure	17	-	-	17	
31 December 2012 (Restated*)	Banking Ireland	Banking UK	Life Group (Discontinued)	Consolidation adjustments	Total
	€m	€m	€m	€m	€m
Total segment assets	40,177	7,691	-	(6,954)	40,914
Total segment liabilities	37,357	7,858	-	(6,954)	38,261
Capital expenditure	21	-	9	-	30

*Refer to note 1 for further details

Consolidation adjustments made on the statement of financial position relates to the following items:

	2013 €bn	2012 €bn
The elimination of floating-rate notes issued by special purpose vehicles between Banking Ireland and Banking UK segments but held within the Group	(5)	(5)
The elimination of inter-group balances between the Banking Ireland and Banking UK segments	(2)	(2)
Total as per statement of financial position	(7)	(7)

Discontinued operations (comparatives only)

	31 December 2012 €m
Consolidation of the movement in the value of properties financed by non-recourse inter-group loans	25
Differing accounting treatment for assets and liabilities by the Banking Ireland and Life Group segments ¹	(3)
Loss on disposal of the Life Group	(135)
Total as per income statement	(113)

The opening unrealised gains / (losses) on consolidation along with any movement in these adjustments were recycled through retained earnings as part of the sale of the Life Group.

¹The Banking Ireland Segment carried its intercompany liabilities at amortised cost while the corresponding intercompany assets in the Life Group were held at fair value.

Notes to the Consolidated Financial Statements

4. Discontinued operations

The Central Bank completed its PCAR and PLAR assessment review of the Group in March 2011. This review determined a gross additional capital requirement of €4bn for the Group. To assist in meeting this additional capital requirement and pursuant to the Transfer Order (under the Credit Institutions (Stabilisation) Act 2010) issued by the High Court on 28 March 2012 and the Share Purchase Agreement signed on 29 June 2012, the Group sold the Life Group to the Minister for Finance for a consideration of €1.3bn. The results of the Life Group outlined below reflect the profit and cash flows to the date of disposal.

(a) Results from discontinued operations

	To date of disposal 29 June 2012
	€m
Net interest income	(16)
Net fee and commission income	(30)
Premiums on insurance contracts	334
Reinsurers' share of premium on insurance contracts	(77)
Investment return	1,236
Fees from investment contracts and fund management	95
Change in shareholder value of in-force business	3
Total income	1,545
Claims on insurance contracts	(247)
Reinsurers' share of claims on insurance contracts	102
Change in insurance contract liabilities	(208)
Change in reinsurers' share of insurance contract liabilities	82
Change in investment contract liabilities	(1,055)
Administrative expenses	(108)
Depreciation and amortisation to date of reclassification	-
Investment expenses	(14)
Impairment of property and equipment from date of reclassification	(8)
Total expenses	(1,456)
Operating profit before settlement gain on retirement benefit obligation	89
Settlement gain on retirement benefit obligation (note 27)	46
Operating profit after settlement gain on retirement benefit obligation	135
Share of profits of associated undertaking	12
Profit on disposal of subsidiary undertaking	-
Profit before taxation	147
Attributable income tax expense	(12)
Loss on remeasurement to fair value less costs to sell	-
Profit from discontinued operations after taxation	135
Loss on disposal of discontinued operations	(135)
Attributable income tax expense on loss on disposal of discontinued operations	-
Results from discontinued operations	-

€ Cents

Basic and diluted earnings per share

(b) Cash flows from discontinued operations

	To date of disposal 29 June 2012
	€m
Net cash inflows from operating activities	95
Net cash inflows from investing activities	6
Net cash outflows from financing activities	(2)
Net cash inflows	99

Notes to the Consolidated Financial Statements

5. Net interest income

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Interest receivable		
Loans and advances to customers	786	908
Loans and advances to banks	4	9
Debt securities and other fixed-income securities		
- HTM	70	71
- AFS	90	123
- Loans and receivables	32	67
- Amortisation of AFS securities reclassified to loans and receivables (note 13)	(11)	(4)
Lease and instalment finance	1	31
Gains / (Losses) on interest rate hedges on assets	1	(5)
	973	1,200
Interest payable		
Deposits from banks (including central banks)	(127)	(207)
Due to customers	(383)	(466)
Interest on debt securities in issue	(61)	(140)
Interest on subordinated liabilities	(63)	(59)
Fees payable on ELG Scheme (note 39)	(105)	(165)
Gains on interest rate hedges on liabilities	1	3
Amortisation of core deposit intangibles (note 19)	(31)	(31)
	(769)	(1,065)
Net interest income	204	135

Interest recognised on impaired loans was €85m (31 December 2012: €69m) and the unwind of the discount on impaired loans amounted to €54m (31 December 2012: €37m).

Included in net interest income are net gains / (net losses) on interest rate fair value hedges which include gains on hedging instruments of €85m (31 December 2012: €4m) and losses on hedged items attributable to hedged risk of €83m (31 December 2012: €6m).

Net interest income includes a charge in respect of deferred acquisition costs on loans and advances to customers of €28m (31 December 2012: €24m).

Interest payable includes €31m (31 December 2012: €31m) in relation to the amortisation of the core deposit intangibles.

6. Fees and Commission income / (expense)

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Fees and commission income		
Retail banking and credit card fees	41	43
Brokerage and insurance commission	7	9
Other fee and commission income	2	3
Fees and commission income	50	55
Fees and commission expense	(14)	(13)
Net fees and commission income	36	42

7. Net trading (expense) / income

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Designated as held-for-trading		
Interest rate instruments	(3)	2
Foreign exchange instruments	1	(6)
	(2)	(4)

Notes to the Consolidated Financial Statements

8. Other Operating income / (expense)

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Gain on buying back of own debt	16	27
Gain on disposal of Government gilts	5	38
Other income	2	5
Other operating income	23	70

Gain on buying back of own debt includes a €4m (31 December 2012: €27m) gain resulting from the buyback of medium term notes issued by ptsb to external counterparties (refer to note 24) and a €12m (31 December 2012: €nil) gain resulting from the buyback of notes issued by one of the Group's securitisation entities

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Loss on disposal of debt securities	(5)	(46)
Other expense	(4)	-
Other operating expense	(9)	(46)

During 2013, the Group disposed of bonds with a carrying value of €405m and incurred a loss on disposal of €5m.

During 2012, the Group disposed of its holding of residential mortgage backed securities and as a result incurred a loss of €46m. This, however, improved regulatory capital ratios as the securities received a high risk weighting under current regulatory rules.

Notes to the Consolidated Financial Statements

9. Administrative, Staff Costs and other expenses

	Year ended 31 December 2013	Restated* Year ended 31 December 2012
	€m	€m
Staff costs (as detailed below)	127	147
Other general and administrative expenses*	157	111
Administrative, staff and other expenses	284	258

* Refer to note 1. Other general and administrative expenses include operating lease rentals on land and buildings of €8.4m (31 December 2012: €9.3m). Also included are the following fees paid to the Group auditors for services outlined below:

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Auditor's remuneration (excluding VAT)		
- Audit of the individual and the Group financial statements	0.5	2.4
- Tax advisory services	-	0.3
- Other non-audit services	0.3	5.7

PricewaterhouseCoopers (PwC) were appointed as the Group's independent auditor at the annual general meeting on the 22 May 2013. €0.1m of the non-audit services fees were payable to PwC, while the remaining €0.2m was paid to KPMG. The parent company did not incur any audit fees during the year.

Staff costs

Year ended 31 December	2013	Continuing operations 2012	Discontinued operations 2012
	€m	€m	€m
Wages and salaries including commission paid to sales staff	99	107	63
Staff redundancy costs (note 10)	7	15	-
Social insurance	11	11	7
Pension costs			
- Payments to defined contribution pension schemes	5	3	1
- Charge in respect of defined benefit pension schemes (note 27)	12	23	9
- Curtailment gain associated with redundancy costs (notes 10, 27)	-	(3)	(1)
Pension settlement gain (note 4)	-	-	(46)
Total staff costs	134	156	33
Of which, recognised in:			
Restructuring costs (note 10)	7	12	(1)
Administrative and other expenses	127	144	34
Total staff costs	134	156	33

In addition to the above costs, in 2013, following the Group's decision to discontinue contributions to the defined benefit schemes, the trustees of the scheme resolved to wind up these schemes which resulted in the reversal of the previously recognised defined benefit obligation of €349m. This reversal is shown as a pension settlement gain under exceptional items in the income statement.

For 2012, the analysis of staff costs for discontinued operations only reflect amounts expensed during the year in respect of the Life Group up to the date of sale on 29 June 2012.

Notes to the Consolidated Financial Statements

9. Administrative, Staff Costs and other expenses (continued)

Staff numbers

During 2013, the Group completed a reorganisation of its operating structure. The reorganised segments now consists of three SBUs namely, ptsb, AMU, and Non-Core. The number of staff employed under the new structure at 31 December 2013 following the reorganisation of the Group were, ptsb SBU 1,714, AMU SBU 213 and the non-core SBU 114 staff. Further details of the reorganisation is discussed in note 3.

Average number of staff (including Executive Directors) employed during the year:

	2013	2012
Ireland	1,931	2,908
UK	110	148
Other ²	-	1
	2,041	3,057

² The Life Group employed one staff member in Germany in 2012.

	31 December 2013	31 December 2012
Number of staff employed under the old Group structure		
Banking Ireland	1,931	1,905
Banking UK	110	113
³ Life Group (Discontinued)	-	1,039
	2,041	3,057

³ The average number of employees in relation to the Life Group was calculated up to the date of sale on 29 June 2012. Consequently there were no Life Group Staff employed by the Group at 31 December 2012.

Information concerning individual Director's emoluments is disclosed in the audited section of the Directors' Report on Remuneration on page's 46 to 47.

10. Restructuring costs

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Staff redundancy costs (note 9)	7	15
Costs associated with professional and contractor projects	14	53
Provision for onerous leases	(1)	7
Pension curtailment gain associated with staff redundancy (note 27)	-	(3)
Costs associated with proposed asset disposal initiatives, separation of Life Group and the final phase of the 2011 transformation project	-	14
	20	86

Further details on these costs are included in note 9 and 27.

Notes to the Consolidated Financial Statements

11. Taxation

(A) Analysis of taxation charge/(credit)

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Current taxation		
Charge for current year	-	(2)
Adjustments for prior periods	(6)	(5)
	(6)	(7)
Deferred taxation		
Origination and reversal of temporary differences (including an exceptional credit of €414m)	(401)	96
Adjustment for prior periods	-	(12)
Deferred taxation recognised in the income statement (note 20)	(401)	84
Taxation charged/(credited) to income statement	(407)	77
Effective tax rate	61%	-9%

The Group taxation credit for the year ended 31 December 2013 was (€407m) (31 December 2012: € 77m). This credit of €407m is mainly due to (i) the recognition of a deferred tax asset of €464m on tax adjusted losses carried forward (in 2012 a deferred tax asset of €50m was recognised in relation to tax adjusted losses carried forward); (ii) a deferred tax charge (€15.9m) arising from the unwind of Group pension schemes together with other small timing differences and (iii) the surrender of losses to Group companies in 2012 (credit of €6.1m).

(B) Reconciliation of standard to effective tax rate

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Loss on the Group activities before tax	(668)	(922)
Tax calculated at standard ROI corporation tax rate of 12.5% (2012: 12.5%)	(84)	(115)
Adjustment to tax charge in respect of previous years	(6)	(17)
Non-deductible expenses	8	27
Unrecognised deferred tax assets	5	88
Release of deferred tax assets	16	107
Non-taxable income	(41)	-
Recognition of deferred tax asset on tax adjusted losses carried forward	(304)	-
Other	(1)	(13)
	(407)	77

(C) Tax effects of each component of other comprehensive income

	Year ended 31 December 2013		
	Gross	Tax	Net
	€m	€m	€m
Remeasurment of defined benefit liability	(35)	-	(35)
Revaluation of Property	1	-	1
Currency translation adjustment reserve	-	-	-
AFS reserve:			
- Change in AFS securities	85	(11)	74
- Transfer to income statement on asset disposal	6	(1)	5
- Amortisation of AFS securities reclassified to loans and receivables	7	(1)	6
Cash flow hedge reserve:			
- Change in fair value	(64)	8	(56)
Balance as at 31 December 2013	-	(5)	(5)
	Year ended 31 December 2012		
	Gross	Tax	Net
	€m	€m	€m
Revaluation of Property	(2)	-	(2)
Currency translation adjustment reserve	1	-	1
AFS reserve:			
- Change in AFS securities	294	(37)	257
- Transfer to income statement on asset disposal	66	(8)	58
- Amortisation of AFS securities reclassified to loans and receivables	3	(0)	3
Cash flow hedge reserve:			
- Change in fair value	2	-	2
Balance as at 31 December 2012	364	(45)	319

Notes to the Consolidated Financial Statements

12. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise of the following:

	31 December 2013	31 December 2012
	€m	€m
Cash and balances with central banks	88	71
Items in the course of collection	37	76
Loans and advances to banks repayable on demand (maturity of less than 3 months) (note 15)	1,199	1,367
	1,324	1,514
Restricted cash included in loans and advances to banks repayable on demand	(603)	(668)
Cash and cash equivalents per statement of cash flows	721	846

At 31 December 2013, restricted cash of €603m (31 December 2012: €668m) relates to cash held by the Group's securitisation entities.

13. Debt securities

	31 December 2013				31 December 2012			
	HTM securities	AFS securities	Loans and receivables	Total	HTM securities	AFS securities	Loans and receivables	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Government bonds	743	2,343	-	3,086	698	2,433	-	3,131
NAMA bonds	-	-	2,125	2,125	-	-	2,367	2,367
Bonds issued by credit institutions	101	233	73	407	178	490	404	1,072
Other bonds	-	-	199	199	-	-	258	258
Gross debt securities	844	2,576	2,397	5,817	876	2,923	3,029	6,828
Less:								
Collective provisions (note 13(b))				(1)				(1)
Net debt securities per SOFP	844	2,576	2,397	5,816	876	2,923	3,029	6,827
Listed	844	2,576	272	3,692	876	2,923	662	4,461
Unlisted	-	-	2,125	2,125	-	-	2,367	2,367
Gross debt securities	844	2,576	2,397	5,817	876	2,923	3,029	6,828

The Group has carried out an impairment assessment on its debt securities held. The impairment provision is analysed in note 17.

Debt securities, representing a mix of Government gilts and corporate bonds, with a carrying value of €2.9bn (31 December 2012: €0.5bn) have been pledged to third parties in sale and repurchase agreements. €2.4bn of these debt securities have been placed with a Government Institution. For further details refer to note 23.

Debt securities of €2.3bn (31 December 2012: €3.7bn) have been pledged against deposits made by the ECB (note 22), which includes € 2.1bn of NAMA bonds (31 December 2012: €2.4bn).

As at 31 December 2013, the amount of debt securities remaining available to be used and eligible (though eligibility will depend on the criteria of the counterparty) in sale and repurchase agreements as collateral had a carrying value of €0.6bn (31 December 2012: €2.2bn).

HTM securities of €0.8bn are a mix of gilts and corporate bonds. They represent securities with fixed maturities and fixed and determinable cash flows, which the Group has the ability and intention to hold until maturity.

Loans and receivables debt securities includes €2.1bn of bonds issued by NAMA. As market prices are not readily available for these bonds, they have been classified within the loans and receivables. Loans and receivables also include €0.3bn of AFS securities reclassified to loans and receivables, details of which are provided overleaf.

The movement in HTM, AFS and loans and receivables securities may be classified as follows:

	2013			2012		
	HTM	AFS	L&R	HTM	AFS	L&R
	€m	€m	€m	€m	€m	€m
As at 1 January	876	2,923	3,029	845	2,213	3,600
Change in fair value	-	48	-	-	364	1
Additions	86	90	-	14	1,358	-
Maturities / disposals	(153)	(490)	(648)	(14)	(1,062)	(583)
Interest net of cash receipts	35	9	6	31	52	7
Exchange differences	-	(4)	(1)	-	(2)	-
Amortisation to statement of comprehensive income	-	-	11	-	-	4
At 31 December	844	2,576	2,397	876	2,923	3,029

Notes to the Consolidated Financial Statements

13. Debt securities (continued)

AFS reclassified to loans and receivables

During the year ended 31 December 2008, the Group availed of the amendment to IAS 39 and IFRS 7 issued in October 2008, effective 1 July 2008, which permitted financial assets classified as AFS that would have met the definition of loans and receivables, had they not been designated as AFS, to be reclassified out of the AFS category to the loans and receivables category as the Group has the intention and ability to hold the financial assets for the foreseeable future or until maturity.

The table below sets out the financial assets reclassified and their carrying and fair values:

	Carrying value		Fair value	
	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m	€m	€m
AFS debt securities reclassified to loans and receivables	272	662	244	598

The movement in the carrying value of debt securities classified as loans and receivables is included in the tables below for both the current and prior year.

The table below sets out the amounts actually recognised in the income statement and other comprehensive income in respect of assets reclassified out of AFS debt securities into loans and receivables.

	Income statement		Other comprehensive income	
	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m	€m	€m
Interest income	11	24	-	-
Amortisation	(11)	(4)	7	4
Total	-	20	7	4

The table below sets out the amounts that would have been recognised in the periods following reclassification if the reclassification had not been made:

	Income statement		Other comprehensive income	
	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m	€m	€m
Interest income	11	24	-	-
Fair value movement	-	-	36	91
Cumulative impact	186	175	(28)	(64)

At the date of reclassification, 31 December 2008, the effective interest rates on reclassified AFS investment securities ranged from 1.5% to 5% with expected recoverable cash flows of €2,098m. The expected remaining cash flows from these securities amounted to €340m at 31 December 2013.

The Group has not reclassified any debt securities from AFS to loans and receivables during the current and prior year.

Notes to the Consolidated Financial Statements

14. Derivative assets / liabilities

Derivatives are used by the Group to reduce interest, foreign currency exchange rate and cash flow exposures through hedging instruments. Certain derivative instruments do not fulfil the hedging criteria and are consequently classified as held for trading. All derivatives are carried at fair value.

The derivatives used include:

- Currency forward rate contracts which are commitments to purchase and sell currencies, including undelivered spot transactions;
- Currency and interest rate swaps which are commitments to exchange one set of cash flows for another;
- Cross-currency interest rate swaps which are primarily used to reduce the foreign exchange exposure on debt issued portfolios; and
- Forward rate agreements which are contracts that give rise to a cash settlement at a future date for the difference between a contracted rate of interest and the interest rate at the date of settlement based on a notional principal amount;

Further details on the Group's risk management policies are set out in note 33.

Derivatives which are not in qualifying hedge accounting relationships, are treated as trading for accounting purposes in accordance with IAS 39.

Derivatives held by the Group are analysed as follows:

	31 December 2013			31 December 2012		
	Contract/ notional amount	Fair value asset	Fair value liability	Contract/ notional amount	Fair value asset	Fair value liability
	€m	€m	€m	€m	€m	€m
Designated as fair value hedges						
Currency swaps	-	-	-	1,348	1	12
Interest rate swaps	5,301	176	162	8,046	277	255
	5,301	176	162	9,394	278	267
Designated as cash flow hedges						
Cross-currency interest rate swaps	2,999	-	99	-	-	-
	2,999	-	99	-	-	-
Held for trading						
Forwards	1,530	1	11	2,650	37	8
Interest rate swaps	328	14	23	594	19	20
	1,858	15	34	3,244	56	28
Embedded derivatives						
	433	-	52	550	-	120
	433	-	52	550	-	120
Derivative as per the statement of financial position	10,591	191	347	13,188	334	415

Fair value hedges

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange and interest rates. The financial instruments hedged for interest rate risk include fixed rate loans, available for sale debt securities, fixed rate debt issued and other borrowed funds. The Group uses currency swaps to hedge against specifically identified currency risks, and interest rate swaps to hedge interest rate risk. The Group also uses cross-currency interest rate swaps to reduce the Group's exposure to foreign exchange movements. The Group's fair value hedge relationships principally are interest rate swaps used to hedge the interest rate risk of the fixed rate mortgage portfolio and debt issuances.

The gains / (losses) recognised in net interest income on the hedging instruments designated as fair value hedges and the hedged items attributable to the hedged risk are analysed below:

	31 December 2013	31 December 2012
	€m	€m
Gains on hedging instruments	85	4
(Losses) on hedged items attributable to hedged risk	(83)	(6)
Net (losses)	2	(2)

Notes to the Consolidated Financial Statements

14. Derivative assets / liabilities (continued)

Cash flow hedges

The Group is exposed to variability in future interest cash flows on non-trading liabilities which bear interest at floating rates. The Group uses cross currency interest rate swaps as cash flow hedges in order to hedge the exposure to these variable future cash flows between its UK mortgage portfolio and its Euro funding.

The time period in which the cash flows are expected to occur and affect the consolidated statement of comprehensive income are as below:

	<1 year	1-2 years	2-5 years	Total
	€m	€m	€m	€m
Forecast cash inflows	68	72	1,362	1,502
Forecast cash outflows	(97)	(108)	(1,408)	(1,613)
	(29)	(36)	(46)	(111)

The total amount recognised in other comprehensive income after tax during the year was a debit of €56m (31 December 2012: credit of €2m).

Net investment hedge in foreign operations

The Group hedges part of the currency risk of its net investment in foreign operations using currency borrowings and forward foreign exchange contracts.

The following gains / (losses) have been recorded in other comprehensive income in respect of hedging instruments held to manage the Group's net investment in foreign operations in addition to the gains / (losses) on the net investment:

	31 December 2013	31 December 2012
	€m	€m
(Losses)/Gains in respect of hedging instruments held for net investment in foreign operations	(1)	2
Gain/(Losses) in respect of non-derivative hedged net investment in foreign operations	1	(2)
Gain/(Losses) in respect of net investment hedge	1	(2)
Net gain/(losses) investment hedge in foreign operations	-	-

15. Loans and advances to banks

	31 December 2013	31 December 2012
	€m	€m
Held at amortised cost		
Placed with central banks	256	232
Placed with other banks	974	1,164
Total loans and advances to banks	1,230	1,396

Placements with other banks includes restricted cash of €603m (31 December 2012: €668m) held by Group's securitisation vehicles and cash collateral of €117m (31 December 2012: €202m) placed with counterparties in relation to net derivative positions.

Loans and advances to banks amounting to €1,199m as at 31 December 2013 (31 December 2012: €1,367m) have been treated as cash and cash equivalents for the purpose of the consolidated statement of cash flows, as they have a maturity of less than three months from inception.

Notes to the Consolidated Financial Statements

16. Loans and advances to customers

Loans and advances by category are set out below:

	31 December 2013	31 December 2012
	€m	€m
ROI residential mortgages		
- Held through special purpose entities	12,390	13,798
- Held directly	11,680	11,020
UK residential mortgages		
- Held through special purpose entities	6,071	6,477
- Held directly	711	919
	30,852	32,214
Commercial mortgage loans	2,106	2,248
Consumer finance		
- Film finance	3	68
- Term loans / other	355	378
Gross loans and advances to customers	33,316	34,908
Less: provision for impairment (note 17)	(4,035)	(3,150)
Net loans and advances to customers	29,281	31,758

Net loans and advances to customers is analysed as follows:

	31 December 2013	Restated* 31 December 2012
	€m	€m
Core	20,757	22,058
Non-core	8,524	9,700
	29,281	31,758

*Refer to note 1.4 for further details.

Net loans and advances can be analysed into fixed and variable-rate loans as follows:

	31 December 2013	31 December 2012
	€m	€m
ROI		
Tracker	13,781	14,713
Variable rate	8,163	8,737
Fixed rate	637	986
	22,581	24,436
UK		
Tracker	6,556	7,131
Variable rate	144	158
Fixed rate	-	33
	6,700	7,322
	29,281	31,758

The Group has established a number of securitisations which involve the selling of pools of residential mortgages to the special purpose entities which issue mortgage-backed floating-rate notes ("notes") to fund the purchase of these mortgage pools. The notes are secured by a first fixed charge over the residential mortgages in each pool and may be sold to investors or held by the Group and used as collateral for borrowings.

Details of the residential mortgage pools sold to special purpose entities and the notes issued by the special purpose entities are included below:

	31 December 2013	31 December 2012
	€bn	€bn
Residential mortgages held through special purpose entities	18.5	20.3
Notes issued by special purpose entities		
- rated	13.8	15.1
- unrated	4.0	4.3

Notes to the Consolidated Financial Statements

16. Loans and advances to customers (continued)

The notes issued by these special purpose entities comprise the following:

	31 December 2013	31 December 2012
	€bn	€bn
- Sold to third parties and included within debt securities in issue (non-recourse) on the statement of financial position	1.6	1.2
- Held by the ECB as collateral in respect of funds raised under the euro system funding programme (note 22)	5.4	8.1
- Held by other banks and institutions as part of collateralised lending or sale and repurchase agreements (note 22)	4.6	4.9
- Other		
Available collateral ¹	2.2	0.9
Unrated notes	4.0	4.3
	17.8	19.4

¹The eligibility of available collateral will depend on the criteria of the counterparty.

As at 31 December 2013, the Group had €1.4bn (31 December 2012: €0.5bn) drawn down under the SMBPN programme with the ECB. This was secured by way of a floating charge over €4.6bn (31 December 2012: €1.6bn) of ROI residential mortgages. Refer to note 22.

Notes to the Consolidated Financial Statements

17. Provision for impairment

(a) Loans and advances to customers

The following table reflects impaired loans for which provisions are held and an analysis of specific and collective & IBNR impairment provision balances across the loans and advances to customers portfolio.

A loan is considered impaired when there is objective evidence of impairment where the loan is greater than 90 days in arrears and the present value of future cash flows is less than the carrying value of the loan (for residential mortgages this is typically where the indexed LTV is >80%) requiring a specific provision to be recognised in the income statement.

The impaired loan balances as at 31 December 2013 were €7,885m (31 December 2012: €6,206m). As at 31 December 2013, there were €667m (31 December 2012: €821m) of loans which are greater than 90 days in arrears that are considered past due but not impaired. Refer to note 33 for further details.

31 December 2013	Loans and advances to customers	Impaired loans	Impaired % of total loans	Impairment Provisions			Total provisions as % of impaired loans	Total provisions as % of total loans
	€m	€m	%	Specific	IBNR	Total	%	%
Residential:								
ROI:								
- Owner occupier	17,465	4,054	23%	1,464	197	1,661	41%	10%
- Buy-to-let	6,436	2,201	34%	1,124	165	1,289	59%	20%
UK:								
- Owner occupier	390	15	4%	1	1	2	13%	1%
- Buy-to-let	6,392	74	1%	64	10	74	100%	1%
Commercial	2,106	1,448	69%	776	135	911	63%	43%
Consumer finance:								
- Film finance	3	-	-	-	-	-	-	-
- Term loans / other	354	93	26%	88	10	98	105%	28%
Total gross lending	33,146	7,885	24%	3,517	518	4,035	51%	12%
Impairment provision	(4,035)							
Deferred fees, discounts and fair value adjustments	170							
Balance as at 31 December	29,281	7,885		3,517	518	4,035		

31 December 2012	Loans and advances to customers	Impaired loans	Impaired % of total loans	Impairment Provisions			Total provisions as % of impaired loans	Total provisions as % of total loans
	€m	€m	%	Specific	IBNR	Total	%	%
Residential:								
ROI:								
- Owner occupier	17,995	2,908	16%	1,018	180	1,198	41%	7%
- Buy-to-let	6,593	1,909	29%	907	86	993	52%	15%
UK:								
- Owner occupier	433	22	5%	2	3	5	23%	1%
- Buy-to-let	6,966	107	2%	55	14	69	64%	1%
Commercial	2,248	1,117	50%	609	126	735	66%	33%
Consumer finance:								
- Finance leases	68	-	-	-	-	-	-	-
- Term loans / other	378	143	38%	145	5	150	105%	40%
Total gross lending	34,681	6,206	18%	2,736	414	3,150	51%	9%
Impairment provision	(3,150)							
Deferred fees, discounts & fair value adjustments	227							
Balance as at 31 December	31,758	6,206		2,736	414	3,150		

Notes to the Consolidated Financial Statements

17. Provision for impairment (continued)

Impairment charge on loans and advances to customers by geographical location

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Republic of Ireland ("ROI")		
Owner occupier	437	284
Buy-to-let	290	224
Commercial	160	320
Consumer finance	19	30
	906	858
United Kingdom ("UK")		
Owner occupier	-	1
Buy-to-let	21	24
	21	25
Total impairment charge to the income statement	927	883

Impairment charge by nature of impairment provision

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Specific	808	834
IBNR	119	49
Total impairment charge to the income statement	927	883

Impairment charge by Segment

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Core	633	486
Non-core	294	397
Total impairment charge to the income statement	927	883

A reconciliation of the provision for impairment losses for loans and advances is as follows:

2013	Residential mortgages		Commercial	Consumer finance	Total
Total	ROI	UK			
	€m	€m	€m	€m	€m
As at 1 January	2,191	74	735	150	3,150
Charge for the year (as per Income Statement)	727	21	160	19	927
Increase due to interest booked but not recognised	75	-	40	10	125
Unwinding of discount	(32)	-	(22)	-	(54)
Acquired during the year	-	-	-	63	63
Amounts written off	(11)	(18)	(2)	(144)	(175)
Exchange movements	-	(1)	-	-	(1)
As at 31 December	2,950	76	911	98	4,035

2013	Residential mortgages		Commercial	Consumer finance	Total
Core	ROI	UK			
	€m	€m	€m	€m	€m
As at 1 January	1,928	-	-	150	2,078
Charge for the year (as per Income Statement)	614	-	-	19	633
Increase due to interest booked but not recognised	61	-	-	10	71
Unwinding of discount	(31)	-	-	-	(31)
Acquired during the year	-	-	-	63	63
Amounts written off	(11)	-	-	(144)	(155)
As at 31 December	2,561	-	-	98	2,659

Notes to the Consolidated Financial Statements

17. Provision for impairment (continued)

2013	Residential mortgages		Commercial	Consumer finance	Total
	ROI	UK			
Non-core	€m	€m	€m	€m	€m
As at 1 January	263	74	735	-	1,072
Charge for the year (as per Income Statement)	113	21	160	-	294
Increase due to interest booked but not recognised	14	-	40	-	54
Unwinding of discount	(1)	-	(22)	-	(23)
Amounts written off	-	(18)	(2)	-	(20)
Exchange movements	-	(1)	-	-	(1)
As at 31 December	389	76	911	-	1,376
2012	Residential mortgages		Commercial	Consumer finance	Total
	ROI	UK			
Total	€m	€m	€m	€m	€m
As at 1 January	1,629	78	406	185	2,298
Charge for the year (as per Income Statement)	508	25	320	30	883
Increase due to interest booked but not recognised	84	1	25	14	124
Unwinding of discount	(23)	-	(14)	-	(37)
Amounts written off	(7)	(32)	(2)	(4)	(45)
Disposals	-	-	-	(75)	(75)
Exchange movements	-	2	-	-	2
As at 31 December	2,191	74	735	150	3,150
2012 (Restated)*	Residential mortgages		Commercial	Consumer finance	Total
	ROI	UK			
Core	€m	€m	€m	€m	€m
As at 1 January	1,408	-	-	123	1,531
Charge for the year (as per Income Statement)	469	-	-	17	486
Increase due to interest booked but not recognised	78	-	-	14	92
Unwinding of discount	(21)	-	-	-	(21)
Amounts written off	(6)	-	-	(4)	(10)
As at 31 December	1,928	-	-	150	2,078
2012 (Restated)*	Residential mortgages		Commercial	Consumer finance	Total
	ROI	UK			
Non-core	€m	€m	€m	€m	€m
As at 1 January	221	78	406	62	767
Charge for the year (as per Income Statement)	39	25	320	13	397
Increase due to interest booked but not recognised	6	1	25	-	32
Unwinding of discount	(2)	-	(14)	-	(16)
Amounts Written off	(1)	(32)	(2)	-	(35)
Disposals	-	-	-	(75)	(75)
Exchange movements	-	2	-	-	2
As at 31 December	263	74	735	-	1,072

* Refer to note 1.4

(b) Debt securities

Impairment provision balance on debt securities at 1 January 2013 and 31 December 2013 amounted to €1m . There were no further provisions made in the year ended 31 December 2013.

(c) Repossessed Assets

In the year ended 31 December 2013, the Group impaired its repossessed assets by €2m (31 December 2012: €8m). Repossessed assets are included in other assets (refer to notes 21 and 33 for further analysis).

Notes to the Consolidated Financial Statements

18. Property and equipment

2013

	Land and buildings	Office and computer equipment	Motor vehicles	Total
	€m	€m	€m	€m
Cost or valuation				
At 1 January	101	31	5	137
Additions	-	8	-	8
Revaluations	2	-	-	2
Disposals	(4)	-	-	(4)
At 31 December	99	39	5	143
Depreciation / impairment				
At 1 January	33	15	2	50
Provided in the year	6	5	1	12
Disposals	(1)	-	-	(1)
At 31 December	38	20	3	61
Net book value at 31 December	61	19	2	82

2012

	Land and buildings	Office and computer equipment	Motor vehicles	Total
	€m	€m	€m	€m
Cost or valuation				
At 1 January	99	98	6	203
Additions	3	8	2	13
Revaluations	(1)	-	-	(1)
Disposals	-	(1)	(3)	(4)
Elimination of assets with nil carrying value	-	(74)	-	(74)
At 31 December	101	31	5	137
Depreciation / impairment				
At 1 January	23	82	3	108
Provided in the year	5	8	1	14
Disposals	-	(1)	(2)	(3)
Impairment	5	-	-	5
Elimination of assets with nil carrying value	-	(74)	-	(74)
At 31 December	33	15	2	50
Net book value at 31 December	68	16	3	87

The net book value of land and buildings include the following:

	31 December 2013	31 December 2012
	€m	€m
Land	14	12
Buildings - freehold	40	44
Buildings - leasehold	7	12
	61	68

The historic cost of land and buildings in respect of the Group is €113m (31 December 2012: €116m).

Fair value measurement of Group's land and buildings

The Group's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Group's freehold land and buildings as at 31 December 2013 and 31 December 2012 were performed by two independent professional valuers having appropriate qualifications and recent experience in the fair value measurement of properties in locations and category being valued.

The fair value of the freehold land and buildings were determined based on a market comparable approach that reflects recent transaction prices for similar properties using capitalisation yields ranging from 8% to 10%. There has been no change to the valuation techniques during the year.

Details of the freehold land and buildings and information about the fair value hierarchy as defined in Group's accounting policy as at 31 December 2013 are as follows:

	Level 1	Level 2	Level 3	Total Fair value
	€m	€m	€m	€m
Land	-	14	-	14
Buildings - freehold	-	40	-	40
	-	54	-	54

Notes to the Consolidated Financial Statements

19. Intangible assets

2013	Software	Core deposits*	Total
	€m	€m	€m
Cost			
Balance at 1 January	25	156	181
Additions	9	-	9
At 31 December	34	156	190
Amortisation			
As at 1 January	9	52	61
Provided in the year	5	31	36
At 31 December	14	83	97
Net book value at 31 December	20	73	93
2012	Software	Core deposits*	Total
	€m	€m	€m
Cost			
At 1 January	77	124	201
Acquisitions	-	32	32
Additions	8	-	8
Elimination of assets with nil carrying value	(60)	-	(60)
At 31 December	25	156	181
Amortisation			
At 1 January	64	21	85
Provided in the year	5	31	36
Elimination of assets with nil carrying value	(60)	-	(60)
As at 31 December	9	52	61
Net book value at 31 December	16	104	120

*Core deposit intangibles are amortised over five years from the date of recognition. Amortisation of these core deposit intangibles are reflected in net interest income, note 5. Management have undertaken an impairment review at year end 2013 of the core deposit intangible assets which confirmed that there are no indication of impairment and the five year amortisation period is appropriate.

Notes to the Consolidated Financial Statements

20. Deferred taxation

	31 December 2013	31 December 2012
	€m	€m
Deferred tax liabilities	(27)	(19)
Deferred tax assets	473	69
Net Deferred tax assets at	446	50

Net deferred tax assets are attributable to the following:

2013

	At 1 January	Recognised in income statement	Recognised in equity	Other	At 31 December
	€m	€m	€m	€m	€m
Property and equipment	2	(1)	-	-	1
Unrealised gains / (losses) on assets	(6)	-	(5)	-	(11)
Retirement benefits	16	(16)	-	-	-
Core deposit intangibles	(13)	4	-	-	(9)
Losses carried forward	50	414	-	-	464
Other temporary differences	1	-	-	-	1
	50	401	(5)	-	446

2012

	At 1 January	Recognised in income statement	Recognised in equity	Other	At 31 December
	€m	€m	€m	€m	€m
Property and equipment	-	2	-	-	2
Unrealised gains / (losses) on assets	40	-	(46)	-	(6)
Retirement benefits	15	1	-	-	16
Core deposit intangibles	(13)	4	-	(4)	(13)
Losses carried forward	144	(94)	-	-	50
Other temporary differences	(2)	3	-	-	1
	184	(84)	(46)	(4)	50

As referenced in Note 2, recognition of Deferred Tax Assets on carried forward trading losses necessitates consideration of the future legal entity and trading structure of the Group, as well as the profile of future trading profits. This is, in turn, influenced by the Group's strategy and the view of Management and Directors on the likelihood of strategic outcomes. The Group's strategic outlook has continued to improve, both from the perspective of the macroeconomic environment and the Group's performance. Arising from this progress, it has become achievable for the Core Bank - ptsb SBU and AMU - to be maintained within a single viable entity. The Directors judge that this is both a probable outcome, and a desirable outcome from the perspective of key stakeholders. Accordingly, in line with the requirements of IAS 12 "Deferred Tax Assets", Management and Directors have formed the view that it became probable during the second half of 2013 that the carried forward tax losses within the Core Bank, which are predominantly associated with assets in the AMU, could be utilised against future profits, which will predominantly be generated by ptsb SBU. This has necessitated the recognition of €414m of additional Deferred Tax Assets during the year.

It should also be noted that under current Irish and UK tax legislation there is no time restriction on the utilisation of trading losses. Therefore, these trading losses are available for utilisation against profits of the same trade in a future period. Also, the Directors are satisfied that future taxable profits should be available to recover the remaining deferred tax assets.

The total unrecognised deferred tax assets on carried forward tax losses at 31 December 2013 amounted to €68m (31 December 2012: €367m).

Notes to the Consolidated Financial Statements

21. Other assets

	31 December 2013	31 December 2012
	€m	€m
Reposessed assets	49	51
Other debtors	65	83
Amount due from group undertakings	3	3
	117	137

During the year a further €51m of assets were reposessed, while €51m of assets were sold. Further, an impairment charge in respect of these assets of €8m was recorded in the income statement. These reposessed assets are held at fair value based on independent valuations received or indexed as appropriate. These valuations are considered to be within level 2 in the IFRS 13 fair value hierarchy. For further details on reposessed assets, see note 33.

Management believes that selling the balance of properties within 12 months is improbable due to the challenging property market, particularly in Ireland. Therefore, in light of the requirements of IFRS 5, the Group concluded that these reposessed assets do not meet the criteria to be classified as held for sale.

22. Deposits by banks (including central banks)

	31 December 2013	31 December 2012
	€m	€m
Placed by the ECB	6,940	10,715
Placed by other banks and institutions on repurchase agreements	3,646	3,009
Other	102	103
Net deposits by banks	10,688	13,827
Balances placed by the ECB		
Maximum	11,900	12,500
Average	8,361	11,186

The Group received €5.5bn of deposits from by the ECB which are secured on €5.4bn (31 December 2012: €8.1bn) of notes issued by special purpose entities controlled by the Group and €2.3bn (31 December 2012: €3.7bn) of debt security assets. This €2.3bn includes €2.1bn (31 December 2012: €2.4m) of NAMA bonds together with €nil of bonds issued and bought by the Group itself (31 December 2012: €3.1bn).

The Group received €1.4bn (31 December 2012: €0.5bn) of deposits under the SMBPN programme which is collateralised on €4.6bn (31 December 2012: €1.6 bn) of ROI residential mortgages which are secured by way of a floating charge. Further details are provided in note 16.

Included in deposits made by the ECB is €5bn (31 December 2012: €5bn) of deposits made under the ECB's three year Long Term Refinancing Operation (LTRO) maturing in February 2015 being greater than 1 year. The remaining €1.9bn is due to mature in 2014 (31 December 2012: €5.7bn) which is less than one year.

Of the deposits placed by other banks and institutions on repurchase agreements, €3bn (31 December 2012: €2.5bn) are collateralised on €4.6bn (31 December 2012: €4.9bn) of notes issued by special purpose entities controlled by the Group. The notes issued by special purpose entities are secured by a first fixed charge over residential mortgages held by the special purpose entities (refer to note 16).

23. Customer accounts

	31 December 2013	31 December 2012
	€m	€m
Term deposits	13,130	10,674
Demand deposits	2,435	1,981
Current accounts	2,174	2,053
Notice and other accounts	1,772	1,931
	19,511	16,639

€2.7bn of deposits are placed by a Government institution (31 December 2012: €0.6bn), of which €2.2bn (31 December 2012: €nil) forms part of a repurchase agreement and is included under term deposits. These deposits are collateralised on €2.4bn of debt securities see note 13 for further details. The remaining €0.5bn is included within term deposits.

During 2012, the Group acquired €474m of customer accounts from Northern Rock Ireland.

An analysis of the contractual maturity profile of customer accounts is set out in the liquidity risk section of note 33.

Notes to the Consolidated Financial Statements

24. Debt securities in issue

	31 December 2013	31 December 2012
	€m	€m
At amortised cost		
Bonds and medium-term notes	2,558	5,274
Non-recourse funding	1,588	1,231
	4,146	6,505
Maturity analysis		
Repayable in less than 1 year	185	2,728
Repayable in greater than 1 year but less than 2 years	2,148	184
Repayable in greater than 2 years but less than 5 years	72	2,254
Repayable in greater than 5 years	1,741	1,339
	4,146	6,505

Non-Recourse funding

As at 31 December 2013, the Group had advances of €1.6bn (31 December 2012: €1.2bn) collateralised on residential property loans of €1.6bn (31 December 2012: €1.2bn) subject to non-recourse funding by way of residential mortgage securitisations. Residential mortgage securitisations involve the selling of pools of mortgages to special purpose entities which issue mortgage-backed floating rate notes to fund the purchase of these mortgage pools. These loans, which have not been de-recognised, are shown within loans and advances to customers while the non-recourse funding is shown as a separate liability.

Under the terms of these securitisations, the rights of the providers of the related funds are limited to the mortgage loans in the securitised portfolios and any related income generated by the portfolios, without recourse to the Group. The Group is not obliged to support any losses in respect of the mortgages subject to the non-recourse funding and does not intend to do so. During the term of the transactions, any amounts realised from the portfolios in excess of that due to the providers of the funding, less any related administrative costs, will be paid to the Group. The providers of this funding have agreed in writing (subject to the customary warranties and covenants) that they will seek repayment of the finance, as to both principal and interest, only to the extent that sufficient funds are generated by the mortgages and related security, and that they will not seek recourse in any other form.

Debt buybacks

Bonds and medium-term notes

During 2013, the Group repurchased certain of its medium term notes with an aggregate nominal value of €13m (31 December 2012: €74m) for a cash consideration of €9m (31 December 2012: €47m). The resulting gain of €4m (31 December 2012: €27m) was recognised in other operating income in the income statement.

Non-recourse funding

During 2013, the Group repurchased certain of its non-recourse funding with an aggregate nominal value of €58m (31 December 2012: €746m) for a cash consideration of €46m (79% of nominal value) (31 December 2012: €568m, 76% of nominal value) resulting in a net gain of €12m (31 December 2012: €175m including transaction costs of €3m) which was recognised in other operating income.

Other debt securities in issue

During 2012, the Group repurchased all of its other debt securities in issue with an aggregate nominal value of €425m for a cash consideration of €374m (88% of nominal value) and costs of €2m resulting in a net of €49m which was recognised in other operating income.

In 2012, the gains on the repurchase of non-recourse funding of €175m and other debt securities of €49m were recognised as a gain on liability management exercise in the income statement due to the structured nature of the buybacks.

25. Other liabilities

	31 December 2013	31 December 2012
	€m	€m
Amounts falling due within one year		
PAYE and social insurance	3	3
Other taxation including DIRT	19	17
Other creditors	44	100
	66	120

At 31 December 2013, other creditors included €3m (31 December 2012: €73m) relating to film finance lending.

Notes to the Consolidated Financial Statements

26. Provisions

	2013			2012		
	Restructuring costs	Other	Total	Restructuring costs	Other	Total
	€m	€m	€m	€m	€m	€m
As at 1 January	30	15	45	14	-	14
Provisions made during the year	21	40	61	89	15	104
Write-back of provisions during the year	(1)	-	(1)	-	-	-
Provisions used during the year	(37)	(6)	(43)	(73)	-	(73)
As at 31 December	13	49	62	30	15	45

Restructuring costs

Provision for restructuring costs include fees payable to contractors in relation to various initiatives to restructure the Group of €5m (31 December 2012: €17m) and staff redundancy costs of €4m (31 December 2012: €6m) incurred under a voluntary severance scheme. These provisions are expected to be utilised within the next 12 months. Details of amounts charged to the income statement are outlined in note 10.

Also included in the provision for restructuring costs is an onerous leases provision of €4m (31 December 2012: €7m). As a result of the restructuring of its operations, the Group closed a number of branches during 2012 in which the Group remains a lessee in a number of non-cancellable leases over properties that it no longer occupies. The present value of future lease payments on these properties has been provided for in 2012. This provision relates to leases on properties ranging between one and twenty years. During 2013, agreements were reached with certain lessors which partially extinguished the liability of the Group. It is expected that €0.3m of this provision will be utilised in the next 12 months.

Other

As at 31 December 2013, included in other provisions is €8m for remediation costs in relation to mis-selling of Payment Protection Insurance ("PPI") policies by the Group between 2007 and 2012. While €3m relates to an indemnity provided by the Group on the sale of loans and advances of permanent tsb finance (ptsbf), the remaining amount relates to provisions for legal disputes with certain customers and related matters. The information usually required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice the outcome of the litigation. The provision is expected to be utilised within the next 12 months.

Notes to the Consolidated Financial Statements

27. Retirement benefit obligations

Defined benefit schemes

The Group previously operated three Irish defined benefit schemes and a small UK defined benefit scheme for employees. All of the defined benefit schemes are funded by the payment of contributions into separately administered trust funds. The benefits paid from the defined benefit schemes are based on percentages of the employees' final pensionable pay for each year of credited service.

The Group's retirement benefit obligation at 31 December 2012 was €311m following restatement due to the application of IAS 19R the effect of which is disclosed in note 1.

One of the critical items that the Group has had to deal with during 2013 was the impending material reduction in capital arising from pension scheme deficits. These pension schemes had significant on-going costs and substantial risk of this deficit level growing further.

In the first half of 2013, the Group concluded that it would not be possible to continue to contribute to the defined benefit pension schemes and that future pension benefits would be accrued to staff through a defined contribution scheme at a lower level of employer contribution. This approach would provide greater certainty of scheme costs while also avoiding the risks associated with defined benefit schemes, including the impending adverse impact on the Group's regulatory capital position.

This decision has inevitably led to the wind up of all pensions schemes and necessitates that the previously recognised liability for these schemes is reversed. According to IAS 19R this reversal is shown as an income statement item. In the Income Statement this is a non-cash item and reflects a reversal of a liability which is no longer required.

As required under IAS 19R, all the pension schemes were valued by the actuaries at the wind up date. All three of the Irish schemes were wound up in the first half of the year, while the UK scheme was wound up in the second half of the year. Based on the assumptions, as outlined below, this resulted in an increase of €38m to the retirement benefit liability to €349m. This liability was then reversed through the income statement resulting in an exceptional non-cash settlement gain of €329m for the year ended 31 December 2013.

The key financial assumptions used are:

	UK Scheme Settlement date	Irish schemes Settlement date	31 December 2012
	%	%	%
Actuarial assumptions			
Discount rate	4.60	3.75	4.00
Pension increases	3.30	2.00	2.00
Rate of price inflation	3.10	2.00	2.00

For the prior year, the main post retirement mortality assumptions used for the pension schemes were 108% PNM(F)L00-1 year with CSO improvements from 2006 for active / deferred members and pensioners (2011: 103% PNM(F)L00-1 year with CSO improvements from 2006 for active / deferred members and pensioners). On this basis the life expectancies underlying the value of the schemes' liabilities at 31 December 2012 were as follows:

		2013 Years	2012 Years
Retiring today age 65	Males	-	23.7
	Females	-	25.1
Retiring in 15 years aged 65	Males	-	25.7
	Females	-	26.9

Amounts recognised in the income statement in respect of these defined benefit schemes are:

	31 December 2013	Restated* 31 December 2012
	€m	€m
Current service cost	(7)	(16)
Net interest cost	(5)	(10)
Curtailements	-	3
Amount recognised in the administration, staff and other expenses	(12)	(23)
Impact of the wind up of the defined benefit pension schemes	349	-
Provision for wind up related expenses	(20)	-
Amount recognised in exceptional items	329	-
Amount recognised in the OCI	(35)	(85)

*Following the update of IAS19R the prior year figures have been restated.

See note 1 for further details.

Notes to the Consolidated Financial Statements

27. Retirement benefit obligations (continued)

The retirement benefit assets and liabilities recognised on the statement of financial position are as follows :

	31 December 2013	Restated* 31 December 2012
	€m	€m
Benefit obligation	-	(851)
Fair value of plan assets	-	540
Net obligation	-	(311)
Net recognised retirement benefit obligation	-	(311)

Net post retirement benefit obligation:		Restated*
	2013	2012
	€m	€m
Net post retirement benefit assets	-	-
Net post retirement benefit liabilities	-	(311)
Net post retirement benefit obligation	-	(311)

The movements in the present value of defined benefit obligations in the year are:		Restated*
	2013	2012
	€m	€m
Benefit obligation at 1 January	(851)	(693)
Current service cost	(7)	(16)
Interest cost	(13)	(34)
Actuarial gain / (loss) - experience adjustments	3	7
- assumption changes	(52)	(127)
Settlement / Curtailments	349	3
Contributions by plan participants	(1)	(3)
Benefits paid	8	12
Impact of settlement of the defined benefit pension schemes	564	-
Benefit obligation at 31 December	-	(851)

The movements in the fair value of defined benefit assets in the year are:		Restated*
	2013	2012
	€m	€m
Fair value of plan assets at 1 January	540	471
Interest income	8	24
Employer contribution	9	19
Contributions by plan participants	1	3
Actuarial gain / (loss)	14	35
Benefits paid	(8)	(12)
Impact of settlement of the defined benefit pension schemes	(564)	-
Fair value of plan assets at 31 December	-	540

The experience adjustments arising on plan liabilities and plan assets are as follows:

Year ended 31 December	2013**	2012	2011	Group	2010	2009
	€m	€m	€m		€m	€m
Actuarial (gains) / losses						
- arising on benefit obligation (€m)	3	(7)	(23)		(26)	(97)
- arising on benefit obligation (% plan liabilities)	(1)	(1)	(2)		(2)	(8)
Actuarial gains / (losses)						
- arising on plan assets (€m)	14	35	(41)		8	68
- arising on plan assets (% of plan assets)	2	6	(3)		1	6

**For 2013 the experience adjustments relate to the movements to the settlement date.

The movements in the present value of defined benefit obligations in the year are:

	2013	Restated*
	€m	€m
Net post retirement benefit obligations as at 1 January	(311)	(222)
Expense recognised in income statement	(12)	(23)
Contributions paid	9	19
Amount recognised in OCI	(35)	(85)
Settlement	349	-
Net post retirement benefit obligations at 31 December	-	(311)

*Following the update of IAS19R the prior year figures have been restated. See note 1 for further details.

Notes to the Consolidated Financial Statements

27. Retirement benefit obligations (continued)

The following table sets out, on a combined basis for all schemes, the fair value of the assets held by the schemes together with the long-term rate of return expected for each class of asset for the Group for 31 December 2012.

	2012	31 December 2012	
	Long-term	Fair value	Plan assets
	rate of return expected		
	%	€m	%
Equities	6.40	259	48
Bonds	3.10	220	41
Property	5.40	29	5
Other	0.40	32	6
Fair value of plan assets	5.00	540	100

At 31 December 2012, the Group, with input from its actuarial consultants, refined its estimate of the discount rate used for the purposes of the computation of the defined benefit liabilities. The refinement included a significant extension of the bond data included in the population from which the discount rate is derived as well as a refinement of the approach used to extrapolate the available bond data out to the duration of the pension scheme obligations. As a result of the refined methodology adopted, the discount rate used to calculate the scheme obligations was 4.00%.

Discontinued operations

The Life Group, which was sold to the Minister for Finance on 29 June 2012, operated two Irish defined benefit pension schemes for its employees. €8m was recognised as the normal pension charge in the results from discontinued operations in respect of these schemes for the six months ended on 29 June 2012 (31 December 2011: €8m) under profit from the Life Group as disclosed in note 4. Furthermore, a settlement gain of €46m was also recognised in the income statement forming part of the results of the discontinued operations. This settlement gain comprised a remeasurement of the defined benefit obligation under the current assumptions reflecting no future salary and pension increases giving rise to a gain of €304m together with the recognition of all previously unrecognised actuarial losses of €258m.

After the sale of the Life Group, no residual liabilities relating to the two Life Group defined benefit schemes reside with the Group.

Notes to the Consolidated Financial Statements

28. Subordinated liabilities

	2013	2012
	€m	€m
As at 1 January	337	317
Amortisation	22	20
As at 31 December	359	337
	31 December 2013	31 December 2012
	€m	€m
Dated		
€24m 0% non-callable lower tier 2 capital notes 2018	19	19
€400m 10% fixed-rate convertible contingent capital notes 2016	340	318
	359	337

All of the above subordinated liabilities are issued by ptsb.

Convertible contingent capital notes

On 27 July 2011, ptsb, the principal subsidiary of ptsbgh, on direction of the High Court of Ireland (under a Direction Order made on the application of the Minister for Finance under the Credit Institutions (Stabilisation) Act 2010), issued €400m nominal value (€394m received net of costs) contingent Tier 2 capital notes to the Minister for Finance.

The key terms and conditions of the contingent capital notes are detailed as follows:

- The coupon interest rate is fixed at 10% payable annually in arrears which can be increased to 18% if the Minister for Finance wishes to re-market the notes;
- Term of five years with a maturity date of 28 July 2016;
- The notes are convertible into the ordinary shares of ptsbgh, the parent of ptsb, in the occurrence of a Conversion Event;
- Conversion Event is defined as the occurrence of 1) a Capital Deficiency Event where ptsb's core Tier 1 capital falls below 8.25% or the CBI notifies ptsb, that it has determined that its financial and solvency condition is deteriorating in such a way that a Capital Deficiency Event is likely to occur in the short term and/or 2) a Non-Viability Event where ptsb becomes insolvent or unable to pay its debts as they fall due, as defined in the related Agency Deed;
- Following any Conversion Event, the contingent capital notes will immediately be converted into a fixed number of ordinary shares in ptsbgh determined by dividing the principal amount of each contingent capital note by the conversion price;
- The conversion price of €0.031 per unit is subject only to adjustments in accordance with the conditions of the Agency Deed that maintain their proportionate rights;
- The notes are only redeemable on their maturity date, unless previously converted to ordinary shares due to a Conversion Event; and
- Rank pari-passu with other subordinated liabilities.

Management evaluated the terms and conditions of the contingent capital notes and since the notes contain both a liability and an equity component, management has concluded that the contingent capital notes should be treated as a compound financial instrument in accordance with IAS 32, Financial Instruments: Presentation.

The contingent capital notes have a coupon rate of 10% which under certain circumstances may be increased by the holder to 18%. In order to record the host debt element at fair value and because the instrument was issued to a related party, it was necessary to assess the terms and coupon rate against market based data. As the notes do not trade in any active markets, the fair value was based on an estimated interest rate of 21.5%. This rate was arrived at based on historical analysis of the senior unsecured spread of the issuing company at the time of issue in addition to estimated premiums for equity conversion risk and for subordination of the notes.

The contingent mandatory conversion feature was fair valued based on a comparison of the discounted cash flow valuation model of the compound financial instrument, including a premium for equity conversion, versus the fair value of the debt component only. This was recognised as the equity component of the contingent capital note in the statement of changes in shareholders' equity, as it met the fixed-for-fixed exemptions in IAS 32, Financial Instruments: Presentation.

The difference between the fair value of the host debt element of the notes and net proceeds received from the Minister for Finance is treated as a capital contribution from the company's shareholder and reflected in the statement of changes in shareholders' equity, as the Minister for Finance is the majority shareholder of the Group.

Terms and conditions of other outstanding subordinated liabilities

The terms and conditions of the remaining outstanding subordinated liabilities of the Group as at 31 December 2013 are detailed as follows:

- €24m zero coupon, non-callable lower tier 2 capital notes repayable on 15 September 2018, issued at 43.1825% of aggregate nominal amount of €55m. Under the Lower Tier 2 LME exercise carried out by the Group in 2011, €31m of the €55m original nominal amount of these notes were repurchased. The remaining notes accrete up at an effective interest rate of 8.76%.

The consent of the CBI is required before:

- Any repayment, for whatever reason, of a dated subordinated liability prior to its stated maturity; and
- Any exercise of any redemption option in any undated liability.

In the event of the winding up of the entity which issued the subordinated liability, the claims of the holders of the subordinated liabilities shall be subordinated to the claims of depositors, policyholders and creditors of the relevant entity other than creditors that are expressed to rank pari-passu with or junior to the claims of the holders of the subordinated liabilities.

Notes to the Consolidated Financial Statements

29. Shareholders' equity

Share capital

Share capital is the funds raised as a result of a share issue and comprises the ordinary shares of the parent Company.

Share Premium

The opening share premium reserve of €2,833m is represented by €135m which is the excess of amounts received for share issues less associated issue costs over the par value of those shares for the Company and €2,698m related to the sale of the Life Group. This €2,698m which was previously recognised as merger reserve in other capital reserves, as detailed below, was transferred to share premium in 2012 as the investment in the Life Group is no longer held by the Group.

Other Reserves

- Capital contribution reserve

This reserve comprises of the cost of share options, which have been charged to the income statement over the vesting period of the options and the capital contribution received from ptsbgh and the capital contribution component of the convertible contingent capital notes issued by ptsb.

- Revaluation reserve

The revaluation reserve is a non-distributable reserve comprising of unrealised gains or losses, net of tax, on the revaluation of owner occupied properties.

- AFS reserve

The AFS reserve comprises unrealised gains or losses, net of tax, on AFS financial assets which have been recognised at fair value in the statement of financial position. It also includes a residual amount of €nil (31 December 2012: €7m) relating to AFS securities reclassified to loans and receivables.

- Cash flow hedge reserve

The cash flow hedge reserve comprises of the net gains or losses, net of tax, on effective cash flow hedging instruments.

- Currency translation adjustment reserve

The currency translation adjustment reserve represents the cumulative gains and losses, net of hedging on the re-translation of the Group's net investment in foreign operations, at the rate of exchange at the reporting date.

- Other capital reserves

Other capital reserves include the share premium €21m of Irish Life plc at the date of the merger and €7m capital redemption reserve arising from the repurchase and cancellation of shares. It also included the merger reserve which is the difference between the shares issued by Irish Permanent plc and the nominal value of the issued share capital of Irish Life plc on the merger of the companies and amounts to a deficit of €2,719m. The share premium arising on the shares (€2,698m) issued in connection with the merger was also classified with the merger reserve rather than with the other share premium in existence in the Company.

On the sale of the Life Group, the merger reserve of (€2,719m) and share premium of Irish Life plc of €21m have been transferred to retained earnings which are offset by the recycling of the revaluation reserve (€19m). Additionally, the share premium of €2,698m which was previously recognised in other capital reserves has been transferred to share premium as detailed above.

Retained earnings

The retained earnings include distributable and non-distributable earnings. These reserves represent the retained earnings of the parent Company and subsidiaries after consolidation adjustments.

On the sale of the Life Group, the merger reserve of (€2,719m) and share premium of Irish Life plc of €21m have been transferred to retained earnings which is offset by the recycling of the revaluation reserve (€19m).

Notes to the Consolidated Financial Statements

30. Authorised and issued share capital

Authorised share capital

		31 December 2013	31 December 2012
	Number of shares	m	m
Ordinary shares of €0.32 each	400,000,000	€ 128	€ 128
Preference Shares of €1 each	300,000,000	€ 300	€ 300
Preference Shares of US\$1 each	200,000,000	\$ 200	\$ 200
Preference Shares of Stg£1 each	100,000,000	£ 100	£ 100

Issued share capital

The number of paid up ordinary shares at €0.32 cent is as follows:

	31 December 2013	31 December 2012
Issued share capital (Number of shares)	276,782,351	276,782,351
Issued share capital (€'m)	89	89

31. Analysis of other comprehensive income

The analysis of other comprehensive income below provides additional analysis to the information provided in the primary statements and should be read in conjunction with the consolidated statement of changes of equity.

31 December 2013

	Revaluation reserve	Available for sale reserve	Cash flow hedge reserve	Currency translation adjustment reserve	Retained earnings	Total
	€m	€m	€m	€m		€m
Other comprehensive income (net of tax)						
Remeasurement of net defined benefit liability	-	-	-	-	(35)	(35)
Revaluation of property	1	-	-	-	-	1
Currency translation adjustment	-	-	-	-	-	-
AFS reserve:						
Change in value of AFS financial assets	-	74	-	-	-	74
AFS securities reserve transferred to income statement on disposal	-	5	-	-	-	5
Amortisation of AFS financial assets reclassified to loans and receivables	-	6	-	-	-	6
Cash flow hedge reserve:						
Net change in fair value	-	-	(56)	-	-	(56)
Total other comprehensive income	1	85	(56)	-	(35)	(5)

31 December 2012

	Revaluation reserve	Available for sale reserve	Cash flow hedge reserve	Currency translation adjustment reserve	Retained earnings	Total
	€m	€m	€m	€m		€m
Other comprehensive income (net of tax)						
Remeasurement of net defined benefit liability	-	-	-	-	(85)	(85)
Revaluation of property	(2)	-	-	-	-	(2)
Currency translation adjustment	-	-	-	1	-	1
AFS reserve:						
Change in value of AFS financial assets	-	257	-	-	-	257
AFS securities reserve transferred to income statement on disposal	-	58	-	-	-	58
Amortisation of AFS financial assets reclassified to loans and receivables	-	3	-	-	-	3
Cash flow hedge reserve:						
Net change in fair value transferred to income statement	-	-	2	-	-	2
Total other comprehensive income	(2)	318	2	1	(85)	234

Notes to the Consolidated Financial Statements

32. Measurement basis and fair values of financial instruments

(a) Measurement basis and fair values of financial instruments

31 December 2013

	Note	Held at amortised cost €m	At fair value through equity €m	At fair value through profit or loss €m	Designated as fair value hedges €m	Total carrying value €m	Fair Value €m
Financial assets							
Cash and balances with central banks	12	88	-	-	-	88	88
Items in course of collection	12	37	-	-	-	37	37
Debt securities*	13	3,240	2,576	-	-	5,816	5,921
Derivative assets**	14	-	-	15	176	191	191
Loans and advances to banks	15	1,230	-	-	-	1,230	1,230
Loans and advances to customers	16	29,248	-	-	33	29,281	23,929
Financial liabilities							
Deposits by banks	22	10,688	-	-	-	10,688	10,649
Customer accounts	23	19,507	-	-	4	19,511	19,574
Debt securities in issue	24	4,116	-	(46)	76	4,146	3,927
Derivative liabilities**	14	-	99	86	162	347	347
Subordinated liabilities	28	357	-	-	2	359	469

31 December 2012

	Note	Held at amortised cost €m	At fair value through equity €m	At fair value through profit or loss €m	Designated as fair value hedges €m	Total carrying value €m	Fair Value €m
Financial assets							
Cash and balances with central banks	12	71	-	-	-	71	71
Items in course of collection	12	76	-	-	-	76	76
Debt securities*	13	3,904	2,923	-	-	6,827	6,970
Derivative assets**	14	-	-	56	278	334	334
Loans and advances to banks	15	1,396	-	-	-	1,396	1,396
Loans and advances to customers	16	31,758	-	-	-	31,758	24,290
Financial liabilities							
Deposits by banks	22	13,827	-	-	-	13,827	13,881
Customer accounts	23	16,639	-	-	-	16,639	16,699
Debt securities in issue	24	6,625	-	(120)	-	6,505	6,058
Derivative liabilities**	14	-	-	148	267	415	415
Subordinated liabilities	28	337	-	-	-	337	434

*Debt securities held at amortised cost include €844m of held to maturity securities (31 December 2012: €876m)

**Derivative assets and liabilities held at fair value through profit or loss relate to embedded derivative instruments and derivatives instruments deemed to be held for trading. Derivative liabilities held at fair value through equity relate to instruments that are held as cash flow hedges.

The following table sets out the fair values of financial instruments that the Group holds at 31 December 2013. It categorises these securities into the relevant level on fair value hierarchy. As permitted by IFRS 13, this information is only provided for 31 December 2013.

The fair values of financial instruments are measured according to the following fair value hierarchy:

Level 1 – financial assets and liabilities measured using quoted market prices (unadjusted).

Level 2 – financial assets and liabilities measured using valuation techniques which use observable market data.

Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

	Note	Total carrying value €m	Level 1 €m	Level 2 €m	Level 3 €m	Total fair value €m
Financial assets						
Cash and balances with central banks	12	88	-	88	-	88
Items in course of collection	12	37	-	37	-	37
Debt securities	13	5,816	5,921	-	-	5,921
Derivative assets	14	191	-	191	-	191
Loans and advances to banks	15	1,230	-	1,230	-	1,230
Loans and advances to customers	16	29,281	-	-	23,929	23,929
Financial liabilities						
Deposits by banks	22	10,688	-	10,649	-	10,649
Customer accounts	23	19,511	-	19,574	-	19,574
Debt securities in issue	24	4,146	1,441	2,486	-	3,927
Derivative liabilities	14	347	-	347	-	347
Subordinated liabilities	28	359	-	469	-	469

Notes to the Consolidated Financial Statements

32. Measurement basis and fair values of financial instruments (continued)

(b) Fair value measurement principles

The Group's accounting policy on valuation of financial instruments is described in note 1 and note 2 which contains details on the critical accounting estimates and judgements made by management in relation to the fair value measurement of financial instruments. The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market under the current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using a valuation technique.

Where possible, the Group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation techniques. These techniques are subjective in nature and may involve assumptions which are based upon management's view of market conditions at year end which may not necessarily be indicative of any subsequent fair value. Any minor changes in the assumptions used could have a significant impact on the resulting estimated fair values and, as a result, it may be difficult for the users to make a reasonable comparison of the fair value information disclosed here, against that disclosed by other financial institutions or to evaluate the Group's financial position and therefore are advised to exercise caution in interpreting these fair values. The fair values disclosed above also do not represent nor should it be interpreted to represent, the underlying value of the Group as a going concern at the reporting date.

Financial assets and financial liabilities not subsequently measured at fair value

Other than the AFS financial assets and derivative assets and liabilities, all other financial assets and liabilities are not measured at fair value at the reporting date. A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below.

Cash and balances with central banks / Items in course of collection

The fair value of these financial instruments is equal to their carrying value due to these instruments being repayable on demand and short-term in nature.

Loans and advances to banks

For the purposes of fair value valuation Loans and advances to banks have been treated as cash and cash equivalents except for the €31m which has a maturity of greater than three months. These loans and advances are repayable on demand and short-term in nature. Hence, the fair value of these financial instruments is equal to their carrying value.

Loans and advances to customers

The Group uses a discounted cash flow valuation model to estimate the fair value for the loans and advances to customers. The model used at 31 December 2013 has discounted the estimated future cash flows at current market rates incorporating the impact of credit spreads and margins. The fair value reflects both loan impairments provisions at the statement of financial position date and estimates of expectations of lifetime credit losses. A 1% change in the average discount rate would impact the fair value of the residential mortgage portfolio by approximately €1.4bn.

Debt securities - Loans and receivables (NAMA senior bonds)

Included in the debt securities loans and receivables of €2,397m are €2,125m of NAMA senior bonds. The fair value of these securities is derived from market prices through independent pricing sources where available. In the event of market prices not being available the fair value of these bonds has been derived using a valuation technique as there is no active market for these bonds. The valuation techniques used in arriving at the fair value include, analysing available market data, yield on Irish Government bonds with similar maturity, expected cash flows from these securities, identifying a risk free discount rate and applying an appropriate credit spread.

Debt securities (HTM securities and other Loans and Receivables)

Included in debt securities at 31 December 2013 are €844m (31 December 2012: €876m) of HTM and €272 m (31 December 2012: €662 m) of loans and receivables other than NAMA bonds. HTM and the residual loans and receivables debt values are derived from observable market data through independent pricing sources such as Bloomberg.

Deposits by banks / customer accounts

The estimated fair value of current accounts and deposits with no stated maturity which are repayable on demand, (including non-interest bearing deposits), approximates to their book value. The estimated fair value of fixed-interest bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturities.

Debt securities in issue / subordinated liabilities

The fair value of these liabilities are estimated using market prices of instruments that are substantially the same as those issued by the Group. In the absence of market prices of similar instruments, valuations are obtained from a discounted cash flow model incorporating key pricing variables from comparable securities and other market unobservable inputs.

Notes to the Consolidated Financial Statements

32. Measurement basis and fair values of financial instruments (continued)

Financial assets and financial liabilities subsequently measured at fair value

Debt securities (AFS Securities)

Included in debt securities at 31 December 2013 are €2,576m (31 December 2012: €2,923m) of AFS securities. At 31 December 2013, all of the AFS securities are classified as level 1 where the fair value has been determined directly from observable market prices.

Derivative assets and liabilities

The fair values for derivatives traded in active markets are obtained from prevailing quoted prices. Active markets would include all exchange traded equity, currency and commodity futures quoted on recognised futures and derivative exchanges.

Derivatives in inactive markets are determined using broker valuations and / or valuation techniques such as discounted cash flow models which are subject to internal management review. Such models incorporate inputs such as current interest rate, time to maturity and forward foreign exchange rates. Observable prices model inputs are usually available in the market for exchange-traded derivatives (primarily options) and simple over the counter derivatives such as interest rate swaps.

Derivative assets and derivative liabilities have been classified as level 2 in the fair value hierarchy below. Valuations for these are obtained from third party brokers who extract valuations from a mix of discounted cash flow models and pricing models. Model inputs include yield curves and volatility measurements which are market observable data.

Fair value measurements recognised in the statement of financial position

The following table presents financial instruments that are measured at fair value categorised into the fair value hierarchy.

31 December 2013	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets measured at fair value				
Debt securities				
AFS (note 13)	2,576	-	-	2,576
Derivative assets (note 14)	-	191	-	191
Financial liabilities measured at fair value				
Derivative liabilities (note 14)	-	347	-	347
31 December 2012	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets measured at fair value				
AFS (note 13)	2,923	-	-	2,923
Derivative assets (note 14)	-	334	-	334
Financial liabilities measured at fair value				
Derivative liabilities (note 14)	-	415	-	415

Level 3 fair value measurements

(i) Reconciliation

	2013 €m	2012 €m
Debt securities - AFS		
As at 1 January	-	10
Disposals	-	(10)
As at 31 December	-	-

There were no gains or losses included in the income statement for these assets during 2012 or 2013.

Notes to the Consolidated Financial Statements

33. Financial risk management

Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the BRCC, which is responsible for oversight and advice on risk governance, the current risk exposures of the Group and future risk strategy, including strategy for capital and liquidity management, and the embedding and maintenance of a supportive culture in relation to the management of risk throughout the Group. The BRCC, in turn, delegates responsibility for the monitoring and management of specific risks to committees accountable to it such as the Enterprise Risk Management Committee, the Group Credit Committee and Assets & Liabilities Committee.

The Group Audit Committee, consisting of members of the Board of Directors, oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group in consultation with the BRCC. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

Further details on Group risk management framework, Group's risk appetite and strategy, risk governance and risk identification and assessment are described under the Risk Management section of this annual report.

The Group risk identification and assessment process identifies the following risks as being material to the operations of ptsbgh.

1. Credit Risk
2. Liquidity Risk
3. Market Risk (including interest rate risk)
4. Operational Risk

This note presents information about the Group's exposure and approach to management of Credit Risk, Liquidity Risk and Market Risk (including interest rate risk). The Group's exposure and approach to management of Operational Risk is detailed within the Risk Management section of this annual report.

The key financial risks arise in the underlying subsidiary companies of the Group. All of the Directors of ptsbgh are also Directors on the Board of ptsb. In addition, they have representation on the Boards of CHL, Springboard Mortgages Limited and Permanent Bank International Limited, its key subsidiary companies. This allows the Directors to monitor the key risks and controls in the underlying subsidiaries.

1. Credit Risk

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

The manner in which the Group's exposure to credit risk arises, its policies and processes for managing it and the methods used to measure and monitor it are set out below.

How Credit Risk arises

Credit risk is defined as the potential for material financial loss arising from a failure to:

- Accurately predict the likelihood of a customer repaying their debt based upon their disclosed, known or discovered attributes and characteristics at the point of funding;
- Accurately model the likelihood or extent of unexpected changes in the customer's ability or intent to repay their debt; and
- Accurately predict unexpected changes in the value of security pledged to the Group.

How Credit Risk is Managed

Credit risk is managed within a three lines of defence model, consistent with the Central Bank Corporate Governance Code and European Banking Authority ("EBA") Guidelines on Internal Governance. To manage this model, Management operates the following:

- Effective policies and processes to identify, measure or assess, monitor, mitigate and report on risks (first line of defence);
- An internal control framework designed to manage credit policy and strategy, provide support to the business units in the effective application of policy and then to verify that policies and procedures are complied with (the second line);
- Group Internal Audit function to provide an independent review of the first two lines of defence (the third line).

To support the effective oversight of the first and second lines of defence, the Group has established a Group Centre with responsibility for managing Customer Credit Risk.

The Customer Credit Division consists of 4 individual business units each reporting to the Director of Customer Credit (a member of the Group's Executive Committee) who reports to the Group's Chief Risk Officer.

The structure and roles of each unit within the Division are summarised below:

Customer Acquisition Strategy & Decisioning

The primary role of the unit is to support the design of new credit products/processes and manage the credit decisioning process.

Decision Science

The unit is tasked with building and maintaining all of the Group's models and in particular its scorecards and credit models.

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

Credit Policy, MI and Impairment

The unit's responsibility is three-fold;

- Managing the design and maintenance of Credit Policy and tracking and testing adherence to same;
- Managing the Bank's impairment calculations, forecasting and reporting; and
- Designing and delivering efficient credit portfolio data and reporting.

Collections Strategy

The unit is responsible for designing and developing effective strategies for the management of high risk credit facilities, including arrears collection outcomes.

Key components in the Group's management of credit risk are summarised below:

Credit Policy

To aid in the management of Credit Risk, the Group has put in place detailed credit policies which contain the core values and principles governing the provision and management of credit. These policies take account of the Group's Risk Appetite Statement, applicable sectoral credit limits, the lessons learned from the Group's recent history, the markets in which the business units operate and the products which the Group provides. Each staff member involved in assessing or managing credit has a responsibility to ensure compliance with these policies and effective procedures are in place to manage the control and monitoring of exceptions to policy.

Lending authorisation

The Group's credit risk management systems operate through a hierarchy of lending authorities. All exposures above certain predetermined levels require approval by the Group Credit Committee. Below Group Credit Committee level, a tiered level of discretion applies with individual discretion levels set to reflect the relevant staff members' level of seniority, expertise and experience and the Group's operational needs.

Credit Risk Measurement

All applications for credit are rated for credit quality as part of the origination and loan approval process. The risk, and consequently the credit grade, is reassessed periodically as part of the facility review process.

Credit scoring plays a central role in the ratings process. Credit scoring combined with appropriate portfolio risk segmentation is the method used to assign grades, and in turn PDs, to individual exposures. With regard to portfolio segmentation, the Group's credit exposures have been segmented to appropriately reflect the characteristics, and risk profile, associated with different types of exposures.

Scorecards have been designed for each segment based on the drivers or characteristics of default associated with each segment. Typical scoring characteristics include financial details, bureau information, product, behavioural and current account data. For segments where there is not enough data to develop statistical models, expert judgement based models are used.

All of the Group's exposures are mapped to a risk rating scale (master scale) which reflects the risk of default. The assignment of an exposure to a grade is based on the probability of an exposure defaulting in the next year – as per the Capital Requirement Directive's ("CRD") definition of default.

The credit risk ratings employed by the Group are designed to highlight exposures requiring management attention. The Group uses the Basel II 25 point scale for the internal ratings approach ("IRB") for credit risk. The scale ranges from 1 to 25 where 1 represents the best risk grade or lowest PD and 25 represents the defaulted exposures or PD = 100% for credit risk. All of the Group's exposures are mapped to the rating scale based on probability of default.

The internal grading below incorporate the IRB rating.

- Investment grade (IRB ratings 1 to 7) – includes very high quality exposures.
- Excellent risk profile (IRB ratings 8 to 16) – includes exposures whose general profiles are considered to be of a very low risk nature.
- Satisfactory risk profile (IRB ratings 17 to 21) – includes exposures whose general profiles are considered to be of a low to moderate risk nature.
- Fair risk profile (IRB ratings 22 to 24) – includes exposures whose general profiles are considered to require some additional monitoring.
- Defaulted (IRB rating 25) – includes exposures that are greater than 90 days past due or judged to be impaired.

Credit Risk Mitigation

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

Collateral

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

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

- real estate;
- financial collateral (lien over deposits, shares, etc.);
- other collateral (guarantees etc.).

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

The Group's requirements for collateral around completion, valuation and management requirements are set out in appropriate credit policy and business unit procedures.

Credit Reporting / Monitoring

It is the Group's policy to ensure that adequate up to date credit management information is available to support the effective management of individual exposures and the overall credit portfolio. The Group allocates significant resources to ensure on-going monitoring and compliance with approved risk limits. Credit risk at a Group, Business Unit, Operating Unit and Product Type and Level is reported on a monthly basis to senior management.

This monthly reporting includes information and appropriate insights into portfolio trends including portfolio growth and quality. The Group Credit Committee monitors portfolio and customer concentration on an on-going basis with reference to pre-agreed portfolio control limits and guide points which are designed with reference to the Group's Risk Appetite Statement which is approved annually by the Group Board of Directors.

The Group Credit Committee also monitors credit policy exceptions on an on-going basis. In addition, other reports are submitted to senior management and the Group Credit Committee as required. The Group also operates a Credit Quality Review (CQR) function which reports to the Customer Credit Director and which is tasked with examining the quality of credit assessment and adherence to credit policy across the various portfolios.

The Group's Internal Audit function also provides an independent review of credit risk management controls and procedures.

Forbearance Measures

The Group has a process in place, the objective of which is to secure full compliance with the requirements of the CBI 2013 Code of Conduct on Mortgage Arrears ("CCMA"), which sets out the framework that the Group must use when dealing with borrowers in mortgage arrears or in pre-arrears.

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

The Group's forbearance strategy is built on two key factors namely affordability and sustainability. The main objectives of this strategy are to ensure that arrears solutions are sustainable in the long term and they comply with all regulatory requirements. The Group is also cognisant of the mortgage arrears resolution targets ("MART") set by the Central Bank of Ireland and has met all of its targets in 2013 (Quarter 4 subject to Central Bank verification).

During the period of forbearance arrears are not cleared down, and unless the customer is paying more than their contractual minimum payment, arrears balances will remain and the loan will continue to be reported as in arrears. When customers come to the end of their arrangement period, depending on their circumstances, they may be offered a further arrangement or, if not suitable, they will continue to be managed as a mainstream collections case and if unable to recover, will then move towards repossession.

Under the Group's current policy, customers can have their arrears balance capitalised once they have demonstrated they can pay the original contractual minimum payment, but are unable to clear their historic arrears. This is usually demonstrated by the customer making six contractual monthly payments over the last six months and demonstrating that this level of repayment is sustainable into the future. Customers are able to recapitalise once over a 7 year period.

Loan Loss Provisioning

Through its on-going credit review processes, the Group seeks early identification of deteriorating loans with a view to taking corrective action to prevent the loan becoming impaired. It is the Group's policy to provide for impairment promptly and consistently across the portfolio. For those loans that become impaired, the focus is to minimise the loss that the Group will incur from such impairment. Loans that are at risk of impairment are managed by the Group's dedicated Asset Management Unit. Management of these accounts may involve implementing appropriate forbearance solutions, entering into sustainable restructuring arrangements or taking action to enforce the Group's security.

Other factors taken into consideration in estimating provisions include the domestic and international economic climate, changes in portfolio risk profile and the effect of any external factors such as legal or competition requirements.

Loan loss provisioning is an on-going process and the provisioning methodologies applied across the portfolio are subject to formal approval by the Group Credit Committee and Group Board of Directors on a half yearly basis. The adequacy of impairment provisions is also reviewed by the Board on a half-yearly basis.

Where cash flows arising from the realisation of collateral held are included in impairment assessments, management typically rely on valuations or business appraisals from independent external professionals. However, in the case of property assets where restricted market liquidity continues to be a feature of the market, the Group uses estimated cash flows based on valuations from the most appropriate source available for the asset in question.

The Group's accounting policy on impairment provisioning is set out in note 1 and estimates and judgements exercised in the impairment provisions calculation are discussed in note 2.

All credit exposures, either individually or collectively, are regularly reviewed for objective evidence of impairment. Where such evidence of impairment exists, the exposure is measured for an impairment provision. Where objective evidence of impairment exists, as a result of one or more past events, the Group is required to estimate the recoverable amount of the exposure or group of exposures.

The Group's impairment provisioning methodologies are compliant with IFRS. International Accounting Standard (IAS) 39 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.

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

Specific impairment provisions

Loans are assessed for specific provisions where they are individually significant loans or greater than 90 days in arrears and / or there is objective evidence that the loan is impaired. An impairment loss occurs where the Group does not expect to recover the full value of the loan facility. The criteria used by the Group to determine whether there is such objective evidence includes, but is not limited to:

- Delinquency in contractual interest or principal repayments;
- Significant financial difficulty of the borrower;
- Deterioration in value of the collateral;
- Where a borrower is in financial difficulty and a concession is granted that would not otherwise be considered;
- The probability that the borrower will enter bankruptcy or other financial re-organisation;
- A forbearance request by the customer accompanied by the submission of an Standard Financial Statement ("SFS");
- Absence of an active market (commercial mortgages);
- Borrower's ability to refinance the existing loan (commercial mortgages); and
- Any significant exceptional events.

In general, the Group employs statistical models to assess and calculate the appropriate provision charge for all loans greater than 90 days in arrears or when there is objective evidence of impairment. Those statistical models mainly incorporate historical trends of probability of defaults, rates by which defaulted or delinquent accounts are assumed to return to performing status (known as cure rates), the timing of recoveries of collateral and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates (Probability of Default), loss rates (Loss Given Default), cure rates and the expected timing of recoveries of collateral are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

However, in certain circumstances an individual assessment will be carried out and an impairment charge will be calculated. They are as follows:

Individual Assessment

ROI Residential Mortgages

In respect of residential mortgage exposures an individual assessment is performed for all accounts greater than €5m and greater than 90 days in arrears or where evidence is obtained that the borrower may be experiencing difficulties or any other indications as listed in the criteria used by the Group to determine whether there is objective evidence of impairment present. In such cases, a discounted cash flow approach is used incorporating the following factors:

- The loan exposure;
- The recent repayment history i.e. the level of arrears and anticipated future repayments;
- The estimated value of the collateral and certain assumptions with regard to the peak to trough decline in residential house prices;
- The cost of realising the collateral; and
- The estimated time to realise the security / collateral.

For exposures of over €1m and less than €5m, a risk based approach is adopted where collateral values are benchmarked to sample market comparatives.

UK Residential Mortgages

UK residential mortgages that meet the following criteria are individually assessed:

- Loans in arrears greater than 90 days and/or in litigation; and
- Other facilities not meeting the above criteria where evidence is obtained that the borrower may be experiencing difficulties.

Commercial Mortgages

Commercial loans meeting the following criteria are reviewed individually for impairment:

- Loans greater than 90 days in arrears and greater than €750,000 in value;
- Large exposures; and
- Watch list cases – performing commercial loans but where evidence is obtained that the borrower may be experiencing financial difficulties.

To determine the appropriate account-specific impairment provision for commercial mortgages, a discounted cash flow is calculated incorporating the following factors:

- The Group's aggregate exposure to the customer;
- The viability of the customer's business model in generating sufficient cash flow to service its debt obligations;
- The estimated realisable value of any security (or other credit risk mitigants) and the likelihood of a successful repossession;
- The expected distribution available on any liquidation or bankruptcy;
- The cost of realising the collateral; and
- The estimated time to realise the security / collateral.

In addition to the above, the Group operates a comprehensive annual review process for performing commercial loans and loans not subject to specific impairment assessment.

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

IBNR impairment provisions

Loans which are not specifically impaired are assessed for impairment and included in the IBNR provisioning approach. The impairment on unimpaired loans which are collectively assessed is calculated using statistical models by determining the probability of arrears levels deteriorating and applying Loss Given Default's ("LGD") to the impaired loan balance. These LGD's take into account the key factors required including valuation of collateral, discounting and expected cure rates, based on historical experience, adjusted as appropriate for management judgement to reflect current conditions at statement of financial position date.

Impairment provisions are also established on a collective basis to cover losses which have been incurred but not yet reported. The Group estimates a provision, based on roll rate models applied to loans not yet reported as impaired.

A provision may also be established if no loan-specific indicators of impairment loss have been identified and attributed to specific customers, where experience and other observable data indicate that such impairment losses are present in the portfolio as at the date of assessment.

The IBNR impairment provision factors in the historical loss experience in portfolios with similar credit risk characteristics, current economic conditions and behavioural trends of borrowers.

Valuation Methodologies

The valuation methodologies for the Group's key portfolios of collateral held are as follows:

- ROI residential property valuations are based on the CSO residential property price index or on recent valuations where property is repossessed;
- Commercial property valuations are based on opinions from professional valuers, the Investment Property Database Index, local knowledge of the properties, benchmarking similar properties and other industry-wide available information, including estimated yields discount rates; and
- In the UK, property values are determined using drive by valuations and the expert judgement of recognised providers.

The valuation methodologies outlined above are determined as close to the statement of financial position date as is feasible and are therefore considered by the Group to reflect their best estimate of current values of collateral held.

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

The following table outlines the maximum exposure to credit risk before collateral held or other credit enhancements in respect of Group's financial assets as at the statement of financial position date.

	Notes	31 December 2013 €m	31 December 2012 €m
Cash and balances with central banks	12	88	71
Items in course of collection	12	37	76
Debt securities (i)	13	5,816	6,827
Derivative assets (ii)	14	191	334
Loans and advances to banks (iii)	15	1,230	1,396
Loans and advances to customers (iv)	16	29,281	31,758
		36,643	40,462
Contingent liabilities and commitments	38	450	407
		37,093	40,869

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

The following tables outline the Group's exposure to credit risk by asset class.

(i) Debt securities

The Group is exposed to the credit risk on third parties where the Group holds debt securities (including sovereign debt). An IRB approach is applied in managing credit risk with the exception of Ireland, sovereign debt is restricted to countries with an internally set rating that is equivalent to a Moody's rating of A3 or higher. In addition, restrictions around the holdings of securities in certain euro zone countries have also been put in place. The Group has set counterparty limits for all debts and loans on a Group-wide basis.

The following table gives an indication of the level of creditworthiness of the Group's debt securities and is based on an internally set rating that is equivalent to Moody's rating. There are no debt securities impaired as at 31 December 2013 (31 December 2012: €nil).

Debt securities neither past due nor impaired

Rating	31 December 2013		31 December 2012
	€m	% Change	€m
Aaa	39	-48%	75
Aa	11	10%	10
A	117	-67%	357
Baa	5,649	-11%	6,367
At or below Ba	-	-100%	18
Total	5,816		6,827

The following table discloses, by country, the Group's exposure to sovereign and corporate debt as at:

Country	31 December 2013		31 December 2012	
	Sovereign debt €m	Corporate debt €m	Sovereign debt €m	Corporate debt €m
Australia	-	2	-	3
Germany	-	-	-	30
Ireland	5,131	410	5,413	761
Italy	-	50	-	65
Netherlands	-	23	-	25
Poland	79	-	85	-
Portugal	-	61	-	66
Spain	-	-	-	16
United Kingdom	-	47	-	118
United States	-	14	-	246
	5,210	607	5,498	1,330
Provision		(1)		(1)
Total		5,816		6,827

Included in the debt securities portfolio are holdings of external residential mortgage backed securities (RMBS) with a carrying value of €203m as at 31 December 2013 (31 December 2012: €258m). The Group has recourse indirectly, as bondholders, to the cash flows from those third party mortgages securitised into the various special purpose vehicles set up by the issuing institutions. The RMBS pools had an average LTV of 74% (31 December 2012: 77%) and reserve funds set aside of approximately 6% (31 December 2012: 5%) of the outstanding issued loan notes. All of the Group's bonds are considered senior in their relevant funding structure of the RMBS vehicle.

The Group also holds €5m as at 31 December 2013 (31 December 2012: €5m) of mortgage covered securities. These securities were issued by institutions in accordance with various Asset Covered Securities Acts, a legislation which provides protection to the bondholders in preference to other creditors of those issuing institutions.

In addition the Group holds debt securities of €3.3bn as at 31 December 2013 (31 December 2012: €3.0bn) which carry a guarantee from the Irish Government either directly or under the ELG Scheme.

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

(ii) Derivative assets

Rating	31 December 2013		31 December 2012
	€m	% Change	€m
Aa	-	-100%	6
A	101	-44%	181
Baa	-	-100%	1
Covered by netting agreements	90	-38%	146
Total	191		334

The Group has executed Collateral Support Agreements ("CSA") with its counterparties in respect of the majority of derivative instruments to mitigate its credit risk. As part of these agreements, the Group exchanges collateral in line with movements in the market values of derivative positions daily. The fair value of collateral that the Group held against derivative positions with a cumulative positive market value of €190m as at 31 December 2013 (31 December 2012: €207m) amounted to €117m as at 31 December 2013 (31 December 2012: €201m).

(iii) Loans and advances to banks

The Group has a policy to ensure that, where possible, loans and advances to banks are held with investment grade counterparties. The following table gives an indication of the level of creditworthiness of the Group's loans and advances to banks and is based on the internally set rating that is equivalent to rating prescribed by Moody's Investor Services Limited.

Rating	31 December 2013		31 December 2012
	€m	% Change	€m
Aaa	255	10%	232
Aa	57	-55%	128
A	773	-24%	1,021
Baa	1	-93%	15
Ba*	144	100%	-
Total	1,230		1,396

*Ba mainly relates to loans and advances held with an Irish bank who is considered a related party through Irish Government's controlling interest in both the counterparty and the Group.

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

(iv) Loans and advances to customers

Asset Quality

The Core loans and advances relates to loans and advances to customers in respect of ROI residential mortgages and consumer finance (excluding film finance) originated by ptsb, while the Non-core loans and advances to customers relate to commercial mortgages, including residential mortgages which are connected to these commercial mortgages, UK residential mortgages, film finance and other ROI residential mortgages originated through subsidiaries.

Loans which are neither past due nor impaired are analysed as excellent, satisfactory or fair according to their IRB rating as described above.

Past due but not impaired is defined as loans where repayment of interest and / or principal are overdue by at least one day but which are not impaired.

A loan is considered impaired when there is objective evidence of impairment where the loan is greater than 90 days in arrears and the present value of future cash flows is less than the carrying value of the loan (for residential mortgages this is typically where the indexed LTV is >80%) requiring a specific provision to be recognised in the income statement.

31 December 2013

	Residential mortgages		Commercial	Consumer finance	Total		Analysed as:	
	ROI	UK					Core	Non-core
	€m	€m	€m	€m	€m	%	€m	€m
Excellent	11,495	4,132	85	117	15,829	48%	11,515	4,314
Satisfactory	3,352	2,313	380	85	6,130	18%	3,277	2,853
Fair risk	1,328	168	141	28	1,665	5%	1,341	324
Neither past due nor impaired	16,175	6,613	606	230	23,624	71%	16,133	7,491
Past due but not impaired	1,471	80	52	34	1,637	5%	1,473	164
Impaired	6,255	89	1,448	93	7,885	24%	5,640	2,245
	23,901	6,782	2,106	357	33,146	100%	23,246	9,900
Provision for impairment losses	(2,950)	(76)	(911)	(98)	(4,035)		(2,659)	(1,376)
	20,951	6,706	1,195	259	29,111		20,587	8,524
Deferred fees, discounts and fair value adjustment	169	-	-	1	170		170	-
	21,120	6,706	1,195	260	29,281		20,757	8,524

31 December 2012 (Restated*)

	Residential mortgages		Commercial	Consumer finance	Total		Analysed as:	
	ROI	UK					Core	Non-core
	€m	€m	€m	€m	€m	%	€m	€m
Excellent	13,292	4,304	132	134	17,862	51%	13,261	4,601
Satisfactory	2,672	2,443	676	105	5,896	17%	2,519	3,377
Fair risk	1,606	215	212	40	2,073	6%	1,594	479
Neither past due nor impaired	17,570	6,962	1,020	279	25,831	74%	17,374	8,457
Past due but not impaired	2,201	308	111	24	2,644	8%	2,081	563
Impaired	4,817	129	1,117	143	6,206	18%	4,451	1,755
	24,588	7,399	2,248	446	34,681	100%	23,906	10,775
Provision for impairment losses	(2,191)	(74)	(735)	(150)	(3,150)		(2,078)	(1,072)
	22,397	7,325	1,513	296	31,531		21,828	9,703
Deferred fees, discounts and fair value adjustment	230	(3)	-	-	227		230	(3)
	22,627	7,322	1,513	296	31,758		22,058	9,700

* Refer to note 1 for further details.

Analysis of the above tables is provided on the following page.

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

The Group's core loans after impairment amounted to €20.6bn or 71% of total loans and advances as at 31 December 2013 (31 December 2012: €21.8bn). The Group's non-core loans after impairment amounted to €8.5bn or 29% of total loans and advances as at 31 December 2013 (31 December 2012: €9.7bn).

Loans which are neither past due nor impaired, before provision for impairment losses, amounted to €23.6bn or 71% of the loan book as at 31 December 2013 representing a slight decrease compared to €25.8bn or 74% of the loan book as at 31 December 2012.

As at 31 December 2013, €1.6bn or 5% of the loan portfolios are within past due but not impaired loans category compared to €2.6bn or 8% as at 31 December 2012.

Impaired loan balances as at 31 December 2013 were €7.9bn or 24% of the total loan book (31 December 2012: €6.2bn or 18%). The impaired loans have increased by 27% during 2013 primarily due increases relating to the ROI residential mortgages and commercial mortgages.

Impairment provisions were €4bn and represented 12% of total gross loans and advances to customers at 31 December 2013, compared to €3.2bn which represented 10% of total gross loans and advances to customers at 31 December 2012. This is a year-on-year increase of 28%.

During the second half of 2013, the Central Bank conducted a Balance Sheet Assessment exercise which was a precondition of Ireland's exit from the EU/IMF bailout programme. This involved assessing the adequacy of Group's impairment provisions and appropriateness of the classification of performing and impaired loans under the new CBI May 2013 Impairment Provisioning Guidelines. This review necessitated changes to the Group's provisioning methodology to be reflect the guidelines resulting in an increase in impaired loans and also impairment provisions stock primarily within the ROI residential and commercial mortgages.

Total interest income as at 31 December 2013 on impaired loans in the income statement amounted to €85m (31 December 2012: €69m).

The table below outlines the arrears profile for ROI and UK residential mortgages by asset quality analysed by owner occupier and buy-to-let:

31 December 2013	ROI residential mortgages		UK residential mortgages		Total
	Owner occupier	Buy-to-let	Owner occupier	Buy-to-let	
	€m	€m	€m	€m	
Excellent	9,327	2,168	89	4,043	15,627
Satisfactory	1,873	1,479	232	2,081	5,665
Fair risk	916	412	12	156	1,496
Neither past due nor impaired	12,116	4,059	333	6,280	22,788
Past due but not impaired	1,295	176	42	38	1,551
Impaired	4,054	2,201	15	74	6,344
	17,465	6,436	390	6,392	30,683
Provision for impairment losses	(1,661)	(1,289)	(2)	(74)	(3,026)
	15,804	5,147	388	6,318	27,657
Deferred fees, discounts and fair value adjustment	169	-	-	-	169
	15,973	5,147	388	6,318	27,826

31 December 2012	ROI residential mortgages		UK residential mortgages		Total
	Owner occupier	Buy-to-let	Owner occupier	Buy-to-let	
	€m	€m	€m	€m	
Excellent	11,090	2,202	108	4,196	17,596
Satisfactory	1,079	1,593	244	2,199	5,115
Fair risk	1,168	438	13	202	1,821
Neither past due nor impaired	13,337	4,233	365	6,597	24,532
Past due but not impaired	1,750	451	46	262	2,509
Impaired	2,908	1,909	22	107	4,946
	17,995	6,593	433	6,966	31,987
Provision for impairment losses	(1,198)	(993)	(5)	(69)	(2,265)
	16,797	5,600	428	6,897	29,722
Deferred fees, discounts and fair value adjustment	230	-	(3)	-	227
	17,027	5,600	425	6,897	29,949

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

Non-performing loans:

Non-performing loans are defined as impaired loans together with loans which are greater than 90 days in arrears.

31 December 2013	ROI residential mortgages		UK residential mortgages		Comm.	Consumer finance	Total
	Owner occupier	Buy-to-let	Owner occupier	Buy-to-let			
	€m	€m	€m	€m			
> 90 days in arrears but not impaired	472	28	26	133	-	8	667
Impaired loans	4,054	2,201	15	74	1,448	93	7,885
Non-performing loans	4,526	2,229	41	207	1,448	101	8,552
NPLs as % of gross loans	26%	35%	11%	3%	69%	28%	26%
Provisions coverage ratio	37%	58%	5%	36%	63%	97%	47%
31 December 2012	ROI residential mortgages		UK residential mortgages		Comm.	Consumer finance	Total
	Owner occupier	Buy-to-let	Owner occupier	Buy-to-let			
	€m	€m	€m	€m			
> 90 days in arrears but not impaired	594	90	23	108	-	6	821
Impaired loans	2,908	1,909	22	107	1,117	143	6,206
Non-performing loans	3,502	1,999	45	215	1,117	149	7,027
NPLs as % of gross loans	19%	30%	10%	3%	50%	33%	20%
Provisions coverage ratio	34%	50%	11%	32%	66%	101%	45%

Loans and advances which are past due but not impaired:

The table below provides an aged analysis of loans and advances which are past due but not impaired.

31 December 2013	Residential mortgages		Comm.	Consumer finance	Total
	ROI	UK			
	€m	€m			
0-30 days	533	(178)	27	17	399
31-60 days	268	84	15	5	372
61-90 days	170	15	10	4	199
91-180 days	107	159	-	7	273
181-360 days	117	-	-	-	117
> 360 days	276	-	-	1	277
Total past due not impaired	1,471	80	52	34	1,637
Fair value of collateral held*	1,331	71	23	-	1,425
*Fair value of collateral held	Residential mortgages		Comm.	Consumer finance	Total
	ROI	UK			
	€m	€m			
0-30 days	461	(178)	13	-	296
31-60 days	227	82	6	-	315
61-90 days	144	15	4	-	163
91-180 days	107	152	-	-	259
181-360 days	116	-	-	-	116
> 360 days	276	-	-	-	276
Total past due not impaired	1,331	71	23	-	1,425

Collateral held against residential mortgage is principally comprised of residential properties; their fair value has been estimated based upon the last actual valuation, adjusted to take into account subsequent movement in house prices and is capped at the lower of the loan balance or the valuation amount.

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

31 December 2012

	Residential mortgages		Comm.	Consumer finance	Total
	ROI	UK			
	€m	€m	€m	€m	€m
0-30 days	710	20	55	12	797
31-60 days	446	124	32	3	605
61-90 days	361	33	24	3	421
91-180 days	166	131	-	5	302
181-360 days	168	-	-	-	168
> 360 days	350	-	-	1	351
Total past due not impaired	2,201	308	111	24	2,644
Fair value of collateral held*	1,892	293	63	-	2,248

*Fair value of collateral held

	Residential mortgages		Comm.	Consumer finance	Total
	ROI	UK			
	€m	€m	€m	€m	€m
0-30 days	572	20	28	-	620
31-60 days	357	120	21	-	498
61-90 days	290	31	14	-	335
91-180 days	165	122	-	-	287
181-360 days	165	-	-	-	165
> 360 days	343	-	-	-	343
Total past due not impaired	1,892	293	63	-	2,248

The table below outlines the arrears profile for ROI and UK residential mortgages which are past due but not impaired analysed by owner occupier and buy-to-let:

31 December 2013

	ROI residential mortgages		UK residential mortgages		Total
	Owner occupier	Buy-to-let	Owner occupier	Buy-to-let	
	€m	€m	€m	€m	€m
0-30 days	465	68	1	(179)	355
31-60 days	216	52	11	73	352
61-90 days	142	28	4	11	185
91-180 days	103	4	26	133	266
181-360 days	110	7	-	-	117
> 360 days	259	17	-	-	276
Total	1,295	176	42	38	1,551

31 December 2012

	ROI residential mortgages		UK residential mortgages		Total
	Owner occupier	Buy-to-let	Owner occupier	Buy-to-let	
	€m	€m	€m	€m	€m
0-30 days	540	170	2	18	730
31-60 days	340	106	17	107	570
61-90 days	276	85	4	29	394
91-180 days	148	18	23	108	297
181-360 days	150	18	-	-	168
> 360 days	296	54	-	-	350
Total	1,750	451	46	262	2,509

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

Forbearance arrangements - ROI residential mortgages

The Group operates a number of mechanisms which are designed to assist borrowers experiencing credit and loan repayment difficulties, which have been developed in accordance with existing CCMA. These are set out in the table below.

ROI residential mortgages

The tables below set out the volume of loans for which the Group has entered formal temporary and permanent forbearance arrangements with customers as at 31 December 2013 and 31 December 2012.

The impaired balance noted represents the loan balances to which impairment charges have been raised due to either being 90 days or more in arrears, or showing evidence of impairment prior to reaching arrears of 90 days.

(a) ROI residential owner occupier mortgages:

The incidence of the main type of forbearance arrangements for owner occupied residential mortgages are analysed below:

31 December 2013	All Loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances	Number	Balances
		€m		€m
Interest only	566	79	204	28
Reduced payment (less than interest only)	466	72	359	55
Reduced payment (greater than interest only)	2,397	360	1,444	215
Payment moratorium	627	82	134	17
Arrears capitalisation	1,681	264	979	162
Term extension	2,012	163	527	43
Hybrid	6,842	1,037	5,208	797
Other	1,107	215	1,107	215
Total	15,698	2,272	9,962	1,532

31 December 2012	All Loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances	Number	Balances
		€m		€m
Interest only	2,643	363	190	40
Reduced payment (less than interest only)	2,876	499	1,924	337
Reduced payment (greater than interest only)	4,968	792	1,620	274
Payment moratorium	721	94	99	12
Arrears capitalisation	1,289	203	603	103
Term extension	1,279	109	211	19
Hybrid	532	76	220	35
Other	-	-	-	-
Total	14,308	2,136	4,867	820

The tables above reflect an increase of 2,497 as at 31 December 2013 for the Group in the number of ROI residential owner occupier loans in forbearance arrangements, an increase of €137m. The average value of forborne loans is relatively unchanged during the period (31 December 2013: €0.135m versus 31 December 2012: €0.149m). As at 31 December 2013, 61% of the number of loans in forbearance are >90 days for the Group and / or impaired compared to 34% as at 31 December 2012.

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

(b) ROI residential buy-to-let mortgages:

The incidence of the main type of forbearance arrangements for residential buy-to-let mortgages only is analysed below:

31 December 2013	All Loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances	Number	Balances
		€m		€m
Interest only	1,224	476	660	250
Reduced payment (less than interest only)	36	10	34	10
Reduced payment (greater than interest only)	950	396	530	238
Payment moratorium	16	8	9	7
Arrears capitalisation	339	118	249	90
Term extension	157	28	36	9
Hybrid	199	57	183	53
Other	10	3	10	3
Total	2,931	1,096	1,711	660

31 December 2012	All Loans		Loans > 90 days in arrears and / or impaired	
	Number	Balances	Number	Balances
		€m		€m
Interest only	247	62	29	10
Reduced payment (less than interest only)	144	33	121	28
Reduced payment (greater than interest only)	281	79	107	30
Payment moratorium	6	1	3	1
Arrears capitalisation	348	157	196	88
Term extension	133	20	18	3
Hybrid	195	118	49	24
Other	-	-	-	-
Total	1,354	470	523	184

Impairment charge and provisions on loans and advances to customers by product line

The balances in the preceding tables denoted impaired loan balances which are in forbearance arrangements. The tables below provides the impairment charges and provisions in respect of these balances, by lending type.

Forborne loans - impairment charge	Year ended 31 December 2013			Year ended 31 December 2012		
	Performing	Non-performing	Total	Performing	Non-performing	Total
	€m	€m	€m	€m	€m	€m
Residential						
- Owner occupier	(5)	199	194	38	93	131
- Buy-to-let	18	227	245	19	49	68
Total impairment charge	13	426	439	57	142	199

Forborne loans - stock of impairment provisions	31 December 2013			31 December 2012		
	Performing	Non-performing	Total	Performing	Non-performing	Total
	€m	€m	€m	€m	€m	€m
Residential						
- Owner occupier	69	410	479	74	211	285
- Buy-to-let	48	302	350	30	75	105
Total impairment provisions	117	712	829	104	286	390

The PDs associated with non-defaulted accounts which have been granted forbearance is 9.1% (10.4% for home loans and 7.1% for BTLs). The PDs for non-defaulted accounts excluding cases in forbearance is 2.6% (2.4% for home loans and 3.1% for BTLs). The PD's for defaulted accounts is 100% irrespective of the account status (forbearance or non-forbearance).

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

Reposessed collateral

Properties are reposessed where the obligor either (i) voluntarily surrenders the property or (ii) the Group takes legal repossession due to non-repayment of the loan facility. The Group will seek to maximise the proceeds from the sales of reposessed properties with a view to extinguishing the outstanding loan facility. The following tables outline the main movements in this category during the year.

Stock of repossessions	31 December 2013		31 December 2012	
	Number	Balance outstanding €m	Number	Balance outstanding €m
Residential repossessions				
ROI:				
Owner occupier	242	63	255	68
Buy-to-let	150	36	138	33
Commercial	37	25	31	17
UK:	-	-	-	-
Owner occupier	5	1	5	1
Buy-to-let	83	15	94	16
Total	517	140	523	135

Reposessed assets are sold as soon as practicable, with proceeds offset against any outstanding indebtedness. These assets which total €49m as at 31 December 2013 (31 December 2012: €51m) are included within other assets in the statement of financial position. During the year 490 residential properties were reposessed, comprising of 143 owner occupier, 337 buy-to-let and 10 commercial of which 287 of these were in the UK which can be split between 11 owner occupier and 276 buy to let.

During the year, 156 of owner occupier, 330 of buy-to-let and 4 commercial property were disposed of, of which 292 of these were in the UK, representing 60% of the total disposals. The details of the disposals are provided in the table below.

Year ended 31 December 2013	Number of disposals	Balance outstanding at repossession €m	Gross sales proceeds €m	Costs to sell €m	Pre provisioning loss on sale* €m
Residential repossessions					
ROI:					
Owner occupier	145	40	14	1	26
Buy-to-let	49	13	4	-	9
Commercial	4	1	-	-	-
UK:	-	-	-	-	-
Owner occupier	11	3	2	-	-
Buy-to-let	281	43	29	4	19
Year ended 31 December 2013	490	100	49	5	54

Year ended 31 December 2012	Number of disposals	Balance outstanding at repossession €m	Gross sales proceeds €m	Costs to sell €m	Pre provisioning loss on sale* €m
Residential repossessions					
ROI:					
Owner occupier	102	28	12	1	17
Buy-to-let	25	4	2	-	2
Commercial	1	1	-	-	1
UK:					
Owner occupier	30	7	5	-	2
Buy-to-let	368	55	40	4	19
Year ended 31 December 2012	526	95	59	5	41

*Calculated as gross sales proceeds less balance outstanding at repossession less costs to sell. These losses are provided for as part of the impairment provisioning process.

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

LTV of mortgage lending (index linked)

The LTV ratio is calculated at a property level and is the average of indexed property values in proportion to the outstanding loan balance. LTV is a key input to the impairment provisioning process. The following tables outline the composition of this ratio for the residential loan portfolio.

Actual and average LTVs across principal mortgage portfolios:

The tables below outline the weighted average LTVs for the total ROI and UK residential mortgage portfolios analysed across owner occupier and buy-to-let facilities by value. The weighted average LTV on the ROI and UK residential mortgage portfolios is 107% at 31 December 2013 compared to 112% at 31 December 2012.

In general, property prices have shown an increasing trend in ROI as reflected in the CSO house price index which has gone up by 6.4% in 2013. The UK housing market also reflected an increase in prices in 2013. This is reflected by the improvements in mortgages that are >100% LTV across all four portfolios as can be seen from the table below. The overall percentage of mortgages that are >100% LTV improved by 6% to 50% in 2013.

31 December 2013	ROI residential mortgages		UK residential mortgages		Total
	Owner occupier	Buy-to-let	Owner occupier	Buy-to-let	
	%	%	%	%	%
Less than 50%	13%	4%	12%	5%	10%
50% to 70%	11%	5%	13%	17%	11%
71% to 90%	14%	8%	34%	42%	19%
91% to 100%	7%	6%	19%	23%	10%
Subtotal	45%	23%	78%	87%	50%
101% to 110%	7%	7%	14%	11%	8%
111% to 120%	7%	9%	6%	2%	7%
121% to 130%	7%	10%	1%	0%	6%
131% to 140%	7%	12%	0%	0%	7%
141% to 150%	7%	11%	0%	0%	6%
151% to 160%	6%	8%	0%	0%	5%
161% to 170%	5%	6%	0%	0%	4%
171% to 180%	3%	4%	0%	0%	2%
Greater than 180%	6%	10%	1%	0%	5%
Subtotal	55%	77%	22%	13%	50%
Total	100%	100%	100%	100%	100%
Weighted average LTV:					
Stock of residential mortgages	108%	132%	82%	82%	107%
New residential mortgages	70%	56%	0%	60%	70%
Impaired mortgages	143%	154%	95%	102%	147%

31 December 2012	ROI residential mortgages		UK residential mortgages		Total
	Owner occupier	Buy-to-let	Owner occupier	Buy-to-let	
	%	%	%	%	%
Less than 50%	12%	3%	13%	4%	9%
50% to 70%	10%	5%	11%	11%	9%
71% to 90%	12%	7%	29%	36%	16%
91% to 100%	7%	5%	16%	24%	10%
Subtotal	41%	20%	69%	75%	44%
101% to 110%	7%	6%	15%	17%	10%
111% to 120%	7%	8%	12%	7%	7%
121% to 130%	7%	9%	3%	1%	6%
131% to 140%	7%	9%	1%	0%	6%
141% to 150%	6%	10%	0%	0%	6%
151% to 160%	6%	8%	0%	0%	5%
161% to 170%	6%	8%	0%	0%	5%
171% to 180%	4%	5%	0%	0%	3%
Greater than 180%	9%	17%	0%	0%	8%
Subtotal	59%	80%	31%	25%	56%
Total	100%	100%	100%	100%	100%
Weighted average LTV:					
Stock of residential mortgages	112%	138%	85%	87%	112%
New residential mortgages	62%	45%	46%	54%	61%
Impaired mortgages	146%	156%	98%	106%	150%

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

Analysis by LTV of the Group's residential mortgage lending which is neither past due nor impaired:

The table below illustrates that 58% of residential mortgages that are neither past due nor impaired are in positive equity as at 31 December 2013, which shows a 7% increase on 2012.

Residential mortgages (ROI and UK)	31 December 2013		31 December 2012	
	€m	%	€m	%
Less than 50%	2,548	11%	2,474	10%
50% to 70%	2,901	13%	2,525	10%
71% to 90%	5,056	22%	4,709	19%
91% to 100%	2,670	12%	2,836	12%
LTV <100%	13,175	58%	12,544	51%
101% to 110%	1,958	9%	2,419	10%
111% to 120%	1,383	6%	1,737	7%
121% to 130%	1,262	6%	1,297	5%
131% to 140%	1,347	6%	1,237	5%
141% to 150%	1,152	5%	1,200	5%
151% to 160%	914	4%	1,113	5%
161% to 170%	756	3%	942	4%
171% to 180%	300	1%	524	2%
Greater than 180%	541	2%	1,519	6%
LTV >100%	9,613	42%	11,988	49%
Total	22,788	100%	24,532	100%

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

Analysis by LTV of the Group's residential mortgage lending which are 90 days past due or impaired:

In total 25% of the ROI and UK residential mortgage portfolios which are 90 days past due have an LTV of up to 100% and 35% of loans have an LTV exceeding 150%.

31 December 2013	ROI residential mortgages		UK residential mortgages		Total
	Owner occupier	Buy-to-let	Owner occupier	Buy-to-let	
	%	%	%	%	%
Less than 50%	7%	1%	5%	-	5%
50% to 70%	7%	2%	6%	4%	6%
71% to 90%	10%	5%	38%	20%	9%
91% to 100%	6%	3%	19%	27%	5%
Subtotal	30%	11%	68%	51%	25%
101% to 110%	6%	4%	16%	24%	6%
111% to 120%	7%	7%	11%	19%	8%
121% to 130%	7%	10%	4%	5%	8%
131% to 140%	7%	12%	-	1%	9%
141% to 150%	8%	13%	1%	-	9%
151% to 160%	8%	11%	-	-	9%
161% to 170%	7%	8%	-	-	7%
171% to 180%	6%	6%	-	-	6%
Greater than 180%	14%	18%	-	-	13%
Subtotal	70%	89%	32%	49%	75%
Total	100%	100%	100%	100%	100%
	€m	€m	€m	€m	€m
Residential mortgages greater than 90 days in arrears or impaired	4,526	2,229	41	207	7,003

31 December 2012	ROI residential mortgages		UK residential mortgages		Total
	Owner occupier	Buy-to-let	Owner occupier	Buy-to-let	
	%	%	%	%	%
Less than 50%	6%	1%	4%	-	4%
50% to 70%	7%	2%	7%	2%	5%
71% to 90%	8%	4%	24%	12%	8%
91% to 100%	5%	3%	23%	18%	5%
Subtotal	26%	10%	58%	32%	22%
101% to 110%	6%	4%	14%	22%	6%
111% to 120%	7%	6%	13%	29%	8%
121% to 130%	7%	8%	9%	13%	8%
131% to 140%	7%	11%	4%	3%	8%
141% to 150%	7%	12%	2%	1%	8%
151% to 160%	8%	10%	-	-	8%
161% to 170%	8%	9%	-	-	8%
171% to 180%	7%	7%	-	-	7%
Greater than 180%	17%	23%	-	-	17%
Subtotal	74%	90%	42%	68%	78%
Total	100%	100%	100%	100%	100%
	€m	€m	€m	€m	€m
Residential mortgages greater than 90 days in arrears or impaired	3,502	1,999	45	215	5,761

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

Loan origination profile of the residential mortgage loan portfolio before provision for impairment:

The table below illustrates that €7.4bn or 31% of the ROI residential mortgage portfolio and €2bn or 29.8% of the UK residential mortgage portfolio originated before 2006. Between 2006 and 2008 origination was €15.4bn or 64.4% of the ROI residential mortgages and €4.7bn or 69.8% of the UK residential mortgages. The residual of 4.6% of the ROI residential mortgages and 0.4% of the UK residential mortgages were originated between 2009 and 2013.

31 December 2013

	ROI residential mortgages portfolio		Impaired ROI residential mortgages portfolio		UK residential mortgages portfolio		Impaired UK residential mortgages portfolio	
	Number	Balance	Number	Balance	Number	Balance	Number	Balance
		€m		€m		€m		€m
1996 and before	5,233	73	142	5	146	5	3	-
1997	2,077	46	80	3	74	3	1	-
1998	2,706	79	138	9	247	22	3	-
1999	4,536	156	208	16	568	57	5	-
2000	5,423	244	341	30	524	49	3	-
2001	5,639	315	446	44	706	72	7	1
2002	7,463	549	592	70	870	91	6	1
2003	10,792	966	1,148	160	1,871	274	8	2
2004	15,376	1,769	1,938	327	3,760	554	28	7
2005	21,412	3,215	3,522	753	5,844	893	48	13
2006	30,022	5,961	6,272	1,663	8,794	1,382	51	1
2007	26,431	5,913	6,467	1,899	12,031	2,062	216	51
2008	17,673	3,507	4,285	1,136	6,488	1,291	59	13
2009	4,577	565	673	127	123	18	1	-
2010	1,662	163	71	10	41	8	-	-
2011	1,129	124	12	3	4	1	-	-
2012	595	60	1	-	-	-	-	-
2013	1,427	196	-	-	-	-	-	-
Total	164,173	23,901	26,336	6,255	42,091	6,782	439	89

31 December 2012

	ROI residential mortgages portfolio		Impaired ROI residential mortgages portfolio		UK residential mortgages portfolio		Impaired UK residential mortgages portfolio	
	Number	Balance	Number	Balance	Number	Balance	Number	Balance
		€m		€m		€m		€m
1996 and before	6,499	96	36	2	209	9	6	-
1997	2,257	55	17	1	95	5	2	-
1998	3,239	94	36	4	314	26	1	-
1999	4,867	181	82	8	633	67	4	-
2000	5,752	274	139	15	563	55	4	-
2001	5,939	346	207	26	759	81	6	-
2002	7,746	596	314	43	907	100	9	1
2003	11,455	1,033	668	100	1,993	299	13	3
2004	15,770	1,866	1,232	219	3,914	594	45	11
2005	21,809	3,346	2,310	549	6,037	948	85	19
2006	30,387	6,120	4,429	1,284	9,055	1,464	88	19
2007	26,660	6,040	4,663	1,515	12,377	2,358	258	63
2008	17,895	3,593	3,137	949	6,685	1,363	59	13
2009	4,661	585	438	97	129	20	-	-
2010	1,711	172	38	5	42	8	-	-
2011	1,148	130	3	-	5	1	1	-
2012	611	61	1	-	9	1	-	-
Total	168,406	24,588	17,750	4,817	43,726	7,399	581	129

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

2. Liquidity Risk

Liquidity risk is the risk that the Group may be unable to meet payment of obligations in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of funding the asset portfolio at appropriate maturities.

Further details on Group risk management framework, Group's risk appetite and strategy, risk governance and risk identification and assessment are described under the Risk Management section of this annual report.

Liquidity management for the Group is carried out by the Group's Treasury function. In carrying out this responsibility, the principle objective is to ensure that adequate liquid assets are available at all times to meet the current and foreseeable regulatory, operational and strategic liquidity needs of the business. The liquidity management process includes:

- Day-to-day funding; managed by monitoring future cash flows to ensure that requirements can be met. This includes replacing funds that mature or are borrowed by customers;
- Balance sheet funding; managed by monitoring the funding profile against established target funding levels, with monitoring performed by the Assets and Liabilities Committee;
- Maintaining a portfolio of marketable assets that can be easily liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of funding sources.

The Group's liquidity policies and protocols establish quantitative rules and targets in relation to measurement and monitoring of liquidity risk. The Group also performs stress testing and scenario analysis incorporating Group specific and market-related risks to evaluate the potential impact on the liquidity position. Liquidity ratios and details of movement between the time buckets are circulated each day among first line and second line executives and senior managers. The ALCO plays a fundamental role in the monitoring of liquidity risk measures through the monthly review of liquidity reports.

On 26 February 2013, the Minister for Finance announced the withdrawal of the ELG scheme with effect from 29 March 2013. This announcement has not had any significant adverse effect on the volume or cost of funds of the Group. The cost of ELG will fall significantly as covered liabilities mature.

The Group monitors and manages regularly the funding support provided by its customer deposits to its loan portfolio through a series of measures including the Basel liquidity ratios, LCR and NSFR.

The Group's un-guaranteed long-term unsecured senior debt rating at 31 December 2013 was Moody's Investor Services Limited Ba2 and Standard and Poor's B+.

The Group's liquidity position has improved in 2013 as Group continues to maximise utilisation of the collateral pools from its loan assets. This is further evidenced by the €500m Residential Mortgage Backed Securities ("RMBS") issuance in November 2013 using ROI mortgages underlying collateral.

Notwithstanding the above, there have been on-going liquidity challenges for the Group and for the Irish banking system generally. The downgrade in credit ratings in the past years limited the Group's access to capital markets. However, a combination of deposit flows, RMBS issuance and in reduction in funding requirement has resulted in a decrease in Eurosystem financing facilities. At 31 December 2013, the Group had €6.9bn (31 December 2012: €10.7bn) of collateralised funding from the European Central Bank as disclosed in note 22. The Group continues to seek and execute options to reduce its system funding requirement.

The ALCO monitors sources of funding and reviews short-term and long-term borrowings and their respective maturity profiles. The Group's funding profile at the reporting date was:

	31 December 2013	31 December 2012
	%	%
Customer deposits	56	45
Long-term debt	28	33
Short-term debt	16	22
	100	100

The ALCO also monitors the dependencies inherent in funding by reviewing the Group's usage of lines of credit with financial institutions.

The Central Bank has established limits that an institution must have sufficient available liquidity to cover 100% of outflows over the immediate next 8 days and 90% of outflows over the subsequent 9 – 30 days. The Group monitors this liquidity position daily and reports weekly to the Central Bank. As a consequence of industry wide wholesale funding difficulties experienced since the last quarter of 2010, the Group had breaches of these limits on a regular basis from 15 December 2010 to January 2013. However since January 2013 the Group has been compliant with these limits.

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

In accordance with IFRS 7, Financial Instruments: Disclosures, the following tables present the maturity analysis of financial liabilities on an undiscounted basis, by remaining contractual maturity at the statement of financial position date. These will not agree directly with the balances on the consolidated statement of financial position due to the inclusion of future interest payments. In this table, derivative liabilities represent the carrying value of derivative instruments that are held as hedging instruments in respect of financial liabilities.

31 December 2013	Up to 1 month	1-3 months	3-6 months	6-12 months	1-2 years	Over 2 years	Total
	€m	€m	€m	€m	€m	€m	€m
Liabilities							
Deposits by banks	5,335	285	-	-	5,126	-	10,746
Customer accounts	8,098	6,648	1,286	1,809	1,425	456	19,722
Debt securities in issue	22	90	78	94	2,147	2,413	4,844
Subordinated liabilities	-	-	-	40	40	464	544
Derivative liabilities	(4)	(5)	(14)	(13)	(18)	(213)	(267)
Total liabilities	13,451	7,018	1,350	1,930	8,720	3,120	35,589
31 December 2012	Up to 1 month	1-3 months	3-6 months	6-12 months	1-2 years	Over 2 years	Total
	€m	€m	€m	€m	€m	€m	€m
Liabilities							
Deposits by banks	5,619	3,179	-	-	-	5,122	13,920
Customer accounts	7,928	2,379	1,768	2,940	990	852	16,857
Debt securities in issue	1,375	109	1,312	55	275	3,831	6,957
Subordinated liabilities	-	-	-	40	40	504	584
Derivative liabilities	(3)	(67)	(27)	21	(36)	(75)	(187)
Total liabilities	14,919	5,600	3,053	3,056	1,269	10,234	38,131

For products where the contractual maturity date may be different from actual behaviour, the Group uses statistical methodologies to manage liquidity on an expected or behaviourally adjusted basis.

The following table details the Group's liquidity analysis for derivative instruments that do not qualify as hedging instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates from the yield curves at the end of the reporting year.

31 December 2013	Up to 1 month	1-3 months	3-6 months	6-12 months	1-2 years	Over 2 years	Total
	€m	€m	€m	€m	€m	€m	€m
Net settled:							
Interest rate swaps	-	-	-	1	1	12	14
Cross currency interest rate swap	(2)	(4)	3	(11)	(13)	176	149
Gross settled:							
FX forwards							
- inflow	629	1,052	-	-	-	-	1,681
- outflow	(634)	(1,056)	-	-	-	-	(1,690)
Balance at 31 December 2013	(7)	(8)	3	(10)	(12)	188	154
31 December 2012	Up to 1 month	1-3 months	3-6 months	6-12 months	1-2 years	Over 2 years	Total
	€m	€m	€m	€m	€m	€m	€m
Net settled:							
Interest rate swaps	-	(1)	(2)	-	-	3	-
Gross settled:							
FX forwards							
- inflow	2,181	2,740	-	-	-	-	4,921
- outflow	(2,175)	(2,718)	-	-	-	-	(4,893)
Balance at 31 December 2012	6	21	(2)	-	-	3	28

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

3. Market Risk

Market risk is the risk of change in fair value of a financial instrument due to adverse movements in equity prices, property prices, interest rates or foreign currency exchange rates. Interest rate risk arises due to the structural mismatch between assets and liabilities in the balance sheet. All market risks within the Group are subject to strict internal controls and reporting procedures and are monitored by the ALCO. Market risks are subject to limits on the magnitude and nature of exposures which may be undertaken. These limits are outlined in policy documents which are regularly reviewed by the BRCC.

Market risk in the Group arises from open positions in interest rate or currency products. The market risk exposure is managed by Group Treasury who use a number of tools to identify market risk including Value at Risk, interest rate gap, stress-testing and mark to market / stop loss reports.

In managing market exposures, the Group uses a Value at Risk (VaR) model which is a statistically based estimate of potential loss on a portfolio from adverse market movements and summarises the predicted maximum loss over a target time horizon and a given confidence level. Group Treasury adopts JP Morgan's Risk Metrics methodology, which is a variance co-variance approach. The VaR model assumes a holding period of 10 days, and a 99% confidence level is applied. Volatilities and correlations are exponentially weighted (the most recent event carries a greater weighting), and are calculated based on price movements over the past 150 days. The volatilities and correlations are imported daily from Risk Metrics.

VaR limits are approved by the Board and are established for the overall banking book. VaR reports are produced and quantified by treasury risk management and reported to Senior Management daily and to the ALCO monthly.

The prices of similar financial instruments do not necessarily move in exact step with each other and, as a result, the total risk contained in a portfolio of different financial instruments cannot be calculated by taking the sum total of the individual risks. The VaR methodology employed by the Group calculates the risk in each instrument held in the portfolio and measures the impact of diversification of the risk of the portfolio using an industry standard methodology called the variance co-variance approach.

The Group VaR models are subject to regular validation by Enterprise Risk Management to ensure that they continue to perform as expected, and that assumptions used in model development are still appropriate. As with any market risk measurement system, the VaR methodology utilised by the Group has recognised limitations. VaR does not measure "event" (e.g. crash) risk or incorporate assumptions about the range of likely changes in future market conditions, including behavioural assumptions about the various types of assets and liabilities (particularly those arising from retail transactions). Accordingly, the Group supplements its VaR methodology with other risk measurement techniques including interest rate gap, stress testing and mark to market / stop loss reports.

Group Treasury applies parallel basis point shocks to the individual yield curves of 50, 100, 200 and 300bps. The model incorporates projected new business growth, using current rates to produce its base case scenario. As part of risk reporting, the balance sheet is also subject to sensitivity analysis to observe the impact of yield curve shifts on the economic value of the portfolio.

The impact on the mark to market of a 100 basis point straight line increase / decrease in interest rates, applied to the investment portfolios at 31 December 2013 a 1% increase and a 1% decrease is as below.

	31 December 2013	31 December 2012
	€m	€m
Euribor		
1% increase	(41)	(45)
1% decrease	39	47
Value at risk		
	2013	2012
	€m	€m
At 31 December	6.5	3.1
Average for the year	5.1	4.7
Minimum during the year	3.1	2.7
Maximum during year	8.1	7.6

The non-trading book comprises the Group's retail and corporate deposit books, its loan book combined with the inter-bank book, wholesale funding instruments and the liquid asset investment portfolio, which is managed by the Group's Treasury. The Group's residual trading book expired in June 2013.

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

3.1 Interest rate risk

Interest rate risk is managed principally through monitoring interest rate gaps. The repricing gap is a tenor based interest rate gap analysis which displays the Group's positions in quarterly buckets, highlighting possible interest rate exposures on the statement of financial position. The gap is produced and quantified by Group Treasury and reported to the senior management daily.

The gap analysis reflects the estimated discounted cash flows on a mix of interest bearing assets and liabilities and assumptions on the expected repricing dates. Repricing balances are included within repricing schedules at product group levels sufficient to identify any sources of significant mismatches, by major currencies and allocated to designated timebands.

The following analysis is also reported daily to the senior management:

- Deals are grouped into assets and liabilities in each currency;
- Deals are grouped in time 'buckets' according to their repricing or maturity dates whichever is the shorter;
- Weighted average rates for the various 'buckets' of assets and liabilities are calculated;
- A break-even rate is calculated; and
- Five year equivalent risk figure is calculated.

A summary of the Group's interest rate gap position is as follows:

Interest Rate Repricing

31 December 2013

	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 5 years	Over 5 years	Total
	€m	€m	€m	€m	€m	€m
Assets						
Euro	26,221	12	63	2,858	679	29,833
Sterling	7,275	-	-	1	-	7,276
US dollar	8	-	-	73	-	81
Other	-	-	-	-	-	-
Total assets (A)	33,504	12	63	2,932	679	37,190
Liabilities						
Euro	(22,444)	(1,528)	(1,967)	(4,644)	(161)	(30,744)
Sterling	(4,058)	(37)	(130)	(74)	-	(4,299)
US dollar	(137)	(3)	(3)	(7)	-	(150)
Other	(5)	-	-	-	-	(5)
Total liabilities (B)	(26,644)	(1,568)	(2,100)	(4,725)	(161)	(35,198)
Derivatives						
Euro	3,401	136	148	1,220	(362)	4,543
Sterling	(4,684)	-	-	(1)	-	(4,685)
US dollar	135	-	-	(65)	-	70
Other	-	-	-	-	-	-
Derivatives affecting interest rate sensitivities (C)	(1,148)	136	148	1,154	(362)	(72)
Interest rate repricing gap						
Euro	7,178	(1,380)	(1,756)	(566)	156	3,632
Sterling	(1,467)	(37)	(130)	(74)	-	(1,708)
US dollar	6	(3)	(3)	1	-	1
Other	(5)	-	-	-	-	(5)
Interest rate repricing gap (A) + (B) + (C)	5,712	(1,420)	(1,889)	(639)	156	1,920
Cumulative interest rate repricing gap	5,712	4,292	2,403	1,764	1,920	

Notes to the Consolidated Financial Statements

33. Financial risk management (continued)

31 December 2012

	Not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 1 year	Over 1 year but not more than 5 years	Over 5 years	Total
	€m	€m	€m	€m	€m	€m
Assets						
Euro	28,561	428	245	3,524	309	33,067
Sterling	8,089	42	48	1	-	8,180
US dollar	1	11	-	76	-	88
Other	-	-	-	-	-	-
Total assets (A)	36,651	481	293	3,601	309	41,335
Liabilities						
Euro	(22,738)	(2,911)	(2,650)	(4,371)	(174)	(32,844)
Sterling	(3,952)	(18)	(18)	(3)	-	(3,991)
US dollar	(1,494)	(4)	(7)	(8)	-	(1,513)
Other	(18)	-	-	-	-	(18)
Total liabilities (B)	(28,202)	(2,933)	(2,675)	(4,382)	(174)	(38,366)
Derivatives						
Euro	1,119	1,135	(144)	901	(302)	2,709
Sterling	(4,107)	(31)	(37)	(1)	-	(4,176)
US dollar	1,497	-	5	(68)	-	1,434
Other	10	-	-	-	-	10
Derivatives affecting interest rate sensitivities (C)	(1,481)	1,104	(176)	832	(302)	(23)
Interest rate repricing gap						
Euro	6,942	(1,348)	(2,549)	54	(167)	2,932
Sterling	30	(7)	(7)	(3)	-	13
US dollar	4	7	(2)	-	-	9
Other	(8)	-	-	-	-	(8)
Interest rate repricing gap (A) + (B) + (C)	6,968	(1,348)	(2,558)	51	(167)	2,946
Cumulative interest rate repricing gap	6,968	5,620	3,062	3,113	2,946	

Notes to the Consolidated Financial Statements

34. Capital management

ptsb carries out the banking business activities of the Group and is regulated by the Central Bank of Ireland which is responsible for central banking and financial regulation in Ireland. While there are a number of regulated entities within the Group which have individual regulatory capital requirements and are regulated by their local regulators, ptsb is the principal regulated entity.

The Central Bank regulates all the banks in Ireland under the Basel II framework. As of 1 January 2014, the Central Bank has adopted the Basel III framework.

On 31 March 2011, the Central Bank published the results of the PCAR and PLAR as part of the Financial Measures Programme (FMP) which was one of the conditions of the EU / IMF Programme of Support for Ireland. The aim of the FMP was to place the Irish banking system in a position where it could fund itself and generate capital without further reliance on Irish or European public sources. This identified a total gross capital requirement of €4bn for the Group.

On 27 July 2011, the Group received €2.3bn in share capital and €0.4bn in contingent capital from the Irish Government. The remaining capital requirement was funded through the disposal of the Life Group to the Government for a consideration of €1.3bn which concluded on 29 June 2012 resulting in the Group's capital requirement being achieved.

The core objective of the Group's capital management policy is to ensure it both complies with regulatory capital requirements, and also maintains sufficient capital to cover its business risks and support its market strategy. The Group goes through a rigorous process of Internal Capital Adequacy Assessment (ICAAP) to determine that it is adequately capitalised against the inherent risks to which its business operations are exposed and to maintain an appropriate level of capital to meet the minimum regulatory capital requirements set by the Central Bank. The ICAAP is subject to the review and evaluation by the Central Bank.

The management of capital within the Group is monitored by the BRCC and the ALCO in accordance with Board approved policy. In general, outside of ptsb, all regulated entities within the Group operate to an internal target level of capital which provides a margin of comfort above the regulatory minimum with any excess capital above this target level being remitted to Group.

The Group's regulatory capital comprises two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and
- Tier 2 capital, which includes perpetual bonds, qualifying subordinated liabilities, revaluation reserves and other regulatory capital adjustments.

Various limits are applied to elements of the capital base. For example, the qualifying Tier 2 capital cannot exceed Tier 1 capital; and qualifying term subordinated loan capital may not exceed 50% of Tier 1 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation and certain other regulatory items.

Group calculates risk-weighted assets for credit risk for banking book which are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognised in the statement of financial position.

Group also follows a risk weighted asset calculation requirement under Basel III in respect of market and operational risk.

As part of the programme for external support, the Central Bank announced a new minimum capital target for the Group of 10.5% core tier 1 capital ratio in a base scenario and 6% core tier 1 capital ratio in a stressed scenario.

The Group and its individually regulated operations have not breached any regulatory capital ratios during 2012 and 2013.

The table overleaf summarises the composition of regulatory capital and the capital ratios of ptsb as at 31 December 2013. They are calculated in accordance with Basel II regulatory capital requirements. Since Basel III becomes enacted in 2014, following the approval at European level of CRD/CRR IV, a comparative Common Equity Tier 1 ratio has also been provided under these new regulations for 31 December 2013.

Notes to the Consolidated Financial Statements

34. Capital management (continued)

The following information has not been subject to audit by the Group's independent auditor.

The following table summarises the composition of regulatory capital and the ratios of ptsb, the primary regulated entity of the Group, as at 31 December 2013 and 31 December 2012 which are calculated in accordance with Basel II regulatory capital requirements.

	31 December 2013	31 December 2012
	€m	€m
Tier 1 capital		
Share capital and share premium	2,922	2,922
Reserves	(542)	(90)
Prudential filters	(158)	(101)
Total qualifying Tier 1 capital	2,222	2,731
Tier 2 capital		
Subordinated liabilities	183	234
Revaluation reserve	6	5
Other	99	72
Total qualifying Tier 2 capital	288	311
Total qualifying Tier 1 and Tier 2 capital	2,510	3,042
Total own funds	2,510	3,042
Required capital as per European Capital Requirement Directive	1,310	1,189
Excess of total own funds over total required capital	1,200	1,853
	31 December 2013	31 December 2012
	€m	€m
Risk weighted assets		
Total risk-weighted assets	16,368	14,859
Capital Ratios		
Core Tier 1 capital ratio	13.6%	18.0%
Total capital ratio	15.3%	20.5%
<p>The total capital ratio is calculated and reported to the Central Bank on a monthly basis.</p> <p>The percentage of Core Tier 1 capital is in excess of the Central Bank regulatory minimum of 10.5% effective as at 31 December 2013.</p> <p>Group's common equity tier 1 ratio, calculated on an estimated pro forma CRD IV transitional basis, at 31 December 2013 was 13.4%.</p> <p>The movement in the bank's regulatory capital is summarised below:</p>		
	2013	2012
	€m	€m
Balance as at 1 January	3,042	2,756
Operating loss after tax	(261)	(999)
Defined benefit pension prior year restatement (Note 1)	(184)	-
Current year Defined benefit pension recognised in OCI	(35)	-
Core deposit intangible add-back/deduction	31	(1)
Sale of subsidiary undertaking - Irish Life Group	-	1,300
Liquidation of a subsidiary	-	7
Other movements*	(83)	(21)
Balance as at 31 December	2,510	3,042
*Other movements are explained as follows:		
	31 December 2013	31 December 2012
	€m	€m
Reductions in Tier 2 subordinated debt	(52)	(42)
IRB provisions excess	29	(31)
Elimination of the deduction for securitised exposures	-	73
Reduction in other own funds	(60)	(21)
Other movements	(83)	(21)

Notes to the Consolidated Financial Statements

35. Current / non-current assets and liabilities

The following table provides an analysis of certain asset and liability line items at 31 December 2013 and at 31 December 2012. The analysis includes amounts expected to be recovered or settled no more than 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current).

	Note	31 December 2013			31 December 2012		
		Current	Non-current	Total	Current	Non-current	Total
		€m	€m	€m	€m	€m	€m
Assets							
Cash and balances at central banks	12	88	-	88	71	-	71
Items in the course of collection	12	37	-	37	76	-	76
Debt securities	13	2,257	3,559	5,816	2,815	4,012	6,827
Derivative assets	14	30	161	191	104	230	334
Loans and advances to banks	15	1,230	-	1,230	1,396	-	1,396
Loans and advances to customers	16	522	28,759	29,281	336	31,422	31,758
Assets classified as held for sale	40	1	179	180	-	-	-
Liabilities							
Deposits by banks (including central banks)	22	5,618	5,070	10,688	8,789	5,038	13,827
Customer accounts	23	17,703	1,808	19,511	14,852	1,787	16,639
Debt securities in issue	24	185	3,961	4,146	2,728	3,777	6,505
Derivative liabilities	14	40	307	347	55	360	415
Subordinated liabilities	28	-	359	359	-	337	337

Notes to the Consolidated Financial Statements

36. Transfer of financial assets

In the ordinary course of business, the Group enters into transactions that result in the transfer of financial assets that consist of loans and advances to customers. In accordance with note 1 (vii), the transferred financial assets continue either to be recognised in their entirety or to the extent of the Group's continuing involvement, or are derecognised in their entirety.

The Group transfers financial assets primarily through the following transactions:

- (i) sale and repurchase of securities; and
- (ii) securitisation activities in which loans and advances to customers are sold to SPE's that in turn issue notes to investors which are collateralised by purchased assets.

(a) Transferred financial assets that are not derecognised in their entirety

Sale and repurchase agreements

Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. The Group continues to recognise the securities in their entirety in the statement of financial position as loans and advances to customers (note 16) and Debt securities (note 14) because it retains substantially all the risks and rewards of ownership. The cash consideration received is recognised as a financial asset and a financial liability is recognised for the obligation to pay the repurchase price. Because the Group sells the contractual rights to the cash flows of the securities it does not have the ability to use or pledge as collateral the transferred assets during the term of the arrangement.

Securitisations

The Group sells loans and advances to customers to SPEs that in turn issue notes to investors that are collateralised by the purchased assets. For the purpose of disclosure in this note, a transfer of such financial assets may arise if the Group sells assets to a consolidated SPE, the transfer of financial assets is from the Group (that includes the consolidated SPE) to investors in the notes issued by the SPE. The transfer is in the form of the Group assuming an obligation to pass cash flows from the underlying assets to investors in the notes.

Although the Group does not own more than half of the voting power, it controls these SPEs because it is exposed to the majority of ownership risks and rewards of the SPEs and hence these SPEs are consolidated. In these cases, the consideration received from the investors in the notes in the form of cash is recognised as a financial asset and a corresponding financial liability is recognised. The investors in the notes have recourse only to the cash flows from the transferred financial assets.

When the Group transfers assets as part of the securitisation transactions it does not have the ability to use or pledge as collateral the transferred assets during the term of the arrangement.

The table below sets out an overview of carrying amounts and fair values related to transferred financial assets that are not derecognised in their entirety and associated liabilities.

	31 December 2013		31 December 2012	
	Sale and repurchase agreements	Securitisations	Sale and repurchase agreements	Securitisations
	€m	€m	€m	€m
Carrying amount of assets	19,848	1,562	22,101	1,220
Carrying amount of associated liabilities	12,838	1,588	13,723	1,231
Liabilities that have recourse only to the transferred financial assets				
Fair value of assets	17,733	1,230	18,285	914
Fair value of associated liabilities	12,790	1,429	13,748	1,041
Net position	4,943	(199)	4,537	(127)

(b) Transferred financial assets that are derecognised in their entirety

The Group has not transferred any financial assets that were derecognised in their entirety.

Notes to the Consolidated Financial Statements

37. Offsetting financial assets and financial liabilities

In accordance with IAS32 Financial Instruments: Presentation, the Group reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The tables below provide the impact of master netting agreements on all derivative financial instruments that are subject to master netting agreements or similar agreements, but do not qualify for netting on the balance sheet.

The tables highlight the amounts that have been offset on the balance sheet and those amounts covered by master netting agreements but do not qualify for netting under the requirements of IAS32.

The tables below provide analysis of derivative financial assets and liabilities subject to offsetting, enforceable master netting agreements and similar agreements:

	31 December 2013					
	Effect of offsetting on the Statement of financial position			Related amounts not offset in the statement of financial position		
	Gross financial assets/ (Liabilities) recognised	Gross financial (liabilities)/ assets offset	Net amounts reported on the statement of financial position	Financial instruments	Cash collateral	Net amount
	€m	€m	€m	€m	€m	€m
Assets						
Derivative assets	191	-	191	(100)	(91)	-
	191	-	191	(100)	(91)	-
Liabilities						
Derivative liabilities	(347)	-	(347)	100	223	(24)
Repurchase agreements	(12,838)	-	(12,838)	12,838	-	-
	(13,185)	-	(13,185)	12,938	223	(24)

	31 December 2012					
	Effect of offsetting on the Statement of financial position			Related amounts not offset in the statement of financial position		
	Gross financial assets/ (Liabilities) recognised	Gross financial (liabilities)/ assets offset	Net amounts reported on the statement of financial position	Financial instruments	Cash collateral	Net amount
	€m	€m	€m	€m	€m	€m
Assets						
Derivative assets	334	-	334	(173)	(138)	23
	334	-	334	(173)	(138)	23
Liabilities						
Derivative liabilities	(415)	-	(415)	173	169	(73)
Repurchase agreements	(13,723)	-	(13,723)	13,723	-	-
	(14,138)	-	(14,138)	13,896	169	(73)

Notes to the Consolidated Financial Statements

38. Commitments and contingencies

The table below gives the contractual amounts of capital commitments and operating lease commitments. The maximum exposure to credit loss under commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

Credit commitments	31 December 2013	31 December 2012
	€m	€m
Guarantees and irrevocable letters of credit	9	5
Commitments to extend credit		
- less than 1 year	323	336
- 1 year and over	118	66
Total commitments to extend credit	441	402
Total credit commitments	450	407

Operating lease commitments

The Group leases various offices under non-cancellable operating leases. The future aggregate minimum lease payments under these leases are as follows:

	31 December 2013	31 December 2012
	€m	€m
Less than 1 year	7	8
Greater than 1 year and less than 5 years	27	32
Greater than 5 years	37	44
Total operating lease commitments	71	84

Other contingencies

The Group is subject to litigation in the normal course of its business. Based on legal advice, the Group does not believe that any such litigation will have a material effect on its income statement or statement of financial position.

Since 31 December 2008, the Group had been subject to investigations by a number of statutory bodies including the Central Bank (Supervision Division) into deposits placed by Irish Life Assurance plc with Irish Bank Resolution Corporation (in special liquidation) (formerly Anglo Irish Bank) (on 31 March 2008, 26 September 2008, 29 September 2008 and 30 September 2008). At 31 December 2013, these investigations were still on-going.

Notes to the Consolidated Financial Statements

39. Related parties

The Group has a related party relationship with its Directors and Senior Management and previously with its former associate and Group's pension schemes. Also, as a result of the issuance of the Group ordinary shares to the Minister for Finance, as disclosed in note 30 and the Group's participation in Government Guarantee Schemes as described below, the Group has a related party relationship with the Irish Government and Government related entities.

(A) Directors' shareholdings

The interests of the Directors and the Company Secretary, including interests of their spouses and minor children, in the share capital of ptsbgh are as follows:

Number of beneficial ordinary shares held	31 December 2013			31 December 2012		
	Ordinary shares	Options	Share awards	Ordinary shares	Options	Share awards
Alan Cook	-	-	-	-	-	-
Jeremy Masding	-	-	-	-	-	-
Emer Daly	-	-	-	-	-	-
Dominic Dodd	-	-	-	-	-	-
Margaret Hayes (retired 22 May 2013)	-	-	-	-	-	-
Sandy Kinney (retired 31 August 2013)	-	-	-	-	-	-
Glen Lucken (appointed 02 January 2013)	-	-	-	-	-	-
Ray MacSharry (retired 22 May 2013)	-	-	-	-	-	-
Pat Ryan	-	-	-	-	-	-
Ken Slattery (appointed 30 August 2013)	-	-	-	-	-	-
Ciarán Long (Company Secretary)	16,629	23,624	-	16,629	37,010	-

(B) Transactions with key management personnel

Key management personnel include Non-Executive Directors, Executive Directors and members of the Executive Committee (ExCo). The Executive Directors and members of the ExCo are listed below:

Members of the ExCo at 31 December 2013	
Jeremy Masding	Group Chief Executive Officer
Glen Lucken	Group Chief Financial Officer
Kieran Bristow	Group Treasurer
Toby Clements	Chief Operating Officer
David Curtis	Customer Credit Director
Bill Hannan	Chief Risk Officer
Tony Hession	Group Head of Human Resources and Organisational Development
Emil Ivanov	Group Strategy and Planning Director
Brendan Lynott	Distribution Director
Ger Mitchell	Mortgage and Consumer Finance Director
Niall O'Grady	Savings and Current Account Director
Shane O'Sullivan	Managing Director of Asset Management Unit
Robert Young	Managing Director of Capital Home Loans Limited

Non-Executive Directors are compensated by way of fees. In certain circumstances expenses incurred by Non-Executive directors during the normal course of business are paid by the Group and are included in taxable benefits in B(i) below. The compensation of Executive Directors and members of the ExCo comprises salary and other benefits together with pension benefits. Previously they also participated in the Group's profit sharing, share option schemes and long-term incentive plans. No awards have been issued under these schemes and plans since 2008.

Number of key management personnel as at year end is as follows:

	31 December 2013	31 December 2012
Non-Executive Directors	5	7
Executive Directors and Senior Management	13	13
	18	20

Notes to the Consolidated Financial Statements

39. Related parties (continued)

B (i) Total compensation to key management personnel is as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
	€'000	€'000
Fees	510	567
Taxable benefits	105	78
Salary and other benefits	3,658	4,487
Pension benefits		
- defined benefit ¹	-	257
- defined contribution	408	230
	4,681	5,619

¹ As a result of the Group's decision to discontinue contribution to the defined benefit pension schemes, the trustees resolved to wind up the schemes. As these pension schemes liabilities no longer lie with the Group the related party relationship between the Group and these pension schemes ceased to exist during the year. For the prior year the pension benefit included above is an increase in defined benefit transfer value during the year. For defined contribution schemes, the benefit included above are the contributions made by the Group to the scheme.

Individual compensation for Directors is disclosed in the Directors Report on Remuneration on page's 46 to 47 of this annual report.

B (ii) Balances and transactions with key management personnel:

In the normal course of its business the Group had loan balances and transactions with key management personnel and connected persons as follows:

	31 December 2013	31 December 2012
	€'000	€'000
Balances		
Loans	3,014	2,571
Unsecured credit card balances and overdrafts	7	10
Deposits	1,062	1,063

	Year ended 31 December 2013	Year ended 31 December 2012
	€'000	€'000
Transactions during the year		
Loan advances	537	38
Loan repayments	68	136
Interest received on loans	67	63
Interest paid on deposits	(23)	(48)
Life assurance and pension premiums	-	81

The loans are granted on normal commercial terms and conditions with the exception of certain house loans where Executive Directors and Senior Management may avail of subsidised loans on the same terms as other eligible management of the Group. All of the loans are secured and all interest and principal due at the statement of financial position date on loans has been repaid on schedule and no provision for loan impairment is required.

Loans to Directors

31 December 2013

	Balance as at 1 Jan	Advances during year	Principal repaid	Sold by the Group during the year	Balance as at 31 Dec	Interest paid	Maximum balance
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Jeremy Masding	-	37	(2)	-	35	1	37
	-	37	(2)	-	35	1	37

31 December 2012

	Balance as at 1 Jan	Advances during year	Principal repaid	Sold by the Group during the year	Balance as at 31 Dec	Interest paid	Maximum balance
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Jeremy Masding*	-	38	(6)	(32)	-	2	38
	-	38	(6)	(32)	-	2	38

*The Group sold this loan as part of the sale of loans and receivables of ptsbf as disclosed in note 40. Therefore, at 31 December 2012 this loan is not considered part of loans to key management personnel.

Notes to the Consolidated Financial Statements

39. Related parties (continued)

(C) Irish Government and Government related entities

Following the share issuance by ptsbgh to the Minister for Finance and the Minister becoming a majority shareholder of ptsbgh, the Irish Government is recognised as a related party as the Government is deemed to have control over the Group as defined by IAS 24. The Group has applied the amended IAS 24 which exempts an entity from the related party disclosure requirements in respect of the Government and Government related entities unless transactions are individually or collectively significant. In the normal course of business the Group has entered into transactions with the Government and Government related entities involving deposits, senior debt, commercial paper and dated subordinated debt.

The following are transactions and balances between the Group and the Government and Government related entities that are collectively significant:

- ptsb and its subsidiary Permanent Bank International Ltd were participating covered institutions under the Government's Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the "ELG Scheme") which guaranteed certain eligible liabilities (including deposits) of up to five years in maturity prior to its withdrawal by the Minister for Finance from 29 March 2013.
- Under the ELG Scheme, the Group issued a 5 year €2bn bond in March 2010. In January 2011, the Group issued a €3.4bn bond under the ELG Scheme which was bought by the Group itself. This bond has been rolled over and as at 31 December 2013 the amount in issue was €3.1bn. The charge to the income statement in respect of the ELG Scheme to the 31 December 2013, was 105m (31 December 2012: €165m). The liabilities covered by the scheme at 31 December 2013 amounted to €7,403m (31 December 2012: €14,452m).
- The Group holds securities issued by the Government and Government related entities of €5,132m ((31 December 2012: €5,410m).
- Customer accounts include deposits of €2.7bn of deposits are placed by a Government institution (31 December 2012: €0.6bn). Further details on these deposits are provided in note 23
- As at 31 December 2013, the Group held €1.4bn of deposits placed by the CBI under the SMBPN programme (31 December 2012: €0.5bn). The deposits are secured by way of fixed floating charge over €4.6bn (31 December 2012: €1.6bn) of ROI residential mortgages. See note 22 for further details.
- The Group entered into banking transactions in the normal course of business with local Government and Semi-State Institutions such as local authorities and county councils. These transactions principally include the granting of loans, the acceptance of deposits and clearing transactions.
- During the year, following the Transfer Order requested by the Central Bank and issued by the High Court dated 10 November 2013, the Group acquired certain assets, liabilities, books and records and all employees of Newbridge Credit Unions transferred to the Group with immediate effect. As part of this transaction, along with the assets and liabilities of NCU, a cash financial incentive of €23m was paid from the Credit Institutions Resolution Fund, which forms part of the Financial Incentives Agreement ("FIA") signed between the Central Bank and the Group dated the 10 November 2013. It was also agreed in the FIA that the Central Bank will use the Credit Institution Resolution Fund to compensate the Group for 50% of any future impairment losses incurred on NCU's loans and advances to customers. Similarly, it was also agreed that if any provision write-backs or future recoveries of previously written off NCU's loans and advances to customers occurs, the Group will pay a cash amount equivalent to 50% of the provision write-back or the recoveries to the Credit Institutions Resolution Fund. As per the FIA, this arrangement will continue for ten years from the transfer date. Refer to note 41 for further details.

The Government also has a 100% shareholding in Irish Bank Resolution Corporation Limited (in special liquidation), a controlling interest in Allied Irish Bank plc including EBS Limited and also has significant influence over Bank of Ireland. Due to the Group's related party relationship with the Irish Government as described above, balances between these financial institutions and the Group are considered related party transactions in accordance with IAS 24.

The following table summarises the balances between the Group and these financial institutions:

		Loans and receivable to banks	Debt securities held	Derivative assets	Derivative liabilities
			€m	€m	€m
Irish Bank Resolution Corporation (in special liquidation)					
	31 December 2013	-	-	-	-
	31 December 2012	-	149	-	-
EBS Limited					
	31 December 2013	-	98	-	-
	31 December 2012	-	95	-	-
Allied Irish Banks plc					
	31 December 2013	141	74	1	6
	31 December 2012	-	175	7	13
Bank of Ireland					
	31 December 2013	-	163	-	-
	31 December 2012	-	244	1	-

Notes to the Consolidated Financial Statements

39. Related parties (continued)

(D) The Life Group

The Life Group, a former wholly owned subsidiary of the Group, was sold to the Minister for Finance on 29 June 2012, hence was deemed a related party to the Group due to common control. On 18 July 2013, the Minister for Finance subsequently sold the Life Group to a third party. Following the completion of this sale, the related party relationship between the Life Group and Group ceases to exist as the new owner is independent of the Irish Government.

Outstanding balances between the Group and Life Group at 31 December 2012 were as follows:

	31 December 2012
	€m
Deposits included in customer accounts	(581)
Loans included in loans and advances to customers	413
Net amounts due to the Life Group	(168)

(E) Former associate undertaking

Following the sale of the Life Group, Allianz – Irish Life Holdings plc (“Allianz”), a former associated company of the Group, held directly by the Life Group, was recognised as a related party to the Group until 18 July 2013, the date of sale of the Life Group.

The Group has a commission agreement with Allianz and under this agreement, the Group is paid commission for general insurance business written with Allianz through ptsb. Commission earned during the year ended 31 December 2012 amounted to €5.8m. As at 31 December 2012, the net balance due to Allianz was €0.9m.

40. Assets and liabilities classified as held for sale

(a) Loans and advances to customers

At 31 December 2013, the Group had reclassified €180m of loans and advances to customers as held for sale from the Group's UK residential mortgages held in CHL. CHL is a wholly owned subsidiary of the Group and forms part of the Non-Core segment. In accordance with IFRS 5, these loans and advances are not deemed a discontinued operation as they are not considered a major line of business or geographical area. The management has committed to completing the sale within 12 months of the reclassification of these loans and advances to held for sale. These loans continue to be measured using IAS39: Financial Instruments as required by IFRS5: Non-Current Assets Held for Sale.

b) Assets of permanent tsb Finance Limited (“ptsbf”)

Arising from the PCAR / PLAR assessment, the Group was required to dispose of its non-core financial assets. As a result, the assets and liabilities of the Group's non-core consumer finance business carried out through ptsbf, which formed part of the Group's former Banking Ireland segment, was presented as held for sale in the Group's interim financial statements at 30 June 2012. In accordance with IFRS 5, this was not deemed a discontinued operation as it was not considered a major line of business or geographical area.

At 30 June 2012, following the classification of ptsbf as held for sale, an impairment loss of €72m on the remeasurement of the disposal group to the lower of its carrying value and its fair value less costs to sell has been recognised in loans and advances to customers and recorded in the income statement in accordance with IFRS 5. The fair value was determined based on an indicative bid by the preferred bidder.

Following progression of the negotiations with the preferred bidder (post approval of the interim financial statements), it was concluded that only loans and advances of ptsbf would be sold and other assets and liabilities will reside with the Group following the sale. On 24 December 2012, loans and advances with a carrying value of €196m were sold for a net consideration of €129m. In conjunction with the sale, the business platform and the employees of ptsbf were also transferred to an entity set up by ptsbf management.

As a result of the asset sale, the impairment associated with the disposal group at June 2012 of €72m was reversed and subsequently a total loss on sale of the assets of €74m was recognised in the income statement including a provision for indemnities of €2m and transaction and other costs of €5m.

The Group had established a securitisation through ptsbf to sell a pool of finance and lease loans and advances to a special purpose vehicle which issued floating rate notes of €211m to fund the purchase of these assets. These notes are secured by a first fixed charge over the assets in the pool. As part of the sale of finance and lease loans and advances this securitisation was collapsed and notes were repaid.

On 31 December 2011, €56m of consumer finance loans, which formed part of ptsbf, were reclassified to assets classified as held for sale. Due to changes in the portfolio, €53m of these loans were subsequently sold in March 2012 for a consideration of €47m (€5m of this was deferred consideration). The loss on the sale was €6m and was included in the consolidated income statement for 2012.

An overall loss on disposal of €80m on the sale of ptsbf loans and advances was recognised in the consolidated income statement under exceptional items for 2012.

Notes to the Consolidated Financial Statements

41. Business combinations and goodwill

(a) Newbridge Credit Union (NCU)

Following the Transfer Order requested by the Central Bank and issued by the High Court dated 10 November 2013, the Group acquired certain assets, liabilities, books and records and all employees of NCU transferred to the Group with immediate effect.

As part of the transaction, the following assets, which mainly consists of loans and advances to customers and liabilities which mainly consists of deposits from former members of NCU, were transferred to the Group. Additionally, a cash financial incentive of €23m was paid from the Credit Institutions Resolution Fund, which forms part of the Financial Incentives Agreement ("FIA") signed between the Central Bank and the Group dated the 10 November 2013. This was transferred to compensate the Group for the negative reserves of NCU at the date of acquisition.

It was also agreed in the FIA that the Central Bank will use the Credit Institution Resolution Fund to compensate the Group for 50% of any future impairment losses incurred on NCU's loans and advances to customers. Similarly, it was also agreed that if there were any future provision write-backs or recoveries of previously written off NCU's loans and advances to customers, the Group will pay a cash amount equivalent to 50% of the provisions write-back or recoveries to the Credit Institutions Resolution Fund. As per the FIA, this arrangement will continue for ten years from the transfer date.

Identifiable assets acquired and liabilities assumed at the date of acquisition

	€m	€m
<u>Assets</u>		
Cash and cash equivalents		9
Gross loans and advances to customers	112	
Less: provision for impairment	(63)	
Loans and advances to customers (net of impairment provisions)		49
<u>Liabilities</u>		
Members deposits		(79)
Other liabilities		(2)
Total identifiable net liabilities		(23)
Cash financial incentive received		23

The Group deems this transaction to be a common control business combination in accordance with IFRS 3, Business Combinations. The following was taken into consideration in arriving at this conclusion:

- The NCU (assets, liabilities, employees and books and records) meets the definition of a business in accordance with IFRS 3;
- Prior to the transaction, when viewed specifically in the context of IAS 27, Consolidated and Separate Financial Statements, although not involved in the day-to-day operations of the activities of NCU, the Minister for Finance shared the power with the CBI, via the appointment of the Special Manager ("SM"), to govern the operating and financial policies of NCU. The Minister for Finance was exposed to the cost of this outcome, being control of cost associated with the resolution of NCU's financial difficulty to the Credit Institutions Resolution Fund, which the Minister for Finance has control over, through the requirement for his approval for any disbursements;
- The Minister for Finance has control of the Group via his majority shareholding; and
- The Minister for Finance had the power to control NCU, via the appointment of the SM, and has control of the Group via his majority shareholding and this control is not transitory, as required by IAS 27.

The Group has accounted for the above transaction prospectively from the date of obtaining the ownership interest, being the date of the Court Order, applying predecessor accounting up to that date. Assets and liabilities have been recognised initially upon consolidation at their carrying amounts in NCU's financial statements as at the date of transfer. The difference between the identifiable assets and identifiable liabilities of €23m has been debited against the retained earnings. The cash financial incentive of €23m has been credited to retained earnings as capital contribution from the majority shareholder.

Any future compensation for any impairment losses incurred on NCU's loans and advances to customers received from the Credit Institutions Resolution Fund will be offset against the impairment charge for that period in the income statement. Similarly, any payments made to the Credit Institutions Resolution Fund in respect of any provision write-backs or recoveries of previously written off NCU loans and advances to customers will be offset against the provision write-back or recoveries for that period in the income statement.

Costs associated with the acquisition of €0.6m have been recognised as expenses in 2013, within administrative and other expenses, to the income statement.

The NCU made a profit of €0.6m for the period since the acquisition date up to the statement of financial position date.

Notes to the Consolidated Financial Statements

41. Business combinations and goodwill (continued)

(b) Northern Rock Ireland

On 3 January 2012, the Group acquired, pursuant to the Transfer Agreement dated 29 August 2011 signed between Northern Rock plc and ptsb, €474m of Northern Rock Ireland's deposit book for a cash consideration of €28m. This acquisition has supported the Group in broadening its customer base and providing liquidity to the Group.

The consideration was calculated as:

- two per cent of the Signing Date Deposit Amount meaning the total nominal amount of all deposits denominated in Euro (including accrued interest gross of deposit interest retention tax (to the extent applicable)) as at the date of the agreement; and,
- three per cent of the Transfer Time Deposit Amount meaning the total nominal amount of all deposits denominated in Euro (including accrued interest gross of deposit interest retention tax (to the extent applicable)) as at the calculation time being the transfer date.

Acquisition related costs amounting to €0.3m have been excluded from the consideration transferred and have been recognised as an expense in 2012, within administrative expenses in the income statement.

Identifiable assets acquired and liabilities assumed at the date of acquisition

	€m
Assets	
Intangible assets	32
Liabilities	
Deposits (customer accounts)	(474)
Deferred tax liability	(4)
Fair value of total identifiable net liabilities	(446)
Consideration paid as part of acquisition	(28)
Cash received as part of acquisition	474
Net consideration received on acquisition of deposit book of business / subsidiary	446

42. Principal subsidiary undertakings and interest in subsidiaries

Name and registered office	Nature of business	Incorporated in	% of ordinary shares held
Capital Home Loans Limited Admiral House, Harlington Way, Fleet, Hampshire, GU13 8YA	Mortgage lending	UK	100
Permanent Bank International Limited (formerly Irish Nationwide IOM Limited) Hillary House, Prospect Hill, Douglas, Isle of Man, IM1 1EQ	Deposit business	IOM	100
Springboard Mortgages Limited 56-59 St. Stephens Green, Dublin 2	Mortgage lending	Ireland	100

In presenting details of the principal subsidiary undertakings, the exemption permitted by regulation 36(1) of the European Communities Companies (Group: Accounts) Regulations, 1992 has been availed of and the Company will annex a full listing of Group undertakings to its annual return to the Companies Registration Office.

The principal country of operation of each company is the country in which it is incorporated.

The registered office of permanent tsb Group Holdings plc is 56-59 St. Stephens Green, Dublin 2.

Notes to the Consolidated Financial Statements

43. Reporting currency and exchange rates

The consolidated financial statements are presented in millions of Euro.

The following tables shows, for the current year-end and prior year-end dates indicated, the average and closing rates used by the Group:

	31 December 2013	31 December 2012
€ / £ exchange rate		
Closing	0.8337	0.8161
Average	0.8501	0.8118
€ / US\$ exchange rate		
Closing	1.3791	1.3194
Average	1.3310	1.2929

44. Events after the reporting period

No events occurred between the reporting date 31 December 2013 and the date the financial statements were approved for issue by the Board of Directors being 25 March 2014 that may require adjustment to or disclosure in these financial statements.

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Company Financial Statements and Notes to the Company Financial Statements

Index:

Statement of Financial Position	150
Statement of Changes in Equity	151
Statement of Cash flows	152
Notes:	
A. Accounting policies	154
B. Administrative, staff and other expenses	154
C. Cash and cash equivalents	154
D. Debt securities	155
E. Derivative assets / liabilities	157
F. Loans and advances to banks	157
G. Loans and advances to customers	158
H. Provision for impairment	159
I. Property and equipment	162
J. Intangible assets	163
K. Deferred taxation	164
L. Other assets	164
M. Deposits by banks (including central banks)	165
N. Customer accounts	165
O. Debt securities in issue	165
P. Other liabilities	166
Q. Provisions	166
R. Retirement benefit obligations	167
S. Subordinated liabilities	169
T. Shareholders' equity	170
U. Authorised and issued share capital	170
V. Measurement basis and fair value of financial instruments	171
W. Financial risk management	173
X. Current / non-current assets and liabilities	178
Y. Transfer of financial assets	178
Z. Offsetting financial assets and financial liabilities	179
AA. Commitments and contingencies	180
AB. Related parties	181
AC. Principal subsidiaries undertakings and interest in subsidiaries	182

Company Financial Statements

Statement of Financial Position

As at 31 December 2013

	Notes	31 December 2013 €m	Restated* 31 December 2012 €m	Restated* 01 January 2012 €m
Assets				
Cash and balances with central banks	C	85	70	87
Items in course of collection	C	37	76	98
Assets classified as held for sale		-	-	1,303
Debt securities	D	11,069	12,349	11,689
Derivative assets	E	257	429	258
Loans and advances to banks	F	826	967	1,187
Loans and advances to customers	G,H	24,355	26,206	33,448
Prepayments and accrued income		37	43	180
Property and equipment	I	82	86	93
Intangible assets	J	93	120	116
Deferred tax assets	K	446	50	191
Other assets	L	103	126	127
Current tax assets		-	1	-
Investments in subsidiary undertakings	AC	128	128	173
Total assets		37,518	40,651	48,950
Liabilities				
Deposits by banks (including central banks)**	M	10,587	13,723	16,943
Customer accounts	N	19,662	16,760	20,177
Debt securities in issue	O	4,182	6,507	7,404
Derivative liabilities	E	347	415	298
Accruals		30	62	100
Other liabilities	P	64	38	44
Provisions	Q	62	45	14
Current tax liabilities		1	-	1
Retirement benefit obligations	R	-	311	222
Subordinated liabilities	S	359	337	317
Total liabilities		35,294	38,198	45,520
Equity				
Share capital	T	89	89	89
Share premium	T	2,833	2,833	2,833
Other reserves	T	2,448	2,420	2,100
Retained earnings	T	(3,146)	(2,889)	(1,592)
Total equity		2,224	2,453	3,430
Total liabilities and equity		37,518	40,651	48,950

*Refer to note 1.4 of the consolidated financial statements for further details.

**Deposits by banks (including central banks) includes €7bn (31 December 2012: €11bn) of ECB funding.

On behalf of the Board:

Alan Cook
Chairman

Jeremy Masding
Group Chief Executive

Glen Lucken
Group Chief Financial Officer

Ciarán Long
Company Secretary

Company Financial Statements

Statement of Changes in Equity

For the year ended 31 December 2013

	Attributable to owners of the company								
	Share capital	Share premium	Capital contribution reserve	Revaluation reserve	Available for sale reserve	Cash flow hedge reserve	Other capital reserves	Retained earnings	Total
	€m	€m	€m	€m	€m		€m	€m	€m
As at 01 January 2012	89	2,833	2,374	-	(282)	-	8	(1,490)	3,532
Effect of application of IAS19R	-	-	-	-	-	-	-	(102)	(102)
	89	2,833	2,374	-	(282)	-	8	(1,592)	3,430
Loss for the year ended 31 December 2012	-	-	-	-	-	-	-	(1,212)	(1,212)
Other comprehensive income, net of tax	-	-	-	-	320	-	-	(85)	235
Total comprehensive income for the year	-	-	-	-	320	-	-	(1,297)	(977)
Balance as at 31 December 2012	89	2,833	2,374	-	38	-	8	(2,889)	2,453
Loss for the year ended 31 December 2013	-	-	-	-	-	-	-	(223)	(223)
Other comprehensive income, net of tax	-	-	-	-	85	(56)	-	(35)	(6)
Total comprehensive income for the year	89	2,833	2,374	-	123	(56)	8	(3,147)	2,224
Transactions with owners, recorded directly in equity:									
Contributions by and distributions to owners									
Issue costs associated with share issuance to the Minister for Finance	-	-	-	-	-	-	-	-	-
Reversal of share based payment reserve on forfeits/lapse options	-	-	(1)	-	-	-	-	1	-
Total contributions by and distributions to owners	-	-	(1)	-	-	-	-	1	-
Balance as at 31 December 2013	89	2,833	2,373	-	123	(56)	8	(3,146)	2,224

Company Financial Statements

Statement of Cash Flows

For the year ended 31 December 2013

	Notes	31 December 2013	Restated* 31 December 2012
		€m	€m
Cash flows from operating activities			
Loss before taxation for the year		(625)	(1,126)
Adjusted for:			
Depreciation, amortisation and impairment of property, equipment and intangibles		48	55
Impairment losses on:			
- Loans and advances to customers	H(a)	942	1,099
- Repossessed assets	H(c)	2	8
- Assets classified as held for sale		-	1
- Investment in subsidiaries		-	1
Gain on revaluation of property		(2)	-
Realised and unrealised losses/(profits) on financial assets		1	6
Gain on buying back in debt securities in issue	O	(16)	(27)
Amortisation of bond discounts		(15)	(45)
Retirement benefit charge		12	23
Other mortgage related adjustments		29	28
Interest on subordinated liabilities		63	59
Impact of wind up of defined benefit scheme	R	(331)	-
Losses/(profits) on fair value hedges on financial instruments		-	2
Gain on liability management exercise	O,S	-	(49)
Other provisions		24	114
Other non-cash items		20	(10)
		152	139
(Increase)/decrease in operating assets			
Loans and advances to banks		(2)	2
Loans and advances to customers		854	6,159
Debt securities		1,098	487
Derivative assets		172	(8)
Other assets and prepayments		138	(4)
Increase/(decrease) in operating liabilities			
Deposits by banks (including central banks)		(3,187)	(3,281)
Customer accounts		2,915	(3,899)
Debt securities in issue		120	(283)
Derivative liabilities		(149)	(223)
Other liabilities and accruals		(75)	10
Provisions used		(7)	(73)
Retirement benefit obligations		(7)	(18)
		1,870	(1,131)
Net cash outflow from operating activities before tax		2,022	(992)
Tax paid		5	-
Net cash outflow from operating activities		2,027	(992)

*Following the update of IAS19R the prior year figures have been restated. See note 1 for further details.

Company Financial Statements

Statement of Cash Flows (Continued)

For the year ended 31 December 2013

	Notes	31 December 2013 €m	31 December 2012 €m
Cash flows from investing activities			
Purchase of property and equipment	I	(8)	(13)
Proceeds from sale of property and equipment		3	-
Purchase of intangible assets	J	(9)	(8)
Investment in restricted cash		63	34
Cash acquired as part of NCU acquisition		9	-
Net proceeds from sale of discontinued operations (the Life Group)		-	1,300
Proceeds from disposal of consumer finance portfolio		-	45
Net consideration received/(paid) on acquisition of deposit book of business/subsidiary		-	446
Net cash flows from investing activities		58	1,804
Cash flows from financing activities			
Interest paid on subordinated liabilities		(40)	(40)
Issuance of debt securities in issue		500	-
Capital contribution received in respect of NCU acquisition		23	-
Redemption of debt securities in issue	O	(2,671)	(994)
Net cash flows from financing activities		(2,188)	(1,034)
(Decrease) in cash and cash equivalents		(103)	(222)
Analysis of changes in cash and cash equivalents			
Cash and cash equivalents as at 1 January		767	990
(Decrease) in cash and cash equivalents		(103)	(222)
Effect of exchange translation adjustments		-	(1)
Cash and cash equivalents as at 31 December	C	664	767

Notes to the Company Financial Statements

A. Accounting policies

The accounting policies adopted by ptsb plc are the same as those of the Group as set out note 1 where applicable. These financial statements reflect the financial position of the Company only and do not consolidate the results of any subsidiaries.

The individual financial statements of the parent company have also been prepared in accordance with IFRSs as adopted by the EU and comply with those parts of the Companies Acts 1963 to 2013. In accordance with section 148(8) of the Companies Act, 1963, the Company is availing of the exemption of presenting its individual income statement to the Annual General Meeting and from filing it with the Registrar of Companies. The Company's loss for the financial year determined in accordance with IFRS was €223m (2012: €1,215m).

B. Administrative, staff and other expenses

Auditors remuneration (including VAT)

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
- Audit of the individual and the Company financial statements	0.4	0.9
- Other assurance services	-	-
- Tax advisory services	-	0.1
- Other non-audit services	0.3	5.5

PricewaterhouseCoopers (PwC) were appointed as the Group's independent auditor at the annual general meeting on the 22 May 2013. €0.1m of the non-audit services fees were payable to PwC, while the remaining €0.2m was paid to KPMG.

Staff costs

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Wages and salaries including commission paid to sales staff	95	97
Redundancy costs	7	15
Social insurance	11	8
Pension costs		
- Payments to defined contribution pension schemes	4	1
- Charge in respect of defined benefit pension schemes (note R)	12	26
- Curtailment gain associated with redundancy costs (notes R)	-	(3)
Total staff costs	129	144
<i>Of which, recognised in:</i>		
Restructuring costs	7	12
Administrative and other expenses	122	132
Total staff costs	129	144

In addition to the above costs in 2013, following the Group's decision to discontinue contributions to the defined benefit schemes, the trustees of the scheme resolved to wind up these schemes which resulted in the reversal of the previously recognised defined benefit obligation of €351m in the Company. This reversal is a pension settlement gain under exceptional items, further analysis is provided in note R.

C. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise of the following:

	31 December 2013	31 December 2012
	€m	€m
Cash and balances with central banks	85	70
Items in the course of collection	37	76
Loans and receivables to banks repayable on demand (note F)	796	938
	918	1,084
Restricted cash included in loans and receivables to banks repayable on demand	(254)	(317)
Cash and cash equivalents per statement of cash flows	664	767

At 31 December 2013, restricted cash of €254m (31 December 2012: €317m) relates to cash held by the Company's securitisation entities.

Notes to the Company Financial Statements

D. Debt securities

	31 December 2013				31 December 2012			
	HTM securities	AFS securities	Loans and receivables	Total	HTM securities	AFS securities	Loans and receivables	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Government bonds	743	2,343	-	3,086	698	2,433	-	3,131
NAMA bonds	-	-	2,125	2,125	-	-	2,367	2,367
Bonds issued by credit institutions	101	233	73	407	178	490	404	1,072
Bonds issued by subsidiary companies	-	-	5,253	5,253	-	-	5,522	5,522
Other bonds	-	-	199	199	-	-	258	258
Gross debt securities	844	2,576	7,650	11,070	876	2,923	8,551	12,350
Less: collective provisions (note H (b))				(1)				(1)
Net debt securities	844	2,576	7,650	11,069	876	2,923	8,551	12,349
Listed	844	2,576	5,525	8,945	876	2,923	6,184	9,983
Unlisted	-	-	2,125	2,125	-	-	2,367	2,367
	844	2,576	7,650	11,070	876	2,923	8,551	12,350

The Company has carried out an impairment assessment on its debt securities held. The impairment provision is analysed in note H.

The movement in HTM, AFS and loans and receivables securities may be classified as follows:

	2013			2012		
	Held to maturity	Available for sale	Loans and receivables	Held to maturity	Available for sale	Loans and receivables
	€m	€m	€m	€m	€m	€m
As at 1 January	876	2,923	8,551	845	2,220	8,625
Exchange differences on monetary assets	-	(4)	(104)	-	(2)	118
Change in fair value	-	48	-	-	364	3
Additions	86	90	9	14	1,359	601
Maturities / disposals	(153)	(490)	(966)	(14)	(1,070)	(814)
Interest net of cash receipts	35	9	149	31	52	14
Amortisation to statement of comprehensive income	-	-	11	-	-	4
At 31 December	844	2,576	7,650	876	2,923	8,551

Notes to the Company Financial Statements

D. Debt securities (continued)

AFS reclassified to loans and receivables

During the year ended 31 December 2008, the Company availed of the amendment to IAS 39 and IFRS 7 issued in October 2008, effective 1 July 2008, which permitted financial assets classified as AFS that would have met the definition of loans and receivables, had they not been designated as AFS, to be reclassified out of the AFS category to the loans and receivables category as the Company has the intention and ability to hold the financial assets for the foreseeable future or until maturity.

The table below sets out the financial assets reclassified and their carrying and fair values:

	Carrying value		Fair value	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
	€m	€m	€m	€m
AFS debt securities reclassified to loans and receivables	272	662	244	598

The movement in the carrying value of debt securities classified as loans and receivables is included in subsequent tables within this note for both the current and prior periods.

The table below sets out the amounts actually recognised in the income statement and other comprehensive income in respect of assets reclassified out of AFS debt securities into loans and receivables.

	Income statement		Other comprehensive income	
	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m	€m	€m
Interest income	11	24	-	-
Amortisation	(11)	(4)	11	4
Total	-	20	11	4

The table below sets out the amounts that would have been recognised in the periods following reclassification if the reclassification had not been made:

	Income statement		Other comprehensive income	
	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m	€m	€m
Interest income	11	24	-	-
Fair value movement	-	-	36	91
Cumulative impact	186	175	(28)	(64)

At the date of reclassification, 31 December 2008, the effective interest rates on reclassified AFS investment securities ranged from 1.5% to 5% with expected recoverable cash flows of €2,098m. The expected remaining cash flows from these securities amounted to €340m at 31 December 2013.

The Company has not reclassified any debt securities from AFS to loans and receivables during the current or prior year.

Notes to the Company Financial Statements

E. Derivative assets / liabilities

All of the Group's derivative exposures are held by the Company. Details of derivative transactions entered into and their purpose are described in note 14 to the consolidated financial statements. The Company may also enter into derivative transactions with subsidiaries. The notional and fair value of derivative instruments held by the Company are as follows:

	31 December 2013			31 December 2012		
	Contract/ notional amount	Fair value asset	Fair value liability	Contract / notional amount	Fair value asset	Fair value liability
	€m	€m	€m	€m	€m	€m
Designated as fair value hedges						
Currency swaps	-	-	-	1,348	1	12
Interest rate swaps	5,301	176	162	8,046	277	255
	5,301	176	162	9,394	278	267
Designated as cash flow hedges						
Cross-currency interest rate swaps	2,999	-	99	-	-	-
	2,999	-	99	-	-	-
Held for trading						
Forwards	1,530	1	11	2,650	37	8
Interest rate swaps	328	14	23	594	19	20
	1,858	15	34	3,244	56	28
Embedded derivatives	433	-	52	550	-	120
Held with subsidiaries	1,064	66	-	1,209	95	-
Derivative as per the statement of financial position	11,655	257	347	14,397	429	415

F. Loans and advances to banks

	31 December 2013	31 December 2012
	€m	€m
Held at amortised cost		
Placed with central banks	256	232
Placed with other banks	570	735
Total loans and advances to banks	826	967

Placements with other banks includes restricted cash of €254m (31 December 2012: €317m) of cash held by the Group securitisation entities and cash collateral of €117m (31 December 2012: €202m) placed with counterparties in relation to net derivative positions.

Loans and advances to banks amounting to €796m as at 31 December 2013 (31 December 2012: €938m) have been treated as cash and cash equivalents for the purpose of the statement of cash flows as they have a maturity of less than three months from inception.

Notes to the Company Financial Statements

G. Loans and advances to customers

Loans and advances to customers by category are set out below:

	31 December 2013	31 December 2012
	€m	€m
ROI residential mortgages		
- Held through special purpose vehicles	12,390	13,800
- Held directly	11,197	10,534
	23,587	24,334
Commercial mortgage loans	2,106	2,248
Consumer finance		
- Term loans / other	356	378
Loans to subsidiaries	2,526	2,553
Gross loans and advances to customers	28,575	29,513
Less: provision for impairment (note H)	(4,220)	(3,307)
Net loans and advances to customers	24,355	26,206

Net loans and advances to customers is analysed as follows:

	31 December 2013	Restated* 31 December 2012
	€m	€m
Core	20,722	22,347
Non-core	3,633	3,859
	24,355	26,206

*Refer to note 1 of the consolidated Financial Statements for further details.

Net loans and advances to customers can be analysed into fixed and variable-rate loans as follows:

	31 December 2013	31 December 2012
	€m	€m
ROI		
Tracker	13,560	14,501
Variable rate	8,048	8,616
Fixed rate	634	917
	22,242	24,034
Loans to subsidiaries		
Interest bearing	1,855	1,864
Non-interest bearing	258	308
	2,113	2,172
	24,355	26,206

The Company has established a number of securitisations which involve the selling of pools of residential mortgages to the special purpose entities which issue mortgage-backed floating-rate notes ("notes") to fund the purchase of these mortgage pools. The notes are secured by a first fixed charge over the residential mortgages in each pool and may be sold to investors or held by the Company and used as collateral for borrowings.

Notes to the Company Financial Statements

H. Provision for impairment

(a) Loans and advances to customers

The following table reflects impaired loans for which provisions are held and an analysis of specific and collective & IBNR impairment provision balances across the loans and advances to customers portfolio.

A loan is considered impaired when there is objective evidence of impairment where the loan is greater than 90 days in arrears and the present value of future cash flows is less than the carrying value of the loan (for residential mortgages this is typically where the indexed LTV is >80%) requiring a specific provision to be recognised in the income statement.

The impaired loan balances as at 31 December 2013 were €9,720m (31 December 2012: €8,037m). As at 31 December 2013, there were €480m (31 December 2012: €659m) of loans which are greater than 90 days in arrears that are considered past due but not impaired. Refer to note W for further details.

31 December 2013	Loans and advances to customers	Impaired loans	Impaired as % of loans	Impairment Provisions			Provision as % of impaired loans	Provision as % of loans
				Specific	IBNR	Total		
	€m	€m	%	€m	€m	€m	%	%
Residential:								
ROI:								
- Owner occupier	17,015	3,750	22%	1,316	197	1,513	40%	9%
- Buy-to-let	6,424	2,196	34%	1,136	149	1,285	59%	20%
Commercial	2,106	1,448	69%	776	135	911	63%	43%
Consumer finance:								
- Term loans / other	356	93	26%	-	98	98	105%	28%
Loans to subsidiaries	2,526	2,233	88%	413	-	413	18%	16%
Total gross lending	28,427	9,720	34%	3,641	579	4,220	43%	15%
Impairment provision	(4,220)							
Deferred fees, discounts & fair value adjustments	148							
As at 31 December	24,355	9,720		3,641	579	4,220		

31 December 2012	Loans and advances to customers	Impaired loans	Impaired % of loans	Impairment Provisions			Provision as % of impaired loans	Provision as % of loans
				Specific	IBNR	Total		
	€m	€m	%	€m	€m	€m	%	%
Residential:								
ROI:								
- Owner occupier	17,542	2,600	15%	906	144	1,050	40%	6%
- Buy-to-let	6,580	1,934	29%	905	86	991	51%	15%
Commercial	2,248	1,118	50%	735	-	735	66%	33%
Consumer finance:								
- Term loans / other	378	144	38%	-	150	150	104%	40%
Loans to subsidiaries	2,553	2,241	88%	381	-	381	17%	15%
Total gross lending	29,301	8,037	27%	2,927	380	3,307	41%	11%
Impairment provision	(3,307)							
Deferred fees, discounts & fair value adjustments	212							
As at 31 December	26,206	8,037		2,927	380	3,307		

Notes to the Company Financial Statements

H. Provision for impairment (continued)

Impairment charge on loans and advances to customers

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Republic of Ireland ("ROI")		
Owner occupier	437	274
Buy-to-let	294	216
Commercial	160	320
Consumer finance	19	17
Loans to subsidiaries	32	272
Total impairment charge to the income statement	942	1,099

Impairment charge by nature of impairment provision

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Specific	798	1,090
Collective & IBNR	144	9
Total impairment charge to the income statement	942	1,099

Impairment charge by segment

	Year ended 31 December 2013	Year ended 31 December 2012
	€m	€m
Core	742	511
Non-core	200	588
Total impairment charge to the income statement	942	1,099

A reconciliation of impairment provisions for loans and advances is as follows:

2013	ROI Residential mortgages	ROI Commercial	Consumer finance	Loans to subsidiaries	Total
	€m	€m	€m	€m	€m
Total					
As at 1 January	2,041	735	150	381	3,307
Charge for the year (as per Income Statement)	731	160	19	32	942
Increase due to interest booked but not recognised	68	40	10	-	118
Unwinding of discount	(31)	(22)	-	-	(53)
Write-offs	(11)	(2)	(81)	-	(94)
As at 31 December	2,798	911	98	413	4,220

2013	ROI Residential mortgages	ROI Commercial	Consumer finance	Loans to subsidiaries	Total
	€m	€m	€m	€m	€m
Core					
As at 1 January	1,930	-	150	127	2,207
Charge for the year (as per Income Statement)	731	-	19	(8)	742
Increase due to interest booked but not recognised	68	-	10	-	78
Unwinding of discount	(31)	-	-	-	(31)
Write-offs	(11)	-	(81)	-	(92)
As at 31 December	2,687	-	98	119	2,904

2013	ROI Residential mortgages	ROI Commercial	Consumer finance	Loans to subsidiaries	Total
	€m	€m	€m	€m	€m
Non-core					
As at 1 January	111	735	-	254	1,100
Charge for the year (as per Income Statement)	-	160	-	40	200
Increase due to interest booked but not recognised	-	40	-	-	40
Unwinding of discount	-	(22)	-	-	(22)
Write-offs	-	(2)	-	-	(2)
As at 31 December	111	911	-	294	1,316

Notes to the Company Financial Statements

H. Provision for impairment (continued)

2012	ROI Residential mortgages	ROI Commercial	Consumer finance	Loans to subsidiaries	Total
Total	€m	€m	€m	€m	€m
As at 1 January	1,503	406	123	109	2,141
Charge for the year (as per Income Statement)	490	320	17	272	1,099
Increase due to interest booked but not recognised	74	25	14	-	113
Unwinding of discount	(21)	(14)	-	-	(35)
Write-offs	(5)	(2)	(4)	-	(11)
As at 31 December	2,041	735	150	381	3,307
2012 (Restated)*	ROI Residential mortgages	ROI Commercial	Consumer finance	Loans to subsidiaries	Total
Core	€m	€m	€m	€m	€m
As at 1 January	1,407	-	123	109	1,639
Charge for the year (as per Income Statement)	476	-	17	18	511
Increase due to interest booked but not recognised	72	-	14	-	86
Unwinding of discount	(20)	-	-	-	(20)
Write-offs	(5)	-	(4)	-	(9)
As at 31 December	1,930	-	150	127	2,207
2012 (Restated)*	ROI Residential mortgages	ROI Commercial	Consumer finance	Loans to subsidiaries	Total
Non-core	€m	€m	€m	€m	€m
As at 1 January	96	406	-	-	502
Charge for the year (as per Income Statement)	14	320	-	254	588
Increase due to interest booked but not recognised	2	25	-	-	27
Unwinding of discount	(1)	(14)	-	-	(15)
Write-offs	-	(2)	-	-	(2)
As at 31 December	111	735	-	254	1,100

*Refer to note 1.4 of the consolidated financial statements for further details.

(b) Debt securities

Impairment provision balance on debt securities at 1 January 2013 and 31 December 2013 amounted to €1m. There were no further provisions made in the year ended 31 December 2013.

(c) Repossessed Assets

In the year ended 31 December 2013, the Company impaired its repossessed assets by €2m (31 December 2012: €8m). Repossessed assets are included in other assets (refer to notes L and W for further analysis).

Notes to the Company Financial Statements

I. Property and equipment

2013

	Land and buildings	Office and computer equipment	Motor vehicles	Total
	€m	€m	€m	€m
Cost or valuation				
At 1 January	95	32	5	132
Additions	-	8	-	8
Revaluations	2	-	-	2
Disposals	(3)	-	-	(3)
As at 31 December	94	40	5	139
Depreciation / impairment				
At 1 January	28	16	2	46
Provided in the year	6	5	1	12
Disposals	(1)	-	-	(1)
As at 31 December	33	21	3	57
Net book value as at 31 December	61	19	2	82

2012

	Land and buildings	Office and computer equipment	Motor vehicles	Total
	€m	€m	€m	€m
Cost or valuation				
At 1 January	92	98	5	195
Additions	3	8	2	13
Disposals	-	-	(2)	(2)
Elimination of assets with nil carrying value	-	(74)	-	(74)
At 31 December	95	32	5	132
Depreciation / impairment				
At 1 January	17	83	2	102
Provided in the year	5	7	1	13
Disposals	-	-	(1)	(1)
Impairment	6	-	-	6
Elimination of assets with nil carrying value	-	(74)	-	(74)
At 31 December	28	16	2	46
Net book value at 31 December	67	16	3	86

The net book value of land and buildings include the following:

	31 December 2013	31 December 2012
	€m	€m
Land	14	12
Buildings - freehold	40	43
Buildings - leasehold	7	12
	61	67

The historic cost of land and buildings in respect of the Company is €113m (31 December 2012: €116m).

Fair value measurement of Company's land and buildings

The Company's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the freehold land and buildings as at 31 December 2013 and 31 December 2012 were performed by two independent professional valuers having appropriate qualifications and recent experience in the fair value measurement of properties in locations and category being valued.

The fair value of the freehold land and buildings were determined based on market comparable approach that reflects recent transaction prices for similar properties using capitalisation yields ranging from 8% to 10%. There has been no change to the valuation techniques during the year.

Details of the freehold land and buildings and information about the fair value hierarchy as defined in Group's accounting policy as at 31 December 2013 are as follows:

	Level 1	Level 2	Level 3	Total Fair value
	€m	€m	€m	€m
land	-	14	-	14
Buildings - freehold	-	40	-	40
	-	54	-	54

Notes to the Company Financial Statements

J. Intangible assets

2013	Software	Core deposits*	Total
	€m	€m	€m
Cost			
Balance at 1 January	25	156	181
Additions	9	-	9
As at 31 December	34	156	190
Amortisation			
As at 1 January	9	52	61
Provided in the year	5	31	36
Elimination of assets with nil carrying value	-	-	-
As at 31 December	14	83	97
Net book value as at 31 December	20	73	93
2012	Software	Core deposits	Total
	€m	€m	€m
Cost			
At 1 January	76	124	200
Acquisitions	-	32	32
Additions	8	-	8
Elimination of assets with nil carrying value	(59)	-	(59)
As at 31 December	25	156	181
Amortisation			
At 1 January	63	21	84
Provided in the year	5	31	36
Elimination of assets with nil carrying value	(59)	-	(59)
As at 31 December	9	52	61
Net book value as at 31 December	16	104	120

*Core deposit intangibles are amortised over five years from the date of recognition. Management have undertaken an impairment review at year end 2013 of the core deposit intangible assets which confirmed that there is no indication of impairment and that the five year amortisation period is appropriate.

Notes to the Company Financial Statements

K. Deferred taxation

	31 December 2013	31 December 2012
	€m	€m
Deferred tax liabilities	(27)	(19)
Deferred tax assets	473	69
Net deferred tax assets	446	50

Net deferred tax assets are attributable to the following:

2013

	At 1 Jan	Recognised in income statement	Recognised in equity	Other	At 31 December
	€m	€m	€m	€m	€m
Property and equipment	2	(1)	-	-	1
Unrealised gains on assets / (losses)	(6)	-	(5)	-	(11)
Retirement benefits	16	(16)	-	-	-
Core deposit intangibles	(13)	4	-	-	(9)
Losses carried forward	50	414	-	-	464
Other temporary differences	1	-	-	-	1
	50	401	(5)	-	446

2012

	At 1 Jan	Recognised in income statement	Recognised in equity	Other	At 31 December
	€m	€m	€m	€m	€m
Property and equipment	-	2	-	-	2
Unrealised gains on assets / (losses)	40	-	(46)	-	(6)
Retirement benefits	14	2	-	-	16
Core deposit intangibles	(13)	4	-	(4)	(13)
Losses carried forward	152	(102)	-	-	50
Other temporary differences	(2)	3	-	-	1
	191	(91)	(46)	(4)	50

As noted in prior period reports, recognition of Deferred Tax Assets on carried forward trading losses necessitates consideration of the future legal entity and trading structure of the Group, as well as the profile of future trading profits. This is, in turn, influenced by the Group's strategy and the view of Management and Directors on the likelihood of strategic outcomes. The Group's strategic outlook has continued to improve, both from the perspective of the macroeconomic environment and the Group's performance. Arising from this progress, it has become achievable for the Core Bank, ptsb SBU and AMU, to be maintained within a single viable entity. The Directors judge that this is both a probable outcome, and a desirable outcome from the perspective of key stakeholders. Accordingly, in line with the requirements of IAS 12 "Deferred Tax Assets", Management and Directors have formed the view that it became probable during the second half of 2013 that the carried forward tax losses within the Core Bank, which are predominantly associated with assets in the AMU, could be utilised against future profits, which will predominantly be generated by ptsb SBU. This has necessitated the recognition of €414m of additional Deferred Tax Assets during the period.

It should also be noted that under current Irish and UK tax legislation there is no time restriction on the utilisation of trading losses. Therefore, these losses are available for utilisation in a future period. Also, the Directors are satisfied that future taxable profits should be available to recover the remaining deferred tax assets.

The total unrecognised deferred tax assets on carried forward tax losses at 31 December 2013 amounted to €Nil (31 December 2012: €308m).

L. Other assets

	31 December 2013	31 December 2012
	€m	€m
Reposessed assets	35	36
Other debtors	62	83
Amount due from group undertakings	6	7
	103	126

During the year a further €19m of assets were reposessed, while €18m of assets were sold. Further, an impairment charge in respect of these assets of €2m was recorded in the income statement. These reposessed assets are held at fair value based on independent valuations received or indexed as appropriate. These valuations are considered to be within level 2 in the IFRS 13 hierarchy.

Management believes that selling these properties within 12 months is improbable due to the challenging property market, particularly in Ireland as suggested by historical experience. Therefore, in light of the requirements of IFRS 5, the Company concluded that these reposessed assets do not meet the criteria to be classified as held for sale.

Notes to the Company Financial Statements

M. Deposits by banks (including central banks)

	31 December 2013	31 December 2012
	€m	€m
Placed by the ECB	6,940	10,715
Placed by other banks and institutions on repurchase agreements	3,647	3,008
Net deposits by banks	10,587	13,723
Balances placed by the ECB		
Maximum	11,900	12,500
Average	8,361	11,186

Details of ptsb's sale and repurchase activity are set out in note 22 to the consolidated financial statements.

N. Customer accounts

	31 December 2013	31 December 2012
	€m	€m
Term deposits	12,846	10,401
Demand deposits	2,413	1,962
Current accounts	2,174	2,053
Notice and other accounts	1,699	1,898
Due to subsidiaries undertakings	530	446
	19,662	16,760

€2.7bn of deposits are placed by a Government institution (31 December 2012: €601m), of which €2.2bn (31 December 2012: €nil) forms part of a repurchase agreement and is included under term deposits. The remaining €0.5bn is included within term deposits.

During 2012, the Group acquired €474m of customer accounts from Northern Rock Ireland.

O. Debt securities in issue

	31 December 2013	31 December 2012
	€m	€m
At amortised cost		
Bonds and medium-term notes	2,558	5,274
Debt securities in issue to subsidiaries	1,624	1,233
	4,182	6,507
Maturity analysis		
Repayable in less than 1 year	185	2,728
Repayable in greater than 1 year but less than 2 years	2,148	184
Repayable in greater than 2 year but less than 5 years	72	2,254
Repayable in greater than 5 years	1,777	1,341
	4,182	6,507

Notes to the Company Financial Statements

P. Other liabilities

	31 December 2013	31 December 2012
	€m	€m
Amounts falling due within one year		
PAYE and social insurance	3	3
Other taxation including DIRT	19	17
Other creditors	42	15
Amounts due to subsidiary undertakings	-	3
	64	38

Q. Provisions

	2013			2012		
	Restructuring costs	Other	Total	Restructuring costs	Other	Total
	€m	€m	€m	€m	€m	€m
As at 1 January	30	15	45	14	-	14
Provisions made during the year	21	40	61	89	15	104
Write-back of provisions during the year	(1)	-	(1)	-	-	-
Provisions used during the year	(37)	(6)	(43)	(73)	-	(73)
As at 31 December	13	49	62	30	15	45

Restructuring costs

Provision for restructuring costs include fees payable to contractors in relation to various initiatives to restructure the Group of €5m (31 December 2012: €17m) and staff redundancy costs of €4m (31 December 2012: €6m) incurred under a voluntary severance scheme. These provisions are expected to be utilised within the next 12 months.

Also included in the provision for restructuring costs is an onerous leases provision of €4m (31 December 2012: €7m). As a result of the restructuring of its operations, the Group closed a number of branches during 2012 in which the Group remains a lessee in a number of non-cancellable leases over properties that it no longer occupies. The present value of future lease payments on these properties has been provided for in 2012. This provision relates to leases on properties ranging between one and twenty years. During 2013, agreements were reached with certain lessors which partially extinguished the liability of the Group. It is expected that €0.3m of this provision will be utilised in the next 12 months.

Other

As at 31 December 2013, included in other provisions is €8m for remediation costs in relation to mis-selling of Payment Protection Insurance ("PPI") policies by the Group between 2007 and 2012. While €3m relates to an indemnity provided by the Group on the sale of loans and advances of permanent tsb finance (ptsbf), the remaining amount relates to provisions for legal disputes with certain customers and related matters. The information usually required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice the outcome of the litigation. The provision is expected to be utilised within the next 12 months.

Notes to the Company Financial Statements

R. Retirement benefit obligations

Defined benefit schemes

The Company previously operated three Irish defined benefit schemes and a small UK defined benefit scheme for employees. All of the defined benefit schemes are funded by the payment of contributions into separately administered trust funds. The benefits paid from the defined benefit schemes are based on percentages of the employees' final pensionable pay for each year of credited service.

The Company's retirement benefit obligation at 31 December 2012 was €311m following restatement due to the application of IAS 19R.

One of the critical items that the Company has had to deal with during 2013 was the impending material reduction in capital arising from pension scheme deficits. These pension schemes had significant on-going costs and substantial risk of this deficit level growing further.

In the first half of 2013, the Company concluded that it would not be possible to continue to contribute to the defined benefit pension schemes and that future pension benefits would be accrued to staff through a defined contribution scheme at a lower level of employer contribution. This approach would provide greater certainty of scheme costs while also avoiding the risks associated with defined benefit schemes, including the impending adverse impact on the Company's regulatory capital position.

This decision has inevitably led to the wind up of all pensions schemes and necessitates that the previously recognised liability for these schemes is reversed. According to IAS 19R this reversal is shown as an income statement item. In the Income Statement this is a non-cash item and reflects a reversal of a liability which is no longer required.

As required under IAS 19R, all the pension schemes were valued by the actuaries at the wind up date. All three of the Irish schemes were wound up in the first half of the year, while the UK scheme was wound up in the second half of the year. Based on the assumptions, as outlined below, this resulted in an increase of €40m to the retirement benefit liability to €351m. This liability was then reversed through the income statement resulting in an exceptional non-cash settlement gain of €331m for the year ended 31 December 2013.

The key financial assumptions used are:

	UK Scheme Settlement date	Irish schemes Settlement date	31 December 2012
	%	%	%
Actuarial assumptions			
Discount rate	4.60	3.75	4.00
Pension increases	3.30	2.00	2.00
Rate of price inflation	3.10	2.00	2.00

For the prior year, the main post retirement mortality assumptions used for the pension schemes were 108% PNM(F)L00-1 year with CSO improvements from 2006 for active / deferred members and pensioners (2011: 103% PNM(F)L00-1 year with CSO improvements from 2006 for active / deferred members and pensioners). On this basis the life expectancies underlying the value of the schemes' liabilities at 31 December 2012 were as follows:

		2013 Years	2012 Years
Retiring today age 65	Males	-	23.7
	Females	-	25.1
Retiring in 15 years aged 65	Males	-	25.7
	Females	-	26.9

Amounts recognised in the income statement in respect of these defined benefit schemes are:

	31 December 2013 €m	Restated* 31 December 2012 €m
Current service cost	(7)	(16)
Net interest cost	(5)	(10)
Curtailements	-	3
Amount recognised in the administration expenses, staff and other expenses	(12)	(23)
Impact of the wind up of the defined benefit pension schemes	351	-
Provision for wind up related expenses	(20)	-
Amount recognised in exceptional items	331	-
Amount recognised in the OCI	(35)	(23)

*Following the update of IAS19R the prior year figures have been restated.

Notes to the Company Financial Statements

R. Retirement benefit obligations (continued)

The retirement benefit assets and liabilities recognised on the statement of financial position are as follows :

	31 December 2013	Restated* 31 December 2012
	€m	€m
Benefit obligation	-	(851)
Fair value of plan assets	-	540
Net obligation	-	(311)
Net recognised retirement benefit obligation	-	(311)

Net post retirement benefit obligation:	2013	Restated* 2012
	€m	€m
Net post retirement benefit assets	-	-
Net post retirement benefit liabilities	-	(311)
Net post retirement benefit obligation	-	(311)

The movements in the present value of defined benefit obligations in the year are:	2013	Restated* 2012
	€m	€m
Benefit obligation at 1 January	(851)	(693)
Current service cost	(7)	(16)
Interest cost	(13)	(34)
Actuarial gain / (loss) - experience adjustments	3	7
- assumption changes	(52)	(127)
Settlement / Curtailments	351	3
Contributions by plan participants	(1)	(3)
Benefits paid	8	12
Impact of settlement of the defined benefit pension schemes	562	-
Benefit obligation at 31 December	-	(851)

The movements in the fair value of defined benefit assets in the year are:	2013	Restated* 2012
	€m	€m
Fair value of plan assets at 1 January	540	471
Interest income	8	24
Employer contribution	7	19
Contributions by plan participants	1	3
Actuarial gain / (loss)	14	35
Benefits paid	(8)	(12)
Impact of settlement of the defined benefit pension schemes	(562)	-
Fair value of plan assets at 31 December	-	540

The experience adjustments arising on plan liabilities and plan assets are as follows:

Year ended 31 December	2013**	2012	2011	Group 2010	2009
	€m	€m	€m	€m	€m
Actuarial (gains) / losses					
- arising on benefit obligation (€m)	3	(7)	(23)	(26)	(97)
- arising on benefit obligation (% plan liabilities)	(1)	(1)	(2)	(2)	(8)
Actuarial gains / (losses)					
- arising on plan assets (€m)	14	35	(41)	8	68
- arising on plan assets (% of plan assets)	2	6	(3)	1	6

**For 2013 the experience adjustments relate to the movements to the settlement date.

The movements in the present value of defined benefit obligations in the year are:

	2013	Restated* 2012
	€m	€m
Net post retirement benefit obligations as at 1 January	(311)	(222)
Expense recognised in income statement	(12)	(23)
Contributions paid	7	-
Amount recognised in OCI	(35)	19
Settlement	351	(85)
Net post retirement benefit obligations at 31 December	-	(311)

*Following the update of IAS19R the prior year figures have been restated.

Notes to the Company Financial Statements

R. Retirement benefit obligations (continued)

The following table sets out, on a combined basis for all schemes, the fair value of the assets held by the schemes together with the long-term rate of return expected for each class of asset for the Group for 31 December 2012.

	2012 Long-term rate of return expected	31 December 2012 Fair value	Plan assets
	%	€m	%
Equities	6.40	259	48
Bonds	3.10	220	41
Property	5.40	29	5
Other	0.40	32	6
Fair value of plan assets	5.00	540	100

At 31 December 2012, the Group, with input from its actuarial consultants, refined its estimate of the discount rate used for the purposes of the computation of the defined benefit liabilities. The refinement included a significant extension of the bond data included in the population from which the discount rate is derived as well as a refinement of the approach used to extrapolate the available bond data out to the duration of the pension scheme obligations. As a result of the refined methodology adopted, the discount rate used to calculate the scheme obligations was 4.00%.

Discontinued operations

The Life Group, which was sold to the Minister for Finance on 29 June 2012, operated two Irish defined benefit pension schemes for its employees. €8m was recognised as the normal pension charge in the results from discontinued operations in respect of these schemes for the six months ended on 29 June 2012 (31 December 2011: €8m) under profit from the Life Group as disclosed in note 4. Furthermore, a settlement gain of €46m was also recognised in the income statement forming part of the results of the discontinued operations. This settlement gain comprised a remeasurement of the defined benefit obligation under the current assumptions reflecting no future salary and pension increases giving rise to a gain of €304m together with the recognition of all previously unrecognised actuarial losses of €258m.

After the sale of the Life Group no residual liabilities relating to the two Life Group defined benefit schemes reside with the Company.

S. Subordinated liabilities

	2013	2012
	€m	€m
As at 1 January	337	317
Amortisation	22	20
As at 31 December	359	337
	31 December 2013	31 December 2012
	€m	€m
Dated		
€24m 0% non-callable lower tier 2 capital notes 2018	19	19
€400m 10% fixed-rate convertible contingent capital notes 2016	340	318
	359	337

All of the above subordinated liabilities are issued by ptsb.

Further details on subordinated liabilities are contained in note 28 of the consolidated financial statements.

Notes to the Company Financial Statements

T. Shareholders' equity

Share capital

Share capital is the funds raised as a result of a share issue and comprises the ordinary shares of the Company.

Share Premium

The share premium reserve represents the excess of amounts received for share issues less associated issue costs over the par value of those shares for the Company.

Other Reserves

- **Capital contribution reserve**

This reserve comprises the cost of share options, which have been charged to the income statement over the vesting period of the options, capital contribution received from ptsbgh component and fair value adjustment of the mandatory conversion feature of contingent capital notes issued by ptsb. The conversion feature requires the holder to convert into shares of the Group on the occurrence of a conversion event.

- **Revaluation reserve**

The revaluation reserve is a non-distributable reserve comprising of unrealised gains or losses, net of tax, on the revaluation of owner occupied properties.

- **AFS reserve**

The AFS reserve comprises unrealised gains or losses, net of tax, on AFS financial assets which have been recognised at fair value in the statement of financial position. It also includes a residual amount of €nil (31 December 2013: €7m) relating to AFS securities reclassified to loans and receivables.

- **Cash flow hedge reserve**

The cash flow hedge reserve comprises of the net gains or losses, net of tax, on effective cash flow hedging instruments.

- **Other capital reserves**

Other capital reserves include €8m capital redemption reserve arising from the repurchase and cancellation of shares.

Retained earnings

The retained earnings include distributable and non-distributable earnings. These reserves represent the retained earnings of the parent.

U. Authorised and issued share capital

The share capital and share premium of ptsb plc, are detailed in note 30 to the consolidated financial statements, all of which relates to ptsb plc.

Notes to the Company Financial Statements

V. Measurement basis and fair value of financial instruments

(a) Measurement basis and fair values of financial instruments

31 December 2013						
	Note	Held at amortised cost €m	At fair value through equity €m	At fair value through profit or loss €m	Designated as fair value hedges €m	Total carrying value €m
						Fair value €m
Financial assets						
Cash and balances with central banks	C	85	-	-	-	85
Items in course of collection	C	37	-	-	-	37
Debt securities*	D	8,494	2,576	-	-	11,070
Derivative assets**	E	-	-	81	176	257
Loans and advances to banks	F	826	-	-	-	826
Loans and advances to customers	G	24,322	-	-	33	24,355

Financial liabilities						
Deposits by banks	M	10,587	-	-	-	10,587
Customer accounts	N	19,658	-	-	4	19,662
Debt securities in issue	O	4,152	-	(46)	76	4,182
Derivative liabilities**	E	-	99	86	162	347
Subordinated liabilities	S	357	-	-	2	359

31 December 2012						
	Note	Held at amortised cost €m	At fair value through equity €m	At fair value through profit or loss €m	Designated as fair value hedges €m	Total carrying value €m
						Fair value €m
Financial assets						
Cash and balances with central banks	C	70	-	-	-	70
Items in course of collection	C	76	-	-	-	76
Debt securities*	D	9,427	2,923	-	-	12,350
Derivative assets**	E	-	-	151	278	429
Loans and receivables to banks	F	967	-	-	-	967
Loans and receivables to customers	G	26,150	-	-	56	26,206

Financial liabilities						
Deposits by banks	M	13,723	-	-	-	13,723
Customer accounts	N	16,760	-	-	-	16,760
Debt securities in issue	O	6,376	-	-	131	6,507
Derivative liabilities**	E	120	-	28	267	415
Subordinated liabilities	S	334	-	-	3	337

*Debt securities held at amortised cost include €844m of held to maturity securities (31 December 2012: €876m)

**Derivative assets and liabilities held at fair value through profit or loss relate to derivative instruments that are held for trading. Derivative liabilities held at fair value through equity relate to instruments that are held as cash flow hedges.

The following table sets out the fair values of financial instruments that the Company holds at 31 December 2013 and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised. As permitted by IFRS 13, this information is only provided for 31 December 2013.

The fair values of financial instruments are measured according to the following fair value hierarchy:

Level 1 – financial assets and liabilities measured using quoted market prices (unadjusted).

Level 2 – financial assets and liabilities measured using valuation techniques which use observable market data.

Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

	Note	Total carrying value €m	Level 1 €m	Level 2 €m	Level 3 €m	Total fair value €m
Financial assets						
Cash and balances with central banks	C	85	-	85	-	85
Items in course of collection	C	37	-	37	-	37
Debt securities	D	11,070	10,802	-	-	10,802
Derivative assets	E	257	-	191	66	257
Loans and advances to banks	F	826	-	826	-	826
Loans and advances to customers	G	24,355	-	-	18,117	18,117
Financial liabilities						
Deposits by banks	M	10,587	-	10,548	-	10,548
Customer accounts	N	19,662	-	19,731	-	19,731
Debt securities in issue	O	4,182	1,412	2,486	-	3,899
Derivative liabilities	E	347	-	347	-	347
Subordinated liabilities	S	359	-	469	-	469

Notes to the Company Financial Statements

V. Measurement basis and fair value of financial instruments

Fair value measurements recognised in the statement of financial position

The following table presents financial instruments that are measured at fair value categorised into the fair value hierarchy.

31 December 2013	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets measured at fair value				
Debt securities				
AFS (note D)	2,576	-	-	2,576
Derivative assets (note E)	-	191	66	257
Financial liabilities measured at fair value				
Derivative liabilities (note E)	-	347	-	347
31 December 2012	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets measured at fair value				
AFS (note D)	2,923	-	-	2,923
Derivative assets (note E)	-	334	95	429
Financial liabilities measured at fair value				
Derivative liabilities (note E)	-	415	-	415

Level 3 fair value measurements

(i) Reconciliation

	2013		2012	
	Derivative assets	Debt securities AFS	Derivative assets	Total
	€m	€m	€m	€m
As at 1 January	95	10	11	21
Total gains or losses recognised in income statement				
- Net interest income	29	-	84	84
Disposals	-	(10)	-	(10)
As at 31 December	66	-	95	95

(ii) Unobservable inputs used in measuring fair value and their effect

The Company has entered into a series of interest rate swaps with a fair value of €66m which have been classified as level 3 as the valuations for these swaps, obtained from third party brokers based on a discounted cash flow method, include inputs that are unobservable market data. The significant unobservable inputs include a risk-adjusted discount rate which is 1.22% above the risk-free rate. A significant increase spread above the risk free rate would result in a lower fair value.

The favourable and unfavourable effects using reasonably possible alternative assumption for the valuation of these derivative assets which have been calculated by stressing the unobservable inputs - risk-adjusted discount rate - by +/- 100bps are €19.8m and (€19.8m) respectively.

Notes to the Company Financial Statements

W. Financial risk management

Details of ptsb Group's risk framework and methodologies are set out in note 33 to the consolidated financial statements.

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

The following table outlines the maximum exposure to credit risk before collateral held or other credit enhancements in respect of Company's financial assets as at the statement of financial position date.

	Notes	31 December 2013	31 December 2012
		€m	€m
Cash and balances with central banks	C	85	70
Items in course of collection	C	37	76
Debt securities (i)	D	11,069	12,349
Derivative assets (ii)	E	257	429
Loans and receivables to banks (iii)	F	826	967
Loans and receivables to customers (iv)	G	24,355	26,206
		36,629	40,097
Contingent liabilities and commitments	AA	450	407
		37,079	40,504

The following tables outline the Company's exposure to credit risk by asset class.

(i) Debt securities

The Company is exposed to credit risk on third parties where the Company holds debt securities (including sovereign debt). An IRB approach is applied in managing credit risk and with the exception of Ireland, sovereign debt is restricted to countries with an internally set rating that is equivalent to a Moody's rating of A3 or higher. In addition, restrictions around the holdings of securities in certain euro zone countries have also been put in place. The Company has set counterparty limits for all debts and loans.

The following table gives an indication of the level of creditworthiness of the Company's debt securities and is based on an internally set rating that is equivalent to Moody's rating. There are no debt securities impaired as at 31 December 2013 (31 December 2012: €nil).

Debt securities neither past due nor impaired

	31 December 2013		31 December 2012
	€m	% Change	€m
Rating			
Aaa	39	-48%	75
Aa	11	10%	10
A	117	-68%	363
Baa	5,648	-11%	6,367
At or below Ba	-	-100%	18
Issued by subsidiaries	5,254	-5%	5,516
Total	11,069		12,349

The following table discloses, by country, the Company's exposure to sovereign and corporate debt as at:

	31 December 2013		31 December 2012	
	Sovereign debt	Corporate debt	Sovereign debt	Corporate debt
	€m	€m	€m	€m
Country				
Australia	-	2	-	3
Germany	-	-	-	30
Ireland	5,131	1,061	5,414	1,363
Italy	-	50	-	65
Netherlands	-	23	-	25
Poland	79	-	85	-
Portugal	-	61	-	66
Spain	-	-	-	16
United Kingdom	-	4,649	-	5,037
United States	-	14	-	246
	5,210	5,860	5,499	6,851
Provision		(1)		(1)
Total		11,069		12,349

Notes to the Company Financial Statements

W. Financial risk management (continued)

(ii) Derivative assets

	31 December 2013		31 December 2012
	€m	% Change	€m
Rating			
Aa	-	-100%	6
A	101	-45%	182
Baa	66	-31%	95
Covered by netting agreements	90	-38%	146
Total	257		429

(iii) Loans and advances to banks

Loans and advances to banks are with investment grade counterparties. The following table gives an indication of the level of creditworthiness of the Company's loans and advances to banks and is based on the internally set rating that is equivalent to rating prescribed by Moody's Investor Services Limited.

	31 December 2013		31 December 2012
	€m	% Change	€m
Rating			
Aaa	255	10%	232
Aa	28	-78%	125
A	403	-33%	600
Baa	1	-90%	10
Below Baa	139	100%	-
Total	826		967

Notes to the Company Financial Statements

W. Financial risk management (continued)

(iv) Loans and advances to customers

Asset Quality

Loans and advances after impairments in respect of ROI residential mortgages and consumer finance (excluding film finance) are classified as core. Loans and advances after impairments in respect of commercial mortgages, film finance (included under consumer finance) and ROI residential mortgages originated through subsidiaries are classified as non-core loans.

Loans which are neither past due nor impaired are analysed as excellent, satisfactory or fair according to their IRB rating as described above.

Past due but not impaired is defined as loans where repayment of interest and / or principal are overdue by at least one day but which are not impaired.

A loan is considered impaired when there is objective evidence of impairment. Objective evidence being where the loan is greater than 90 days in arrears and the present value of future cash flows is less than the carrying value of the loan (typically where the indexed LTV is >80%) requiring a specific provision to be recognised in the income statement.

31 December 2013	ROI	Commercial	Consumer finance	Subsidiaries	Total		Analysed to:	
	Residential mortgages						Core	Non-core
	€m	€m	€m	€m	€m	%	€m	€m
Excellent	11,500	85	118	-	11,703	41%	11,519	184
Satisfactory	3,254	380	83	293	4,010	14%	3,277	733
Fair risk	1,328	141	29	-	1,498	5%	1,341	157
Neither past due nor impaired	16,082	606	230	293	17,211	61%	16,137	1,074
Past due but not impaired	1,410	52	34	-	1,496	5%	1,474	22
Impaired	5,946	1,448	93	2,233	9,720	34%	5,641	4,079
	23,438	2,106	357	2,526	28,427	100%	23,252	5,175
Provision for impairment losses	(2,798)	(911)	(98)	(413)	(4,220)		(2,678)	(1,542)
	20,640	1,195	259	2,113	24,207		20,574	3,633
Deferred fees, discounts and fair value adjustment	148	-	-	-	148		148	-
	20,788	1,195	259	2,113	24,355		20,722	3,633

31 December 2012 (Restated)*	ROI	Commercial	Consumer finance	Subsidiaries	Total		Analysed to:	
	Residential mortgages						Core	Non-core
	€m	€m	€m	€m	€m	%	€m	€m
Excellent	13,294	133	112	-	13,539	46%	13,251	288
Satisfactory	2,566	675	63	312	3,616	12%	2,519	1,097
Fair risk	1,606	212	35	-	1,853	6%	1,594	259
Neither past due nor impaired	17,466	1,020	210	312	19,008	65%	17,364	1,644
Past due but not impaired	2,122	110	24	-	2,256	8%	2,081	175
Impaired	4,534	1,118	144	2,241	8,037	27%	4,897	3,140
	24,122	2,248	378	2,553	29,301	100%	24,342	4,959
Provision for impairment losses	(2,041)	(735)	(150)	(381)	(3,307)		(2,207)	(1,100)
	22,081	1,513	228	2,172	25,994		22,135	3,859
Deferred fees, discounts and fair value adjustment	212	-	-	-	212		212	-
	22,293	1,513	228	2,172	26,206		22,347	3,859

* Refer to note 1 of the consolidated financial statements.

Notes to the Company Financial Statements

W. Financial risk management (continued)

The table below outlines the arrears profile for the ROI residential mortgages by asset quality analysed by owner occupier and buy-to-let:

31 December 2013	ROI residential mortgages		
	Owner occupier	Buy-to-let	Total
	€m	€m	€m
Excellent	9,332	2,168	11,500
Satisfactory	1,780	1,474	3,254
Fair risk	916	412	1,328
Neither past due nor impaired	12,028	4,054	16,082
Past due but not impaired	1,236	174	1,410
Impaired	3,750	2,196	5,946
	17,014	6,424	23,438
Provision for impairment losses	(1,512)	(1,286)	(2,798)
	15,502	5,138	20,640
Deferred fees, discounts and fair value adjustment	148	-	148
	15,650	5,138	20,788

31 December 2012	ROI residential mortgages		
	Owner occupier	Buy-to-let	Total
	€m	€m	€m
Excellent	11,121	2,173	13,294
Satisfactory	979	1,587	2,566
Fair risk	1,168	438	1,606
Neither past due nor impaired	13,268	4,198	17,466
Past due but not impaired	1,674	448	2,122
Impaired	2,600	1,934	4,534
	17,542	6,580	24,122
Provision for impairment losses	(1,050)	(991)	(2,041)
	16,492	5,589	22,081
Deferred fees, discounts and fair value adjustment	212	-	212
	16,704	5,589	22,293

Non-performing loans:

Non-performing loans are defined as impaired loans together with loans which are greater than 90 days in arrears.

31 December 2013	ROI residential mortgages				
	Owner occupier	Buy-to-let	Commercial	Consumer finance	Subsidiaries
	€m	€m	€m	€m	€m
> 90 days in arrears but not impaired	448	25	-	7	-
Impaired loans	3,750	2,196	1,448	93	2,233
Non-performing loans	4,198	2,221	1,448	100	2,233

31 December 2012	ROI residential mortgages				
	Owner occupier	Buy-to-let	Commercial	Consumer finance	Subsidiaries
	€m	€m	€m	€m	€m
> 90 days in arrears but not impaired	564	89	-	6	-
Impaired loans	2,600	1,934	1,118	144	2,241
Non-performing loans	3,164	2,023	1,118	150	2,241

Notes to the Company Financial Statements

W. Financial risk management (continued)

Loans and advances which are past due but not impaired:

The table below provides an aged analysis of loans and advances which are past due but not impaired.

31 December 2013

	ROI Residential mortgages	Commercial	Consumer finance	Subsidiaries	Total
	€m	€m	€m	€m	€m
0-30 days	512	27	18	-	557
31-60 days	262	15	5	-	282
61-90 days	163	10	4	-	177
91-180 days	102	-	7	-	109
181-360 days	108	-	-	-	108
> 360 days	263	-	-	-	263
Total past due not impaired	1,410	52	34	-	1,496
Fair value of collateral held*	1,275	-	23	-	1,298

*Fair value of collateral held

	ROI Residential mortgages	Commercial	Consumer finance	Subsidiaries	Total
	€m	€m	€m	€m	€m
0-30 days	443	-	13	-	456
31-60 days	222	-	6	-	228
61-90 days	138	-	4	-	142
91-180 days	102	-	-	-	102
181-360 days	108	-	-	-	108
> 360 days	262	-	-	-	262
Total past due not impaired	1,275	-	23	-	1,298

¹ Fair value of collateral held is capped at the lower of the loan balance or the valuation amount.

31 December 2012

	ROI Residential mortgages	Commercial	Consumer finance	Subsidiaries	Total
	€m	€m	€m	€m	€m
0-30 days	680	54	12	-	746
31-60 days	436	32	3	-	471
61-90 days	353	24	3	-	380
91-180 days	158	-	5	-	163
181-360 days	157	-	-	-	157
> 360 days	338	-	1	-	339
Total past due not impaired	2,122	110	24	-	2,256
Fair value of collateral held**	1,819	63	-	-	1,882

**Fair value of collateral held

	ROI Residential mortgages	Commercial	Consumer finance	Subsidiaries	Total
	€m	€m	€m	€m	€m
0-30 days	549	28	-	-	577
31-60 days	348	21	-	-	369
61-90 days	283	14	-	-	297
91-180 days	156	-	-	-	156
181-360 days	154	-	-	-	154
> 360 days	329	-	-	-	329
Total past due not impaired	1,819	63	-	-	1,882

The table below outlines the arrears profile for ROI residential mortgages which are past due but not impaired analysed by owner occupier and buy-to-let:

ROI residential mortgages	2013			2012		
	Owner occupier	Buy-to-let	Total	Owner occupier	Buy-to-let	Total
	€m	€m	€m	€m	€m	€m
0-30 days	444	68	512	511	169	680
31-60 days	210	52	262	330	106	436
61-90 days	135	28	163	269	84	353
91-180 days	98	4	102	140	18	158
181-360 days	102	6	108	139	18	157
> 360 days	248	15	263	285	53	338
Total	1,237	173	1,410	1,674	448	2,122

Notes to the Company Financial Statements

X. Current / non-current assets and liabilities

The following tables provide an analysis of certain asset and liability line items, at 31 December 2013 and at 31 December 2012, that include amounts expected to be recovered or settled no more than 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current).

	Note	31 December 2013			31 December 2012		
		Current	Non-current	Total	Current	Non-current	Total
		€m	€m	€m	€m	€m	€m
Assets							
Cash and balances at central banks	C	85	-	85	70	-	70
Items in the course of collection	C	37	-	37	76	-	76
Debt securities	D	2,257	8,811	11,068	2,820	9,529	12,349
Derivative assets	E	30	227	257	104	325	429
Loans and receivables to banks	F	826	-	826	967	-	967
Loans and receivables to customers	G	56	24,299	24,355	290	25,916	26,206
Liabilities							
Deposits by banks (including central banks)	M	5,516	5,071	10,587	8,685	5,038	13,723
Customer accounts	N	17,933	1,729	19,662	15,012	1,748	16,760
Debt securities in issue	O	185	3,997	4,182	2,728	3,779	6,507
Derivative liabilities	E	40	307	347	55	360	415
Subordinated liabilities	S	-	359	359	-	337	337

Y. Transfer of financial assets

In the ordinary course of business, the Company enters into transactions that result in the transfer of financial assets that consist of loans and advances to customers. In accordance with note 1 (vii), the transferred financial assets continue either to be recognised in their entirety or to the extent of the Company's continuing involvement, or are derecognised in their entirety.

The Company transfers financial assets primarily through the following transactions:

- (i) sale and repurchase securities; and
- (ii) securitisation activities in which loans and advances to customers are transferred to investors in the notes issued by consolidated special purpose entities ("SPEs").

(a) Transferred financial assets that are not derecognised in their entirety

The table below sets out an overview of carrying amounts and fair values related to transferred financial assets that are not derecognised in their entirety and associated liabilities.

	31 December 2013		31 December 2012	
	Sale and repurchase agreements	Securitisations	Sale and repurchase agreements	Securitisations
	€m	€m	€m	€m
Carrying amount of assets	19,848	12,390	22,101	13,799
Carrying amount of associated liabilities	12,838	12,478	13,723	13,912
Liabilities that have recourse only to the transferred financial assets				
Fair value of assets	17,733	8,725	18,285	9,475
Fair value of associated liabilities	12,790	11,111	13,748	8,455
Net position	4,943	(2,386)	4,537	1,020

(b) Transferred financial assets that are derecognised in their entirety

The Company has not transferred any financial assets that were derecognised in their entirety.

Notes to the Company Financial Statements

Z. Offsetting financial assets and financial liabilities

In accordance with IAS32 Financial Instruments: Presentation, the Company reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The tables below provide the impact of master netting agreements on all derivative financial instruments that are subject to master netting agreements or similar agreements, but do not qualify for netting on the balance sheet.

The tables highlight the amounts that have been offset on the balance sheet and those amounts covered by master netting agreements but do not qualify for netting under the requirements of IAS32.

The tables below provide analysis of derivative financial assets and liabilities subject to offsetting, enforceable master netting agreements and similar agreements:

	31 December 2013					
	Effect of offsetting on the Statement of financial position			Related amounts not offset in the statement of financial position		
	Gross financial assets/ (Liabilities) recognised	Gross financial (liabilities)/ assets offset	Net amounts reported on the statement of financial position	Financial instruments	Cash collateral	Net amount
	€m	€m	€m	€m	€m	€m
Assets						
Derivative assets	257	-	257	(100)	(91)	66
	257	-	257	(100)	(91)	66
Liabilities						
Derivative liabilities	(347)	-	(347)	100	223	(24)
Repurchase agreements	(12,838)	-	(12,838)	12,838	-	-
	(13,185)	-	(13,185)	12,938	223	(24)

	31 December 2012					
	Effect of offsetting on the Statement of financial position			Related amounts not offset in the statement of financial position		
	Gross financial assets recognised	Gross financial liabilities offset	Net amounts reported on the statement of financial position	Financial instruments	Cash collateral received	Net amount
	€m	€m	€m	€m	€m	€m
Assets						
Derivative assets	429	-	429	(173)	(138)	118
	429	-	429	(173)	(138)	118
Liabilities						
Derivative liabilities	(415)	-	(415)	173	169	(73)
Repurchase agreements	(13,723)	-	(13,723)	13,723	-	-
	(14,138)	-	(14,138)	13,896	169	(73)

Notes to the Company Financial Statements

AA. Commitments and contingencies

The table below gives the contractual amounts of commitments and contingent liabilities. The maximum exposure to credit loss under commitments and contingent liabilities is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

Credit commitments	31 December 2013	31 December 2012
	€m	€m
Guarantees and irrevocable letters of credit	9	5
Commitments to extend credit		
- less than 1 year	323	336
- 1 year and over	118	66
Total commitments to extend credit	441	402
Total credit commitments	450	407

Operating lease commitments

The Company leases various offices under non-cancellable operating leases. The future aggregate minimum lease payments under these leases are as follows:

	31 December 2013	31 December 2012
	€m	€m
Less than 1 year	7	8
Greater than 1 year and less than 5 years	27	32
Greater than 5 years	37	44
Total operating lease commitments	71	84

Other contingencies

The Company, like all other banks, is subject to litigation in the normal course of its business. Based on legal advice, the Company does not believe that any such litigation will have a material effect on its income statement or statement of financial position.

Since 31 December 2008, the Company had been subject to investigations by a number of statutory bodies including the Central Bank (Supervision Division) into deposits placed by Irish Life Assurance plc with Irish Bank Resolution Corporation (formerly Anglo Irish Bank in special liquidation) (on 31 March 2008, 26 September 2008, 29 September 2008 and 30 September 2008). At 31 December 2013, these investigations were still on-going.

Notes to the Company Financial Statements

AB. Related parties

The company in the normal course of its banking business enters into transactions with other banking subsidiaries of the Group including special purpose entities established in respect of securitised assets. These transactions which may be collateralised are eliminated in the consolidated Group financial statements and are all priced on an arm's length basis. The following amounts were included in the Company statement of financial position in respect of transactions with related parties:

	31 December 2013	31 December 2012
	€m	€m
Loans and advances to credit institutions	254	317
Loans and receivables to customers		
Interest-bearing	1,855	1,864
Non-interest bearing	258	308
Debt Securities	5,254	5,522
Derivatives	66	95
Other assets	6	7
Liabilities		
Customer accounts	530	446
Debt securities in issue	1,624	1,233
Other liabilities	3	3

At 31 December 2013, the Company held pools of mortgages amounting to €12,390m (31 December 2012: €13,799m) with special purpose entities of the Group. These special purpose entities issued mortgage backed floating rate notes to fund the purchase of these mortgage pools. At 31 December 2013, the company holds €11,615m of these notes (31 December 2012: €13,286m) to use as collateral against borrowings. Details of this collateral are included in note 16 of the consolidated financial statements.

The Company's statement of financial position (in accordance with IAS 32) continues to show the loan and receivables that were transferred to the special purpose entities and which form the security for the notes issued do not qualify for derecognition. Consequently the Company continues to show the loan and receivables and not the notes issued by the special purpose entities further details are provided in note Y transfer of fixed assets section. The Parent Company's statement of financial position is shown net of the debt securities purchased from the special purpose entities, the related derivative contracts, customer account balances, and the funds to the special purpose entities which were used to acquire the mortgage pools.

CHL (a wholly owned sub of the Group) closed to new business in 2011. It has sold pools of mortgages amounting to £5,071m (31 December 2012: £5,286m) to special purpose entities of the Group. These special purpose entities issued sterling and euro mortgage backed floating rate notes to fund the purchase of these mortgage pools. In January 2009 the euro mortgage backed floating rate notes were re-denominated into sterling. At 31 December 2013, the Company holds notes of £3,834m (31 December 2012: £4,010m) to use as collateral against borrowings.

ptsb had given a commitment to Fastnet Securities 4 Limited, Fastnet Securities 5 Limited, Fastnet Securities 6 Limited, Fastnet Securities 7 Limited and Fastnet Securities 8 Limited which are special purpose entities of the Group, that in the event that a rating event occurs it would provide additional reserves to each of the special purpose entities. The bonds issued by these special purpose entities are principally held by ptsb. A rating event is defined as the long-term, unsecured, unsubordinated and unguaranteed debt obligations of PTSB are rated below A3 by Moody's or the short-term, unsecured, unsubordinated and unguaranteed debt obligations of ptsb are rated below P-1 by Moody's or A-1 by S&P (unless the rating agencies confirm that the rating of the special purpose subsidiaries will not be adversely affected as a consequence of such rating of ptsb). Following the downgrade of ptsb in 2010 these additional reserves were provided.

During 2011, Fastnet Securities 5 Limited, Fastnet Securities 6 Limited and Fastnet Securities 7 Limited were restructured and the commitment to provide these reserves extinguished. During 2012 all the loan notes of Fastnet Securities 4 Limited were redeemed and the SPE was collapsed. The commitment to provide these reserves remained for Fastnet Securities 8 Limited. At 31 December 2012 this commitment amounted to €37m. During the year all the loan notes of Fastnet Securities 8 Limited were redeemed and the SPE was collapsed.

Transactions with the Parent Company

At 31 December 2013, the amount receivable from the Parent Company amounted to €3m (31 December 2012: €3m).

Notes to the Company Financial Statements

AC. Principal subsidiaries undertakings and interest in subsidiaries

Name and registered office	Nature of business	Incorporated in	% of ordinary shares held
Capital Home Loans Limited Admiral House, Harlington Way, Fleet, Hampshire, GU13 8YA	Mortgage lending	UK	100
Permanent Bank International Limited (formerly Irish Nationwide IOM Limited) 2 nd Floor, Britannia House, 64 Athol Street Douglas, IM1 1JD	Deposit business	IOM	100
Springboard Mortgages Limited 56-59 St. Stephens Green, Dublin 2	Mortgage lending	Ireland	100

These financial statements are financial statements of the bank only and are prepared in accordance with the Companies Act 1963.

The principal country of operation of each company is the country in which it is incorporated.

The Company's ultimate parent company is permanent tsb Group Holdings plc and its registered office is situated at 56-59 St. Stephens Green, Dublin 2.

Company's interest in subsidiary undertaking

	2013	2012
	€m	€m
At 1 January	128	173
Impairment of investment in subsidiaries undertakings	-	(1)
Proceeds of liquidation of subsidiaries	-	(50)
Capital injection in subsidiaries	-	6
At 31 December	128	128